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February 16, 2018

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 and exhibits of Florida City Gas' rebuttal witness James Garvie. (Document 3 of 10)

Sincerely,

Beth Keating
Gunster, Yoakley & Stewart, P.A.
215 South Monroe St., Suite 601
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ATTACHMENTS

cc:// Office of Public Counsel
FEA

Before the Florida Public Service Commission

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

Prepared Rebuttal Testimony of James M. Garvie

Date of Filing: February 16, 2018

Q. Please state your name, business address, and occupation.

A. My name is James Garvie. My business address is 30 Ivan Allen Jr. Boulevard, Atlanta, Georgia 30308. I am employed by Southern Company Services ("SCS") as Vice President Total Rewards & Corporate Human Resources.

Q. Have you previously filed testimony in this proceeding?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to address the testimony of Office of Public Counsel (OPC) Witness Marshall Willis in which he incorrectly concludes that the Commission should disallow portions of FCG's compensation and benefit expenses even though those expenses are currently paid at or below the median of the market.

Q. Are you sponsoring any rebuttal exhibits?

A. Yes. I am sponsoring Exhibit JMG-1. The information contained in the schedules is true and correct to the best of my knowledge and belief.

I. ANNUAL AND LONG-TERM AT-RISK COMPENSATION

Q. Why does the design of FCG's total compensation package include at-risk compensation based on long-term goals in addition to at-risk compensation based on annual goals?

A. Long-term goals are needed so that employee efforts to achieve short-term goals are appropriately balanced by consideration of the long-term performance of the Company. Through the decisions eligible employees make in their jobs, they impact the long-term success of the Company and are responsible for how employees serve our customers and deliver safe and reliable service. Another important reason to allocate a portion of their total compensation to long-term at-risk pay is that for these employees, providing compensation in this form is common in the industry. Having a portion of their total compensation allocated to long-term at-risk pay is critical to ensure that FCG remains market competitive to attract and retain these employees.

Q. Do you agree with the proposal by Witness Willis to disallow $383,105 ($324,528 test year expenses + $58,557 calculated tax amount) in long-term at-risk compensation for the 2018 projected test year?[1]

A. No, I do not. Long-term at-risk compensation is a critical element in our total compensation program and a legitimate and necessary cost of providing service to our customers. It is intentionally designed for employees who have significant responsibility and, through their judgement and decisions, have a major impact on the customer.

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[1] Direct Testimony of Marshall W. Willis, 12:6-14:16.

Q. Do you agree with the recommendation by Witness Willis to remove $558,275 ($472,914 long-term incentive costs from plant in service + $85,361 calculated payroll tax amount) in long-term at-risk compensation for 2014 through 2018?[2]

A. No, I do not. These costs are reasonable and necessary and thus should be allowed for ratemaking purposes. In addition, as FCG Witness Morley describes in further detail in his rebuttal testimony, we object to the method of retroactive ratemaking Witness Willis uses to arrive at this dollar amount. To consider Witness Willis's recommendation is to inappropriately consider costs outside of the test years in this proceeding.

Q. On page 13, lines 23-25, Witness Willis states that the total costs of FCG's long-term incentive program should be borne totally by shareholders and therefore removed from the projected test year. Do you agree with the opinion put forward by Witness Willis?

A. No, I do not. Witness Willis is wrong. FCG customers benefit from and are better served by a financially healthy utility with a strong workforce. Regardless of the particular goals in the long-term at-risk plan, the compensation sought by FCG is below the median of the market.

Witness Willis is not familiar with sound compensation program design and he disregards the benefits that such motivational goals bring to FCG's customers. The compensation plan appropriately ties long-term goals to Southern Company ("Southern") financial performance for many reasons, each of which help FCG customers.

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[2] Direct Testimony of Marshall W. Willis, 14:6-8.

For instance, the long-term at-risk program depends on a Credit Quality Threshold in order to payout. The threshold requires that the company maintain a certain level of credit rating in order for the plan to pay out. Including this threshold in the plan design benefits the customers by having and maintaining a lower cost of capital.

Q. Why is it appropriate for the long-term, at-risk compensation program to focus on Southern Company financial performance?

