

FILED
JAN 16 2018

COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR AN ORDER OF THE COMMISSION)
AUTHORIZING APPLICANT TO MODIFY ITS)
RATES, CHARGES, AND TARIFFS FOR RETAIL)
ELECTRIC SERVICE IN OKLAHOMA)

CAUSE NO. PUD 201700496

Direct Testimony

of

Patricia Ruden

on behalf of

Oklahoma Gas and Electric Company

January 16, 2018

Patricia Ruden
Direct 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.

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 almost 30 years of direct experience in
10 Human Resources with a strong focus on compensation. I am a Certified Compensation
11 Professional ("CCP"). Prior to OG&E, I was Vice President, Compensation for Charter
12 Communications Inc., a cable company employing approximately 23,000 people and a
13 provider of services to more than 6 million customers in 28 states. From 2006 to 2007, I
14 was Vice President, Rewards for Washington Mutual, a financial institution, where I was
15 responsible for compensation programs for the retail arm of the business which supported
16 approximately 35,000 members. I joined OG&E in August 2007 as the Director of
17 Compensation. In 2015, I was promoted to my current position where I oversee OG&E's
18 compensation and benefits programs and practices.

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 talent. I provide guidance to
23 management on pay related issues and communicate trends in Total Rewards that may
24 better support the company's talent strategy. I am responsible for overseeing the
25 development, implementation, and administration of compensation health and welfare
26 and retirement plans for OG&E.

1 Q. **Have you previously testified before the Oklahoma Corporation Commission or any**
2 **other regulatory commission?**

3 A. Yes, in Cause No. PUD 201500273.
4

5 **PURPOSE AND SUMMARY**

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

7 A. The purpose of my testimony is to explain that all of OG&E's compensation plans, which
8 include base pay and variable pay components, are critical to attracting and retaining the
9 right talent which is essential for OG&E to provide safe and reliable service to our
10 customers. I also discuss the reasonableness of OG&E's compensation programs to
11 support the recovery of costs as a necessary cost of doing business.
12

13 Q. **Please summarize your direct testimony.**

14 A. It is my professional opinion that all of the components of compensation that OG&E
15 seeks to include in cost of service are a necessary and reasonable cost of doing business.
16 This is because OG&E focuses on the development of compensation programs that are
17 performance based and align with the business strategy. Performance based
18 compensation practices are very effective at helping members to understand business
19 objectives and drive the right behavior to meet the objectives necessary for excellent
20 customer service. OG&E incorporates market-based levels of compensation that are
21 reasonable and that enable the Company to compete for, attract, and retain experienced
22 and motivated members with skill sets necessary to execute the business strategy.

23 In order for OG&E to accomplish its goals, the Company must attract and retain
24 quality members. To do this, an organization must have a total compensation package
25 that is appealing to potential and current members. In OG&E's case with the technical
26 nature of our work, an aging workforce, and competition for many of our critical jobs, it
27 is particularly important that the Company offers compensation that is competitive. In
28 my opinion, OG&E's approach allows the Company to hire the type of talent necessary
29 to provide the service our customers have come to expect, resulting in a tenured,
30 committed group of members who consistently work to provide an efficient and well run
31 utility business.

1 It is my professional opinion that OG&E has correctly developed and offers “total
2 rewards” to attract and retain the right talent to operate and run our business. The
3 Company strives to meet those needs by putting together combinations of compensation
4 packages based on third-party employment market data available to us. In my opinion,
5 OG&E’s approach allows us to hire the personnel necessary to provide the service our
6 customers expect and deserve at the most reasonable cost.

