

BEFORE THE NEW MEXICO PUBLIC REGULATION COMMISSION

IN THE MATTER OF THE APPLICATION)
OF NEW MEXICO GAS COMPANY, INC.)
FOR APPROVAL OF REVISIONS TO ITS)
RATES, RULES, AND CHARGES PURSUANT)
TO ADVICE NOTICE NO. 78)
NEW MEXICO GAS COMPANY, INC.)
Applicant.)

Case No. 19-00317-UT

DIRECT TESTIMONY AND EXHIBITS

OF

DENISE E. WILCOX

December 23, 2019

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 **A.** No. NMGC Witness Jimmie L. Blotter is sponsoring Rule 630 Schedule H-4 in its
2 entirety, and I provide background information regarding employee compensation
3 that is incorporated in that schedule. Additionally, I provide background
4 information for Rule 630 Schedule H-16, which is also sponsored by NMGC
5 Witness Blotter. I discuss the information I provided for these schedules in my
6 testimony.

7

8 **Q.** **HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE NEW MEXICO**
9 **PUBLIC REGULATION COMMISSION (“NMPRC” OR THE**
10 **“COMMISSION”)?**

11 **A.** No.

12

13 **Q.** **WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
14 **PROCEEDING?**

15 **A.** In my testimony I explain the Company's compensation and benefits philosophy
16 and describe the basis for compensation paid and benefits provided to employees
17 including base pay, benefits, and incentive pay, which together make up the
18 Company's total compensation to its employees. I will discuss the Company's
19 compliance with the human resources provisions of NMPRC Case No. 15-00327-
20 UT (the “Emera Stipulation”) including headcount, both current and planned, over
21 the period covered by this case. In addition, I will testify regarding the Company's

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 capital investment and incremental operations and maintenance (“O&M”) spend to
2 enhance the security of the Company’s facilities throughout the State.

3

4

II. COMPENSATION AND BENEFITS

5 **Q. PLEASE DESCRIBE NMGC’S GENERAL APPROACH TO**
6 **COMPENSATING ITS EMPLOYEES.**

7 **A.** NMGC’s compensation philosophy is one of determining and paying “total
8 compensation” to its employees that is consistent with the market. As used by
9 NMGC, total compensation is the sum of three interrelated components: base salary,
10 benefits, and incentive pay.

11

12 **Q. PLEASE DESCRIBE THESE COMPONENTS OF COMPENSATION IN**
13 **MORE DETAIL.**

14 **A.** Base salary is the cash compensation employees regularly receive in their paychecks.
15 All Company employees receive base salary. Also, based on certain job
16 classifications, some employees are eligible for overtime and/or shift differential
17 pay.

18

19 Benefits include all indirect and non-cash compensation provided to employees, such
20 as health insurance, life insurance, paid time off, holidays, 401(k) contributions, and
21 benefits mandated by law. All employees receive benefits.

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 The Company’s Short-Term Incentive Plan (“STIP”) is, as the name suggests, an
2 incentive plan that compensates employees for the achievement of annual Company
3 objectives. The achievement of the objectives of the STIP is intended to benefit
4 customers, directly and indirectly. All employees are eligible to participate in the
5 STIP and as set forth below, the Company’s annual short-term incentive
6 compensation plan is based on the achievement of Company goals and is a key
7 component of the Company’s compensation program.

8
9 The Company’s other incentive program, its Long-Term Incentive Plan (“LTIP”) is
10 an incentive plan to compensate certain eligible employees for the achievement of 3-
11 year performance objectives. The achievement of these objectives is intended to
12 benefit customers, directly and indirectly. LTIP compensation is available to certain
13 management employees at NMGC. Although LTIP does help attract and retain
14 qualified employees, and thus is arguably a recoverable expense, for purposes of
15 this rate case, the Company is not seeking recovery of LTIP.

16
17 **Q. REGARDING THE COMPANY’S COMPENSATION PHILOSOPHY,**
18 **HOW ARE COMPENSATION LEVELS DETERMINED AT NMGC?**

19 **A.** The Company’s goal is to compensate employees at or near the “the middle of the
20 market,” as appropriate for a particular job, taking into consideration each of the
21 components of compensation. Middle of the market compensation for each position

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 is based on analysis of compensation paid by other similar utilities and employers with
2 whom NMGC competes for personnel. The evaluation to determine market and
3 middle of the market compensation is performed by personnel in Emera Inc.'s and
4 NMGC's human resources departments along with NMGC management's input and
5 in reliance on market and compensation studies of market conditions and
6 compensation benchmarking.

