

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

Direct Testimony

of

Jason J. Thenmadathil

on behalf of

Oklahoma Gas and Electric Company

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CORPORATION COMMISSION
OF OKLAHOMA

December 18, 2015

Jason Thenmadathil
Direct Testimony

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

2 A. My name is Jason Thenmadathil. My business address is 321 North Harvey, Oklahoma
3 City, Oklahoma 73102.

4

5 Q. **By whom are you employed and in what capacity?**

6 A. I am employed by Oklahoma Gas and Electric Company (“OG&E” or “Company”) as a
7 Senior Regulatory Accountant.

8

9 Q. **Please summarize your educational background and professional qualifications.**

10 A. I received a Bachelor of Science degree in Accounting from the University of Central
11 Oklahoma. In 2005, I was employed by the Public Utility Division (“PUD”) of the
12 Oklahoma Corporation Commission (“Commission”) as a Public Utility Regulatory
13 Analyst, and later was promoted to Coordinator. As a PUD analyst, I testified in various
14 utility cases filed by electric and gas companies, including rate cases and fuel prudence
15 reviews. In March 2010, I joined OG&E as a Senior Regulatory Accountant where I am
16 primarily responsible for the determination of revenue requirements for various rate filings.

17

18 Q. **Have you testified previously before this Commission?**

19 A. Yes.

20

21 Q. **What is the purpose of your testimony?**

22 A. The purpose of my testimony is to sponsor the *pro forma* adjustments to rate base and
23 operating expense. I will also discuss the Company’s actions to deal with requirements
24 stemming from its last rate case.

25

26 *PRO FORMA* ADJUSTMENTS

27 Q. **What is the importance of the *pro forma* adjustments in this proceeding?**

28 A. The Company’s proposed *pro forma* adjustments are critical to establish fair, just and
29 reasonable rates. The *pro forma* adjusted level of rate base and operations and

1 maintenance (“O&M”) expense are necessary to allow the Company to earn a rate of
2 return on an adequate rate base level and to cover the Company’s operating costs on a
3 going forward basis.
4

5 **Q. Why are *pro forma* adjustments to a test year necessary?**

6 A. The Company makes adjustments to the test year books to design rates which reflect
7 revenue, expense and investment levels the utility expects to experience prospectively.
8 The Company utilizes a historic test year with *pro forma* adjustments reflecting
9 reasonably known and measurable changes. Some of these adjustments include: removal
10 of costs that are recovered elsewhere, costs that did not occur but are or will be normal
11 expenses going forward and cost adjustments that are determined by the Company or past
12 Commission orders to not be the customer’s responsibility.
13

14 **Q. What are the general categories of *pro forma* adjustments proposed by the
15 Company?**

16 A. *Pro forma* adjustments fall into one of the following categories:

17 1) Normalization Adjustments are made to rate base and expenses to offset unusual
18 levels of operations recorded during the test year. An example of such an adjustment
19 would be the use of 13-month average balances for materials and supplies and
20 prepayments.

21 2) Annualization adjustments recognize that some action occurred during the test
22 year that will be ongoing and must be captured on a prospective basis. An example of
23 such an adjustment would be the adjustment to payroll to account for salary increases
24 occurring during the test year. This annualization is necessary to increase, or annualize,
25 payroll costs to a level reflecting the increased salary for the entire year.

26 3) Out of Period Adjustments consider known and measurable changes that occur
27 outside the end of the test year. An example of such an adjustment would be to increase
28 plant in service to account for projects being completed six months after the test year end.

29 4) Certain adjustments remove costs that are not necessary to provide electric service
30 to customers. An example of such an adjustment would be to remove costs related to
31 donations/contributions and entertainment related expenses.

1 5) Adjustments to remove costs recovered elsewhere adjust the test year to reflect
2 any cost recovery that occurs outside of base rates. An example of such an adjustment
3 would be to remove fuel and purchased power related costs that are recovered through the
4 Fuel Adjustment Clause (“FAC”) rider. This decrease is necessary to ensure that
5 customers are not double charged for fuel costs recovered through a separate recovery
6 mechanism.

7
8 RATE BASE

9 Q. **What section of the Minimum Filing Requirements contain the adjustments made to**
10 **rate base?**

11 A. Section B contains schedules and the supporting workpapers which present the elements
12 of the rate base for the test year and adjustments to the test year rate base. The rate base
13 essentially represents the assets and liabilities of the utility. The largest component of the
14 rate base is plant in service. The *pro forma* rate base is multiplied by a rate of return to
15 arrive at the return requirement for capital investment. This return requirement
16 represents a portion of the overall revenue requirement.

