

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 201500273

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CORPORATION COMMISSION  
OF OKLAHOMA

Direct Testimony

of

Patricia Ruden

on behalf of

Oklahoma Gas and Electric Company

December 18, 2015

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.  
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 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.  
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 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 programs and health  
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. No.  
4

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

6 A. I am testifying to the reasonableness of OG&E's compensation plans and to support the  
7 recovery of the costs for our compensation plans as a necessary cost of doing business. I  
8 also discuss why the outcomes of the Company's compensation study support the  
9 reasonableness of our pay practices. I also discuss the challenges that OG&E is facing in  
10 the marketplace given the changes within our industry, our aging workforce, and the high  
11 demand for critical skills.  
12

13 Q. **Can you generally summarize OG&E's compensation objectives?**

14 A. Yes. The Company is responsible for meeting the obligation to provide  
15 reliable, safe and reasonable cost electric service to our customers. This is not an easy  
16 task. OG&E is subject to ongoing changes in regulatory compliance requirements,  
17 customer expectations and technology which impact how we will operate as a business in  
18 the future. Meeting our responsibility to customers requires OG&E to retain a talented,  
19 highly motivated, and experienced work force. OG&E works to provide competitive, but  
20 reasonable, compensation and benefits to our existing members in light of the  
21 competition we face from other utilities and industries. Also, our aging workforce, with  
22 its increasing number of retirements and retirement eligible members, requires us to focus  
23 in particular on compensation packages which are attractive to those who are or will be  
24 replacing 25 year to 40 year members. All of these changes and our existing workforce  
25 demographics impacts how we attract and retain talent.  
26

27 **COMPENSATION OVERVIEW**

28 Q. **What is OG&E's overall approach to compensation?**

29 A. OG&E focuses on the development of compensation programs that are performance-  
30 based and align with the business strategy. OG&E incorporates the establishment of  
31 market-based levels of compensation that enable the company to compete for, attract and

1 retain experienced, motivated and diverse members with skill sets necessary to execute  
2 the business strategy.

3  
4 **Q. Please describe the various types of employees that work for OG&E and how each  
5 type of employee is compensated.**

6 A. At OG&E we have the following general employee types:

7 **Officers/Executives (Vice Presidents & Directors).** Their main compensation  
8 consists of base salary, short-term incentive compensation (“STI”), long-term  
9 incentive compensation (“LTI”), and the Deferred Compensation Plan (“DCP”).

10 **Managers/Supervisors/Professionals**

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

12 **Nonexempt Clerical/Technical/Craft**

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

15  
16 **Q. What is incentive compensation?**

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

23  
24 **Q. Please describe OG&E’s cash compensation programs.**

25 A. Our cash compensation programs are composed of mainly base salary, STI and  
26 Performance Recognition Cash Awards. The Performance Recognition awards are  
27 generally offered to employee levels below executive. OG&E’s STI plan is provided to  
28 motivate and reward our members to drive performance, particularly in the areas of  
29 safety, customer service and fiscal responsibility. The STI performance measures are  
30 designed using a balanced scorecard approach which includes a combination of operating  
31 performance measures and traditional financial performance measures to give members a

1 more balanced approach to successful organizational performance. OG&E combines  
2 Customer Satisfaction, Safety, Operating and Maintenance Expense and Earnings Per  
3 Share as operating performance metrics. Operating metrics are important for the  
4 customer, as they lower costs and improve reliability. Financial metrics also benefit  
5 customers because they are indicative of how well run the utility is run over time. A  
6 healthy utility with reasonable investor returns compared to its peers ultimately lowers  
7 costs to customers through better credit metrics and lower cost of capital.  
8

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

11 A. The Company uses data provided by independently verified third-party salary surveys,  
12 and compares the Company's salaries to the external market data. Once a company job is  
13 matched to a benchmark in the third-party survey data, it is placed within the salary grade  
14 structure and the pay for an individual who has that grade is then determined by the  
15 member's performance and prior experience.

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

24 **Q. Please elaborate on the Company's two cash incentive compensation plans.**

25 A. The STI plan has a one year performance cycle. All full time members are eligible to  
26 participate. Each eligible employee has a target percentage assigned based on their salary  
27 grade level. STI payout is based on the level of achievement met for each performance  
28 metric. A member hired during the plan year is eligible to receive a prorated award based  
29 on the number of full months of participation. The Performance Recognition Cash  
30 Award program is intended to reward individual contributions to key initiatives of the  
31 company. Management, in its sole discretion, determines whether members will receive

1 a Performance Recognition Cash Award for their contributions outside of the member's  
2 day-to-day duties (e.g., complex annual audit, special projects or other key events of a  
3 similar nature as defined by senior management). The awards are not predefined and are  
4 proposed at the discretion of management from time to time as appropriate.