7
8 **Q. WHAT IS COMPENSATION BENCHMARKING AND HOW IS IT USED BY**
9 **NMGC?**

10 **A.** Compensation benchmarking is the process by which NMGC identifies where it
11 stands in comparison with other companies in our industry. In addition to giving us a
12 comparison of how our compensation packages compare to others in our industry,
13 benchmarking helps provide periodic measurement against market baseline data and
14 thus helps define reasonable pay and incentive award levels for employees. All
15 components of total compensation are influenced by benchmarking data.

16
17 **Q. REGARDING BASE PAY, DOES NMGC TYPICALLY PROVIDE ANNUAL**
18 **MERIT INCREASES TO EMPLOYEE BASE SALARIES?**

19 **A.** Yes. Historically, the Company's annual merit increases have averaged 3.0%.
20 Consistent with this, NMGC, in this case, has applied annual escalation percentages
21 to salaries from July 1, 2018 through June 30, 2019 (the "Base Period") to estimate

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 employee base salaries from January 1, 2021 through December 31, 2021 (the “Future
2 Test Year”) that are necessary to keep total compensation at or near market for our
3 employees. Annual pay escalation factors were used to derive pay levels for 2020 and
4 2021.

5
6 **Q. REGARDING THE COMPANY’S SHORT-TERM INCENTIVE PAY
7 PROGRAM, PLEASE DESCRIBE WHAT PERFORMANCE OBJECTIVES
8 ARE USED TO DETERMINE STIP PAYOUTS.**

9 **A.** The Company’s STIP goals are centered around customer satisfaction, asset
10 management and operational efficiency and safety, and include items such as call
11 center metrics, safety-related metrics, system integrity and reliability measures, and
12 cost containment measures. There are two different programs currently in effect to
13 measure STIP performance. In 2019 payouts from the STIP are based on meeting
14 goals in the following categories: 1) Safety Targets, 21.4%; 2) Environmental
15 Targets, 7.3%; 3) People (employee) Targets, 19.9%; 4) Customer Targets, 20.9%;
16 5) Asset Management Targets, 19.9%, and 6) Financial Target, 10.6%. Together,
17 these targets are directed at operational efficiency and performance by the
18 Company.

19

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 **Q. REGARDING EMPLOYEE BENEFITS, PLEASE DESCRIBE THE**
2 **BENEFITS THAT ARE GENERALLY OFFERED TO FULL-TIME**
3 **EMPLOYEES BY NMGC.**

4 **A.** Obviously, benefits are a necessary component of compensation to attract and
5 retain a well-qualified workforce. We offer the following benefits to full-time
6 employees: medical, dental, vision, retirement savings plan 401(k), pension plan,
7 life insurance, accidental death & dismemberment insurance, short-term and
8 long-term disability, flexible spending accounts, health savings accounts,
9 educational assistance program, employee assistance program, paid time off,
10 holiday pay, wellness program, and retiree medical plan (grandfathered plan).

11

12 **Q. HOW ARE BENEFIT LEVELS SET?**

13 **A.** The Company considers the appropriate design and administration of its benefits
14 programs each year. The Company strives each year to provide employees with
15 a benefits package that is competitive in the market while recognizing the
16 importance of controlling the Company's expenses in this area. Among other
17 things, our consumer-driven health plan options drive employee engagement by
18 putting more responsibility and flexibility into the hands of employees to ensure
19 that they make the most appropriate, cost-effective decisions when it comes to
20 their healthcare.

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 **Q. DOES THE COMPANY PROVIDE A 401(k) PLAN, AND IF SO, DOES**
2 **THE COMPANY MATCH THE EMPLOYEES' CONTRIBUTIONS?**

3 **A.** Yes. As part of the 401(k) plan, employees receive the Company fixed match
4 which is \$0.75 for every dollar contributed to the 401(k) plan up to the first 6%
5 of their applicable compensation. Based on the achievement of certain business
6 financial goals, the Company will add a performance match up to \$0.25 for every
7 dollar contributed up to the first 6% of eligible pay. Together the fixed match and
8 the performance match result in a potential match of \$1.00 for every \$1.00 the
9 employee contributes, up to a maximum of 6% of the employee's eligible pay.
10 Although the performance match is arguably a recoverable expense, for purposes
11 of this rate case, the company is not seeking recovery of this performance match.

