

BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
 FOR APPROVAL OF A GENERAL CHANGE IN) DOCKET NO. 16-052-U
 RATES, CHARGES AND TARIFFS)

Rebuttal Testimony

of

Patricia Ruden

on behalf of

Oklahoma Gas and Electric Company

Patricia Ruden
Rebuttal Testimony

1 Q. **Please state your name, position and business address.**

2 A. My name is Patricia Ruden. I am the Director of Total Rewards at OGE Energy Corp.
3 (“OGE”) which is the parent company of the wholly owned subsidiary Oklahoma Gas
4 and Electric Company (“OG&E”). My business address is 321 N. Harvey, Oklahoma
5 City, OK 73101.
6

7 Q. **Please describe your educational background and professional qualifications.**

8 A. I attended Penn State University and received my Bachelor of Science degree in
9 Accounting from Minot State University. I have over 25 years of direct experience in
10 Human Resources with a strong focus on compensation. I am a Certified Compensation
11 Professional (“CCP”). Prior to joining OG&E (“Company”), I was Vice President,
12 Compensation for Charter Communications Inc., a cable company employing
13 approximately 23,000 people and a provider of services to more than 6 million customers
14 in 28 states. From 2006 to 2007, I was Vice President, Rewards for Washington Mutual,
15 a financial institution, where I was responsible for compensation plans for the retail arm
16 of the business which supported approximately 35,000 members. I joined OG&E in
17 August 2007 as the Director of Compensation. In 2015, I was promoted to my current
18 position where I oversee OG&E’s compensation and benefits plans and practices.
19

20 Q. **Briefly describe your duties and responsibilities as Director of Total Rewards.**

21 A. I am responsible for leading the development and implementation of a Total Rewards
22 strategy which supports OG&E’s efforts to attract and retain a skilled workforce. I
23 provide guidance to management on pay related issues and communicate trends in Total
24 Rewards that may better support the company’s talent strategy. I am responsible for
25 overseeing the development, implementation, and administration of compensation plans
26 and health and retirement plans for OG&E.
27

28 Q. **Have you previously testified before the Arkansas Public Service Commission?**

29 A. No.

1 Q. **What is the purpose of your rebuttal testimony in this proceeding?**

2 A. The purpose of my testimony is to provide an overview of our compensation programs in
3 order to respond to the direct testimony filed in this docket that addresses the Company's
4 request to recover in rates the full cost of incentive compensation programs. I am
5 providing rebuttal testimony to substantiate the costs and design structure of OG&E's
6 compensation plans as reasonable and support OG&E's position that the recovery of the
7 full amounts of these costs is appropriate.

8
9 I. INTRODUCTION

10 Q. **Please provide an overview of each element of OG&E's compensations plans and**
11 **their purpose.**

12 A. OGE's compensation plans primarily consist of base pay and incentive pay, which
13 includes short-term incentive compensation ("STI") and long-term incentive
14 compensation ("LTI"). STI is provided to all fulltime members and LTI is to a select
15 group of participants.

16
17 **Base Pay**

18 Base pay is what we offer to employees to perform the basic duties of their jobs. With
19 few exceptions, OG&E peer companies also provide incentive compensation.

20
21 **Incentive Pay**

22 Incentive pay is compensation that is provided to incent or drive behavior and is intended
23 to motivate performance by providing rewards for specific results. Incentive pay is at-
24 risk compensation, meaning that it is not paid when it is not earned. OG&E's main forms
25 of Incentive Pay are:

- 26 • Short Term Incentive (STI) plans are designed to attract and retain employees as
27 well as align interests of employees to the business strategy of the company. The
28 target short term incentive payouts are based upon the percentages of base pay
29 that employees would receive if the performance goals being measured under the
30 incentive plan are achieved at target. The actual incentive payout depends upon
31 how performance compares to target. The performance period for STI is one year

1 or less. Performance measures for OG&E's STI plan use a balanced scorecard
2 approach which includes a combination of operating and financial performance
3 measures to drive employee behaviors that manage costs while ensuring customer
4 satisfaction, reliability, and safety. At OG&E, performance measures include
5 Customer Satisfaction, Safety, Operating and Maintenance Expense and Earnings
6 Per Share as measures of performance. The balanced score card approach is a
7 commonly used plan design for utilities.