17
18 Pro Forma Adjustments to Rate Base

19 Q. **Please explain WP B 3-1, *pro forma* adjustment to Arkansas AFUDC.**

20 A. There is a difference between how the Arkansas Public Service Commission and the
21 Oklahoma Corporation Commission calculate AFUDC. In order to accurately reflect the
22 AFUDC calculated and booked for the Oklahoma jurisdiction, an adjustment has to be
23 made to plant in service. This adjustment increases plant in service by \$2,404,828 and
24 increases accumulated depreciation by \$67,883.

25
26 Q. **Please explain WP B 3-2, *pro forma* adjustment to Holding Company Assets.**

27 A. OG&E includes Holding Company Assets (“OGE Energy Corp.”) as a part of plant in
28 service. A percentage of these assets are devoted to non-utility activity and should
29 therefore be excluded from the cost of service. This results in a decrease to plant in
30 service of \$28,516,476 and decrease to accumulated depreciation of \$22,464,534.

- 1 Q. **Please explain WP B 3-3, *pro forma* adjustment to remove certain project**
2 **construction costs.**
- 3 A. This adjustment removes costs for construction projects that will not be completed by the
4 end of the six month post-test year or are reimbursable by a third party. This adjustment
5 is a reduction of \$109,099,782.
6
- 7 Q. **Please explain WP B 3-4, *pro forma* adjustment to Coal and Oil Inventory.**
- 8 A. OG&E recommends decreasing coal and oil inventory by \$12,300,587. This adjustment
9 is based on a 60-day coal inventory level, which is representative of inventory levels on a
10 prospective basis. The price for coal applied to the *pro forma* inventory level is based on
11 the inventory level and dollar amount recorded at test year end.
12
- 13 Q. **Please explain WP B 3-5, *pro forma* adjustment to Gas in Storage Inventory.**
- 14 A. OG&E recommends decreasing natural gas inventory by \$3,086,959. This is due to a
15 lower projected inventory level for natural gas resulting from a reduction to gas in
16 storage. The price for natural gas applied to the *pro forma* inventory level is based on the
17 inventory level and dollar amount recorded at test year end.
18
- 19 Q. **Please explain WP B 3-6 and WP B 3-7, *pro forma* adjustments to increase plant in**
20 **service.**
- 21 A. WP B 3-6 and B 3-7 increased plant in service by \$105,166,283 and \$73,906,013
22 respectively. The Company analyzed certain projects that were budgeted for the *pro*
23 *forma* test year period and determined which projects would likely be in service by
24 December 31, 2015. These projects were transferred to plant in service. WP B 3-6 also
25 removed the remaining balance of construction work in progress (“CWIP”) from the test
26 year. This reduction amounted to \$59,690,917. The Company will update this *pro forma*
27 to reflect actual costs for plant completed and in service as of December 31, 2015 during
28 this proceeding.

1 Q. **Please explain WP B 3-8, *pro forma* adjustment to materials and supplies.**

2 A. This adjustment is made to account for the fluctuating cost of materials and supplies. The
3 Company proposes adjusting materials and supplies to a 13 month average, which
4 represents an appropriate level on an ongoing basis. This adjustment results in an
5 increase to rate base of \$491,581.

6
7 Q. **Before you explain WP B 3-9, please define cash working capital.**

8 A. Cash working capital is the average amount of capital provided by investors, not
9 including plant in service and other measurable rate base items, which represent the
10 amount of cash needed between the time expenditures are required for services and the
11 time collections are received.

12
13 Q. **Please explain WP B 3-9, *pro forma* adjustment to cash working capital.**

14 A. OG&E utilized the lead lag study approach to calculate cash working capital. The results
15 of this study are summarized in Schedule E-1, and the work papers behind the study are
16 included as a part of the WP E's from the MFR Supplemental Package. Per the study,
17 OG&E is requesting a decrease to test year cash working capital of \$15,458,364. After
18 this adjustment, the ending balance of cash working capital results in a decrease to rate
19 base of \$20,797,067. Please note that OG&E has not included depreciation, deferred tax
20 expense, investment tax credits, or common equity return in the calculation of cash
21 working capital.