5  
6 **Q. What non-cash long-term incentives does OG&E offer and what is the purpose for  
7 these incentives?**

8 A. OG&E has a stock incentive plan that includes long-term incentive ("LTI") grants of  
9 Performance Units to a select group of participants including officers, directors, and  
10 select senior managers. These grants are intended to drive business decision making that  
11 results in long-term company performance and promotes shareholder value. LTI is at risk  
12 compensation, meaning that it is not paid if it is not earned. As these awards are earned  
13 at the end of a three-year performance cycle, they promote a longer-term view of the  
14 business. Awards consist of two performance plan components, Relative Total  
15 Shareholder Return ("TSR") and Earnings Per Share ("EPS"). TSR and EPS are  
16 consistently the most utilized metrics in long-term incentive compensation for  
17 companies, regardless of the industry. Both TSR and EPS are indicators of how strong  
18 we are as a Company as compared to other utility peers. Customers benefit if these  
19 indicators are strong because OG&E will attract more investors and have access to  
20 cheaper capital, lowering the cost of providing service to customers. Conversely, if these  
21 indicators are weak as compared to the market, customer costs go up.

22  
23 **Q. Is long term compensation an accepted form of compensation in the utility industry?**

24 A. Yes it is used by most OG&E's industry peer companies. Long term incentive grants are  
25 intended to drive business decision-making that results in long-term company  
26 performance and promotes shareholder and customer value. This is why the performance  
27 period is more than one year and why grants are only offered to members who can  
28 influence long term business results such as officers and executives of a company. By  
29 offering both short-term and long-term incentives, OG&E balances short term objectives  
30 with long-term outcomes.

1 Q. **Did OG&E perform a review of its LTI practices?**

2 A. Yes. In August 2015, OG&E engaged Towers Watson to provide an overview of LTI  
3 market practices and to review OG&E's current plan design and granting practices. The  
4 analysis of long-term incentive plans included a review of practices within our industry  
5 peer group consisting of 64 companies. The analysis considered the prevalence of LTI  
6 plans and granting trends. The data was analyzed to determine if OG&E's annual LTI  
7 incentive plan is both a generally accepted practice and utilizes reasonable market  
8 practices to establish compensation opportunities. The Towers Watson review indicated  
9 that OG&E's LTI plan is comparable to other companies in terms of eligibility criteria  
10 when considering the types of awards offered.  
11

12 Q. **How do OG&E's LTI granting practices and award values compare to market  
13 levels?**

14 A. Results from the Towers Watson custom survey indicate that 3.8% of the employee  
15 population, of surveyed utility and utility related companies, receive long term  
16 performance based awards and 13% receive non-performance based awards. OG&E  
17 currently provides performance based awards of LTI to approximately 4.7% of the total  
18 OG&E population and restricted stock awards to less than 0.5% of the OG&E population.  
19 This indicates that OG&E offers more performance based awards and is within market  
20 with regard to its granting practices.  
21

#### 22 INFLUENCES TO COMPENSATION PRACTICES

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

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

1 and skilled trade positions such as instrument & control technicians and control  
2 operators.

3  
4 Q. **Please describe OG&E's approach to attracting talent.**

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

10  
11 Q. **Does the downward market in the energy sector impact OG&E's ability to attract  
12 new members to critical jobs?**

13 A. While the overall local job market has been impacted by the recent downturn in the  
14 energy sector, jobs with unique and specific skill sets remain in very high demand. The  
15 energy sector remains an attractive place to work because they offer a more attractive  
16 total rewards package, including higher base salary, higher upside on short-term  
17 incentives and long-term incentives are granted deeper in the organization and with  
18 greater frequency (often twice a year).

19  
20 Q. **Please further describe OG&E's challenge of an aging workforce and how you plan  
21 to address the challenge.**

22 A. We have already experienced significant increases in retirements in recent years and  
23 approximately one-fourth of OG&E's current workforce will be eligible to retire (*i.e.*, be  
24 at least 55 years of age and have at least five years of service) by the end of 2015. We  
25 have anticipated the need to fill critical positions as the baby boomers retire and continue  
26 to recruit new members and/or develop internal members through mentorships and  
27 training with the goal of promoting them into these roles over time. We utilize  
28 developmental roles and offer phased retirement to encourage the passing on of  
29 institutional knowledge. Additionally, we continue our workforce development through  
30 the support and involvement in educational institutions. In some areas of the business  
31 where there are gaps in filling positions, we are utilizing contract labor to perform work.

