

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

IN THE MATER 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 201100087

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OF OKLAHOMA



PREFILED RESPPONSIVE TESTIMONY

OF

SHARON FISHER, MBA

November 9, 2011

**BEFORE THE CORPORATION COMMISSION OF THE STATE OF
OKLAHOMA**

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INTRODUCTION

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

2 **A:** My name is Sharon Fisher. My business address is 580 Jim Thorpe Office
3 Building, 2101 N. Lincoln Blvd., Oklahoma City, Oklahoma 73105.

4 **Q: Please state briefly your educational background and professional**
5 **experience.**

6 **A:** See my curriculum vitae, attached as Exhibit SDF-01.

7 **Q: What is your occupation and who employs you?**

8 **A:** I am employed by the Public Utility Division (PUD) of the Oklahoma Corporation
9 Commission (Commission) as a Public Utility Regulatory Analyst in the Energy
10 and Water Group.

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

12 **A:** I have been employed with the Oklahoma Corporation Commission since 1994
13 and in PUD since January 2001.

14 **Q: What are your duties and responsibilities with the PUD?**

15 **A:** My principal responsibilities include research and analysis, as assigned, on
16 energy utility services, Federal Energy Regulatory Commission issues,
17 rulemaking issues and grants administration. I have been assigned areas of
18 analysis in general rate change applications, review of financial records and cost
19 of service studies.

1 **Q: Have you previously testified before this Commission and were your**
2 **qualifications accepted?**

3 **A:** Yes. I have testified before the Commission, and my qualifications have been
4 accepted.

PURPOSE

5 **Q: Please briefly describe the instant Cause.**

6 **A:** Oklahoma Gas and Electric Company ("OG&E" or "Company") filed this
7 application for an order of the Commission authorizing a modification of its rates,
8 charges, and tariffs for retail service in Oklahoma.

9 **Q: Please explain your responsibility in the current Cause.**

10 **A:** I am responsible for reviewing the following areas:

- 11 • Payroll & Related Taxes
- 12 • Additional Positions
- 13 • TeamShare
- 14 • Long-Term Compensation
- 15 • Pensions and other Post Retirement Welfare Costs (OPEB)
- 16 • OG&E Retirement Saving Plans
- 17 • Restoration of Retirement Income Plan

18 **Q: What is the purpose of your testimony relative to this Application?**

19 **A:** The purpose of my testimony in the current cause is to present the result of
20 PUD's review of payroll and related taxes, additional positions, TeamShare,
21 Long-term Compensation, pensions and other post-retirement welfare costs
22 (OPEB), Retirement Savings Plan, and Restoration of Retirement Income Plan.

EXECUTIVE SUMMARY

Payroll and Related Taxes

1 PUD's review is pursuant to 17 O.S. Section 284 of the Oklahoma Statutes.
2 Based upon the test year-end of December 31, 2010, the applicable six-month
3 post-test year period would be January 1 through June 30, 2011.

4 OG&E proposed a pro forma of \$3,998,469 to payroll expenses based on the
5 2010 test year payroll. PUD's proposed pro forma adjustment is \$3,223,043,
6 which is reflective of OG&E's annualized base payroll expenses as of June 30,
7 2011.

8 The adjustment for payroll taxes which includes FICA, FUTA, and SUTA, is also
9 based on annualized payroll expense. PUD's pro forma adjustment increases
10 payroll taxes by \$239,511, thus increasing payroll expense to \$14,038,325.

Additional Positions

11 OG&E proposed an adjustment of \$2,262,382 for additional positions. PUD does
12 not support this adjustment based on the six-month post test-year updated
13 payroll expenses in response to AG's 3-1data request, because the six-month
14 post-test year period should reflect known and measurable changes in payroll
15 expense. PUD recommends decreasing Operations and Maintenance (O&M)
16 expenses by \$2,262,382 for additional positions.

TeamShare

17 PUD recommends reducing the Company's proposed operating expenses by
18 \$1,892,037 to reflect a proper level of TeamShare incentive compensation going

1 forward. The adjustment includes no reduction of incentive compensation for
2 Utility Company personnel. PUD proposes this adjustment of \$1,892,037 to
3 remove 50 percent of Holding Company incentive compensation which has been
4 disallowed by the Commission in prior rate cases.

5 PUD's also recommends removal of 75 percent of long-term executive incentives
6 and restricted stock in the amount of \$3,353,236.

Pensions and Other Post-Retirement Welfare Costs

7 The Company proposes four (4) pro forma adjustments related to pensions. The
8 proposed adjustments are to: pension and medical costs, pensions and benefits,
9 pension regulatory liability, and post retirement amortization.

10 PUD agrees with the reduction to pensions, post retirement benefit and active
11 employee medical costs based on Mercer Consulting, Inc.'s ("Mercer") valuation
12 calculated from comparison of the projected benefit obligation to the fair value of
13 plan assets.