A. Southern Company is FCG's parent company. FCG is dependent on Southern's ability to access the capital markets for equity capital. That access is extremely important to our customers who depend on FCG to make the investments required to serve them safely and reliably. The goals of the long-term, at-risk compensation program provide a focus on goals that are a measure of Southern's financial integrity, which attracts investors and allows Southern to maintain access to the capital markets. In its final order for the Gulf Power rate case, the Commission recognized the value of the Southern Company compensation system in allowing short-term at-risk compensation costs. In that order, the Commission stated:

> We recognize that the financial incentives that Gulf employs as part of its incentive compensation plans may benefit ratepayers if they result in Gulf having a healthy financial position that allows the Company to raise funds at a lower cost than it otherwise could.
>
> Order No. PSC-12-0179- FOF-EI at 94.

As Witness Willis noted, Gulf Power is an affiliated company of FCG. Clearly, the statement above by the Commission would be appropriate and relevant for another Southern Company subsidiary.

Q. Why is it important to your customers that FCG employees have compensation goals that include both financial and operational components?

A. Our customers need safe and reliable service that is provided in the most cost-efficient manner. As mentioned in my Direct Testimony, a well-designed total compensation program using sound compensation practice and principles provides a balance between operational focus and financial focus for both the short-term and longer-term to drive employee behavior in ways that balance the interests of customers and shareholders alike. The balance ensures that employees do not inappropriately use financial resources to achieve operational success nor place more emphasis on financial performance such that they neglect the operational goals of the Company.

Q. Is the design and competitiveness of FCG's total compensation program aligned with the external market and are the costs necessary and reasonable?

A. Yes. Southern utilizes recognized compensation and benefit market data and consultants, such as Willis Towers Watson, to benchmark our compensation and benefit programs against the external market. In fact, FCG requested that Willis Towers Watson review the competitiveness of their current pay programs and the findings are summarized in Exhibit JMG-1.

Q. What conclusion does Willis Towers Watson reach with respect to your compensation and benefit programs?

A. Willis Towers Watson concludes that FCG's compensation plans, programs and processes are consistent to and competitive with the utility industry. In fact, they state that if any portion of FCG's at-risk compensation were to be excluded, the result would be total compensation below the median of the market.

Q. Do you have an opinion on the consequences if the Commission were to accept the recommendations of Witness Willis such that the total compensation for FCG falls below the median of the market?

A. Yes. In addition to that scenario not being good regulatory practice, it is not good for FCG as we compete for talent in the labor market. It also challenges our ability to retain, engage and motivate our employees. As Willis Towers Watson found, the cost of our pay programs is reasonable, prudent and necessary for FCG to continue to competitively compensate our employees.

II. TOTAL COMPENSATION

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

A. As I stated in our direct case, our employee compensation is designed to provide total compensation that will allow us to attract, engage, retain, motivate, and competitively compensate employees based on individual and Company performance. The total compensation an employee receives is provided in the form of base pay and at-risk pay. The at-risk pay portion may be paid based on the achievement of goals that benefit our customers. Providing total compensation in this form, with a portion tied to performance, has allowed the Company to develop a culture of individual, team, and customer accountability.

Q. What benefits do FCG customers receive from the level of compensation that FCG seeks in this case?

A. Simply put, FCG is setting above average goals and paying employees market median compensation for reaching these goals. The goals drive employee behavior to achieve top operational performance and maintain a financially sound utility for compensation that is at the median of the market. All of FCG's compensation expense should be included as a necessary and reasonable expense.

Q. Does this conclude your testimony?

A. Yes.

WillisTowersWatson

Discussion Draft

Attorney-Client Privileged

Memorandum

Date:	January 10, 2018
To:	Lila A. Jaber — Gunster
From:	David Wathen — Willis Towers Watson Eric Henken — Willis Towers Watson
Subject:	Competitive Review of Florida City Gas' Pay Programs

Florida City Gas is filing a request with the Florida Public Service Commission (FPSC) for a base rate adjustment. In preparation for this request, Florida City Gas asked Willis Towers Watson to review the competitiveness of its current pay programs relative to utility industry market practices.