22
23 Q. **Please explain WP B 3-10, *pro forma* adjustment to prepayments.**

24 A. This adjustment is made to account for the fluctuating balance of prepayments recorded
25 in the balance sheet. Prepayments represent expenses paid in advance of actual services
26 being performed. The Company is required to recognize an asset on the balance sheet for
27 those expenses paid in advance until the suppliers/contractors have actually performed
28 the service required. The Company proposes adjusting prepayments to a 13 month
29 average, which represents an appropriate level on an ongoing basis. This adjustment
30 results in an increase to rate base of \$66,889.

1 Q. **Please explain WP B 3-11, *pro forma* adjustment to plant held for future use.**

2 A. Adjustment WP B 3-11 results in a decrease of \$1,012,307. This adjustment was made in
3 the prior two rate cases, Cause Nos. PUD 201100087 and PUD 200800398. Plant held
4 for future use with an acquisition date older than 10 years from the test year was removed
5 from the rate base.

6
7 Q. **Please explain WP B 3-12, *pro forma* adjustment to remove transmission related
8 plant in service paid for by third parties.**

9 A. This adjustment removes a percentage of certain OG&E transmission related items from
10 the rate base. This adjustment reflects the fact that the revenue requirement associated
11 with regionally allocated transmission plant will be assigned to other load serving entities
12 (“LSEs”) around the SPP and should not be recovered from OG&E customers. OG&E
13 has adjusted transmission related plant in service, accumulated depreciation, ADIT, and
14 other various rate base items to reflect this recovery. The percentage allocated to other
15 LSE’s was derived from the FERC Transmission Formula Rate True-Up Adjustment for
16 the 2014 rate year. The net impact to rate base is a decrease of \$655,558,467. A similar
17 adjustment for O&M expense is made on the income statement and will be explained
18 later in this testimony.

19
20 Q. **Please explain WP B 3-13, *pro forma* adjustment to update accumulated
21 depreciation to the post test period.**

22 A. This adjustment estimates an increase to accumulated depreciation through December 31,
23 2015 to account for increases to the depreciation reserve occurring as a result of an
24 additional six months of depreciation expense associated with test year and pro forma
25 plant levels. This adjustment also includes updates to net removal and retirements
26 through December 31, 2015. The net impact to the rate base is a decrease of
27 \$95,408,833.

1 Q. **Please explain WP B 3-14, *pro forma* adjustment to update accumulated deferred**
2 **income taxes (“ADIT”) to the post test period.**

3 A. Similar to the previous adjustment, this adjustment estimates the balance of ADIT as of
4 December 31, 2015. The net impact to the rate base is a decrease of \$82,343,465.
5

6 Q. **Please explain WP B 3-15, *pro forma* adjustment to regulatory assets and liabilities.**

7 A. This adjustment removes rider related costs from regulatory assets and updates regulatory
8 liabilities to the six month *pro forma* period. First, regulatory assets were decreased to
9 remove the storm regulatory asset from rate base since this asset is recovered through a
10 rider. The adjustment to regulatory assets was a decrease of \$16,956,230.
11

12 Q. **Please explain the second part of WP 3-15 to update regulatory liabilities.**

13 A. The pension regulatory liability at test year end was adjusted for known and measurable
14 changes expected to occur during the *pro forma* period. To the extent pension and post-
15 retirement benefits expense varies each year from the level authorized in the last rate
16 case, a regulatory asset or liability is recorded. This is referred to as the Pension Tracker,
17 which was first authorized in Cause No. PUD 200500151, with a later revision to
18 incorporate retiree medical costs approved in Cause No. PUD 201100027. The
19 regulatory asset/liability balance increases or decreases between rate cases. As of the test
20 year end, the Company has recorded a total pension regulatory liability of \$23,187,190.
21 The Company has incurred additional pension settlement expenses since the test year
22 end. These additional expenses will decrease the pension regulatory liability through the
23 *pro forma* period. These settlement expenses primarily result from the Company making
24 lump sum payments to employees. The adjustment to regulatory liabilities is a decrease
25 of \$15,618,518.
26

27 Q. **What is the total *pro forma* adjustment for WP B 3-15?**

28 A. The adjustment to decrease regulatory assets and decrease regulatory liabilities results in
29 a decrease to the rate base of \$1,337,712.

1 INCOME STATEMENT

2 Q. **What section of the Minimum Filing Requirements contains the adjustments made**
3 **to the Income Statement?**

4 A. Section H contains schedules and the supporting workpapers which present the elements
5 of the income statement for the test year and associated adjustments. The income
6 statement calculates operating income by subtracting *pro forma* expense from *pro forma*
7 revenue to arrive at *pro forma* operating income. This level of operating income is
8 compared to the company's requested level of operating income (the return requirement
9 as mentioned in the rate base section above) to arrive at a revenue excess or deficiency
10 for the utility.

