

BEFORE THE CORPORATION COMMISSION OF THE STATE 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

FILED
MAY 29 2018

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CORPORATION COMMISSION
OF OKLAHOMA



REBUTTAL TESTIMONY OF

GEOFFREY M. RUSH

MAY 29, 2018

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INTRODUCTION

1

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

3 A: My name is Geoffrey M. Rush. My business address is Oklahoma Corporation
4 Commission, Public Utility Division, Jim Thorpe Office Building, Room 580, 2101
5 North Lincoln Boulevard, Oklahoma City, Oklahoma 73105.

6 **Q: Have you previously testified before the Oklahoma Corporation Commission**
7 **(“OCC” or “Commission”) and were your qualifications accepted?**

8 A: Yes. I have previously testified before this Commission, and my credentials were
9 accepted at that time.

10 **Q: Who employs you and what is your position?**

11 A: I am employed as a Public Utility Energy Coordinator by the Public Utility Division
12 (“PUD”) of the OCC.

13 **Q: How long have you been so employed?**

14 A: I have been employed by the Commission since March 2013.

1 PURPOSE

2 **Q: What is the purpose of this Rebuttal Testimony regarding Cause No. PUD 201700496?**

3 A: The purpose of this Rebuttal Testimony is to provide PUD's response to Attorney General
4 witness Edwin C. Farrar and OIEC witness Mark Garrett, with respect to Incentive
5 Compensation.

6 EXECUTIVE SUMMARY

7 On January 16, 2018, Oklahoma Gas and Electric ("OG&E" or "Company") filed its
8 Application for an adjustment in its rates, charges, and tariffs for retail electric service in
9 Oklahoma. The purpose of this Rebuttal Testimony is to provide PUD's response to the
10 Incentive Compensation positions which were outlined in the Responsive Testimony of
11 Attorney General witness Edwin C. Farrar and OIEC witness Mark Garrett, which were
12 filed on May 2, 2018.

13 The Company has requested \$17,973,228 in Short-Term Incentive ("STI")
14 Compensation. PUD believes that STI is appropriate to include in the overall
15 compensation package of OG&E, and recommends full allowance of its cost recovery
16 from customers. PUD believes that STI is an important way for OG&E to attract and
17 retain qualified employees. In addition, because the Company's incentive compensation
18 package is not directly tied to financial performance, there is no "trigger" which, if met,
19 would provide incentive payout. A robust incentive package that includes a financial
20 metric benefits both ratepayers and shareholders as employees are focused on and
21 invested in, creating a company that is not only financially sound and strong, but is also

1 safe, reliable, and has efficient infrastructure in place. The performance metrics
2 implemented in the Company's incentive compensation plan are designed using a
3 balanced approach which implements a more effective approach to aid in driving
4 successful organizational performance.

5 INCENTIVE COMPENSATION

6 **Q: Please describe the categories in the Company's Short-Term Incentive ("STI") Plan.**

7 A: The Company has implemented four categories into its incentive compensation plan,
8 which are (1) earnings per share; (2) O&M expenses; (3) customer satisfaction; and (4)
9 safety.

10 **Q: Please describe what has changed with respect to the Company's incentive**
11 **compensation plan.**

12 A: Although the four metrics remain the same as in previous incentive compensation plans,
13 the use of a financial "trigger" has been removed. The removal of a financial trigger
14 ensures that no one metric, such as earnings per share, is the driving force for paying out
15 on another metric. This is important to note, as both Mr. Farrar and Mr. Garrett have
16 recommended disallowing 50% of STI on the basis that the plan includes financial and
17 operational objectives,¹ and that the major purpose of the Teamshare payments is to
18 increase the financial performance of the Company.²

¹ Responsive Testimony of Edwin C. Farrar Page 12, Lines 14-15.

² Responsive Testimony of Mark E. Garrett Page 14, Lines 12-13.

1 **Q: Should the Company's incentive compensation plan include financial objectives?**

2 A: Yes. Each of the four metrics provided in the Company's incentive compensation plan,
3 including financial objectives, provide a benefit to the Company, the ratepayers, and the
4 shareholders. The Company benefits by having employees focused on creating a
5 company which is financially sound, safe, reliable, and has efficient infrastructure in
6 place. This in turn benefits ratepayers, as they can be assured of electric service which is
7 reliable and provided at the lowest cost possible. Shareholders benefit by investing in a
8 company which is financially strong, profitable, and has qualities that conservative
9 investors are looking for when seeking new investment opportunities, such as low risk,
10 defensive companies, which pay out a consistent dividend. Finally, because the metrics
11 are independent of each other, and not based on financial performance, the Company's
12 incentive compensation package allows employees to receive compensation for the areas
13 where goals were met, and miss out on compensation in any areas where goals were not
14 met. In looking at which goals were met and which were not met in certain metrics, the
15 Company is able to ascertain areas in which to improve.