As part of our review, Willis Towers Watson assessed the following plans, programs and processes for Florida City Gas:

- Pay philosophy
- Pay benchmark process
- Competitive market positioning of total pay (base salary and at-risk pay)
- At-risk pay programs
  - Performance Pay Program – the company's annual at-risk pay program
  - Performance Share Units and Restricted Stock Units – the company's long-term at-risk pay program

Summary Findings

Based on our review, we find:

- Florida City Gas' total pay philosophy of targeting the 50th percentile of similarly sized utilities is consistent with the majority of utility peers examined and our consulting experience suggests it is the most prevalent practice among general industry companies

- Florida City Gas' pay benchmarking process is consistent with utility industry and general industry market best practices

- Florida City Gas' pay levels are competitive with market 50th percentile for base salary and target total direct compensation (Target TDC = base salary + at-risk annual and long-term pay) based on published survey compensation data

- Florida City Gas' strategy to provide at-risk pay (both annual and long-term) is consistent with the majority of publicly-traded utility peers examined. While specific design elements of at-risk pay programs may differ among utility peers, Florida City Gas' design differences are limited. Overall, we find the Company's at-risk pay program designs to be comparable to and competitive with designs of utility peers

- Overall, our competitive review indicates Florida City Gas' pay plans, programs and processes to be comparable to and competitive with utility peer competitive practices

Pay Philosophy

Florida City Gas's pay philosophy is to target base salary, annual at-risk and long-term at-risk pay at the 50th percentile of similarly sized utilities.

Willis Towers Watson reviewed current proxy disclosures for the following two market perspectives to assess how Florida City Gas' pay philosophy compares to market practice:

- Large Utility Peer Group – 15 publicly-traded, comparably-sized electric utilities with revenues in a range of approximately ½ to 2 times the revenues of Southern Company (see Exhibit 1 for the list of Large Utility Peer Companies)

- Small Utility Peer Group – Since comparably-sized subsidiary utilities like Florida City Gas do not generally publicly disclose pay program data, a peer group of 8 smaller (compared to the large peers) publicly-traded utilities were examined to assess if differences exist between large and small utility practices (see Exhibit 2 for the list of Small Utility Peer Companies)

Pay Philosophy Review Findings

Based on our review, Florida City Gas' pay philosophy aligns well with both market perspectives. Most peers (12 of the 15 Large Utility Peer Group and 7 of the 8 Small Utility Peer Group) target the market 50th percentile for some or all pay elements. For those companies that do not target the market 50th percentile:

- Large Utility Peer Group: 3 utilities did not define a targeted compensation philosophy
- Small Utility Peer Group: 1 utility did not define a targeted compensation philosophy

In addition, Florida City Gas's target pay positioning of the market 50th percentile aligns with the typical market practice found in the general industry.

Pay Benchmarking Process

Willis Towers Watson reviewed the benchmarking process at Florida City Gas. The review was conducted by analyzing a sample of 29 positions from the following groups:

- Management employees
- Professional employees
- Non-exempt employees

Outlined below is the Florida City Gas benchmarking process that was reviewed to determine if it was consistent with market norms and best practices:

- Select appropriate benchmark positions
- Review and define each position's duties and responsibilities
- Determine relevant labor market for position
- Use compensation surveys reflective of relevant labor market
- Use multiple compensation survey sources, when available
- Match company positions to compensation survey benchmarks reflective of each position's duties and responsibilities
- Develop a "market rate" for each company position matched to compensation survey benchmark jobs
- Assess competitiveness of Florida City Gas' positions to the "market rate"

Pay Benchmark Process Findings

The current Florida City Gas pay benchmarking process is consistent and aligned with utility industry and general industry market best practices.

Competitive Market Positioning

Willis Towers Watson assessed the competitiveness of Florida City Gas' current pay levels to the Company's 50th percentile pay philosophy. To conduct this analysis, we utilized published utility and general industry compensation surveys available to Willis Towers Watson, including our proprietary 2017 Energy Services and General Industry Compensation Databases, reflecting 142 and 608 survey participants, respectively.

Our competitive benchmarking analysis finds that for the positions examined, on average, base salaries and target total direct compensation (base salary + at-risk annual and long-term pay) at Florida City Gas fall below the market 50th percentile, 8.2% and 8.6% respectively.

Competitive Market Positioning Findings

Overall, we have determined that Florida City Gas' pay is competitive with the market 50th percentile (falls within a +/-10% competitive range of the market) and aligns with the Company's stated pay philosophy.