- 8 • Long-term incentives ("LTI") at OG&E are offered to a select group of
9 participants including officers, directors, and select senior managers. These
10 performance unit grants are intended to drive business decision-making that
11 results in long-term company performance, promotes shareholder value, and
12 provides customer benefit. Because LTI is earned at the end of a three-year
13 performance cycle, this promotes a longer-term view of business results.

14 15 II. COMPENSATION ANALYSIS

16 Q. **How do you determine that OG&E's compensation levels are reasonable and**
17 **market competitive?**

18 A. In order to assure that the Company remains competitive and that the costs of our
19 compensation plans are reasonable, we perform annual market reviews to assess the
20 competitive positioning of our jobs to external market practices for base salary, STI, and
21 LTI. We use data from approximately 25 independently verified third-party
22 compensation surveys for the utility and general industries for which we compete for a
23 skilled workforce. OG&E's compensation position to market is targeted at the median
24 (50th percentile) which is competitive relative to our peers and reasonable. To ensure the
25 competitive nature and reasonableness of base compensation, OG&E matches to jobs in
26 the market that are representative of the jobs at OG&E where valid and reliable external
27 survey benchmark data is available. While we cannot match to all jobs since some are
28 unique to OG&E, we are able to analyze jobs from a variety of utility and corporate jobs
29 representative of the Company at various levels for review. The jobs analyzed covered
30 approximately 60% - 70% of our current members.

1 Q. **What survey sources did you use?**

2 A. The following external survey sources were used to support the compensation analysis:

<ul style="list-style-type: none"> ▪ AON Hewitt IEHRA Energy Industry Survey ▪ EAPDIS Energy Technical Craft Clerical Survey ▪ Hay Group <ul style="list-style-type: none"> ○ General Market Executive ○ General Market Professional/Managerial ○ Energy Industry ▪ Intelligent Comp, Southwest HR Group Survey ▪ Mercer (Energy) <ul style="list-style-type: none"> ○ Energy Industry – Cross Segment ○ Energy Industry – Field/Hourly ○ Energy Industry – General Benchmark ○ Energy Industry - Utilities ▪ Western Management Utilities 	<ul style="list-style-type: none"> ▪ Mercer (General Industry) <ul style="list-style-type: none"> ○ Engineering & Design Survey ○ Executive Survey ○ Finance, Accounting and Legal Survey ○ Human Resources Survey ○ Information Technology Survey ○ Logistics & Supply Chain ○ Metro Benchmark – South Central Survey ○ Sales, Marketing & Communications Survey ▪ Towers Watson <ul style="list-style-type: none"> ○ CDB General Industry Executive Survey ○ CDB Energy Services Executive Survey ○ Long-Term Incentive Marketplace Overview
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3 Q. **When ensuring OG&E's compensation levels are reasonable and market**
 4 **competitive, what elements of compensation were included in your analysis and why**
 5 **did you include these elements?**

6 A. Our analysis of competitive data included: 1) base salary, 2) target total cash
 7 compensation (which is the sum of base salary plus target short-term incentive), and 3)
 8 long-term incentive granting practices. The Company performs this analysis on an annual
 9 basis to ensure that our compensation practices are aligned with current market trends
 10 and are reasonable. It is important to not only look at compensation as a whole, but also
 11 review how each component of the Company's total compensation shifts with market
 12 trends. This analysis requires extensive experience and knowledge of compensation
 13 trends and actual jobs to accurately benchmark OG&E against other companies. By
 14 looking at each component, the Company is better positioned in the regional market to
 15 attract available talent. As compared to our peers, OG&E's components of our total
 16 compensation package (*i.e.*, base salary, short-term cash incentive, and long-term
 17 incentive grants) are set in the the 50th percentile range, which is competitive relative to
 18 our peers and reasonable. In addition, the annual and long-term incentive awards are

1 directly linked to performance. Payouts of these portions of an executive's compensation
2 are placed at risk and require the accomplishment of specific results, both in the long and
3 short term. It is important to note that many of our peers provide a portion of their long-
4 term incentive awards based on tenure rather than following OG&E's incentive structure
5 with incentive payouts based 100% on performance.
6