8 **OVERVIEW OF COMPENSATION PRACTICES**

9 **Q. Can you generally summarize OG&E’s compensation objectives?**

10 **A.** Yes. The Company is responsible for meeting the obligation to provide reliable, and
11 safe electric service to our customers at a reasonable cost. This is not an easy task
12 because of ongoing changes in regulatory compliance requirements, customer
13 expectations and introduction of new technology. All of these factors impact how we will
14 operate as a business in the future. OG&E’s compensation objectives begin with meeting
15 our responsibility to customers. This requires OG&E to retain a talented, highly
16 motivated, and experienced work force. OG&E provides competitive, but reasonable,
17 compensation and benefits to our existing members as we face competition from other
18 utilities and industries. Also, our aging workforce, with its increasing number of
19 retirements and retirement eligible members, requires us to focus in particular on
20 compensation packages which are attractive to those who are or will be replacing 25 year
21 to 40 year members. OGE has had approximately 11% of its experienced workforce
22 retire in the last 3 years. All of these retirements impact our existing workforce
23 demographics which also impacts how we attract and retain talent.

Chart 1
OGE Retirements 2014-2017

Jan-17	16	Jan-16	12	Jan-15	7	Jan-14	5
Feb-17	2	Feb-16	5	Feb-15	4	Feb-14	4
Mar-17	4	Mar-16	2	Mar-15	7	Mar-14	3
Apr-17	10	Apr-16	6	Apr-15	4	Apr-14	7
May-17	7	May-16	7	May-15	9	May-14	5
Jun-17	5	Jun-16	5	Jun-15	9	Jun-14	8
Jul-17	12	Jul-16	3	Jul-15	10	Jul-14	6
Aug-17	0	Aug-16	4	Aug-15	7	Aug-14	3
Sep-17	3	Sep-16	3	Sep-15	6	Sep-14	7
Oct-17	13	Oct-16	9	Oct-15	10	Oct-14	4
Nov-17	5	Nov-16	1	Nov-15	4	Nov-14	11
Dec-17	20	Dec-16	14	Dec-15	21	Dec-14	19
2017	97	2016	71	2015	98	2014	82
Avg. age - 60		Avg. age - 59		Avg. age - 59		Avg. age - 59	

1 **Q. What is OG&E's compensation philosophy?**

2 **A.** OGE's compensation philosophy supports the development of compensation programs
3 that are substantially performance-based and that align with the interests of business
4 strategy and ultimately our stakeholders. OGE incorporates the establishment of market-
5 based levels of compensation that enable the company to compete for, attract and retain
6 experienced, motivated and diverse members with skill sets necessary to execute the
7 business strategy. Linking pay to performance is key to OGE being a performance-
8 driven company. Our total compensation programs allow members to personally succeed
9 when they perform well. OGE uses peer groups to establish market levels of
10 compensation that reflect the industries and companies competing with OGE for highly
11 qualified members. The Company offers compensation levels that are competitive with
12 median levels in the marketplace. OGE offers our members the opportunity to earn
13 competitive incentive awards that aid in driving performance initiatives that are aligned
14 with business goals. Competitive incentive compensation is based on the achievement of
15 expected performance targets, with upside potential tied to achieving superior
16 performance.

1 Q. Please describe the various types of members that work for OG&E and how each
2 type of member is compensated.

3 A. At OG&E we have the following general member types:

4 Officers/Executives (Vice Presidents & Directors). Their compensation
5 consists of base salary, short-term incentive compensation ("STI"), long-term
6 incentive compensation ("LTI").

7 Managers/Supervisors/Professionals

8 The compensation of these members is comprised of base salary and STI.

9 Nonexempt Clerical/Technical/Craft

10 The compensation of these members is comprised of base salary, overtime
11 earnings and STI.
12

13 Q. Please describe OG&E's cash compensation programs.

14 A. Our cash compensation programs are composed of mainly base salary and STI. To a
15 smaller extent, the Company also offers Performance Recognition Cash Awards. The
16 Performance Recognition Awards are generally offered to members positioned in jobs
17 below the executive level. The Performance Recognition Cash Award program is
18 intended to reward individual contributions to key initiatives of the company.
19 Management, in its sole discretion, determines whether members will receive a
20 Performance Recognition Cash Award for their contributions outside of the member's
21 day-to-day duties (e.g., complex annual audit, special projects or other key events of a
22 similar nature as defined by senior management). The awards are not predefined and are
23 proposed at the discretion of management from time to time as appropriate.