14 The second adjustment is made to correctly charge certain operation and
15 maintenance expense accounts, and has no effect on operating income. PUD
16 agrees with the adjustment to make this correction to operation and maintenance
17 expenses.

18 PUD agrees with the third adjustment for the treatment of pension expenses that
19 were drastically decreased from the amount recovered in base rates as a
20 regulatory liability. PUD agrees with the last adjustment for the amortization of
21 the pension regulatory liability to refund this regulatory liability to customers over
22 a two year period.

1 PUD recommends removal of \$1,568,185 to exclude the Restoration of
2 Retirement Income Plan costs from pension expenses.

OG&E Retirement Savings Plans

3 PUD reviewed the provisions of the OG&E Retirement Savings Plan, and
4 believes that the Company has made increased efforts at cost controls and cost
5 containment since the last rate case proceeding and that the \$6,361,355 cost
6 associated with the retirement savings plan is reasonable.

PUD ANALYSIS

PAYROLL EXPENSE

7 **Q: Please describe the Company's proposed payroll expense adjustments.**

8 **A:** The Company proposed a payroll expense adjustment of \$4,295,604 to increase
9 payroll and payroll related taxes in this rate case.

10 **Q: Please describe PUD's process for review of payroll related expenses.**

11 **A:** OG&E's application contained W/P H 2-23 reflecting payroll expenses including
12 base pay, overtime and other pay as of December 31, 2010. I reviewed the
13 payroll expense levels for the test year and the levels reported in the previous
14 rate cases filed in 200500151 and 200800398. I reviewed and compared the
15 number of employees reported in the previous cases. Once PUD received
16 updated information to include post-test year totals, I reviewed the employee
17 headcount during the test year and compared the amount to the post-test year
18 head count. I conducted onsite visits to the OG&E office to review salary surveys
19 and actuary reports. I attended several Company meetings concerning OG&E

1 overall payroll where verifications were made concerning payroll, cash
2 compensation, and benefits package levels.

3 PUD believes that the Company's calculations are reasonable and PUD used the
4 updated annualized payroll reflective of six-month post-test year as of June 30,
5 2011 provided in response to AG 3-1 data response to establish the pro forma
6 level of payroll expense.

7 **Q: Please explain your adjustment for payroll expense.**

8 **A:** PUD reviewed and compared OG&E's adjusted annualized base payroll as of
9 June 30, 2011 in the amount of \$210,226,468 and compared it to the payroll
10 expenses reported on December 31, 2010 of \$204,691,938. PUD then reviewed
11 the pro forma payroll expenses filed in this rate case of \$211,112,918. PUD
12 calculated an increase of \$5,534,494. After application of the appropriate O&M
13 percentages of 63.9 percent for holding company and 65.71 percent for utility
14 company, the pro forma adjustment for payroll decreased from \$3,998,469 to
15 \$3,223,043. This is a decrease of \$775,426 to the pro forma base payroll. This
16 adjustment is necessary to reflect the known and measurable amount of payroll
17 expense as of June 30, 2011.

18 **Q: How did you determine the reasonableness of the payroll levels?**

19 **A:** PUD reviewed salary survey information that compared OG&E compensation
20 levels inclusive of incentive dollars with a proxy peer group of companies that
21 generally operate in the same sector and have similar size, scope, and some
22 were in the same region. This review was aided through a third party audit

1 conducted by Mercer, on behalf of OG&E. The Mercer study, as reviewed by
2 PUD, shows the Company payroll to be approximately one percent below market
3 median within the proxy peer group of companies.

4 **Q: Please explain PUD's adjustment as filed in the PUD Revenue Requirement**
5 **Exhibit.**

6 **A: PUD Adjustment H-6** resulted in a \$775,426 reduction to OG&E pro forma
7 payroll expense. PUD annualized the payroll level based on June 30, 2011 wage
8 and full-time employee levels for OG&E and its holding company, OGE Energy
9 Corporation ("Holding Company"). PUD's proposed reduction to payroll expense
10 is comprised of the following components.

- 11 • June 30, 2011 payroll for the full-time employees that was provided by
12 OG&E in response to AG3-1 data request
- 13 • PUD applied the O&M allocation percentage to the Holding Company's
14 payroll, which resulted in a \$556,028 reduction of the Holding Company's
15 payroll expense in this filing. PUD then applied the O&M allocation
16 percentage to OG&E's payroll resulting in a \$10,708 reduction to OG&E's
17 payroll expense.
- 18 • PUD also reduced the payroll by \$168,123 to account for the variance
19 between actual and pro forma partners' share of Red Bud and McClain
20 plant salaries and wages.
- 21 • Accounting for the increase in the payroll amount through payroll
22 annualization as of June 30, 2011, PUD's resulting recommendation is

1 \$775,426 decrease to the total OG&E requested payroll amount.

