

**BEFORE THE TENNESSEE PUBLIC UTILITY COMMISSION
NASHVILLE, TENNESSEE**

August 3, 2018

IN RE:)	
)	
CHATTANOOGA GAS COMPANY)	
PETITION FOR APPROVAL OF)	
AN ADJUSTMENT IN RATES AND)	Docket No.
TARIFF; THE RECOVERY OF)	18-00017
THE AUA MECHANISM)	
REVENUE DEFICIENCY; AND)	
THE IMPLEMENTATION OF)	
ALTERNATIVE REGULATORY)	
METHODS)	

REBUTTAL TESTIMONY OF

JAMES GARVIE

ON BEHALF OF

CHATTANOOGA GAS COMPANY

1 **I. INTRODUCTION AND BACKGROUND**

2 **Q. Please state your name and business address.**

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

5 **Q. By whom are you employed?**

6 A. I am employed by Southern Company Services (“SCS”) as Senior Vice President
7 of Human Resources Total Rewards and Information Systems.

8 **Q. What are your responsibilities as Senior Vice President of Human Resources
9 Total Rewards and Information Systems for SCS?**

10 A. I am responsible for leading the compensation, benefits, retirement, human
11 resources operations, and human resources technology and analytics functions for
12 Southern Company (“Southern”) and its affiliates, including Southern Company
13 Gas and Chattanooga Gas Company (“CGC” or the “Company”). I have held these
14 responsibilities since I joined SCS in 2011 as Compensation and Benefits Director.
15 Along with increasing responsibilities, my job title changed in June 2018 to Senior
16 Vice President of Human Resources Total Rewards and Information Systems.

17 **Q. Please describe your prior work experience and responsibilities.**

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

1 **Q. What is your educational background?**

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

6 **Q. Please describe your credentials as a compensation professional.**

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

- 9 • Approximately twenty years of direct and related compensation experience,
- 10 • Eight years in consulting across many industries, and
- 11 • Completion of a series of nine examinations to earn designation as a CCP.

12 **Q. Have you previously filed testimony in this matter.**

13 A. No, I have not.

14 **Q. What is the purpose of your rebuttal testimony?**

15 A. The purpose of this testimony is to reiterate the need for recovery of at-risk
16 compensation and to respond to Witness Dittmore’s testimony and his adjustment
17 recommendations. The Company’s compensation programs are designed as a
18 “total package” and set at the median of the market to support our customers’ need
19 for safe and reliable service by attracting and retaining top talent. In my testimony
20 I will outline CGC’s customer-based fundamental beliefs on compensation,
21 describe the design and competitiveness of CGC’s total compensation programs,
22 and demonstrate that the level of compensation costs requested in this case is
23 reasonable, prudent, and necessary to enable CGC to continue to provide safe and
24 reliable service to our customers.

25

1 **II. RESPONSE TO MR. DITTEMORE**

2 **Q. Do you agree with Mr. Dittmore's recommended adjustment at pages 6-8 to**
3 **remove at-risk compensation costs?**

4 A. No. I do not agree with this adjustment because the at-risk compensation is a
5 reasonable and necessary part of the total compensation provided to employees.
6 Including at-risk compensation allows CGC to design a market competitive
7 compensation program targeting the median of the market and aligns with our pay-
8 for-performance philosophy. Disallowing any element of the compensation design
9 would mean employee compensation would fall below market.

10 **Q. Is the level of at-risk compensation identified by Witness Dittmore at page 6**
11 **correct?**

12 A. Mr. Dittmore has appropriately identified the projected dollars for at-risk
13 compensation. Where Witness Dittmore is wrong is in the recommendation to
14 disallow the cost of at-risk compensation.

15 **III. CGC'S APPROACH TO COMPENSATION**

16 **Q. In order to appreciate why Mr. Dittmore's adjustments should not be made,**
17 **can you please provide some background regarding CGC's compensation.**
18 **Please start with the components of CGC's total package of compensation?**

19 A. The compensation portion of CGC's total package consists of base pay and at-risk
20 pay. CGC's total package of compensation is aligned with its fundamental beliefs.

