

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

**FILED**  
JUN 01 2018

COURT CLERK'S OFFICE - OKC  
CORPORATION COMMISSION  
OF OKLAHOMA

REBUTTAL TESTIMONY SUMMARY  
OF  
MARK E. GARRETT

REVENUE REQUIREMENT ISSUES

ON BEHALF  
OF

OKLAHOMA INDUSTRIAL ENERGY CONSUMERS ("OIEC")  
AND  
OKLAHOMA ENERGY RESULTS, LLC ("OER")

June 1, 2018

1 The Rebuttal Testimony of Mark E. Garrett regarding revenue requirement issues was filed May  
2 29, 2018 on behalf of Oklahoma Industrial Energy Consumers (“OIEC”) and Oklahoma Energy  
3 Results (“OER”). Mr. Garrett testified in response to the testimony of Public Utility Division  
4 (“PUD”) witness Rush regarding recovery of short-term incentive compensation costs in the  
5 rates of Oklahoma Gas and Electric Company (“OG&E” or the “Company”).

6

7 PUD witness Rush recommends including 100% of OG&E’s short-term incentive expense in  
8 rates. This is a significant departure from the Commission’s long-standing policy of excluding  
9 50% of the short-term incentive costs. Going back more than 25 years, the Commission has  
10 excluded at least 50% of the short-term incentives costs for regulated utilities without a sharing  
11 mechanism for excess earnings. To my knowledge, the Commission has never allowed 100% of  
12 the short-term incentive costs in rates for either OG&E or PSO as PUD witness Rush now  
13 recommends. Mr. Rush raises no new arguments.

14

15 Mr. Rush testifies that “the Company needs a variety of employees with experience, knowledge,  
16 and skills to provide efficient and affordable electric service to its customers.” The Company  
17 has always needed such employees. Moreover, OG&E has consistently paid its employees  
18 incentives and the Commission has consistently excluded at least 50% of the costs of these  
19 payments in rates.

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1 Mr. Rush claims that OG&E's membership in the SPP adds increased complexities for some of  
2 its employees. In reality, OG&E's longstanding SPP membership is not a factor regarding this  
3 issue.

4  
5 Mr. Rush testifies that "although there is a financial component included in the Company's  
6 incentive compensation package, payout is not "triggered" by financial performance." The  
7 Commission has consistently excluded a portion of the incentive compensation because  
8 OG&E's plan is heavily weighted toward financial performance measures which benefit  
9 shareholders more than ratepayers. Mr. Rush perhaps misunderstands a point I addressed in  
10 direct testimony. In my direct testimony, I observed that plans with a financial trigger are  
11 treated more severely in Texas. There is no debate that OG&E's plan is tied significantly to  
12 financial performance. The fact that it does not include a financial trigger does not justify  
13 allocation of 100% of the incentive compensation costs to ratepayers.

14  
15 Mr. Rush testifies that the short-term plan has four metrics which benefit the Company, the  
16 ratepayers, and the shareholders. He then concludes that the ratepayers should bear all of the  
17 costs. The problem with this conclusion, is that his analysis supports a sharing of these costs.  
18 This is precisely why the Commission in this state, and, to my knowledge, in virtually every  
19 other state, shares these costs between ratepayers and shareholders.

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1 Mr. Rush states that “PUD believes that it is prudent for the Company to have a comprehensive  
2 incentive plan.” Virtually all utilities offer comprehensive incentive plans and virtually no  
3 utility has all of the costs of those plans included in rates.

4  
5 With the Commission’s 25-year policy of excluding 50% of short-term incentive pay, there  
6 needs to be a significant change in circumstances for the Commission to reverse its policy on  
7 this issue. Nether PUD nor the Company showed any new circumstances and raised no new  
8 argument.

9  
10 I recommend that the Commission reject PUD’s proposed departure from the Commission’s  
11 long-standing policy on this issue.