7 **Q. How do OG&E's base salaries and total cash compensation compare to market**
8 **levels?**

9 A. A detailed comparison of OG&E compensation relative to the survey data at market
10 competitive levels (50th percentile) shows that OG&E's target cash compensation levels
11 (base salary plus target annual bonus) are competitive relative to similar companies. We
12 believe the market compensation resides in the 50th percentile, indicating that
13 approximately one-half of companies with which OG&E competes are paying total
14 compensation greater than that of OG&E.
15

16 **Q. What challenges influence OG&E's compensation practices?**

17 A. OG&E faces significant industry and geographic challenges in recruiting and hiring a
18 skilled workforce. The industry as a whole is losing talent through retirement, causing
19 critical jobs to become open with a limited pool of qualified candidates. We find that we
20 are experiencing the most recruiting challenges in the areas of specialty engineering, IT
21 security, senior analysts, and skilled trade positions such as instrument and control
22 technicians and control operators. Our geographic location places us in competition with
23 many energy sector companies who offer very competitive compensation packages and
24 attractive working environments including on-site fitness centers and dining facilities.
25 These companies are particularly challenging to compete with during energy upswings.
26 When energy service business is booming, the competition for skilled talent is the
27 highest. During these times, energy companies are incredibly aggressive with total cash
28 compensation package offerings and also tend to offer long term incentives to a broader
29 range of employee types.

1 Q. **Please describe OG&E's approach to attracting talent.**

2 A. In jobs where the demand is high and the number of qualified candidates is low, the
3 Company recognizes it may need to offer wages including long-term and short-term
4 incentives that are at or above the market-survey benchmarks. In addition, we may need
5 to offer sign-on bonuses and relocation benefits. OG&E focuses on offering competitive
6 compensation packages in order to attract qualified candidates. Base Salary and both STI
7 and LTI are all important components and if we do not offer one of these components we
8 would have to increase the amount of other components in order to be competitive. .
9

10 Q. **Please further describe OG&E's challenge of an aging workforce and how you plan
11 to address the challenge.**

12 A. We have already experienced significant increases in retirements in recent years and
13 approximately one-third of OG&E's current workforce will be eligible to retire (*i.e.*, be at
14 least 55 years of age and have at least five years of service) by the end of June 2017. We
15 have anticipated the need to fill critical positions as the baby boomers retire and continue
16 to recruit new members and/or develop internal members through mentorships and
17 training with the goal of promoting them into these roles over time. We utilize
18 developmental roles and offer phased retirement to encourage the passing on of
19 institutional knowledge. Additionally, we continue our workforce development through
20 the support and involvement in educational institutions. In some areas of the business
21 where there are gaps in filling positions, we are utilizing contract labor to perform work.
22 In addition, maintaining a competitive compensation package, including short-term and
23 long-term incentives, allows OG&E to attract highly skilled talent in a pool that is
24 continually shrinking and to retain existing talent over the long-term.
25

26 III. STAFF AND INTERVENOR'S POSITIONS

27 Q. **Have you reviewed the direct testimony of Claude Robertson, William P. Marcus,
28 and Mark E. Garrett regarding incentive compensation?**

29 A. Yes. That testimony was filed on behalf of the Arkansas Public Service Commission
30 Staff, the Arkansas Attorney General, and Arkansas Valley Energy Consumers,
31 respectively.

1 Q. **Do those witnesses generally oppose OG&E's requested recovery of short-term and**
2 **long-term incentive compensation costs?**

3 A. Yes. While the witnesses' policy arguments and methodologies for determining the
4 proper level of recovery differ somewhat in form and substance, in general, the witnesses
5 recommend disallowance of 50% recovery for short-term incentives and 100%
6 disallowance for long-term incentives.

7
8 Q. **Do the witnesses generally agree as to a standard that must be met in order to**
9 **justify recovery of incentive compensation costs in rates?**

10 A. Yes. The witnesses all acknowledge certain of this Commission's prior orders in which it
11 has stated that for an expense, including incentive compensation, to be recovered through
12 rates, it must be prudently incurred, known and measurable, reasonable, and necessary for
13 the provision of utility service in Arkansas.