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

23 A. Evaluating compensation as a total package has two primary benefits. The first is
24 cost efficiency. Evaluating compensation as a whole allows CGC to maximize the
25 efficient use of resources essential to efficiently serving the customer by linking a

1 portion of the compensation package to performance. The second is retention and
2 attraction of employees. Evaluating compensation holistically allows for the
3 alignment of programs with CGC's need to attract, engage, retain, and motivate its
4 highly-skilled workforce.

5 **Q. What are CGC's fundamental beliefs regarding compensation?**

6 A. The Company fundamentally believes that the design of compensation programs
7 should support our customers' need for safe and reliable service. CGC takes a
8 broader approach to designing and valuing its compensation programs.

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

1 **Q. How does CGC measure the competitiveness of its compensation programs**
2 **against the external market?**

3 A. CGC's total compensation program is managed to the median of the external
4 market. Median of the market represents the middle of the market where half of the
5 market is higher and half is lower. By managing to the median, we provide
6 competitive compensation that will allow us to attract, engage, retain, and motivate
7 qualified employees while also managing costs. Southern Company utilizes
8 recognized compensation market data and third-party consulting firms, such as
9 Willis Towers Watson and Aon Hewitt, to benchmark our compensation programs
10 against the external market.

11 **Q. What is CGC's approach for designing employee compensation?**

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

20 **Q. Why has CGC chosen to provide total compensation in the form of base pay**
21 **and at-risk pay?**

22 A. CGC has chosen to provide total compensation in the form of base pay and at-risk
23 pay to emphasize performance and to align the interests of our employees with the
24 interests of our customers. Providing total compensation in the form of base pay
25 only, with no at-risk pay, would not be in the best interest of our customers. Base

1 pay only compensation would result in higher fixed costs for our customers and
2 would eliminate a powerful tool that drives employees to put the customer at the
3 center of all we do while sustaining the financial integrity of the Company.

4 **Q. Is the use of base pay and at-risk pay to form an employee's total compensation**
5 **unique to CGC?**

6 A. Not at all. Providing total compensation in this manner is consistent with how
7 utilities and general industry compensate their employees. We have found that
8 having total compensation provided in this manner has allowed CGC to develop a
9 culture where our employees are consistently engaged with their work, focused on
10 the success of the Company, and driven to deliver the highest levels of customer
11 service.

12 **Q. Do all employees have compensation that is provided in the form of at-risk**
13 **pay?**

14 A. Yes. All employees have some portion of their total compensation that is at-risk
15 and tied to the achievement of annual goals. Depending on the achievement level
16 of the annual goals, the at-risk portion of their pay may be paid after the end of the
17 year. It is not guaranteed to be paid each year. Employees with a greater influence
18 over the long-term success of the Company have a larger portion of their total
19 compensation at-risk. For these employees, depending on the achievement level of
20 the long-term goals, the at-risk portion of their pay may be paid after the end of
21 three years. It also is not guaranteed to be paid each year. Lower goal achievement
22 results in lower at-risk pay, and higher goal achievement results in higher at-risk
23 pay. An employee's total compensation, which includes base pay and at-risk pay,
24 will vary from year to year based on employee and Company performance.

1 **Q. What are the annual goals for the short-term at-risk portion of total**
2 **compensation?**

3 A. The Company's at-risk pay goals are all performance-based and designed to align
4 the employees' interest with the customers' interest. The annual goals include four
5 categories that all serve to enhance CGC's service to customers – (i) Southern
6 Company Gas's operational performance, (ii) Southern Company Gas's net income
7 performance, (iii) Southern's earnings per share performance, and (iv) individual
8 performance. Each of the at-risk pay goals is designed to focus employees on
9 providing safe and reliable service to our customers while maintaining high
10 efficiency standards. Contrary to Mr. Dittmore's suggestion at pages 7-8, the
11 achievement of financial goals at the Southern Company and Southern Company
12 Gas level represent a tremendous benefit for CGC's connection to the broader
13 company. The benefit for CGC is that we can provide a broader, more robust
14 platform for long-term success. In addition, CGC is better positioned to serve our
15 customers because we have increased access to capital, which helps keep costs
16 lower, shared resources, which help with prudent operations, and other similar
17 benefits.