- 2 • Exhibit SF-02 provides a detailed explanation of PUD calculations related
3 to payroll expense and other adjustments.

4 **Q: Why did you use the June 30, 2011 payroll to calculate the recommended**
5 **level of payroll expenses in the test year?**

6 **A:** PUD used June 30, 2011 data to capture the known and measurable changes to
7 OG&E's payroll including the increase in the employee level from January 2011
8 through June 2011.

9 **Q: Please explain what kind of employee level change was reflected in the**
10 **PUD adjustment to the payroll expense using the June 30, 2011 data.**

11 **A:** PUD's adjustment reflected the most current level of OG&E and Holding
12 Company employees. The increase in employees during the test year and six-
13 months after the test year for both OG&E and its Holding Company that are
14 reflected in the Company's filing and PUD's calculated adjustment, which is an
15 increase of 48 employees as of June 30, 2011. This employee number includes
16 temporary employees and part-time employees that were converted to full-time
17 employees.

18 **Q: Is the PUD recommended level of payroll an overall reduction in OG&E's**
19 **requested payroll level?**

20 **A:** Yes. The June 30, 2011 payroll calculation which reflects known and

1 measurable changes in payroll expense was less than the pro forma request.
2 The use of the six-month post-test year amounts is a normal ratemaking practice
3 in setting utility rates.

PAYROLL TAXES

4 **Q: Please explain your adjustment for OG&E payroll taxes**

5 **A:** PUD made an adjustment based on the corresponding post-test year payroll
6 adjustment. PUD's pro forma adjustment increases payroll taxes by \$239,511
7 increasing payroll tax expense from \$13,798,814 to \$14,038,325. PUD
8 **Adjustment H-7** is a reduction of \$57,624 to OG&E's pro forma adjustment.

ADDITIONAL POSITIONS

9 **Q: Please explain OG&E's adjustment for additional positions.**

10 **A:** OG&E proposed an adjustment of \$2,262,382 for increased compensation for
11 approximately 69 additional positions.

12 **Q: Please explain PUD's adjustment for OG&E additional positions**

13 **A:** PUD reviewed the testimony of Sherri Richard, along with WP H 2-25 in support
14 of compensation for additional positions, along with three (3) years headcount
15 levels for OGE Energy Corp, and the responses to data requests issued by the
16 Attorney General's office (DR3-1).

17 PUD believes that the six-month post-test year-end payroll expense captured any
18 additional positions and regular pay increases that were in place as of June 30,

1 2011. This makes OG&E's pro forma request unnecessary. **PUD Adjustment**
2 **H-15** is a decrease to operating expenses of \$2,262,382 for compensation
3 related to additional positions.

Payroll Taxes Related to Additional Positions

4 **Q:** Please explain your adjustment for OG&E payroll taxes for Additional
5 Positions.

6 **A:** This PUD adjustment is based on the removal of OG&E's pro forma adjustment
7 for additional positions. **PUD's pro forma Adjustment H-16** removes the
8 corresponding payroll taxes of \$168,123.

SALARY COMPENSATION

9 **Q:** Does PUD believe that OG&E base salary levels are in line with
10 compensation practices at similar companies?

11 **A:** Yes. PUD reviewed salary survey information provided by OG&E and looked at
12 information provided through independent online research. Both resources
13 provided a basis for comparison between other utility companies. Our review
14 and analysis indicates that OG&E holds a competitive position among the peer
15 group used in Mercer analysis and other similar utility companies.

16 **Q:** Please provide PUD's objective for analysis.

17 **A:** PUD wanted to provide a perspective of OG&E compared to similar companies
18 based on salaries and benefits.

1 **Q: Please explain PUD's analysis.**

2 **A:** PUD reviewed the Mercer analysis of 16 electric utilities along with other relevant
3 compensation surveys. PUD also reviewed the salary information of other utility
4 companies provided through SNL information resources of publicly available
5 data. Through this comparison PUD was able to analyze base salary and cash
6 compensation information. We also looked at incentive plan criteria and
7 employee benefits. We used some of the same criteria used in the OG&E
8 consultant analysis to determine whether a company was comparable. We used
9 size, scope and revenue in 2010.

10 **Q: Please explain PUD's findings.**

11 **A:** PUD found that most of the companies that we independently reviewed have
12 incentive programs for employees and considered incentives as a part of a
13 "compensation package." (As did the 16 Mercer comparisons) We also found
14 that the salary levels were similar, in some cases slightly above and slightly
15 below OG&E for certain positions.

16 Basically, we found OG&E pay levels to be consistent with the market. We
17 believe that OG&E base pay is consistent with similar companies with and
18 without cash incentives, because most of the companies that were reviewed by
19 Mercer or reviewed independently by PUD had some type of incentive program
20 that was considered a portion of salary.