16 **Q: Please describe Mr. Farrar's concern with the Company's incentive compensation**
17 **plan.**

18 A: Mr. Farrar states in his Responsive Testimony that his "review of OGE's annual incentive
19 plan indicates that it includes financial and operational objectives, as well as components
20 related to safety and customer satisfaction."³ Mr. Farrar believes that "[f]rom a

³ Responsive Testimony of Edwin C. Farrar, Page 12, Lines 14-16

1 regulatory perspective, the primary concerns of a public utility should be safety,
2 reliability, customer satisfaction, and the cost of the utility's service."⁴

3 **Q: Why is including a financial objective important to both ratepayers and**
4 **shareholders?**

5 A: Focusing on earnings per share, as a part of the overall incentive compensation plan,
6 benefits the Company, its shareholders, and its ratepayers. A high earnings per share is a
7 very good indicator of the profitability of a utility, and indicates a financially strong
8 company. This is attractive to shareholders since a financially strong company has,
9 among other things, low risk. In addition, being a financially strong electric utility
10 company is important, as it is necessary for OG&E to be able to fund and support its
11 operational processes. With the ability to support and fund its operational processes, the
12 Company's ratepayers benefit, as they have a stake in the financial well-being of the
13 Company through cheaper power that is more reliable and efficient. Technology is
14 constantly changing, and as the Company endeavors to become more efficient, it is
15 imperative for OG&E to have the means to invest in the necessary infrastructure,
16 systems, and processes necessary to provide its ratepayers with efficient power at a lower
17 cost.

⁴ Responsive Testimony of Edwin C. Farrar, Page 12, Lines 16-17.

1 **Q: Please describe Mr. Mark Garrett's concern with the Company's incentive**
2 **compensation plan.**

3 A: Mr. Garrett's concern with the Company's incentive compensation plan is similar to Mr.
4 Farrar's, in that the Company has included financial objectives in its plan. Mr. Garrett
5 listed six reasons that regulators generally use to exclude incentive compensation.
6 However, these six reasons are given under the assumption that compensation is tied to
7 financial performance. Again, as the Company's plan does not include a financial
8 trigger, no one metric determines payout on any other metric.

9 **Q: How does Mr. Garrett rationalize the disallowance of half of the Company's**
10 **incentive compensation?**

11 A: In his Responsive Testimony, Mr. Garrett has tied the payout of the Company's incentive
12 compensation to financial performance. While it is true that the Company has included
13 financial objectives in its plan, it is not accurate that there is a financial trigger in place
14 that, when reached, would provide the mechanism to pay out of all of the incentives. The
15 Company designed performance measures using an approach which includes combining
16 operational performance measures with traditional financial performance measures
17 to help drive successful organizational performance. Because payouts are tied to
18 business results across the performance measures as a whole, employees have more of a
19 vested interest in the performance of the Company.

OVERALL RECOMMENDATION

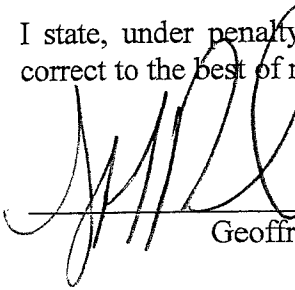
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Q: Please summarize the key points of your testimony.

A: PUD believes that full allowance of STI is appropriate to include in the overall compensation package of OG&E as well as its subsequent recovery from customers. PUD believes that STI is an important way for OG&E to attract and retain qualified employees. In addition, because the Company's incentive compensation package is not directly tied to financial performance, there is no "trigger" which, if met, would provide incentive payout. A robust incentive package that includes a financial metric benefits both ratepayers and shareholders, as employees are focused on and invested in, creating a company that is not only financially sound and strong, but is also safe, reliable, and has efficient infrastructure in place. The performance metrics implemented in the Company's incentive compensation plan are designed using an approach, which is more conducive in driving successful organizational performance.

PUD requests the Commission accept its recommendation of allowing full recovery of Short-Term Incentive Compensation in the amount of \$17,973,228.

I state, under penalty of perjury under the laws of Oklahoma, that the foregoing is true and correct to the best of my knowledge and belief.

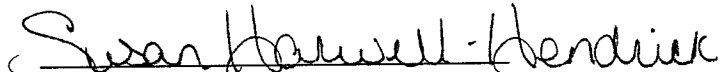


Geoffrey M. Rush

State of Oklahoma

County of Oklahoma

Subscribed and sworn to before me this 29th day of May, 2018.



NOTARY PUBLIC

(Seal, if any)



My Commission Number: 02017119

My Commission Expires: 10/27/18

CERTIFICATE OF SERVICE

I, the undersigned, do hereby certify that on the 29th day of May, 2018, a true and correct copy of the above and foregoing was sent **electronically**, addressed to the following:

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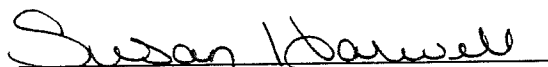
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