18 Southern Company Gas's operational goals focus employees on continually
19 improving the Company's operational performance for our customers. The goals
20 focus employees' attention on safety, customer satisfaction, miles of main, leak
21 response, and company culture. Safety is measured to ensure the protection of
22 employees, customers and communities. Customer satisfaction is important to
23 ensure that our customers are satisfied with the level of service we provide and that
24 our employees are continually striving to improve the customer experience. Miles
25 of main are assessed to ensure that we are improving and increasing our assets to

1 safely and reliably meet customer demand, and leak response times are measured
2 to ensure safe, reliable service, and timely responses to serve our customers. Culture
3 is measured to ensure that we are diversifying our workforce to reflect our customer
4 base and developing our employees so that they may reach their full potential in an
5 atmosphere of customer service and safety.

6 Southern Company Gas's net income goal focuses employees on being efficient
7 with Company resources and continually looking for ways to improve the
8 Company's overall business. Employees working to keep expenses down, whether
9 through efficient purchasing practices, budget management, or effective use of
10 personnel resources, reduces costs that are recovered through rates to CGC's
11 customers.

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

20 Finally, the individual performance goal allows the Company to reward superior
21 levels of employee performance and aligns employee's interests with customer's
22 interest.

23 **Q. Please describe the goals for the long-term at-risk compensation program.**

24 A. The long-term goals are designed to encourage leaders with a greater influence over
25 the long-term success of the Company to take a whole-company approach to their

1 area of responsibility. These goals focus employees on planning and managing
2 Company resources efficiently in the short and long term by analyzing total
3 shareholder return, earnings per share, and return on equity for Southern Company,
4 among other things. It is in our customers' best interest to drive our employees to
5 achieve long-term goals. Well-executed, long-term planning, budgeting, and
6 implementation benefit our customers through better reliability, efficiency, and
7 value, both now and in the future.

8 **Q. How do at-risk pay goals that include both operational and financial goals**
9 **benefit customers?**

10 A. Mr. Dittmore fails to recognize in his direct testimony at pages 6-8 that a well-
11 designed total compensation program using sound compensation practice and
12 principles provides a balance between operational focus and financial focus for both
13 the short term and longer term to drive employee behavior in ways that balance the
14 interests of customers and shareholders alike. A compensation plan that contains
15 only operational goals might inappropriately drive employees to use more financial
16 resources than necessary to achieve operational success, while a plan that contains
17 only financial goals might inappropriately drive employees to make decisions that
18 adversely impact operational success. As noted earlier in my testimony, operational
19 goals focus employees on continually improving the Company's operational
20 performance for our customers. Financial goals similarly benefit customers by
21 focusing employees on improving the Company's financial health. Goals based on
22 financial performance are essential to ensure cost-effective operational
23 performance and are appropriate to recognize the importance of meeting our
24 investors' expectations to sustain high-quality service for our customers into the
25 future. Financial goals help ensure that decisions made by employees are optimized

1 not just for short-term benefits, but to sustain the Company in the long run. This is
2 particularly true in the utility industry, where decisions related to infrastructure and
3 major projects have long-lasting financial consequences to all stakeholders,
4 especially customers. The design of the Company's at-risk portion of total
5 compensation to include both operational and financial goals that are measured
6 annually and in the longer term, provides an appropriate balance where employees
7 are driven to deliver safe and reliable service to our customers in a manner that is
8 economically efficient both now and in the years to follow.

9 **Q. Has CGC's total compensation program been effective in attracting, engaging,**
10 **retaining, and motivating the workforce?**

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

20 **IV. CONCLUSION**

21 **Q. What conclusions can be drawn regarding the recovery of the proposed**
22 **compensation costs?**

23 A. CGC's total rewards package benefits our customers by allowing us to attract,
24 engage, retain and motivate a highly-trained, skilled, and customer-focused
25 workforce that delivers safe and reliable service. The design of our total rewards

1 programs, including both short-term and long-term at-risk pay, is aligned with the
2 median of the market. The costs of our compensation and benefit programs are both
3 reasonable and prudent based on market comparisons and should be included in the
4 rates paid by customers. Mr. Dittmore's adjustments should be rejected.

5 **Q. Does this conclude your rebuttal testimony?**

6 A. Yes.