14
15 Q. **Do you agree that this standard is appropriate when considering recovery of**
16 **incentive compensation costs?**

17 A. Yes. My testimony will explain why I believe OG&E meets that standard regarding its
18 request for full recovery of short-term and long-term incentive compensation costs, why
19 they are necessary, and how they are consistent with the competitive marketplace for
20 skilled workers. Furthermore, my testimony addresses how our plans benefit the
21 customer.

22
23 Q. **In your opinion, what is the primary reason the witnesses oppose OG&E's**
24 **requested recovery of certain incentive compensation costs?**

25 A. The basis for the witnesses' opposition centers on the assertion that financial measures or
26 equity-related forms of compensation, whether short-term or long-term, do not provide
27 material benefits to customers or serve to align the interests of shareholders and
28 customers.

1 Q. **Do you agree with the assertion that shareholder benefit and customer benefit are**
2 **mutually exclusive in the context of incentive compensation programs?**

3 A. No, I do not. I believe a financially-healthy utility benefits both customers and
4 shareholders.
5

6 Q. **Do you agree with the adjustment to remove 50% STI from rates due to the**
7 **financial measures contained in the balanced scorecard?**

8 A. No. The Company believes it should recover 100% STI in base rates because financial
9 measures are key in our balanced scorecard approach for our STI which includes a
10 combination of operating and financial performance measures to drive employee
11 behaviors that manage costs while ensuring reliability. Decoupling the performance
12 measures tied to financial performance from customer-related measures creates an
13 imbalance because these measures are linked to one another.
14

15 Q. **Why do you believe decoupling creates an imbalance?**

16 A. We believe that financial measures benefit customers because managing Operating and
17 Maintenance (“O&M”) expenses and EPS combined encourage efficiency and excellence
18 in operations and positive financial results are indicative of how well the utility is run
19 over time. A financially-healthy utility with reasonable investor returns, when compared
20 to its peers, ultimately has lower costs to pass to customers because of higher credit
21 metrics and lower cost of capital. As a regulated utility, it’s our obligation to be prudent
22 and exercise discretion while providing excellent service to our customers at a reasonable
23 cost. Managing our expenses effectively supports investment in innovation of new
24 products which in turn provides additional benefits and cost-saving opportunities for
25 customers.
26

27 Q. **Do you agree with the adjustment to remove 100% of LTI from rates due to the**
28 **financial measures contained in the balanced scorecard?**

29 A. No. LTI is used by most OG&E’s industry peer companies. It is a very necessary part of
30 attracting and retaining the necessary talent for us to operate the utility in a highly
31 competitive job market. Moreover, LTI is intended to drive business decision-making

1 that results in long-term company performance and promotes shareholder and customer
2 value. This is why the performance period is more than one year and why grants are only
3 offered to members who can influence long term business results such as officers and
4 executives of a company. By offering both short-term and long-term incentives, OG&E
5 balances short term objectives with long-term outcomes. Also, as discussed above,
6 basing LTI on financial metrics that encourage OG&E employees to achieve positive
7 financial results has the overall effect of the Company being strong enough to innovate
8 and provide incremental value to the overall customer experience.

10 IV. CUSTOMER BENEFITS

11 Q. **How does OG&E promote and ensure innovation?**

12 A. OG&E promotes and ensures a culture of innovation through smart energy policies and
13 innovative implementation of technology. OG&E meets the long-term needs of our
14 growing economy and the everyday needs of the people who live in the communities.
15 OG&E has a history of innovation that includes being one of the first utilities in the
16 nation to use combined-cycle gas generation. Today, OG&E is a leader in adoption of
17 alternative energy technologies, adding access to wind power in our generation portfolio
18 in 2003, executing the largest U.S. deployment of smart meters in 2012 and developing a
19 utility-scale solar farm that was put into service in 2015.

