

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)
RATES, CHARGES AND TARIFFS)

DOCKET NO. 16-052-U

DIRECT EXHIBIT

OF

CLAUDE ROBERTSON
PUBLIC UTILITY AUDITOR
AUDITS SECTION

ON BEHALF OF THE GENERAL STAFF
OF THE ARKANSAS PUBLIC SERVICE COMMISSION

JANUARY 31, 2017

PERFORMANCE RECOGNITION

The Performance Recognition cash awards are generally offered to employee levels below executive. The governance and rationale to support performance recognition or cash awards are defined in OGE's Recognition Policy Handbook. Performance Recognition Cash Awards are intended to reward individual contributions to key initiatives of the company. Management, in its sole discretion, determines whether members will receive a Performance Recognition Cash Award for their contributions outside of the member's day-to-day duties (e.g., complex annual audit, special projects or other key events of a similar nature as defined by senior management). The awards are not predefined and are proposed at the discretion of management from time to time as appropriate.

INCENTIVE COMPENSATION

Incentive compensation is compensation that is provided in order to incent or drive behavior and is intended to motivate performance by providing rewards for specific results. Incentive compensation plans are often designed to attract and retain employees as well as align interests of employees to the goals of the company. Payouts are not guaranteed and are usually tied to specific performance measures. These programs can be short term (usually a year or less) or long term (generally multi-year). OGE offers short and long term incentive compensation.

SHORT TERM INCENTIVES

OGE has a short term incentive (STI) plan and performance recognition cash awards.

Short term incentives are annual plans that are governed by the OGE Energy Corp 2013 Annual Incentive Plan and TeamShare Employee Incentive Plan documents. STI is provided to motivate and reward our members to drive performance, particularly in the areas of safety, customer service and fiscal responsibility.

The STI plan has a one year performance cycle. All full time members are eligible to participate. Each eligible employee has a target percentage assigned based on their salary grade level. STI payout is based on the level of achievement met for each performance metric. A member hired during the plan year is eligible to receive a prorated award based on the number of full months of participation.

The Company sets incentive compensation targets annually. The annual compensation opportunity available to employees depends on if targeted levels of performance are met under our STI.

LONG TERM INCENTIVES

OGE has a stock incentive plan that includes long-term incentive ("LTI") grants of Performance Units to a select group of participants including officers, directors, and select senior managers. The stock incentive plan is governed by the OGE Energy Corp. 2013 Stock Incentive Plan.

These grants are intended to drive business decision making that results in long-term company performance. LTI is at risk compensation, meaning that it is not paid if it is not earned. As these awards are earned at the end of a three-year performance cycle, they promote a longer-term view of the business. Awards consist of two performance plan components, Relative Total Shareholder Return ("TSR") and Utility Earnings Per Share ("UEPS"). TSR and UEPS are consistently the most utilized metrics in long-term incentive compensation for companies, regardless of the industry. Both TSR and UEPS are indicators of how strong we are as a Company as compared to other utility peers. Customers benefit if these indicators are strong because OG&E will attract more investors and have access to cheaper capital, lowering the cost of providing service to customers. Conversely, if these indicators are weak as compared to the market, customer costs go up.

BASIS FOR RECOVERY

Incentive programs are offered to drive behavior and increase productivity. This results in running our business more efficiently and effectively. Incentive targets are set as a percentage of annual salary, designed so that when annual salary and STI are combined for a position, they deliver market-comparable total cash compensation. If OG&E did not offer incentives, the Company would have to increase base salaries to reflect a competitive market position in order to attract and retain talent.

If the Company does not perform well, the Company will not payout incentives. If the Company does payout incentives, this means that the Company has benefited customers with greater efficiency, lower costs, improved reliability, safety, compliance and healthier financial performance which translates to lower costs for customers. Customers benefit when performance is strong because OGE will attract more investors and have access to cheaper capital, lowering the cost of providing service to customers. Conversely, if these indicators are weak as compared to the market, customer costs go up.

MEMBER GROUPS

Officers/Executives (Select Officers, Officers/Vice Presidents, & Directors). Their main compensation consists of base salary, STI, and LTI.

Managers/Supervisors/Professionals

The compensation of these members is comprised of base salary and STI. Select Senior Managers may be granted long term incentives based upon individual performance and market data that supports LTI for the specific role.

Nonexempt Clerical/Technical/Craft

The compensation of these members is comprised of base salary, overtime earnings and STI.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served on all parties of record by electronic mail via the Electronic Filing System on this 31st day of January, 2017.

/s/ Justin A. Hinton
Justin A. Hinton