At-risk Pay Programs

Willis Towers Watson reviewed Florida City Gas' annual at-risk and long-term at-risk pay programs which include:

- Performance Pay Program (PPP) – the company's annual at-risk program

- Performance Share Units and Restricted Stock Units – the company's long-term at-risk program

Most investor owned utilities and publicly-traded general industry companies use at-risk pay programs (both annual and long-term) to help attract, motivate and retain critically skilled employees needed to successfully run the business. These programs focus employees on both annual and long-term goals. Florida City Gas' strategy to provide at-risk pay (both annual and long-term) is consistent with the market perspectives examined.

We assessed the design of both annual at-risk and long-term at-risk pay programs against the Large Utility Peer Group, the Small Utility Peer Group as well as the following proprietary Willis Towers Watson surveys:

- Annual at-risk pay programs: industry cut of 34 utility industry participants in Willis Towers Watson's Global Executive Incentive Design Survey (GEIDS), survey covers executive plan designs and common incentive plan practices.

- Long-term at-risk pay programs: Willis Towers Watson's 2017 Long-term Incentives Policies and Practices (LTIPP) Survey Report – Energy Services data cut reflecting 109 energy industry participants, reflecting primarily utilities (survey conducted by Willis Towers Watson for over 20 years)

The findings of Willis Tower Watson's assessment of the competitiveness of both annual at-risk and long-term at-risk pay programs are presented below.

Annual At-Risk Pay Program (Performance Pay Program)

In general, we find Florida City Gas' Performance Pay Program is comparable to and competitive with designs of utility peers. Key design aspects are noted below:

- Eligibility – all regular, full-time and part-time Florida City Gas employees are eligible to participate in the Performance Pay Program, which aligns with market practice among utility peers
- Performance Measures – the Performance Pay Program assesses performance using a balanced scorecard approach, incorporating both financial (corporate EPS and business unit Net Income) and business unit operational metrics (safety, reliability, availability, and culture), as well as an individual performance component. The use of a balanced scorecard approach is the most prevalent practice among the utilities examined

  - The use of EPS is very common among all market perspectives examined as 80% of Large Utility Peer Group and 63% of Small Utility Peer Group incorporate EPS as part of their annual at-risk pay programs. Additionally, over two-thirds of the GEIDS utility participants incorporate bottom-line financial measures like EPS as part of their annual at-risk pay program
  - Similar to Florida City Gas' design, the inclusion of business unit metrics in the annual at-risk program is common among utilities (53% of the Large Utility Peer Group and 38% of the Small Utility Peer Group)
  - The use of an individual performance goal is common among each market perspective: 47% of the Large Utility Peer Group, 63% of the Small Utility Peer Group, and 75% of GEIDS utility participants incorporate individual performance into their annual at-risk pay program

- Performance Weightings – To emphasize "line of sight" (i.e., ability to influence or impact the performance measure), Florida City Gas varies performance goal weights by a participant's organizational level within the company. Lower level plan participants have more emphasis on the individual component, while more senior-level participants have more emphasis on corporate and business unit goals. This tiered weighting approach is consistent with typical market practice

Long-Term At-Risk Pay Program

Florida City Gas' long-term at-risk pay program, like the annual at-risk pay program, is comparable to and competitive with utility peer designs. We summarize key design aspects below:

- Prevalence – All companies in the Large Utility Peer Group and all companies but one in the Small Utility Peer Group utilize a long-term at-risk pay program

- Eligibility –Florida City Gas grants long-term at-risk awards to employees in grade 9 or higher (grade midpoint of $160,000). This award level is aligned with the competitive market range for base salary levels at which companies have 100% long-term incentive participation as disclosed in the LTIPP Energy Services data cut, which includes almost all of the Large and Small Utility Peer Group companies in the survey

- Long-term At-Risk Awards – Florida City Gas utilizes two types of equity vehicles to make annual long-term at-risk grants: restricted stock units (RSU) and performance share units. Florida City Gas is well aligned with peers with its use of multiple vehicles. Among peers with long-term at-risk programs, 80% of the Large Utility Peer Group and 43% of the Small Utility Peer Group use more than one vehicle to make awards, similar to Florida City Gas

- Award Mix – Florida City Gas grants long-term incentive awards with a mix of 70% weighted to performance share units and 30% to restricted stock units. This mix ensures that the most significant portion of the program is tied to company performance while still focusing on retention and alignment with shareholders. Granting a mix that favors performance based awards is consistent with market best practice for both Large and Small Utility Peer Group companies