21 Q. **How does innovation benefit the customer?**

22 A. The electric utility industry, as with most other industries, must continually strive to meet
23 the evolving needs of its customers. The provision of safe, reliable electric energy
24 remains a primary expectation of all customers, but customers have come to expect much
25 more from their electric utility. The utility's development and use of technologies that
26 facilitate and expedite customer service, the integration of various forms of renewable
27 energy into the utility's system, further use of energy efficiency and demand programs,
28 and the utility's involvement and support within the communities it serves are now
29 common expectations. Put simply, utilities that are financially weak are unable to
30 commit the resources necessary to engage in the development of new services and
31 technologies that are beneficial to the customer.

1 Q. **How does the design of OG&E's incentive compensation plans benefit the**
2 **Customer?**

3 A. We believe that customers benefit from the overall design and application of OG&E's
4 incentive compensation plans because any payouts are tied to business results across
5 measures as a whole which ensure that employees have a vested interest in the
6 performance of the Company. For example, if the company chooses to forgo performing
7 regular maintenance to our assets to reduce expenses we will suffer from potential lower
8 customer satisfaction and safety scores. Conversely, if we spend excessively our
9 financials will reflect a higher cost structure which may result in higher costs to our
10 customers.

11
12 Q. **How are OG&E customers benefitting from the design of the incentive**
13 **compensation plans?**

14 A. OG&E Customers are benefiting directly from the results of our incentive compensation
15 plan design as evidenced by more than 20 awards for operational excellence. As noted in
16 the Direct Testimony of Company witness Donald Rowlett, on page 4, the Company has
17 received awards from organizations including: Edison Electric Institute, JD Powers and
18 Assoc., Electric Power and Light, American Council of Engineering Companies, Market
19 Strategies International and more. These awards indicate that the Company is providing
20 excellence in its operations including not just innovation, but efficiency and customer
21 service.

22
23 Q. **Does the cost of the incentive compensation plans increase the cost of service to**
24 **OG&E's customers?**

25 A. No. If OG&E did not offer an annual incentive, the Company would have to increase
26 base salaries to reflect a competitive market position in order to attract and retain talent.
27 Incentive pay places a portion of employee pay at risk, making it dependent on their
28 performance and the Company's performance. If the Company does not perform well,
29 the Company will not pay out incentives. If the Company does pay out incentives, this
30 means that the Company has benefited customers with greater efficiency, lower costs,
31 improved reliability, safety, compliance and healthier financial performance. Incentive

1 programs are offered to drive behavior and increase productivity. This results in running
2 our business more efficiently and effectively. OG&E believes that it makes sense to have
3 a portion of total compensation variable and driven by performance. As noted
4 previously, if we eliminate that incentive portion of total compensation, we would have
5 to increase base salaries to the same levels in order to attract and retain the talent
6 necessary to ensure continued safe, reliable electric service and the innovation necessary
7 to meet the evolving demands and expectations of our customers.

8
9 **Q. Is it true that shareholder benefit and ratepayer benefit are mutually exclusive?**

10 A. No, this is not true. Customers benefit when financial performance measures (such as
11 Earnings Per Share and Total Shareholder Return) are strong because OG&E will attract
12 more investors and have access to cheaper capital, lowering the cost of providing service
13 to customers. Conversely, if these indicators are weak as compared to the market,
14 customer costs go up due to the linkage of the factors that caused the financial
15 performance measures to weaken.

16
17 Financial performance measures weaken when employee and ultimately company
18 performance measures and expectations are not met. When our customer satisfaction
19 measures and/or safety measures decline, this impacts OG&E's bottom line (net income).
20 This happens through the increase of associated expenses which directly impacts EPS and
21 TSR. Therefore, the financial measures do benefit rate payers. As employees strive to
22 meet the performance measures company efficiencies increase, which leads to the need
23 for fewer rate increases.

24
25 **Q. Can you please summarize why it is appropriate for OG&E to recover the full cost
26 of its incentive compensation programs?**

27 A. As I have discussed in my testimony, OG&E's STI and LTI plans are designed to attract
28 and retain employees, align the interest of employees and the Company, and drive
29 decision-making that results in long-term performance. The fact that these plans include
30 financial measures or equity-related components does not exclude them from providing

1 benefits to customers. Strong financial performance contributes to a financially-healthy
2 utility which ultimately benefits customers.

3

4 Q. **Does this conclude your testimony?**

5 A. Yes.