11
12 *Pro Forma Adjustments to the Income Statement*

13 Q. **Please explain WP H 2-1 through H 2-16, *pro forma* adjustment to revenues.**

14 A. All adjustments to test year revenues are addressed in the testimony of OG&E witness
15 Gwin Cash.

16
17 Q. **Please explain WP H 2-17, *pro forma* adjustment to Ad Valorem Taxes.**

18 A. This adjustment increases property taxes by \$4,624,225. This is based on historic
19 changes in valuations and millages. This *pro forma* includes an adjustment reducing
20 expense by \$1,251,163 for capitalized Ad Valorem taxes related to projects under
21 construction.

22
23 Q. **Please explain WP H 2-18, *pro forma* adjustment to pension and retiree medical**
24 **expense.**

25 A. OG&E has established various employee benefit plans funded by employee and
26 Company contributions. Annually, the Company retains an independent actuary to
27 prepare an actuarial valuation of the pension and retiree medical plans. This valuation
28 determines the net periodic benefit cost which is the annual expense recognized by the
29 Company for generally accepted accounting principles ("GAAP") purposes. For the *pro*
30 *forma* adjustment, the expense level per the actuarial report provided by Fidelity was
31 compared with the actual test year level of pension and other post-retirement benefits

1 expense. The level per the actuarial report was adjusted to only include amounts that
2 would be classified as O&M. The result of this comparison is a decrease to pension and
3 retiree medical expense of \$84,752.
4

5 **Q. Please explain WP H 2-19, *pro forma* adjustment to active member benefits expense.**

6 A. Active member benefits refer to medical, dental, life, and long-term disability benefits for
7 current employees. This adjustment compares actual test year levels with budgeted levels
8 to arrive at a reasonable expense level going forward. Similar to the previous adjustment,
9 only costs classified as O&M were included. The Company recommends an increase of
10 \$212,825.
11

12 **Q. Please explain WP H 2-20, *pro forma* adjustment to insurance expense.**

13 A. The Company compared test year insurance expense to the projected insurance expense
14 for policy period 2015/2016 using information provided by the Company's insurance
15 brokers. The difference between the test year and projected levels were recorded as a *pro*
16 *forma* adjustment to increase expenses by \$141,274.
17

18 **Q. Please explain WP H 2-21, *pro forma* adjustment to depreciation expense**

19 A. This adjustment increases depreciation expense to account for the increased level of plant
20 requested in this case as well as new depreciation rates. The Company requests an
21 increase of \$29,639,005 to depreciation expense. Please see the direct testimony of
22 OG&E witness John Spanos for the reasoning behind the new depreciation rates.
23

24 **Q. Please explain WP H 2-22, *pro forma* adjustment for expenses no longer allocated to
25 affiliates.**

26 A. This adjustment increases O&M to account for certain expenses that will no longer be
27 allocated to affiliates. The joint venture between OG&E affiliate Enogex and
28 CenterPoint Energy formed a standalone company named Enable Midstream Partners.
29 This company will no longer share costs with OG&E as it has in the past. Sharing of
30 certain costs with the affiliate company will cease by the end of the *pro forma* period,

1 causing expense levels for OG&E to increase without the benefit of an affiliate to share
2 costs with.

3
4 Q. **Please describe the costs that will no longer be allocated to the affiliate.**

5 A. Costs no longer allocated to Enable will include printing and mailing, information
6 technology ("IT"), corporate insurance, certain human resource services, certain
7 accounting services, and facilities expense. Examples of the types of costs included
8 within those categories are labor, leasing expenses, maintenance expenses, depreciation
9 for certain assets, and software expenses.

10
11 Q. **What is the amount of the *pro forma* adjustment for these reassigned costs?**

12 A. Based on current forecasts, the Company estimates an increase of \$6,057,685. This
13 adjustment is reflected under WP H 2-22.