24 The STI plan has a one year performance cycle. All full time members are
25 eligible to participate. Each eligible member has a target percentage assigned based on
26 their salary grade level. STI payout is based on the level of achievement met for each
27 performance metric. OG&E's STI plan is provided to motivate and reward our
28 members to drive performance, particularly in the areas of safety, customer service and
29 fiscal responsibility. The STI performance measures are designed using a balanced
30 scorecard approach which includes a combination of operating performance measures
31 and traditional financial performance measures to give members a more balanced

approach to help drive successful organizational performance. OG&E combines Customer Satisfaction, Safety, Operating and Maintenance Expense and Earnings per Share as operating performance metrics. Operating metrics are important for the customer, as they lower costs and improve efficiency and reliability. Financial metrics also benefit customers because they are indicative of how well the utility is run over time. A healthy utility with reasonable investor returns compared to its peers ultimately lowers costs to customers through better credit metrics and lower cost of capital. This allows for further investments in infrastructure that also benefits customers.

Q. Why is there a need for a Short Term Incentive Plan?

A. The need for the STI Plan is appropriate because (a) The market to attract talent demands this form of cash compensation; (b) As reflected in the results of AON Hewitt's 2017 Independent Energy Human Resources Association (IEHRA) salary budget survey, variable compensation is a high priority for employees in terms of identifying the value proposition an organization can provide; (c) Variable compensation is more cost effective because variable pay is only earned and awarded based on meeting business performance goals. The chart below illustrates OG&E's total cash compensation mix relative to market data as presented by Willis Towers Watson 2017 General Industry Salary Budget Survey Report:

Chart 2

Total Cash Compensation: Weighting of Base vs. STI				
Employee groups	WTW Survey		OGE	
	Base	STI	Base	STI
Executive	69%	31%	62%	38%
Management (Excluding Executives)	84%	17%	86%	14%
Exempt, Non-Management	91%	9%	90%	10%
Nonexempt Hourly	96%	4%	93%	7%

The chart above illustrates that OG&E's STI is slightly higher at most career levels representing a higher level of at-risk pay, while the base pay is lower. If we were to eliminate STI, we believe that our base salaries would need to increase in order to maintain market competitive cash compensation.

1 Q. **Does OG&E's STI plan have any metric threshold limits before a pay out on any**
2 **metrics?**

3 A. No. Unlike other plans within the industry, OG&E's STI plan does not require a
4 threshold on any one metric before paying out on other metrics. For example, if the
5 metric for O&M is not met, STI can still pay out on the remaining three metrics (Safety,
6 Customer Satisfaction and Earnings per Share), and vice versa. No one metric is the
7 driving force for paying out on another metric, however, the metrics are weighted
8 differently, as shown below and each metric must meet a its own threshold level of
9 performance before payout.

Chart 3		
Metric	4-year average	Percent of Total STI Paid
EPS	\$ 5,470,816	30%
O&M	6,658,802	37%
Customer Satisfaction	4,614,395	26%
Safety	1,229,215	7%
Total	\$ 17,973,228	100%

11 Q. **How does the design of OG&E's incentive compensation plans benefit the**
12 **customer?**

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

1 Q. **How are OG&E customers benefitting from the design of the incentive**
2 **compensation plans?**

3 A. OG&E Customers are benefitting directly from the results of our incentive compensation
4 plan design as evidenced by more than 20 awards for operational excellence. The
5 Company has received awards from organizations including: Edison Electric Institute, JD
6 Powers and Assoc., Electric Power and Light, American Council of Engineering
7 Companies, Market Strategies International and more. These awards indicate that the
8 Company is providing excellence in its operations including not just innovation, but
9 efficiency and customer service.