Employee Incentive Compensation

1 **Q: Briefly describe OG&E's Incentive Compensation (TeamShare) structure.**

2 **A:** OG&E's TeamShare incentive compensation structure is designed to reward
3 employees for meeting and exceeding individual and company performance
4 goals and is in addition to their base salary. The program is comprised of cash
5 incentives designed to account for short-term company performance. Employees
6 throughout the Company are eligible to participate in this plan.

7 **Q: Please provide examples of performance goals that lead to incentives.**

8 **A:** According to Section 5.2 of TeamShare Employee Incentive Plan, customer
9 satisfaction surveys, product price measures, safety record, service reliability,
10 demand-side management (including conservation and load management)
11 operating and/or maintenance cost management (including operation
12 maintenance expenses per Kwh), as well as financial measures and regulatory
13 performance goals are all considerations for which incentives can be based upon
14 as specified by the Company.

15 **Q: Does PUD recommend the OG&E adjustment for TeamShare Employee**
16 **Incentive Plan?**

17 **A:** Not in totality. PUD does recommend the Utility Company portion of TeamShare
18 Employee Compensation. However, PUD recommends a reduction to the
19 Holding Company portion.

1 Q: Please explain your adjustment for OG&E employee incentive
2 compensation.

3 A: The pro forma amount being requested for TeamShare incentive compensation
4 by OG&E is \$15,300,319. The breakdown between OG&E Utility Company and
5 OGE Holding Company, which is the annualized TeamShare estimate for 2011
6 (based on 4-year average) according to the Company's filing, is \$9,788,078 and
7 \$5,512,541 respectively. **PUD Adjustment H-9** recommends reducing the
8 Company's proposed operating expenses by \$1,892,037. This adjustment
9 reduces Holding Company allocation for executive cash incentive compensation
10 by 50 percent. This adjustment was calculated using the O&M expense
11 percentage for the Holding Company (63.9%). The effect of this change to the
12 Company's pro forma adjustment for TeamShare makes the proposed increase
13 to operating expenses \$202,769, and increases Payroll taxes to \$15,068. Based
14 on W/P H-2-24, line 8, the pro forma payroll increase to operating expenses is
15 decreased by \$1,761,161, and line 10, pro forma payroll tax is decreased by
16 \$130,876.

17
18 As stated in OG&E rate case PUD200800398, PUD agrees that TeamShare
19 incentive plan has merit in terms of increased efficiency and effectiveness of the
20 operations of OG&E. PUD has reviewed the award process of providing
21 incentive opportunities to OG&E employees. PUD agrees that the process is
22 aligned to certain valuable strategic objectives, goals, and initiatives of the
23 Company and many of those goals have benefit to customers. Some of the
24 goals and objectives that we believe benefit customers include but are not limited

1 to efficiency of operations or costs savings, customer satisfaction, safety and
2 reliability, and maintenance cost management.

3 However, if employees earn awards under the incentive plans, shareholders are
4 earning an appropriate return and should share in the expense. If 100 percent of
5 the target amounts are included in rates, and full payments are not being made
6 under the incentive plans, the rates that ratepayers are asked to pay are
7 artificially inflated. For these reasons PUD would recommend shared incentive
8 compensation expenses.

Long-term Incentive Compensation

9 **Q: Please explain OG&E's Long-term Incentive Compensation.**

10 **A:** The long-term compensation program for OG&E executives consists of both
11 Annual Incentive Compensation and Stock Incentives. Both are approved by the
12 shareowners. The annual and long-term incentive awards of an executive's
13 compensation are directly linked to performance. These Company performance
14 goals are typically tied to measures of operating performance.

15 Awards under the Stock Incentive Plan are equity-based and require the
16 achievement of specific Company performance goals that are tied directly to the
17 performance of the Company's stock or to factors that affect the performance of
18 the Company's stock. The Compensation Committee is responsible for
19 establishing the target for annual and long-term incentive awards along with the
20 setting of Company performance goals for such awards.

1 **Q: Please explain PUD's position on Long-term Incentive Compensation.**

2 **A:** Long-term incentive compensation for ratemaking purposes has been debated by
3 regulatory agencies for several years. In many jurisdictions, including OCC, it
4 has been considered to be an additional burden on ratepayers and has been
5 excluded from base rates. It has been argued that this type of incentive pay is
6 related to performance metrics that should pay for itself. However, in recent
7 presentations by utility companies, companies show incentive pay as a part of
8 the overall benefit package and thus, beneficial to stakeholders including
9 shareholders and ratepayers.

10 Therefore, PUD is proposing a sharing mechanism for executive incentives
11 below the director level, consistent with recent market practices and
12 compensation dynamics, by recommending that Company shareholders should
13 be responsible for 75 percent of executive incentives, and ratepayers responsible
14 for 25 percent.

