

In the Matter of the Application of)
Kansas Gas Service, A Division)
of ONEOK, Inc. for Adjustment of)
its Natural Gas Rates in the State)
of Kansas)

DOCKET NO. 12-KGSG-835RTS

Received
on

MAY 18 2012

by
State Corporation Commission
of Kansas

DIRECT TESTIMONY
OF
DAVID E. ROTH
ON BEHALF OF
KANSAS GAS SERVICE
A DIVISION OF ONEOK, INC

DIRECT TESTIMONY

OF

DAVID E. ROTH

KANSAS GAS SERVICE

DOCKET 12-KGSG-___-RTS

1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is David E. Roth. My business address is 100 West 5th Street Tulsa
3 Oklahoma 74103.

4 **Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?**

5 A. I am employed by ONEOK, Inc. ("ONEOK") as Senior Vice President of
6 Administrative Services.

7 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
8 **PROFESSIONAL EXPERIENCE.**

9 A. I graduated from the University of Missouri in 1979 with a Bachelor of Science
10 degree in civil engineering. Upon graduation from college, I was employed with The
11 Gas Service Company, which merged with KPL and became known as KPL Gas
12 Service. Following the acquisition of KG&E, the company became known as
13 Western Resources. I served in a variety of positions with Western Resources and
14 the predecessor companies and was Vice-President of Western Resources in 1997
15 when I became an employee of ONEOK. At ONEOK, I have served in a variety of
16 executive positions and began serving in my current position in 2006. In my current
17 position, I am responsible for human resources, information technology and
18 corporate services for ONEOK. I am a member of the Society for Human Resource
19 Management and formerly served on and chaired the Tulsa Area Human Resources
20 Association. As a member of the Southern Gas Association, I have served on and

1 chaired the human resources section managing committee. I have completed the
2 Utility Management Development Program of Stone & Webster management
3 Consultants and the Edison Electric Institute at the Darden Graduate School of
4 Business Administration at the University of Virginia in Charlottesville.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. I will discuss ONEOK's pay and benefits programs, including base pay and the short-
7 term incentive plan for non-executive level employees, retirement and other benefits,
8 and executive compensation.

9 **Q. PLEASES EXPLAIN ONEOK'S OVERALL COMPENSATION PHILOSOPHY.**

10 A. ONEOK aims to provide its employees with a fair, equitable, and competitive total
11 rewards program. The program is designed to help the company attract and retain
12 employees by targeting pay at the median (50th percentile) of the competitive market
13 and industry in which the Company competes for talent. The program is carefully
14 monitored and managed to ensure that it fairly serves all of its constituents:
15 employees, customers, shareholders and other Company stakeholders.

16 **Q. WHY IS IT IMPORTANT THAT ONEOK'S PAY AND BENEFITS ARE**
17 **COMPARABLE TO THOSE OF ITS INDUSTRY PEERS?**

18 A. ONEOK competes with other utilities and area employers for employees with the
19 same experience and ability to meet our goal of providing safe, reliable service to
20 customers at reasonable cost. In order to ensure that we can effectively attract and
21 retain the employees we need, our pay and benefits must be competitive in the
22 industry.

23 **Q. WHAT COMPANIES DOES ONEOK COMPARE ITSELF TO IN ORDER TO**
24 **ENSURE THAT ONEOK'S COMPENSATION AND BENEFITS PROGRAMS ARE**
25 **REASONABLE?**

1 A. For executive compensation, the Executive Compensation Committee of ONEOK's
2 Board of Directors has selected a group of companies that reflect the size and
3 characteristics of ONEOK's overall business.

4 For employee compensation, ONEOK participates in national and industry-
5 specific salary surveys to determine market guidelines and short-term incentive
6 targets for each position. These surveys are specific to the energy industry as a
7 whole or targeted to certain business units within the energy industry. For instance,
8 positions in Kansas have market matches from 10 surveys covering their
9 responsibilities. Market data is submitted and reviewed on an annual basis, allowing
10 ONEOK to maintain up to date and relevant market guidelines.