14
15 Q. **Please explain WP H 2-23, *pro forma* adjustment to payroll expense.**

16 A. This adjustment is designed to capture employee compensation levels at year-end 2015
17 on a *pro forma* basis. This adjustment consists of two parts. First, payroll items were
18 annualized based on the employees and wage levels during the last full two-week pay
19 period in June 2015. To accomplish this, payroll levels during this pay period were
20 multiplied by 26 (the amount of pay periods in a year) to arrive at an annualized level.
21 This adjustment has the effect of capturing a full year of payroll for the additional
22 employees hired into the company during the test year and eliminating the payroll of
23 employees who left the Company during the test year. For the second part, this
24 adjustment increased payroll to account for raises employees will receive at year-end.
25 This was accomplished by multiplying payroll levels by a historical 3-year average of
26 raises. This amounted to an approximate 3% increase. The adjustment also included an
27 increase for payroll taxes related to the additional expense level. The result of all the
28 calculations mentioned above is an increase to expenses of \$6,047,223. Please see the
29 direct testimony of Patricia Ruden for the justification of total employee compensation
30 levels.

- 1 Q. **Please explain WP H 2-24, *pro forma* adjustment to other compensation.**
- 2 A. The Company averaged the last four years of short-term and long-term incentives and
3 other compensation to arrive at a level of other compensation that captures both upward
4 and downward swings in incentive costs. To arrive at the expense level, the ratio of
5 expense based on total payroll was applied in order to remove capitalized expenses.
6 When payroll taxes are included, this results in an increase to operating expenses of
7 \$6,828,333. Please see the direct testimony of OG&E witness Ruden for further
8 discussion on short term incentives, long term incentives, and overall compensation
9 levels.
- 10
- 11 Q. **Please explain WP H 2-43, and H 2-45, *pro forma* adjustments to vegetation
12 management expense.**
- 13 A. Both adjustments are *pro forma* adjustments for increases related to distribution and
14 transmission line vegetation management programs. W/P H 2-43 is for distribution work,
15 and W/P H 2-45 is for transmission work. These adjustments increased O&M by
16 \$11,518,525 and \$1,692,500 respectively for a total increase to O&M of \$13,211,025 for
17 vegetation management. Please see the direct testimony of OG&E witness Jarod Cassada
18 for a detailed discussion of the vegetation management request.
- 19
- 20 Q. **Please explain WP H 2-26, *pro forma* adjustment related to demand programs and
21 energy efficiency expenses for Oklahoma and Arkansas.**
- 22 A. This adjustment removes costs related to the Oklahoma Demand Program Rider (“DPR”)
23 and the Arkansas Energy Efficiency Cost Recovery (“EECR”) Rider. These costs are
24 recovered through ongoing rider mechanisms and should therefore be removed from base
25 rates. This adjustment decreases O&M by \$24,851,709.
- 26
- 27 Q. **Please explain WP H 2-27, *pro forma* adjustment to regulatory expenses.**
- 28 A. This adjustment is the result of three adjustments. First, the Company normalized
29 regulatory costs using a 2-year average for various expenses in the Oklahoma jurisdiction
30 excluding rate cases. This reduces operating expenses by \$528,761. Second, the
31 Company removed the Annual Public Utility Assessment Fee (“APUAF”) in the amount

1 of \$2,233,319 since the APUAF fee is already recovered through a surcharge on
2 customer's bills. Finally, any remaining amortization related to rate case expenses from
3 the prior rate case was removed. This results in a decrease of \$28,337. The total for all
4 three adjustments results in a decrease of \$2,790,417.

5
6 **Q. Please explain WP H 2-28, *pro forma* adjustment to bad debt expense.**

7 A. The bad debt *pro forma* adjustment includes cost for uncollectible revenues the Company
8 will experience, net of the fuel component of the customer's bill. This adjustment is
9 made to reflect the expected increase in bad debt not associated with fuel. The fuel
10 component of bad debt flows through the Fuel Adjustment Clause ("FAC"). The
11 Company used a four year average uncollectible rate and multiplied it by the *pro forma*
12 revenues net of fuel to arrive at a new bad debt expense level. This adjustment increases
13 operating expense by \$72,914.

14
15 **Q. Please explain WP H 2-29, *pro forma* adjustment to storm amortization.**

16 A. This adjustment consists of two separate adjustments. First, the Company removed all
17 storm amortization expenses included in the test year in the amount of \$4,180,798. These
18 storm amortization expenses resulted from prior storm expenses that were deferred to a
19 regulatory asset account and are currently being recovered through the Storm Rider.
20 Second, the Company reduced the test year level of actual storm expense by \$864,564 in
21 order to bring the base rate level of storm expenses back down to \$2,739,595. This was
22 the base rate level set in the prior two rate cases, Cause Nos. PUD 200800398 and PUD
23 201100087. The total adjustment to storm expense is a decrease of \$5,045,362.