15 **Q: What is PUD's adjustment to Long-term Executive Incentive**
16 **Compensation?**

17 **A:** Because there is no pro-forma adjustment for long-term executive compensation,
18 PUD used DR response to OIEC 4-2 to look at the pro-forma expense levels for
19 long-term incentives and restricted stock. The performance units' level for the
20 holding company is \$4,332,492. Restricted stock level for the holding Company
21 is \$138,489. PUD's adjustment to long-term executive compensation is a
22 reduction of \$3,249,369 for long-term performance units and \$103,867 for

1 restricted stock. The total **PUD Adjustment H-14** is to remove 75 percent of
2 long-term executive incentives and restricted stock in the amount of \$3,353,236.
3 PUD reviewed a sampling of executive expense vouchers to determine how
4 OG&E expenses for executives were handled, and no irregularities were
5 detected in the samples selected.

PENSION EXPENSE

Pensions and Other Post-Retirement Welfare Costs

6 **Q: Based on PUD's review of this filing, what amount did OG&E request for**
7 **on-going pension expense?**

8 **A:** The Company requested \$24,457,640 as a pro forma expense level. This
9 request was made on the actuarial assumption of a 5.30 percent discount rate on
10 total Projected Benefit Obligation ("PBO"), and a long-term rate of return on Fair
11 Value on Assets ("FVA") of 8.50 percent.

12 **Q: Please describe the Company's proposed adjustment to pensions.**

13 **A:** The W/P H-2-31 schedule shows a decrease of expenses in the amount of
14 \$2,011,065 for pensions.

15 **Q: Does PUD agree with the proposed adjustment to OG&E's pension's**
16 **expense request?**

17 **A:** No. Based on Mercer actuarial valuation reports provided by the Company, PUD
18 supports some of the calculations. However, PUD does not support the inclusion
19 of the Restoration of Retirement Income Plan in the cost of service. PUD is

1 proposing PUD Adjustment H-13, which is removal of \$1,568,185 for
2 Restoration of Retirement Income Plan.

Restoration of Retirement Income Plan

3 **Q: Did OG&E's include expenses for a Restoration of Retirement Income Plan**
4 **in the test year cost of service?**

5 **A:** Yes. OG&E included expenses for a Restoration of Retirement Income Plan in
6 its test year cost of service.

7 **Q: What is a Restoration of Retirement Income Plan?**

8 **A:** According to the Company's response to DR PUDSF-1, the Restoration of
9 Retirement Income Plan was established to provide for the payment of certain
10 pension and pension-related benefits to certain OG&E employees whose
11 benefits under the retirement plan are restricted by the limitations of Sections
12 401(a)(17) and 415 of the Internal Revenue Code of 1986 as amended. The
13 Restoration of Retirement Income Plan covers executive's retirement costs for
14 salary above the IRS limits which are currently \$245,000 per year. Because it is
15 not tax deductible, the Company must earn more income than the amount paid to
16 the retired executive.

17 **Q: Do you recommend that this cost be included in the revenue requirement?**

18 **A:** No. This type of indirect compensation for highly paid executives is expensive
19 and unnecessary due to the added cost.

1 **Q: What is PUD's recommendation?**

2 **A:** After review of Data response to DR-PUDSF-1, stating that the Restoration of
3 Retirement Plan costs of \$351,548 for OG&E Utility and \$1,216,637 for OGE
4 Holding Company have been included in the test year cost of service, PUD
5 proposes a reduction to pension expense. PUD recommends exclusion of the
6 Restoration of Retirement Income Plan costs from pension expenses and
7 removal of \$1,568,185.

8 **Q: Please describe the Company's proposed adjustment to post retirement
9 benefit expenses other than pensions.**

10 **A:** The W/P H-2-31 schedule shows a decrease of expenses in the amount
11 \$8,392,423 for post retirement benefit expenses other than pensions.

12 **Q: Does PUD agree with the proposed adjustment to OG&E's post retirement
13 benefit expenses other than pensions?**

14 **A:** Yes. PUD supports these calculations based on general ledger accounting and
15 actuarial valuation reports provided by OG&E from Mercer, Inc.

16 **Q: Please describe the Company's proposed adjustment to active medical.**

17 **A:** The W/P H-2-31 schedule shows an increase of \$1,006,153 for active employee
18 medical costs.

19 **Q: Does PUD agree with the proposed adjustment to OG&E's active medical?**

20 **A:** Yes. This amount used to calculate the proposed decrease to operating

1 expenses, is reflective of the actual medical costs in the test year.

2 Based on general ledger accounting and actuarial valuation reports provided by
3 the Company, PUD supports these calculations.

