

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

FILED
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CORPORATION COMMISSION
OF OKLAHOMA

Rebuttal Testimony

of

Jason J. Thenmadathil

on behalf of

Oklahoma Gas and Electric Company

April 11, 2016

Jason Thenmadathil
Rebuttal 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. **Are you the same Jason Thenmadathil who filed direct testimony in this Cause?**

6 A. Yes.
7

8 Q. **What is the purpose of your rebuttal testimony?**

9 A. The purpose of my testimony is to discuss certain adjustments made by Commission
10 Public Utility Division Staff ("PUD" or "Staff"), the Attorney General ("AG"),
11 Oklahoma Industrial Energy Consumers ("OIEC"), and Oklahoma Energy Resources
12 ("OER") to the Company's rate base and income statement. Specifically, those
13 associated with *pro forma* adjustments: WP B 3-11 plant held for future use, WP H 2-42,
14 rate case expense, WP H 2-27 regulatory expense, WP H 2-23 payroll expense, and WP
15 H 2-37 dues & donations. I will also address an issue associated with outside services.
16

17 RATE BASE

18 Q. **Please explain the Company's adjustment for plant held for future use.**

19 A. In keeping with the methodology used in the Company's prior two rate cases, Cause Nos.
20 PUD 201100087 and PUD 200800398, the Company removed \$1,012,307 from the test
21 year for any plant held for future use with an acquisition date older than ten (10) years
22 from the test year.
23

24 Q. **Did other parties agree with the Company's standard adjustment in this Cause?**

25 A. Yes. Staff witness Thompson agreed with the Company's methodology and updated the
26 adjustment to six-months-post-test-year, December 31, 2015.

1 Q. **Did OIEC/OER and the AG agree with the Company's methodology?**

2 A. No. AG witness Farrar, and OIEC/OER witness Garrett both recommend complete
3 removal citing that the assets are not used and useful at the present time. While the
4 Company agrees that these costs do not represent current plant in service, purchasing
5 such future use plant provides a cost savings to customers.

6
7 Q. **Why should a return on plant held for future use be included in rates?**

8 A. These assets were purchased based on long-range planning considerations for the benefit
9 of the Company's customers. They were acquired so that the best-situated land will be
10 available when needed in the future. This is based on the principle that purchasing real
11 estate in advance mitigates the risk of higher real estate costs. In addition, failure to
12 purchase the best locations in advance, particularly in growth areas, creates risk of higher
13 costs associated with rerouting of transmission lines and access easements to build
14 substations.

15
16 Q. **Was future use plant allowed by the Oklahoma Corporation Commission in Cause
17 No. PUD 200500151?**

18 A. Yes. On page 87 of Order No. 516261, it states that "Based upon the record herein, the
19 Commission adopts the Company's position and allows \$919,633 as plant held for future
20 use in the rate base of the Company."

21
22 Q. **Does the Company believe that the requested methodology is a compromise?**

23 A. Yes. While the Company believes that all of the plant held for future use is purchased for
24 the benefit of customers, this methodology represents a compromise between the
25 positions of all parties by not requiring customers to pay for future use plant acquired
26 more than 10 years ago.

27
28 INCOME STATEMENT

29 Q. **Please explain the Company's adjustment based on WP H 2-42 for rate case
30 expense.**

31 A. The Company's initial adjustment was for costs it anticipates incurring over the course of

1 the rate case. Currently, the Company has provided updates through February of 2016.
2 Consistent with past practice, the Company will update rate case expenses to reflect
3 actual costs incurred prior to the issuance of a final order. This is also consistent with the
4 recommendation of Staff witness Patel.

5
6 **Q. Does the Company agree with the Staff's recommendation to remove witness
7 development training costs from rate case expenses?**

8 A. No. These costs are reasonable employee training expenses associated with presenting a
9 rate case and are integral in performing the job functions of a regulatory staff member.
10 The training associated with witness development consists of multi-day practice sessions
11 to aid in the development of witness skills. This training includes teaching a witness to
12 explain technical terms in a way that can be better understood and to be helpful to the
13 Commissioners in making an informed decision

14
15 **Q. Please discuss the Company's adjustment based on WP H 2-27 for regulatory
16 expenses.**

17 A. As discussed in my direct testimony, this adjustment is comprised of three adjustments:
18 the normalization of regulatory cost based on a two (2) year average, the removal of the
19 Annual Public Utility Assessment Fee, and the removal of any remaining amortization
20 related to the prior rate case.