1 In addition, maintaining a competitive compensation package, including short-term and  
2 long-term incentives, allows OG&E to attract highly skilled talent in a pool that is  
3 continually shrinking and to retain existing talent over the long-term.  
4

#### 5 COMPENSATION STUDIES

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

7 A. In order to assure that the Company remains competitive and fiscally responsible in our  
8 compensation programs, OG&E performs an extensive annual market analysis to assess  
9 the competitive positioning of its jobs in comparison to external competitive markets.  
10

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

12 A. OG&E's compensation programs including base salary and incentive compensation are  
13 compared against data from relevant independently verified compensation surveys for the  
14 utility and general industries. In addition, as discussed previously, a review was  
15 performed of long-term incentive practices in order to address plan design and to ensure  
16 market competitive compensation practices.  
17

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

19 A. OG&E selected 184 jobs from a variety of utility and corporate jobs representative of the  
20 Company at various levels where valid and reliable external survey benchmarks were  
21 available. The jobs analyzed covered approximately 60% of our current members.  
22

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

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

<ul style="list-style-type: none"> <li>▪ AON Hewitt IEHRA Energy Industry Survey</li> <li>▪ EAPDIS Energy Technical Craft Clerical Survey</li> <li>▪ Hay Group <ul style="list-style-type: none"> <li>○ General Market Executive</li> <li>○ General Market Professional/Managerial</li> <li>○ Energy Industry</li> </ul> </li> <li>▪ Intelligent Comp, Southwest HR Group Survey</li> <li>▪ Mercer (Energy) <ul style="list-style-type: none"> <li>○ Energy Industry – Cross Segment</li> <li>○ Energy Industry – Field/Hourly</li> <li>○ Energy Industry – General Benchmark</li> <li>○ Energy Industry - Utilities</li> </ul> </li> <li>▪ Western Management Utilities</li> </ul>	<ul style="list-style-type: none"> <li>▪ Mercer (General Industry) <ul style="list-style-type: none"> <li>○ Engineering &amp; Design Survey</li> <li>○ Executive Survey</li> <li>○ Finance, Accounting and Legal Survey</li> <li>○ Human Resources Survey</li> <li>○ Information Technology Survey</li> <li>○ Logistics &amp; Supply Chain</li> <li>○ Metro Benchmark – South Central Survey</li> <li>○ Sales, Marketing &amp; Communications Survey</li> </ul> </li> <li>▪ Towers Watson <ul style="list-style-type: none"> <li>○ CDB General Industry Executive Survey</li> <li>○ CDB Energy Services Executive Survey</li> <li>○ Long-Term Incentive Marketplace Overview</li> </ul> </li> </ul>
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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.

13  
14 Q. **How does OG&E’s base salaries and total cash compensation compare to market**  
15 **levels?**

16 A. A detailed comparison of OG&E compensation relative to the survey data at market  
17 competitive levels (50th percentile) shows that OG&E’s target cash compensation levels  
18 (base salary plus target annual bonus) are competitive relative to similar companies.

1           However, without the additional pay provided by the annual short-term incentive plan,  
2           OG&E base salaries alone would be approximately 10% below the market target annual  
3           compensation overall.  
4

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

6    A.    No.  If OG&E did not offer an annual incentive, the Company would have to increase  
7           base salaries to reflect a competitive market position in order to attract and retain talent.  
8           Incentive pay places a portion of employee pay at risk, making it dependent on their  
9           performance and the Company's performance.  If the Company does not perform well,  
10          the Company will not pay out incentives.  If the Company does pay out incentives, this  
11          means that the Company has benefited customers with greater efficiency, lower costs,  
12          improved reliability, safety, compliance and healthier financial performance, which  
13          translates to lower costs for customers.  Incentive programs are offered to drive behavior  
14          and increase productivity.  This results in running our business more efficiently and  
15          effectively.  
16

17   **Q.    How did OG&E's base pay increases in 2015 compare to market increases in base  
18          pay?**

19    A.    Overall, all industry trends projected a 3.0% annual pay increase budget for all employee  
20          groups for 2015.  This was validated through Salary Planning Data Sources for the utility  
21          industry including:  Mercer, AON Hewitt, WorldatWork, EAPDIS, Kenexa, Culpepper  
22          and Hay Group.  In particular, 2015 merit increases fell within the following ranges:

- 23          •    2.9 - 3.0 percent for all companies on a national basis
- 24          •    2.9 - 3.1 percent for all utilities on a national basis

25          This is consistent with OG&E's 3% increase in 2015.  
26

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

28    A.    Yes.  Based on 25 years of experience in a variety of organizations, I can tell this  
29          Commission with confidence that attracting and retaining quality employees depends to a large  
30          extent on the total compensation package available to those employees.  In OG&E's case, the  
31          technical nature of our work, the competition for many of our critical jobs and an aging

1 workforce make it particularly important that we correctly create “total rewards” packages. We  
2 strive to meet those needs by putting together combinations of compensation packages based on  
3 third-party employment market data available to us. In my opinion, OG&E’s approach allows  
4 us to hire the personnel necessary to provide the service our customers expect and deserve at the  
5 most reasonable cost.

6

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

8 A. Yes.