4 **Q: What is PUD's recommendation regarding OG&E's pensions and active**
5 **employee medical expense request?**

6 **A:** Mercer has established the annual expense levels which have been used for the
7 pro forma adjustments to pensions, post retirement benefit expenses other than
8 pensions, and active employee medical expenses. OG&E's net pro forma
9 adjustment to pensions and active employee medical costs decreases operating
10 expenses by \$9,397,336. The basis for this estimation is the valuation provided
11 by a comparison of the projected benefit obligation to the fair value of plan
12 assets. PUD supports the request for pensions based on Mercer's estimates of
13 the 2011 level of expenses compared to the test year-end expenses. PUD
14 agrees with the calculation of the expense levels for pensions and the adjustment
15 for active employee medical costs based on Company's support documentation
16 for these expense levels.

17 **Q: What is OG&E's proposed adjustment to correctly charge certain operation**
18 **and maintenance expense accounts?**

19 **A:** The proposed adjustment is to correctly charge pension and benefit costs of
20 \$628,000 to certain operation and maintenance expense accounts.

1 **Q: Please describe why PUD accepts OG&E adjustment to pensions and**
2 **benefit costs.**

3 **A:** The adjustment, calculations on WP H 2-19, shows that pension and benefit
4 costs of \$628,000 were incorrectly charged to certain operation and maintenance
5 expense accounts. The Company provided natural account support for the
6 correction. This adjustment has no effect on operating income.

7 PUD agrees with the adjustment to make this correction to operation and
8 maintenance expenses.

9 **Q: Please describe OG&E's adjustment to amortized expense over a two year**
10 **period.**

11 **A:** OG&E created a regulatory liability of \$8,148,999 since the amount of pension
12 expense being recovered exceeded actual pension expense. This treatment of
13 creating a regulatory liability based on over collected pension expenses is
14 prescribed by Commission Order No. 589452 in Cause No PUD201100027,
15 which states that if the pension expense drastically decreased from what was
16 included in OG&E's base rates, the Company would not experience a windfall
17 and a regulatory liability would be booked.

18 Conversely, if the pension expense drastically increased, the Company would not
19 experience a large under-recovery and a regulatory asset would be booked. Any
20 regulatory liability or asset would be handled in the next rate case.
21 PUD201100027, Order No. 589452, goes on to establish that the underlying
22 actuarial assumptions and ultimate level of Retiree Medical Plan costs included
23 in base rates would be reviewed and determined in the Company's next rate

1 case, PUD201100087 and any regulatory liability or asset would be handled in
2 the same rate case. The liability balance is projected to December 31, 2011, at
3 which time it will be \$18,469,993. The adjustment is made to amortize the
4 pension expense of \$9,234,997 over a two year period thereby reducing the pro
5 forma level of pension expense based on the Commission order as described
6 above.

7 **Q: What is PUD's recommendation regarding OG&E's treatment of pension**
8 **expenses that were significantly less than the amount recovered in base**
9 **rates?**

10 **A:** PUD agrees with the treatment of pension expenses that were drastically
11 decreased from the amount recovered in base rates as a regulatory liability.
12 PUD also agrees with the amortization of the liability over a two year period.
13 PUD believes that these and other measures requested pursuant to the Pension
14 Tracker approved in Cause No. PUD200500151, Order No. 516261, protect both
15 the Company and ratepayers from some of the volatility of pension expenses.
16 Adjustment H 2-31 is made to refund regulatory liability to customers over a two
17 year period.

Retirement Savings Plans/402 K Costs

18 **Q: Please describe OG&E's Retirement Savings Plans.**

19 **A:** The Company has made modifications to its savings plans as was explained in
20 Mercer, Inc. presentations and interviews with Margaret Walsh of OG&E. New
21 hires are automatically enrolled in the Retirement Savings Plan after the first 45

1 days of employment. Employees hired prior to 2000 are grandfathered into a
2 progressive defined benefit plan which provides cash balance upon three year
3 vesting. The employer matching portion is a progressive 50 percent matching
4 contribution escalating from 3 percent - 19 percent of salary. After 20 years of
5 service the employer matching portion escalates to 75 percent.

6 Employees hired after January 1, 2000 but prior to December 2009 receive a 50
7 percent matching employer contribution based on 6 percent of salary.

8 **Q: What significant change has OG&E made to Retirement Savings Plans**
9 **since the last rate case?**

10 **A:** Those employees hired after December 2009 have no defined benefit plan (no
11 cash balance provision), however they receive a 200 percent matching employer
12 contribution on 5 percent of the employee salary.

13 **Q: What is PUD's understanding of this change to Retirement Savings Plans**
14 **that has been initiated by OG&E?**

15 **A:** This new strategy was developed with Mercer, Inc., and the benefit to the
16 Company is that this formula provides more control of costs because it is a set
17 amount based on employee salaries. The impact on rates is the cost control and
18 the amount required from ratepayers is less.