10
11 **COMPENSATION STUDIES**

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

14 A. The Company uses data provided by independently verified third-party salary surveys,
15 and compares the Company's salaries to the external market data. Once an OG&E job is
16 matched to a benchmark in a third-party survey data, it is either placed within a salary
17 grade structure or assigned a market value and the pay for a member who is tied that
18 grade or market value will then be determined based upon the member's performance,
19 experience, education level, skills, and training.

20 The Company also sets annual incentive compensation targets, which is the annual
21 compensation available to members if targeted levels of performance are met under our
22 STI. The annual incentive targets are set as a percentage of annual salary, designed so
23 that when annual salary and STI are combined for a position, they deliver market-
24 comparable total cash compensation. Total cash compensation data is reviewed on an
25 annual basis to ensure that annual incentive targets remain appropriate for delivering
26 market-competitive cash compensation.

1 Q. **What was the purpose of the Company's compensation studies?**

2 A. In order to assure that the Company remains competitive and fiscally responsible in our
3 compensation programs, OG&E performs an extensive annual market analysis to assess
4 the competitive positioning of its jobs in comparison to external competitive markets.
5

6 Q. **How do you perform the analysis?**

7 A. OG&E's compensation programs including base salary and incentive compensation are
8 compared against data from relevant independently verified compensation surveys for the
9 utility and general industries. In addition, as discussed previously, a review was
10 performed of long-term incentive practices in order to address plan design and to ensure
11 market competitive compensation practices.
12

13 Q. **What positions did you analyze in your most recent compensation study?**

14 A. This year, OG&E selected 212 jobs from a variety of utility and corporate jobs
15 representative of the Company at various levels where valid and reliable external survey
16 benchmarks were available. The jobs analyzed covered approximately 60% of our
17 current members.
18

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

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

21 **Chart 4**

<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">○ 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	<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▪ Willis Towers Watson
--	---

<ul style="list-style-type: none"> ▪ Western Management Utilities 	<ul style="list-style-type: none"> ○ Energy Services Mid-Mgmt Professional and Support ○ Mid-Mgmt Professional and Support ○ General Industry Executive Survey ○ Energy Services Executive Survey
--	---

1 **Q. What elements of compensation were included in your analysis and why did you**
2 **include these elements?**

3 **A.** Our analysis of competitive data included the following elements of pay: 1) base salary,
4 2) target total cash compensation (which is the sum of base salary plus target short-term
5 incentive), and 3) long-term incentive granting practices. The Company performs this
6 analysis on an annual basis to ensure that our compensation practices are aligned with
7 current market trends. It is important to not only look at compensation as a whole, but
8 also review how each component of the Company's total compensation shifts with
9 market trends. This analysis requires extensive experience and knowledge of
10 compensation trends and actual jobs to accurately benchmark OG&E against other
11 companies. By looking at each component the Company is better positioned in the
12 regional market to attract available talent.

14 **Q. How did OG&E's base pay increases in 2017 compare to market increases in base**
15 **pay?**

16 **A.** Overall, all industry trends projected a 3.0% annual pay increase budget for all member
17 groups for 2017. This was validated through Salary Planning Data Sources for the utility
18 industry including: Mercer, AON Hewitt, WorldatWork, Culpepper and Korn Ferry Hay
19 Group. In particular, 2017 merit increases fell within the following ranges:

- 2.9 - 3.0 percent for all companies on a national basis
- 2.8 - 3.1 percent for all utilities on a national basis

22 This is slightly higher than OG&E's 2.5% increase for 2018.

1 Q. **How does OG&E's base salaries and total cash compensation compare to market**
2 **levels?**

3 A. A detailed comparison of OG&E compensation relative to the survey data at market
4 competitive levels (50th percentile) shows that OG&E's target cash compensation levels
5 (base salary plus target annual bonus) are competitive relative to similar companies.
6 However, without the additional pay provided by the annual short-term incentive plan,
7 OG&E base salaries alone would be approximately 10% below the market target annual
8 compensation overall.
9