11 **Q. PLEASE PROVIDE A BRIEF EXPLANATION OF THE VARIOUS PAY AND**
12 **BENEFIT PROGRAMS THAT ONEOK PROVIDES TO ITS EMPLOYEES.**

13 A. ONEOK strives to provide a comprehensive compensation program that is
14 competitive and performance based. It includes a base salary and an at risk short-
15 term incentive opportunity based on the performance of the Company and individual
16 effort. It may also include a long-term incentive component in the form of restricted
17 stock units and at risk performance units. ONEOK provides and contributes toward a
18 medical and dental plan for its employees, as well as other welfare benefits. ONEOK
19 provides and contributes toward a 401(k) plan for all of its employees. Depending on
20 the date of hire of an employee, ONEOK either provides a defined benefit plan or
21 contributes toward a profit sharing plan for employees hired after certain dates.

22 **Q. PLEASE DISCUSS THE PAY PROGRAMS THAT ARE PROVIDED TO**
23 **EMPLOYEES.**

24 A. **Annual Cash Compensation.** Annual cash compensation consists of two
25 components: base salary and a variable, at-risk annual short-term cash incentive

1 award that is earned based on both the company's financial performance and the
2 employee's individual performance.

3 **Base Salary.** Annual base salary is designed to compensate employees for
4 their level of responsibility, experience, tenure, sustained individual performance and
5 contribution to the company. Salaries are reviewed annually.

6 **Annual Short-Term Cash Incentive Awards.** Variable, at-risk annual short-
7 term cash incentive awards are made under our annual incentive plan and are
8 designed to communicate a collective annual corporate goal, provide our employees
9 with a direct financial interest in our performance and profitability, and to reward
10 performance.

11 **Long-Term Equity Incentive Awards.** Annual grants of long-term equity
12 incentive awards are made under our Long-Term Incentive Plan and our Equity
13 Compensation Plan. Since 2004, grants under these plans have consisted of
14 restricted stock incentive units and performance units. A restricted stock incentive
15 unit award is designed to enable the company to retain certain officers and
16 employees who provide benefits to our customers and shareholders and to give
17 those participants an incentive to enhance long-term shareholder value. A
18 performance unit award is designed to enable the company to attract, retain and
19 reward certain employees who provide benefits to our customers and shareholders
20 and to give those participants an incentive to enhance long-term shareholder value.
21 A higher ratio of performance units to restricted stock incentive units is granted to
22 higher-level participants and those with more direct ability to impact the performance
23 of the company.

24 **Q. WHAT ARE THE BENEFITS OF ONEOK'S VARIABLE PAY PROGRAM TO**
25 **EMPLOYEES, SHAREHOLDERS AND CUSTOMERS?**

1 A. We believe that a competitive compensation program is an important tool to help us
2 attract and retain talented executives and employees capable of leading and operating
3 our company in the competitive business environment in which we operate so our
4 customers continue to receive safe, reliable and reasonably priced natural gas service.
5 When targeted levels of performance are achieved, we seek to pay experienced
6 executives and employees at approximately the median level of total compensation for
7 energy companies and other organizations with whom we compete for executive talent.
8 In certain circumstances, we may target pay above or below the competitive median.
9 For example, to recognize an individual's unique qualifications or performance we may
10 choose to set that individual's expected pay level above the median. However, if the
11 executive or employee is new to the role, but performing well, we may set their
12 expected pay below the median level.

13 Our compensation program is designed with the following principles in mind:

- 14 • pay our employees equitably and fairly relative to one another and industry
15 peers based on their responsibilities and the capabilities and experience they
16 possess, the performance they demonstrate and market conditions;
- 17 • motivate our executives to perform with the highest integrity for the benefit of
18 our shareholders;
- 19 • conduct our business and manage our assets in a safe and environmentally
20 responsible manner;
- 21 • promote a non-discriminatory work environment that enables us to benefit
22 from the diversity of thought that comes with a diverse workforce; and
- 23 • continue our focus on good corporate governance practices by implementing
24 executive compensation best practices and policies.