24
25 **Q. Please explain WP H 2-30, *pro forma* adjustment to Southwest Power Pool ("SPP")
26 related expense.**

27 A. This adjustment results from updated SPP and NERC fees, including the SPP
28 Administrative fee, which will be paid by OG&E by the end of 2015. OG&E proposes
29 an increase to operating expenses of \$628,295 to account for these costs.

1 Q. **Please explain WP H 2-31, *pro forma* adjustment related to the amortization of the**
2 **pension regulatory liability.**

3 A. This adjustment consists of three separate components. First, *pro forma* pension
4 regulatory liabilities recorded in the rate base were amortized over a two year period.
5 This amortization results in a credit to customers of \$3,784,336. Second, the
6 amortization for July 2014 related to the last rate case was removed. Removal of this
7 amortization amount increases expenses by \$929,506. Third, pension amortization
8 related to the Arkansas jurisdiction was also removed, resulting in a decrease of
9 \$298,828. The total net *pro forma* adjustment is a credit to customers of \$3,153,658.

10
11 Q. **Please explain WP H 2-32, *pro forma* adjustment to customer service expense.**

12 A. This adjustment is an increase to operating expenses for costs related to outside services
13 for the call center. The call center operations model OG&E had utilized in the past
14 consisted of all in-house employees, with 9 management level members and 108 call
15 center representatives. The new model OG&E has implemented will consist of an
16 outside service call center team of 15 representatives, along with an OG&E team of 7
17 management level members and 93 call center representatives. This new model will
18 allow OG&E to achieve an increase in the ability to respond to customer calls in 30
19 seconds or less.

20
21 Q. **When will costs be incurred for the new outside service contract?**

22 A. The new contract was signed in September 2015 and the contract cost will start being
23 paid in December 2015. Reductions in OG&E staffing will occur through attrition by
24 December 31, 2015. The cost for the contract needs to be reflected in base rates in order
25 to match the savings associated with reduced staffing levels that will occur during the *pro*
26 *forma* period with contract costs that will also begin during the *pro forma* period. The
27 *pro forma* adjustment is an increase to expenses of \$678,600.

1 Q. **Please explain WP H 2-33, *pro forma* adjustment to transmission expenses recovered**
2 **from load serving entities (“LSE’s”).**

3 A. This adjustment coincides with rate base adjustment B 3-12. The revenue requirement
4 associated with regionally allocated transmission plant and expense will be assigned to
5 other LSEs around the SPP. This adjustment reduces operating expenses for O&M
6 expense, administrative and general expense, depreciation, and taxes other than income
7 related to those regionally allocated transmission projects. Similar to WP B 3-12, the
8 percentage allocated to other LSE’s was derived from the FERC Transmission Formula
9 Rate True-Up Adjustment for the 2014 rate year. This *pro forma* adjustment is a
10 decrease to expenses of \$33,006,737.

11
12 Q. **Please explain WP H 2-34, *pro forma* adjustment for SPP Costs recovered elsewhere.**

13 A. This adjustment simply removes SPP costs that are recovered outside of base rates.
14 Schedule 11 Base Plan Fees paid to others that are currently being recovered through the
15 Southwest Power Pool Cost Tracker (“SPPCT”) were removed since these costs are
16 recovered through the SPPCT. This results in a decrease to O&M of \$38,870,067. Also,
17 SPP fees directly charged to certain customers were also removed, which amounts to
18 \$474,235. The total *pro forma* adjustment is a decrease of \$39,344,302.

19
20 Q. **Please explain WP H 2-35 and H 2-49, *pro forma* adjustments for regulatory asset**
21 **amortization.**

22 A. Both of these adjustments amortize regulatory assets that have been previously
23 authorized by Commission Orders. WP H 2-35 amortizes regulatory assets associated
24 with the cost of consulting fees for intervening parties in certain Oklahoma Corporation
25 Commission cases. The costs amortized are for the OSU Wind Project independent
26 evaluator, the 2012 IRP independent evaluator, and the fees for consultants hired by the
27 PUD Staff and the Attorney General in the recent environmental case. The total for these
28 costs amounts to \$831,865. OG&E proposes a two year amortization period resulting in
29 an increase to operating expense of \$415,932. WP H 2-49 incorporates the Commission
30 approved Red Rock Regulatory Asset amortization into the revenue requirement, while

1 also removing miscellaneous amortizations from the Arkansas jurisdiction. The net
2 impact of this adjustment is a decrease to operating expenses of \$7,173.