12

13 **Q. ARE THE BENEFITS PROVIDED BY NMGC COMPETITIVE WITH**
14 **THOSE OFFERED BY SIMILARLY SITUATED EMPLOYERS TO**
15 **ATTRACT AND RETAIN EMPLOYEES?**

16 **A.** Yes.

17

18 **Q. PLEASE EXPLAIN WHAT RULE 630 SCHEDULE H-4 PROVIDES WITH**
19 **REGARD TO EMPLOYEE COMPENSATION, AND PLEASE IDENTIFY**
20 **WHAT INFORMATION YOU PROVIDED FOR ITS PREPARATION.**

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 **A.** Rule 630 Schedule H-4 is sponsored by NMGC Witness Blotter and she will
2 explain it in detail. Rule 630 Schedule H-4 identifies the level of compensation
3 provided to employees at NMGC including benefits and projects forward such
4 compensation and benefits through the test period. I provided background
5 compensation information for the preparation of Rule 630 Schedule H-4.

6
7 **Q. PLEASE DISCUSS YOUR INPUT INTO THE HEALTH AND**
8 **DENTAL BENEFIT COST INCREASES REFLECTED IN RULE**
9 **630 SCHEDULE H-4.**

10 **A.** The increases reflected in Rule 630 Schedule H-4 are predicated on an actuarial
11 report prepared for NMGC by Mercer Health and Benefits, LLC (“Mercer”). At
12 our request, Mercer prepared an actuarial forecast of NMGC’s health and dental
13 costs based on our past three years of actual costs. A copy of this report is
14 attached to my testimony as NMGC Exhibit DEW-2. The projections from
15 Mercer are consistent with my understanding of what companies are seeing in
16 year-to-year increases to medical and dental insurance costs.

17
18 **Q. PLEASE DISCUSS YOUR INPUT INTO THE BASIS FOR THE**
19 **INCREASE IN PENSION COSTS REFLECTED IN RULE 630**
20 **SCHEDULE H-4 IN THE FUTURE TEST YEAR.**

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 **A.** The increase in Pension costs in Rule 630 Schedule H-4 are also based upon an
2 actuarial report prepared for NMGC by Mercer. NMGC has historically, and
3 continues to rely on outside actuaries to determine its pension calculations. At our
4 request Mercer prepared a report regarding Pension cost increases and a copy of the
5 Mercer report related to pension calculations is attached as NMGC Exhibit DEW-
6 3.

7

8 **Q. PLEASE DISCUSS YOUR INPUT INTO THE REASON FOR THE**
9 **INCREASES IN 401(k) BENEFITS REFLECTED IN RULE 630**
10 **SCHEDULE H-4 IN THE FUTURE TEST YEAR.**

11 **A.** The cost related to the Company's 401(k) plan will increase commensurate with
12 the merit increases we projected. For example, if an employee receives a 3% merit
13 increase, they are also eligible for a 6% match up to \$0.75 cents per dollar, for that
14 3% increase. As a result, changes were made to the 401(k) for 2020 along these
15 lines and the cost of these increases was determined and provided to NMGC
16 Witness Blotter for including in this rate case. These changes in the Company's
17 401(k) were felt to be necessary to retain an industry-standard 401(k) and benefits
18 program at NMGC.

19

20 **Q. IN RULE 630 SCHEDULE H-4, NMGC WITNESS BLOTTER APPLIES**
21 **A 2% ESCALATOR TO VARIOUS BENEFITS – OTHER THAN**

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 **HEALTH, DENTAL, PENSION AND 401(K). BASED ON YOUR**
2 **EXPERIENCE, IS THIS A REASONABLE ASSUMPTION?**

3 **A.** Yes. For benefits other than health and dental expenses, pension costs, or 401(k),
4 we have attempted to project forward using historical experience and future
5 expectations as a basis. Following discussions, we applied a 2% escalator to
6 other benefits. Based on my experience, I think such an escalator is reasonable
7 and appropriate. While it is difficult to accurately project changes to benefits on
8 a year-over-year basis, a projection predicated in part on a look back from 2016
9 through 2019, and then a projection forward, is reasonable. I have had several
10 discussions with NMGC Witness Blotter along these lines and agree with her use
11 of a 2% escalator.

12
13 **Q. THERE ARE TEST PERIOD ADJUSTMENTS (“TPA”) DISCUSSED IN**
14 **RULE 630 SCHEDULE H-16 PERTAINING TO EMPLOYEE**
15 **COMPENSATION EXPENSE. DID YOU PREPARE THESE TPAS?**

16 **A.** No, NMGC Witness Blotter will testify regarding these test period adjustments. I
17 provided background information to her to assist her in their calculations including
18 employee compensation data, employee merit raises scheduled to occur in April 2020,
19 and information relating to what the Company refers to as an “at target” STIP payout.