1 **Q. WHAT CONTROLS DOES THE COMPANY HAVE IN PLACE TO ENSURE THAT**
2 **THE COMPANY’S COMPENSATION PACKAGE IS IN LINE WITH INDUSTRY**
3 **PRACTICE**

4 A. We endeavor to maintain good governance standards including standards applicable
5 to the oversight of our executive compensation policies and practices. The following
6 policies and practices were in effect during 2011.

- 7 • The Executive Compensation Committee (Committee) is composed solely of
8 independent directors.
- 9 • The Committee’s independent compensation consultant, Meridian
10 Compensation Partners, LLC, is retained directly by the Committee and
11 performs no other consulting or other services for us.
- 12 • Our short-term incentive plan and our long-term performance unit incentive
13 grants include a compensation recovery (“clawback”) provision.
- 14 • The Committee conducts an annual review and approval of our compensation
15 programs to ensure that the risks arising from such programs are not
16 reasonably likely to have a material adverse effect on the company.

17 **Q. WHY IS IT IMPORTANT THAT ONEOK’S COMPENSATION PLANS BE**
18 **DESIGNED TO ACHIEVE THE COMPENSATION OFFERED BY KGS’ PEERS?**

19 A. As a responsible corporate citizen, ONEOK provides reliable energy and energy-
20 related services in a safe and environmentally responsible manner to our
21 stakeholders. Our values are:

22 **Ethics:** Our actions are founded on trust, honesty and integrity through open
23 communications and adherence to the highest standards of personal, professional
24 and business ethics.

1 **Quality:** Our commitment to quality drives us to make continuous
2 improvements in our quest for excellence.

3 **Diversity:** We value diversity, as well as the dignity and worth of each
4 employee, and believe that a diverse and inclusive workforce is critical to our
5 continued success.

6 **Value:** We are committed to creating value for all stakeholders – employees,
7 customers, investors and our communities – through the optimum development and
8 utilization of our resources.

9 **Service:** We provide responsive, flexible service to customers, and commit to
10 preserving the environment, providing a safe work environment and improving the
11 quality of life for employees where they live and work.

12 We look for people who exhibit these values and we compete for them in the
13 marketplace along with every other employer.

14 **Q. WHY DOES ONEOK SPLIT ITS EMPLOYEE COMPENSATION INTO FIXED AND**
15 **VARIABLE COMPONENTS INSTEAD OF JUST PAYING EMPLOYEES A BASE**
16 **SALARY?**

17 A. The majority, if not all, of the companies ONEOK uses to determine market
18 guidelines for setting employee compensation split compensation into fixed and
19 variable components. More importantly, this type of compensation plan is designed
20 to create a financial incentive for employees to achieve goals that benefit our
21 customers, employees and shareholders.

22 **Q. WHAT IS THE BASIS FOR FUNDING THE VARIABLE COMPONENT OF**
23 **ONEOK'S COMPENSATION PLAN?**

24 A. The basis for funding ONEOK's short-term incentive plans is the underlying incentive
25 calculation itself. The two main variables are the company performance factor and

1 the individual performance factor. The company performance factor is calculated
2 after the end of the plan year using the results of the company-wide performance
3 measures that were established at the start of the plan year. The individual
4 performance factor is also set at the end of the plan year based upon the individual's
5 contributions to achieving corporate goals and the individual's goals and objectives
6 for the plan year, as well as employee behaviors exhibited by the individual. Many of
7 the elements within an individual's goals and objectives are designed to ensure our
8 customers continue to receive safe, reliable and reasonably priced natural gas
9 service.

10 **Q. TAKING INTO ACCOUNT THE VARIABLE PORTION OF ONEOK'S**
11 **COMPENSATION PLAN, HOW DOES ONEOK'S TOTAL CASH COMPENSATION**
12 **(BASE PLUS INCENTIVE) COMPARE TO THE MARKET?**

13 A. As indicated in Mr. Ellerman's testimony, ONEOK's total compensation levels (base
14 pay and incentive pay) are consistently below the 50th percentile of comparable
15 compensation levels.