3
4 **Q. Please explain WP H 2-36, *pro forma* adjustment to remove Fuel Adjustment Clause**
5 **(“FAC”) related costs.**

6 A. This adjustment removes all fuel and purchased power costs from the test year, with the
7 exception of cogeneration capacity payments related to cogeneration contracts with AES
8 and Oklahoma Cogeneration. OG&E proposes removing all fuel expenses from the test
9 year (except the capacity payments) and including those costs in the FAC rider. This
10 adjustment removes \$860,548,419 from operating expenses while leaving \$82,755,933 in
11 base rates for the cogeneration capacity payments.

12
13 **Q. Please explain WP H 2-37, *pro forma* adjustment to remove certain non-recoverable**
14 **items.**

15 A. This adjustment removes costs related to entertainment, gifts, donations/sponsorships,
16 and legislative advocacy expenses that were included in various “above the line” FERC
17 accounts (accounts included in the test year). OG&E proposes a decrease to operating
18 expenses of \$859,568.

19
20 **Q. Please explain WP H 2-38, *pro forma* adjustment to remove intracompany SPP fees.**

21 A. An adjustment is necessary to eliminate expenses received by OG&E from the SPP for
22 network transmission service provided by OG&E. The FERC has provided guidance to
23 the industry that while these are intra-company charges and are normally eliminated in
24 accordance with GAAP, they should be reflected gross in the FERC Form 1. This
25 adjustment decreases expenses by \$125,735,155. The removal of the associated revenues
26 is reflected in WP H 2-16 for the same amount.

27
28 **Q. Please explain WP H 2-39, *pro forma* adjustment to customer deposit interest.**

29 A. This adjustment includes interest expense based on year-end customer deposits that are
30 deducted from rate base as non-investor supplied capital. This expense is not included in
31 the utility operating expense category as reported in FERC Form 1 and should therefore

1 be included in the revenue requirement calculation. This adjustment is consistent with
2 the Commission's treatment of interest paid on customer deposits in prior utility rate case
3 proceedings. This results in an increase of \$1,218,873.
4

5 **Q. Please explain WP H 2-40, *pro forma* adjustment to remove certain advertising**
6 **expense.**

7 A. Title 17, Section 180 of the Oklahoma Statutes defines the advertising expenses that may
8 be included by a public utility in its operating expenses for ratemaking purposes. OG&E
9 excluded expenses that did not meet the statutory definition. This results in a *pro forma*
10 adjustment reducing expenses by \$687,383.
11

12 **Q. Please explain WP H 2-41, *pro forma* adjustment to include smart grid related**
13 **amortization.**

14 A. Pursuant to Commission Order No. 576595 issued in Cause No. PUD 201000029, OG&E
15 was allowed to accrue a regulatory asset for costs related to stranded meters and the
16 Smart Grid Web Portal. The test year ending balance of the regulatory asset associated
17 with both items is \$34,329,676 and \$6,127,104 respectively. The Commission order
18 authorized a six year amortization of these costs. The result is an increase to operating
19 expenses of \$5,721,613 for stranded meters and \$1,021,184 for the web portal. The total
20 increase is \$6,742,797.
21

22 **Q. Please explain WP H 2-42, *pro forma* adjustment to include rate case expenses.**

23 A. The costs reflected in this adjustment are estimates of the expenses the Company expects
24 to incur in this current rate case. The Company included a two year amortization of the
25 cost. This adjustment increases operating expenses by \$580,000.
26

27 **Q. Please explain WP H 2-44, *pro forma* adjustment to wind power expense.**

28 A. This adjustment removes \$886,310 of wind power education expense that was incurred
29 during the test year. Of this total, \$750,000 of wind power education costs were
30 recovered through the Green Power Wind Rider ("GPWR"). The remaining balance of
31 \$136,310 included in the test year is not being requested for recovery.

1 Q. **Please explain WP H 2-46, *pro forma* adjustment related to power supply utility**
2 **expense.**

3 A. This adjustment is for an increase in the water cost associated with the operation of the
4 Redbud Power Plant. Water costs for Redbud have been increasing due to increased
5 utilization of the plant. The Company proposes a *pro forma* adjustment of \$196,404 to
6 account for this increase expected to occur by the end of the *pro forma* period.

7

8 Q. **Please explain WP H 2-48, *pro forma* adjustment to include acquisition adjustment**
9 **amortization.**

10 A. An acquisition adjustment is based on the difference between the purchase price of an
11 asset and its original cost. This *pro forma* adjustment is primarily related to the
12 acquisition adjustment for the Redbud Power Plant. This amortization is the equivalent
13 of depreciation expense for the acquisition premium associated with the plant purchase.
14 This adjustment increases operating expenses by \$5,567,337.