10 Q. **Does the cost of STI increase the cost of service to OG&E's customers?**

11 A. No. If OG&E did not offer an annual incentive, the Company would have to increase
12 base salaries to reflect a competitive market position in order to attract and retain talent.
13 Incentive pay places a portion of member pay at risk, making it dependent on their
14 performance and the Company's achieving its measures of Customer Satisfaction, Safety
15 and Cost Management. Customers experience the results of performance objectives at
16 the Company level so if the Company does not perform well, against these measures, the
17 Company will not pay out incentives for the measure that fell short of the mark. If the
18 Company does pay out incentives, this means that the Company has benefited customers
19 with greater efficiency, lower costs, improved reliability, safety, compliance and healthier
20 financial performance, which translates to lower costs for customers. Incentive programs
21 are offered to drive behavior and increase productivity. This results in running our
22 business more efficiently and effectively.
23

24 **INFLUENCES TO COMPENSATION PRACTICES**

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

26 A. OG&E faces significant industry and geographic challenges in recruiting and hiring a
27 quality workforce. The industry as a whole is losing talent through retirement, causing
28 critical jobs to become open with a limited pool of qualified candidates. Our geographic
29 location places us in competition with many energy sector companies who offer very
30 competitive compensation packages and attractive working environments including on-
31 site fitness centers and dining facilities. We find that we are experiencing the most

1 recruiting challenges in the areas of specialty engineering, IT security, senior analysts,
2 and skilled trade positions such as instrument & control technicians and control
3 operators.
4

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

6 A. In jobs where the demand is high and the number of qualified candidates is low, the
7 Company recognizes it may need to offer wages including long-term and short-term
8 incentives that are at or above the market-survey benchmarks. In addition, we may need
9 to offer sign-on bonuses and relocation benefits. By focusing on offering competitive
10 “total rewards”, OG&E continues to be an employer of choice in Oklahoma.
11

12 **Q. Please further describe OG&E’s challenge of an aging workforce and how you plan**
13 **to address the challenge.**

14 A. We have already experienced significant increases in retirements in recent years and
15 approximately one-fourth of OG&E’s current workforce will be eligible to retire (*i.e.*, be
16 at least 55 years of age and have at least five years of service) by the end of 2015. We
17 have anticipated the need to fill critical positions as the baby boomers retire and continue
18 to recruit new members and/or develop internal members through mentorships and
19 training with the goal of promoting them into these roles over time. We utilize
20 developmental roles and offer phased retirement to encourage the transition of
21 institutional knowledge. Additionally, we continue our workforce development through
22 the support and involvement in educational institutions. In some areas of the business
23 where there are gaps in filling positions, we are utilizing contract labor to perform work.
24 In addition, maintaining a competitive compensation package, which includes short-term
25 and long-term incentives, allows OG&E to attract highly skilled talent in a pool that is
26 continually shrinking and to retain existing talent over the long-term.
27

28 **Q. Would you please summarize your recommendation to this Commission?**

29 A. Yes. Providing superior electric service to our customers requires talented people,
30 existing and prospective members value meaningful work, a supportive and inclusive
31 culture and the opportunity to grow professionally. Based on almost 30 years of

1 experience in a variety of organizations, I can tell this Commission with confidence that
2 attracting and retaining quality members also depends to a large extent on the total
3 compensation package available to those members. In OG&E's case, the technical nature
4 of our work, the competition for many of our critical jobs and an aging workforce make it
5 particularly important that we correctly create "total rewards" packages. We strive to
6 meet those needs by putting together combinations of compensation packages based on
7 third-party employment market data available to us. In my opinion, OG&E's approach
8 allows us to hire the personnel necessary to provide the service our customers expect and
9 deserve at the most reasonable cost.

10
11 Q. **Does this conclude your testimony?**

12 A. Yes.