21
22 **Q. Does the Company agree with Staff's removal of rate case expenses from the
23 regulatory expense adjustment?**

24 A. Yes. Rate case expenses for the current cause were inadvertently included in this
25 adjustment in the Company's initial filing.

26 **Q. Do you also agree with Staff's recommended removal of regulatory costs associated
27 with the environmental case filed under Cause No. PUD 201400229?**

28 A. No. Staff witness Patel recommended the removal of environmental consulting fees from
29 the two (2) year average calculation, basing this recommendation on Staff's interpretation
30 of the Commission's order in Cause No. PUD 201400229, which denied cost recovery

1 associated with environmental projects. However, the order in Cause No. 201400229 did
2 not preclude recovery completely. On page 16-17, the order provided that these costs
3 “can be better reviewed and determined in a full rate case”. In other words, cost recovery
4 for the preparing, filing, and presentation of the environmental case should be reviewed
5 in this proceeding. To my understanding, the Staff did not question the prudence of
6 incurring these costs.

7
8 **Q. Please explain the adjustment for payroll expense.**

9 A. Payroll items were annualized based on employees and wage levels during the last full
10 two-week pay period in June 2015. This was calculated by multiplying payroll levels
11 during the June pay period by 26 (the number of pay periods in the year), resulting in the
12 annualized level. The adjustment then increased payroll to account for end of year
13 employee raises. After consideration of payroll taxes, this amounted to a total increase to
14 expenses of \$6,047,223.

15
16 **Q. Did the AG annualize payroll expenses using December 31, 2015 information?**

17 A. Yes, the AG annualized payroll utilizing information provided in the response to AG data
18 request 2-11. In this response, pay rates per employee as of December 31, 2015 were
19 annualized to arrive at updated payroll levels using the six month pro forma period. The
20 Company accepts the AG’s adjustment to payroll.

21
22 **Q. Did Staff and OIEC agree with the Company’s *pro forma* adjustment for payroll
23 expenses?**

24 A. No. Staff witness Rush and OIEC witness Garrett both disagree with the annualization
25 method the Company used and recommend using actual payroll levels at December 31,
26 2015, which Staff and OIEC believe are more representative of an ongoing level of
27 payroll expense.

1 Q. **Why do you believe that annualization in the manner recommended by OG&E and**
2 **the AG is appropriate?**

3 A. Annualization is a necessary practice in traditional ratemaking. For example,
4 depreciation rates are multiplied by pro forma plant levels to calculate, or annualize, an
5 expense level that more accurately reflects anticipated costs. It recognizes that some
6 action occurred during the pro forma year that will be ongoing and must be captured on a
7 prospective basis. Another example is the customer growth adjustment to revenues
8 recommended by the AG and the OIEC/OER. This adjustment updates pro forma
9 revenue to account for customer growth that occurred during the six-month-post-test-
10 year. Similar to depreciation, this adjustment does not depict the actual level of revenues
11 during the calendar year 2015, but rather applies kWh usage rates to the actual customer
12 count as of December 31, 2015, thereby effectively annualizing revenues. Similarly, the
13 payroll adjustment is necessary to increase, or annualize, payroll costs to a level
14 reflecting the pro forma employee and salary levels for a full year. Finding that there is
15 not a substantial change in payroll costs when comparing the actual test year level to the
16 actual pro forma period level does not justify abandoning the traditional methodology.
17 The annualization methodology takes into account the actual level of employees and their
18 associated pay rate during the final pay period, thereby considering all employee
19 additions, retirements, and pay-raises within the six-month-post-test-year.

20
21 Q. **Is OG&E alone in its belief that annualization is appropriate?**

22 A. No. Though he seems to change his view in this Cause, OIEC witness Garrett has
23 supported annualization in OG&E's last three (3) general rate cases¹. Mr. Garrett's prior
24 stance on payroll annualization is cited below:

25 • Cause No. PUD 200500151, Responsive Testimony of Mark E. Garrett, page 37 lines
26 19-22

27 "…I annualized the payroll levels at 6-30-05. I then compared the
28 6-30-05 annualization with the Company's annualization at test
29 year end (the Company's first adjustment) to determine the actual
30 increase in payroll costs that occurs from test year end through 6-
31 30-05."