- Vesting Provisions – Florida City Gas' restricted stock units have a time-based, three-year ratable vesting requirement. Among Large Utility peers that grant restricted stock/RSUs, 55% of the companies use a similar three-year ratable vesting approach and 45% use a three-year cliff vesting schedule. For Small Utility Peers grating restricted stock/RSUs, three-year ratable vesting is most common

Specific to Performance Plans

- Performance Cycles – Florida City Gas uses a three-year performance cycle for the performance share unit award component, which is the most common among both peer groups

- Performance Measures – Florida City Gas uses a combination of relative Total Shareholder Return (TSR), EPS, and Return on Equity (ROE) as the basis for determining if performance share units are earned. Additionally, in order for the EPS and ROE portions of the performance share awards to be earned, a minimum credit quality rating must be maintained. It is common for companies to use multiple performance metrics with performance awards

  - Prevalence of TSR - Most peers (93% of the Large Utility Peer Group, 86% of the Small Utility Peer Group and over two-thirds of the LTIPP Energy Services peers) tie some portion of performance share awards to relative Total Shareholder Return (TSR)
  - Prevalence of EPS - Use of EPS as a measure is consistent with both the Large Utility Peer Group (27% of peers) and the Small Utility Peer Group (71% of peers). Among LTIPP energy services peers, approximately 21% use EPS
  - Prevalence of ROE - ROE as a performance measure is more common among the Small Utility Peer Group, where 29% use the metric with performance awards. Among the Large Utility Peer Group and LTIPP energy services peers, the use of ROE is less common

- Performance/Payout Range − Florida City Gas provides a maximum payout opportunity of 200% of target which is the majority practice among all three market perspectives examined. Additionally, Florida City Gas' maximum relative TSR performance achievement level of 90th percentile is consistent with all three market perspectives examined

- Peer Groups – performance share unit awards at Florida City Gas assess TSR performance against a custom peer group of utilities with similar business model and size. The use of a single peer group for assessing relative TSR performance is consistent with the typical practice of utility peers

At-risk Pay Programs Findings

Our competitive market review indicates Florida City Gas' at-risk pay programs are comparable to and competitive with plan designs of other similarly sized utilities.

Conclusion

In summary, we find the form, mix and levels of total pay at Florida City Gas to align with the Company's stated pay philosophy and the market practices of utility peers. The continued use of market competitive pay programs will enable Florida City Gas to attract, retain and motivate the employees needed for continued success.

* * * *

We hope this information is helpful. Please let us know if you have any questions or require additional information.

cc: James Garvie – Southern Company Services
Josh Burroughs – Southern Company Services

Exhibit 1

Large Utility Peer Group

Company	Ticker	Revenue ($000s)	Number of Employees
AES Corp.	AES	$13,586	19,000
American Electric Power Company	AEP	$16,380	17,634
Consolidated Edison	ED	$12,075	14,960
Dominion Resources	D	$11,737	16,200
DTE Energy	DTE	$10,630	10,000
Duke Energy	DUK	$22,381	28,798
Edison International	EIX	$11,869	12,390
Entergy	ETR	$10,846	13,513
Exelon	EXC	$31,360	34,396
FirstEnergy	FE	$14,156	15,707
NextEra Energy	NEE	$16,155	14,700
PG&E	PCG	$17,666	24,000
PPL Corp.	PPL	$7,517	12,689
Public Service Enterprise Group	PEG	$9,061	13,065
Xcel Energy	XEL	$11,107	11,476

25th Percentile		$10,976	12,877
Median		$12,075	14,960
75th Percentile		$16,268	18,317

Data source: Standard & Poor's Capital IQ. Company revenue and employee data reflect most recent fiscal year-end data.

Exhibit 2

Small Utility Peer Group

Company	Ticker	Revenue ($000s)	Number of Employees
Avista Corp.	AVA	$1,442	1,982
Chesapeake Utilities Corp.	CPK	$499	903
Gas Natural	EGAS	$1,520	80
Northwest Natural Gas	NWN	$676	1,123
Northwestern Corp.	NWE	$1,257	1,552
South Jersey Industries	SJI	$1,037	750
Spire	SR	$1,741	3,279
Unitil Corp.	UTL	$383	504

25th Percentile	$632	689
Median	$1,147	1,013
75th Percentile	$1,462	1,660

Data source: Standard & Poor's Capital IQ. Company revenue and employee data reflect most recent fiscal year-end data.