19 **Q: What is PUD's recommendation regarding OG&E's request for funding of**
20 **the Retirement Savings Plans in base rates?**

21 **A:** PUD reviewed the provisions for the OG&E Retirement Savings Plan, and
22 attended meetings where presentations were made about the components of the

1 retirement savings plan or 401-K, and how this plan is structured. I met with
2 OG&E benefits expert Margaret Walsh, who explained how the present plan has
3 evolved since 2005. PUD believes that the Company has demonstrated
4 increased efforts at both cost controls and cost containment with a variety of
5 changes to the Company's provisions for OG&E employees at retirement.

6 W/PH-7 shows that the combination of \$4,802,451 for the Utility Company and
7 \$1,558,904 for the Holding Company places the test year cost of these benefit
8 plans at \$6,361,355 for the Retirement Savings Plans. The Company has
9 maintained the same methodology used in previous rate case proceedings and
10 this cost is consistent with previous assessments in prior cases. PUD has made
11 no adjustment to Retirement Savings Plans.

RECOMMENDATIONS

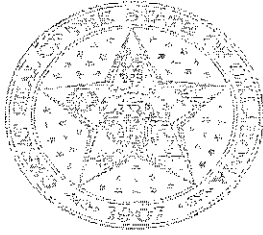
- 12 • PUD recommends a decrease of \$775,426 to the pro forma base payroll. This
13 adjustment is necessary to reflect the known and measurable amount of payroll
14 expense as of June 30, 2011.
- 15 • PUD made an adjustment based on the corresponding post-test year payroll
16 adjustment. PUD's pro forma adjustment increases payroll taxes by \$239,511
17 increasing payroll tax expense from \$13,798,814 to \$14,038,325. PUD's
18 adjustment is a reduction of \$57,624 to OG&E's pro forma adjustment.
- 19 • PUD proposes a decrease to operating expenses of \$2,262,382 for
20 compensation related to additional positions. PUD's pro forma adjustment for
21 additional positions removes the corresponding payroll taxes of \$168,123.

- 1 • PUD recommends reducing the Company's proposed operating expenses by
2 \$2,756,121 reducing TeamShare executive incentive compensation/Holding
3 Company by 50 percent. The effect of this adjustment is a decrease of
4 \$2,756,121 to the revenue requirement.
- 5 • PUD's recommends removal of 75 percent of long-term executive incentives and
6 restricted stock in the amount of \$3,353,236.
- 7 • PUD recommends removal of \$1,665,166 to exclude the Restoration of
8 Retirement Income Plan costs from pension expenses.

I state under penalty of perjury under the laws of Oklahoma that the foregoing is true and correct.

November 9, 2011 Oklahoma City, OK
(Date and Place)


(Signature)



**Curriculum Vitae
Of
Sharon Fisher**

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Ms. Fisher is a Public Utility Regulatory Analyst in the Energy and Water group with the Oklahoma Corporation Commission. She has several years experience with Public Utility Division as an analyst in telecommunications, electric utility, and natural gas utility regulation. She has developed expertise in the analysis of costs and pricing issues, regulatory strategies, resource planning, financial analysis, and expert witness testimony.

Education

BFA, Drama/Speech, University of Oklahoma
MBA, Oklahoma City University

Professional Experience

***Public Utility Regulatory Analyst
Energy and Water***

Research and assist in policy development for demand programs, underground electric distribution, competitive bidding and vegetation management. Assist in developing rules for electric utilities regarding competitive bidding, and demand programs.

Analyzed and prepared written testimony for several causes related to the competitive bidding process. Provided analysis and written testimony for rate cases related to water, gas and electric utilities.

Provided expert testimony in the following PUD cases:

200400325	200800098	200900266
200600337	200800144	201000050
200700372	200800256	201000054
200700367	200800398	201100034
200800001	200900110	
200800049	200900218	

***Public Utility Regulatory Analyst
Accounting and Financial Analysis***

Performed Monthly PGA, PPA, and FCA Analysis for major utilities, electric cooperatives, and small gas companies.

Performed the Annual Fuel Review for Electric Cooperatives and Small Gas Companies for 2005.

Performed Cost-of-gas trend analysis and comparative analysis for small gas companies operating within the state.

Managed and coordinated the discovery strategy for major utility rate cases.

Public Utility Regulatory Analyst
Telecommunications

Analyzed telecom causes ranging from Reseller CCN applications to CLEC and ILEC tariff revisions. Performed market impact analysis and trend analysis for recommendations on rate changes for telecom carriers.

Assisted in developing the Corporation Commission's telecommunication rules.

Assisted in developing a process for CCN revocations and withdrawals for Telecommunication service providers.