¹ Cause Nos. PUD 200500151, 200800398, and 201100087.

- 1 • Cause No. PUD 200800398, Responsive Testimony of Mark E. Garrett, page 37 lines
2 1-12

3 “The first adjustment, which annualizes payroll costs at test year
4 end, should be updated to annualize payroll costs at the end of the
5 statutory 6-month post test year period, March 31, 2009. This
6 approach has been used by the Commission in the past because it
7 satisfies the 6-month rule and more closely aligns payroll levels
8 with the updated plant levels at the end of the 6-month post test
9 year period. I believe the payroll levels at the end of the 6-month
10 period should be used for the payroll annualization if they
11 represent a genuine change in payroll costs. Understandably, the
12 Company did not have the information available to make this
13 adjustment when it filed its case. It has, however, now re-
14 calculated the annualization at March 31, 2009. The Company’s
15 re-calculated annualization at March 31, 2009 should be used
16 unless it can show that the March 31 payroll costs are not
17 representative of the payroll levels that will exist during the rate-
18 effective period.”

- 19
20 • Cause No. PUD 201100087, Responsive Testimony of Mark E. Garrett, page 36 lines
21 15-19 and page 37 lines 1-7

22 “The first adjustment, which annualizes payroll costs at test year
23 end, should be updated to annualize payroll costs at the end of the
24 statutory 6-month post test year period, June 30, 2011. This
25 approach has been used by the Commission in the past because it
26 satisfies the 6-month rule and more closely aligns payroll levels
27 with the updated plant levels at the end of the 6-month post test
28 year period. I believe the payroll levels at the end of the 6-month
29 period should be used for the payroll annualization if they
30 represent a genuine change in payroll costs. Understandably, the
31 Company did not have the information available to make this
32 adjustment when it filed its case. It has, however, now re-
33 calculated the annualization at June 30, 2011. The Company’s re-
34 calculated annualization at June 30, 2011 should be used unless it
35 can show that the June 30 payroll costs are not representative of
36 the payroll levels that will exist during the rate-effective period.”
37

- 38 Q. **Does OIEC/OER witness Garrett’s testimony in this Cause explain his departure**
39 **from his prior methodology?**
40 A. No. Witness Garrett gives no indication of why he chose to abandon his prior
41 methodology.

1 Q. **Did the Company agree with the Staff's adjustment for dues & donations?**

2 A. No. Staff witness Dodoo recommended disallowing fifty percent (50%) of the dues
3 OG&E pays for their Chamber of Commerce and other miscellaneous memberships.
4 Witness Dodoo based this recommendation on the belief that both customers and
5 shareholders are benefitted by these memberships and as such, should share in the cost.

6

7 Q. **Do you agree with witness Dodoo's recommendation?**

8 A. No. Memberships in organizations such as the Chamber of Commerce allow the
9 Company to be involved in the various communities it serves. Chamber events allow
10 OG&E to be engaged in our communities in ways that provide a means for the
11 community as well as the company to promote, educate, and retain businesses in the
12 many cities and towns we serve. This direct involvement helps communities to attract
13 new business, thereby spreading costs to additional consumers and lowering cost per
14 customer due to savings from economies of scale.

15

16 Q. **Did OG&E make an error in its outside services calculation?**

17 A. Yes. The Company made an error regarding outside services, specifically related to
18 certain legal service costs. In response to a question from Staff's audit of the Company's
19 books and records, it was discovered by the Company that shareholder association legal
20 fees were included in the cost of service. Since the shareholder's association is a
21 shareholder advocacy group, all legal fees associated with this group should be removed
22 from customer expenses and assigned to the shareholders. As noted in the Company's
23 response to data request AG 26-2, the amount of these legal fees was \$275,725. In
24 addition, \$20,063 of legal fees associated with legislative advocacy should also be
25 removed. In total, \$295,788 should be removed from the test year.

26

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

28 A. Yes.