20

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 **III. REQUIREMENTS FROM PRIOR COMMISSION ORDERS**

2 **Q. ARE YOU FAMILIAR WITH THE EMERA STIPULATION ENTERED**
3 **IN NMPRC CASE NO. 15-00327-UT IN APRIL 2016?**

4 **A.** Yes, I have reviewed the Emera Stipulation.

5

6 **Q. SEVERAL PROVISIONS IN THE EMERA STIPULATION RELATE TO**
7 **EMPLOYEE RELATIONS AND TREATMENT. PLEASE HIGHLIGHT**
8 **THE FIRST OF THESE PROVISIONS AND DESCRIBE HOW NMGC IS**
9 **COMPLYING WITH THIS PROVISION.**

10 **A.** In the Emera Stipulation, at paragraph 6, NMGC agreed “that the number of full-
11 time positions in New Mexico at NMGC will be maintained at no less than 675
12 full-time positions for three years after Closing, and on a go-forward basis will not
13 drop below this level without express prior NMPRC approval”. NMGC also agreed
14 that it would “exercise best efforts to minimize the number and length of vacancies
15 ... [and that if the] unplanned vacancies cause a reduction in workforce below 675
16 for more than three consecutive months, NMGC agrees to inform the Signatories
17 and make best efforts to restore the workforce to 675.”

18

19 NMGC is in full compliance with this paragraph of the Stipulation. At all times
20 since the Emera Stipulation we have maintained at least 675 positions in New
21 Mexico. As of October 1, 2019, NMGC had 690 positions filled, and 40 vacancies,

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 bringing the total number of positions to 730. Over the last three years we have
2 averaged approximately 35 vacancies at any point in time.

3

4 **Q. DO YOU ANTICIPATE ANY CHANGE TO THE AVERAGE NUMBER OF**
5 **VACANCIES THROUGH 2021?**

6 **A.** No, as with any company, at any point in time, there are employees who have
7 retired, others who have moved to different positions, or to different employers.
8 The process of posting a position, reviewing applications, scheduling and
9 conducting interviews, selecting a successful candidate, extending the offer, and
10 then onboarding the new employee takes time. During this period, a vacancy exists.
11 NMGC continues to focus on controlling the length of vacancies, as required to do
12 in the Emera Stipulation, so I forecast essentially the same average number of
13 vacancies as we have seen in the recent past.

14

15 **Q. DOES NMGC'S REVENUE REQUIREMENT INCLUDE RECOVERY OF**
16 **EXPENSES RELATED TO VACANCIES?**

17 **A.** No.

18

19 **Q. PLEASE SUMMARIZE THE SECOND PROVISION OF THE EMERA**
20 **STIPULATION RELATING TO EMPLOYEE RELATIONS AND**
21 **DESCRIBE HOW NMGC IS COMPLYING WITH THIS PROVISION.**

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 **A.** In the Emera Stipulation, at paragraph 7, NMGC agreed that it would “not eliminate
2 any customer facing positions for three years after Closing except through attrition,
3 voluntary severance, or for cause.”

4
5 NMGC’s Human Resources department has made it a focus to ensure that changes
6 in customer facing positions are made consistent with this provision of the Emera
7 Stipulation. We have fully complied with this provision.

8
9 **Q.** **PLEASE SUMMARIZE THE THIRD PROVISION OF THE EMERA**
10 **STIPULATION RELATING TO EMPLOYEE RELATIONS AND**
11 **DESCRIBE HOW NMGC IS COMPLYING WITH THIS PROVISION.**

12 **A.** In the Emera Stipulation, at paragraph 12, NMGC agreed that it “will maintain
13 wages, benefits and other terms and conditions of employment for NMGC
14 employees that are at least substantially comparable to those currently existing for
15 NMGC employees.”

16
17 Since 2016, NMGC has taken this commitment into account when making any
18 changes to wages, benefits and other terms and conditions of employment for
19 NMGC employees. It is our understanding that this provision was never intended
20 to freeze the employee wages, benefits, and conditions of employment as they were
21 in 2016, and, since 2016, wages, benefits, and conditions of employment have been

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 routinely evaluated and changes have been made. We have made all such changes
2 while maintaining substantial comparability in wages, benefits and other terms and
3 conditions of employment.