16 **Q. IN YOUR OPINION, WHAT AFFECT WOULD THE ELIMINATION OF ONEOK'S**
17 **VARIABLE COMPENSATION PLANS HAVE ON KGS' CUSTOMERS?**

18 A. The elimination of ONEOK's variable compensation plans would remove material
19 incentives and recognition that employees receive for effectively performing their
20 jobs to the very best of their abilities. Only those employees performing at a
21 minimally acceptable level would stand to gain by the elimination of ONEOK's
22 variable compensation plans. Over time, you could anticipate the best and highest
23 performing employees would leave ONEOK to work for our competitors who
24 compensate their employees based upon performance. This will ultimately result in
25 a detriment to KGS and its customers.

1 **Q. MR. ROTH, WHAT STEPS HAS THE COMPANY TAKEN TO HOLD DOWN THE**
2 **COSTS OF ITS BENEFIT PROGRAMS?**

3 A. The Company has taken several steps to hold down the costs of its various benefit
4 programs. In the area of health care benefits, the Company works with its outside
5 Health Care Administrator, United Health Care, to aggressively negotiate with health
6 care providers to obtain reasonably priced services. Notwithstanding those efforts,
7 the health care costs for ONEOK, as well as for all Americans, continue to rise. To
8 alleviate the impact of those price increases, the Company has increased employee
9 premiums, raised employee deductibles and out of pocket limits, and increased the
10 amount of the copayments. With these efforts, we are making employees more
11 responsible for their health care costs and savvier buyers of health care services,
12 thereby mitigating somewhat the increase in health care costs. The Company has
13 made significant strides in reducing its post retirement health care costs. For all non-
14 union employees hired at ONEOK after December 31, 1998, those employees are
15 responsible for all post-retirement medical costs. New employees who are members
16 of the IBEW union hired after June 30, 2003 are responsible for all post-retirement
17 medical costs and new employees who are members of the steelworkers union hired
18 after July 1, 2004 are responsible for all post-retirement medical costs.

19 The Company has also taken similar actions to hold down the long term cost
20 of Pension programs. Non-union employees hired at ONEOK after December 31,
21 2004 are no longer eligible for benefits available under the Company's Defined
22 Benefit Pension plan and receive benefits under a new Defined Contribution
23 retirement plan. Similarly, new employees who are members of IBEW hired after
24 June 30, 2010 are no longer eligible to participate in the Company's Defined Benefit
25 Pension Plan and now receive benefits under the new retirement plan. New
26 employees who are members of the Steelworker's union hired after October 31,

1 2011 are no longer eligible to participate in the Company's Defined Benefit Pension
2 Plan and now receive benefits under the new retirement plan. The benefit to the
3 Company to have employees covered by the new Defined Contribution retirement
4 plan rather than the Defined Benefit plan is that the Company's costs are known and
5 not as variable as they are under the Defined Benefit plan. The risks and
6 opportunities associated with the new Defined Contribution retirement plan are
7 placed on the employee through their investments in the plan. The new Defined
8 Contribution retirement plan is also more appropriate in attracting a much more
9 mobile work force today as it allows employees to have control of their investments
10 in the new retirement plan, similar to the 401(k) plan and if they decide to seek
11 employment elsewhere, to take their account balances with them to their new
12 employer.

13 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

14 A. Yes.

VERIFICATION

STATE OF OKLAHOMA)
) ss.
COUNTY OF TULSA)

David E. Roth, being duly sworn upon his oath, deposes and states that he is Senior Vice President of Administrative Services for ONEOK, Inc.; that he has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information, and belief.

David E Roth

NAME

Subscribed and sworn to before me this 10th day of May 2012 MONTH YEAR.

Marguerite J. Landrum
NOTARY PUBLIC

My appointment Expires:

2-14-2014