Assisted with designing and preparing of the "Study of the Telecommunications Service Provider Industry in Oklahoma." The Oklahoma Legislative Task Force, on Deregulation of the Oklahoma Telecommunications Service Provider Industry, commissioned this research study. The study was presented to both the Corporation Commission and Oklahoma State Legislature.

Seminars and Training

Telecommunications Industry Basics
Madison, Wisconsin

"Alternatives for Rate Making"
Columbia, MO

Regulatory Studies Program

NARUC Utility Rate School
San Diego, CA

Michigan State University,
Lansing, MI

"Smart Grid and Energy Storage Roundtable"
Topeka, KS

"VOIP: Standing on the Cutting Edge",
Austin Texas

"NARUC 118th Annual Conference"
Miami, FL

"NEPI: Power for the 21st Century"
Tulsa, OK

OKLAHOMA GAS AND ELECTRIC COMPANY
Payroll
CAUSE NO. PUD 201100087

<u>No.</u>		<u>Total</u> <u>Company</u>	<u>Reference</u>
1	Adjustment at 6/30/2011	\$ 3,223,043	Response to AG 3-1
2	OG&E proposed adjustment	<u>3,998,469</u>	W/P H-2-23
3	Adjustment to Regulatory Assets	<u>\$ (775,426)</u>	

To adjust payroll expense to the annualized payroll for six-month post-test year (as of June 30, 2011)

PAYROLL TAXES

<u>No.</u>		<u>Total</u> <u>Company</u>	<u>Reference</u>
1	Adjustment to Payroll	\$ 775,426	Response to AG3-1
2	Payroll Tax effective rate	<u>7.43%</u>	W/P H2-23.1
3	Adjustment to payroll taxes	<u>\$ 57,614</u>	

To adjust payroll taxes based on the adjustment to payroll

ADDITIONAL POSITIONS

<u>No.</u>		<u>Total</u> <u>Company</u>
1	OG&E adjustment for additional positions	\$ 2,809,976
2	Adjustment to remove Additional Positions	<u>(2,809,976)</u>
3	Payroll tax effective rate	<u>7.43%</u>
4	Adjustment to payroll taxes	<u>\$ (208,781)</u>
5	Total Adjustment for Additional positions	\$ (3,018,757)

To remove the adjustment for additional positions

OKLAHOMA GAS AND ELECTRIC COMPANY
TeamShare Incentive Compensation
CAUSE NO. PUD 201100087

<u>No.</u>			<u>Total Company</u>
1	OG&E Adjustment for TeamShare	\$2,109,874	
	Utility pro-forma	\$9,788,078	
	Holding Co pro-forma	\$5,512,241	-50%
	Holding Company average of test year adj. and pro forma adj.	\$2,756,121	
2	PUD Adjustment for TeamShare		
	Utility	-----	
	Holding Co	(\$1,761,161)	63.90%
	Payroll tax	(\$130,854)	7.43
	Total adjustment	(\$1,892,015)	
	To remove this amount from pro forma incentive compensation		

<u>No.</u>	<u>Long-term Incentive Compensation</u>		<u>Total Company</u>
1	OG&E Pro-forma level for Executive Long-term Compensation		
	Holding Co Performance units	\$4,332,492	
	Holding company Restricted Stock	\$138,489	
	Total Long-term Executive Incentives	\$4,470,981	
2	PUD Adjustment for Executive Long-term Compensation		-75%
	Holding Co Performance units	(\$3,249,369)	
	Holding company Restricted Stock	(\$103,867)	
	Total Adjustment to Long-term Executive Incentives	(\$3,353,236)	
	To remove 75% of long-term incentives from pro forma incentive compensation		

OKLAHOMA GAS AND ELECTRIC COMPANY
Pension Expense- Restoration of Retirement Income Plan
CAUSE NO. PUD 201100087

<u>No.</u>	Restoration of Retirement Income Plan	Total <u>Company</u>
1	OG&E test year amount for Restoration of Retirement Income Plan	
	Utility amount	\$351,548
	Holding Co amount	\$1,216,637
	Total included in test year cost of service	\$1,568,185
2	PUD Adjustment for Restoration of Retirement Income Plan	
	Utility	(\$351,548)
	Holding Co	(\$1,216,637)
	Total Adjustment	(\$1,568,185)
	To remove this amount from pension expenses	

CERTIFICATE OF ELECTRONIC SERVICE

I, the undersigned, do hereby certify that on the 9th day of November, 2011, a true and correct copy of the above and foregoing was sent electronically, addressed to the following:

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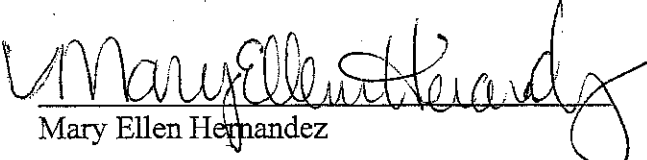
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