15

16 Q. **Please explain WP H 2-50, *pro forma* adjustment for underground vault expenses.**

17 A. This adjustment includes incremental labor and other costs related to the inspection and
18 maintenance of new protection equipment installed in underground vaults and manholes.
19 OG&E recognized a gap in the safety, maintenance, and inspection of underground vaults
20 and manholes located in OG&E's service territory. After a study showed there was no
21 flame retardant clothing available that rated high enough to protect our members from the
22 energy resulting from equipment failures within these vaults, network protectors were
23 installed at several locations throughout the OG&E system. This adjustment increases
24 operating expenses by \$455,873 to account for inspection and maintenance costs for
25 these new network protectors.

26

27 Q. **Please explain WP H 2-51, *pro forma* adjustment for FERC Reclassification.**

28 A. This adjustment simply reclassifies, or moves, costs between FERC accounts during the
29 test year. The net effect of this adjustment is zero. Maintenance expenses classified
30 under account 596 were moved to account 593, and informational expenses classified
31 under account 911 were moved to account 909. This adjustment reclassifies certain costs

1 to their proper FERC account so that they may be properly assigned in the cost of service
2 study.

3
4 **Q. Please explain WP H 2-52, pro forma adjustment to remove the cost of consumables.**

5 A. This adjustment removes current environmental consumable costs incurred during the test
6 year. The Company proposes recovery of existing consumable costs as well as the
7 consumable costs associated with Activated Carbon Injection (“ACI”) equipment that
8 will begin in 2016 on a going forward basis. This adjustment removes \$268,995 in
9 existing consumable expense from the test-year period for the cost of ammonia at the
10 Redbud Power Plant. Please see the direct testimony of Donald R. Rowlett for further
11 discussion on recovery of this cost.

12
13 **REPORTING REQUIREMENTS**

14 **Q. Please state the Commission ordered requirements for the SPPCT per Cause Nos.**
15 **PUD 201000146 and PUD 201100087.**

16 A. The Commission Order in Cause No. PUD 201000146, page 5, section 11 stated the
17 Commission will submit testimony regarding the following: (i) identifying each of the
18 third party upgrades and facilities that were constructed and included in the Third Party
19 Owned Transmission Costs recovered from Oklahoma retail customers during 2011 and
20 2012; (ii) demonstrating that the amounts recovered under its SPP Cost Tracker during
21 2011 and 2012 were eligible for recovery, properly calculated, and appropriately
22 allocated to rate classes; and (iii) demonstrating that the costs of such upgrades and
23 facilities were included in FERC approved rates and allocated under a SPP cost allocation
24 methodology, and incurred by OG&E during 2011 and 2012. Also, per the SPPCT tariff
25 approved in the last rate case, the SPPCT will be reviewed for the purposes of extension,
26 modification or termination and the Company will address the reasonableness of SPP
27 Expenses collected through the SPPCT during 2011 and 2012.

28
29 **Q. What type of cost does the SPPCT recover from ratepayers on an annual basis?**

30 A. This rider recovers the cost associated with SPP Schedule 11 Base Plan fees, which fees
31 are charged by the SPP for OG&E’s allocated share of the transmission investment made

1 by third parties. SPP's regional cost allocation mechanisms have been approved by the
2 Federal Energy Regulatory Commission ("FERC"). SPP utilizes FERC approved
3 transmission rates and cost allocation methodologies to charge OG&E for costs
4 associated with transmission projects constructed and owned by other transmission
5 owners.

6
7 **Q. What has OG&E done to meet the ordered requirements of the SPPCT stated**
8 **above?**

9 **A.** OG&E had filed testimony and annual reports under Cause No. PUD 201100087 in 2012,
10 2013, 2014, and 2015. Those filings included specific reporting requirements mentioned
11 in the joint stipulation of the previous rate case. Those requirements included the identity
12 of third party transmission owners, a description of their specific construction projects,
13 cost estimates and resulting actual costs for each project, description of cost benefits to
14 customers and the regional grid, and the calculation of the revenue requirement along
15 with the allocation and customer impact to rate classes. OG&E believes the information
16 included in those annual filings provides sufficient information to meet the requirements
17 of the Commission Orders in Cause Nos. PUD 201100087 and 201000146.

18
19 **Q. Does this conclude your testimony?**

20 **A.** Yes.