IV. SECURITY MEASURES

6 **Q. WHAT IS NMGC DOING WITH RESPECT TO SECURITY EXPENSES
7 IN THIS CASE?**

8 **A.** NMGC has 26 offices and payment centers, 12,200 miles of pipe, and hundreds
9 of related facilities throughout the state. We take very seriously our obligation to
10 protect our employees, our customers, and our facilities. Toward that end, and
11 consistent with industry trends, recommendations of security experts, and
12 regulators, we have developed and are implementing enhanced plans and
13 programs to increase the physical strength and security of our facilities, including
14 offices and payment centers, pipelines, and pipeline related facilities, as well as
15 providing increased security guard presence and surveillance of our facilities.
16 These measures are being undertaken because of societal changes and
17 developments.

18
19 As a result, NMGC is expending capital to harden facilities throughout the state
20 and is increasing its operation and maintenance expenses for security guard

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 activity. Briefly, we are enhancing the physical security at our offices, and we
2 will continue this effort over the coming years; improving security at critical sites
3 on our pipeline facilities, and we will continue this effort over the coming years;
4 and providing roving guards at our Edith facility and certain pay centers, and we
5 will continue to evaluate expanding these services in coming years.

6
7 We are beginning these investments, and the amounts expended on these efforts
8 and continued in this case are identified below. I have provided these numbers to
9 NMGC Witnesses Tom C. Bullard and Blotter for inclusion in the capital and
10 O&M numbers in this case. We will continue to evaluate further expenditures in
11 this area in the future.

12
13 Additional efforts at security enhancements are underway in the IT&T area, and
14 NMGC Witness Kevin D. Sturgill has separately provided information to NMGC
15 Witnesses Bullard and Blotter regarding the cyber and electronic surveillance
16 portion of our enhanced security. I am not responsible for that part of our security
17 enhancement and defer to NMGC Witness Sturgill in this area.

18

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 **Q. PLEASE EXPLAIN IN MORE DETAIL WHAT NMGC IS DOING IN**
2 **YOUR AREA OF SECURITY RESPONSIBILITY.**

3 **A.** In 2018, the Company hired a Manager of Corporate Security and Emergency
4 Management. This position is responsible for the planning and design of the
5 Company’s security and emergency management master plan, programs and
6 procedures. This position provides technical security expertise and serves as a
7 security consultant for NMGC management and employees. The position
8 develops physical security strategies for all corporate properties and, in
9 consultation with experts in the field, recommended the actions being undertaken
10 by the Company to enhance security. An additional position, reporting to this
11 Manager, will be added in 2020 to support security initiatives.

12
13 Some of the things that NMGC has taken include investment in better technology
14 for monitoring activity in lobbies, parking lots and lay down yards at Company
15 facilities. Among other things, cameras have and are being installed to allow for
16 centralized monitoring. Also, all facilities have been upgraded with access
17 control (badging).

18
19 In 2017, NMGC set up a security station and contracted for security guards to
20 monitor the front entrance and the perimeter of its headquarters building. In 2019,

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 we did the same for the Rio Bravo customer service center adding security during
2 business hours, and for the service center on Edith adding 24/7 security. In
3 addition to providing a safer place to work for our employees, it has reduced the
4 number of break-ins, vandalism, and or theft of Company equipment that we were
5 seeing at the Edith Service Center.

6

7 **Q. DO YOU HAVE PLANS TO DO MORE?**

8 **A.** Yes, in addition to hiring another full-time employee, NMGC plans to continue
9 the presence of contracted security guards, continue to harden the physical
10 security at each of its office locations, and continue deploying enhanced
11 technology. This investment allows NMGC to retain its local presence
12 throughout many New Mexico communities across the state with payment and
13 service centers, while protecting the Company's employees, as well as its assets.

14

15 **Q BRIEFLY IDENTIFY THE COSTS OF THE PORTION OF SECURITY**
16 **YOU ARE RESPONSIBLE FOR.**

17 **A.** The cost of physical security improvements for pipelines projected for 2020 and
18 2021 is approximately \$908,000 for each year. The security improvements
19 related for Company facilities projected for 2020 and 2021 is approximately

**DIRECT TESTIMONY OF
DENISE E. WILCOX
NMPRC CASE NO. 19-00317-UT**

1 \$616,000 for each year. We are projecting O&M for guards for 2020 and 2021 a
2 total of approximately \$365,000 for each year.

3

4

V. CONCLUSION

5 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

6 **A. Yes.**