

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR AN ORDER OF THE COMMISSION)
AUTHORIZING APPLICANT TO MODIFY ITS)
RATES, CHARGES, AND TARIFFS FOR RETAIL)
ELECTRIC SERVICE IN OKLAHOMA)

CAUSE NO. PUD 201700496

FILED
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CORPORATION COMMISSION
OF OKLAHOMA



RESPONSIVE TESTIMONY OF

ZACHARY QUINTERO

MAY 2, 2018

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INTRODUCTION

Q: Please state your name and your business address.

A: My name is Zachary Quintero. My business address is Oklahoma Corporation Commission, Public Utility Division, Jim Thorpe Building, Room 580, 2101 North Lincoln Boulevard, Oklahoma City, Oklahoma 73105.

Q: What is your occupation and who employs you?

A: I am a Public Utility Regulatory Analyst employed by the Public Utility Division (“PUD”) of the Oklahoma Corporation Commission (“OCC” or “Commission”).

Q: How long have you been so employed?

A: I have been employed by the Commission since July 2017.

Q: Have you previously testified before the Commission and were your qualifications accepted?

A: Yes. I have previously testified before the Commission and my qualifications were accepted at that time.

Q: What are your duties and responsibilities with PUD?

A: I conduct research and perform comparative analysis of utility applications, reports, financial records, and workpapers to ensure that PUD can make accurate, fair, just, and

1 reasonable recommendations. For a complete list of my work history and educational
2 background, please review the attached curriculum vitae.¹

3 **PURPOSE**

4 **Q: What is the purpose of your Responsive Testimony regarding the Application of**
5 **Oklahoma Gas and Electric (“OG&E” or “Company”), an Oklahoma Corporation,**
6 **for an order of the Commission authorizing the Company to modify its rates,**
7 **charges, and tariffs for retail electric service in Oklahoma, as filed in Cause No. PUD**
8 **201700496?**

9 A: The purpose of this Responsive Testimony is to present PUD’s recommendations
10 regarding OG&E’s Cash Working Capital, Accumulated Deferred Income Tax, Deferred
11 Tax Regulatory Liability, Property / Ad Valorem Tax Expense, Interest Synchronization,
12 and Federal and State Income Taxes. I have also prepared and filed PUD’s Accounting
13 Exhibit which demonstrates the impact of all PUD recommended adjustments to the
14 Company’s proposed Revenue Requirement as initially filed.

15 **EXECUTIVE SUMMARY**

16 On January 16, 2018, Oklahoma Gas and Electric (“OG&E” or “Company”), filed its
17 Application for an order of the Commission authorizing the Company to modify its rates,
18 charges, and tariffs for retail electric service in Oklahoma. The Public Utility Division
19 (“PUD”) reviewed the Application, as well as the testimony and sponsored exhibits of
20 Company witnesses. In addition, PUD reviewed data requests and responses between all
21 parties in this Cause and conducted onsite audits at the Company’s corporate office in

¹ Exhibit ZJQ-1.

1 Oklahoma City, Oklahoma. The impacts of all PUD adjustments to OG&E's proposed
2 Revenue Requirement have been incorporated into PUD's Accounting Exhibit prepared by
3 this witness.

4 After review of Accumulated Deferred Income Taxes ("ADIT"), Cash Working Capital
5 ("CWC"), Property / Ad Valorem Tax Expense, Interest Synchronization, and Current
6 Income Tax Expense, PUD recommends the Commission accept the following adjustments:

- 7 • **Rate Base ADIT:** PUD recommends an adjustment to update ADIT to the six-
8 month post test year balance as of March 31, 2018. PUD's recommended
9 adjustment will increase ADIT, resulting in a decrease to Rate Base of \$16,837,746.
- 10 • **ADIT Amortization:** PUD recommends an adjustment to increase the amount of
11 amortized ADIT to the six-month post test year amount as of March 31, 2018. This
12 results in a reduction of \$24,980,135 to OG&E's Operating Income.
- 13 • **Cash Working Capital:** PUD recommends an adjustment to CWC to reflect all of
14 PUD's recommended changes to the expenses included within the CWC calculation.
15 PUD's recommended adjustment will decrease OG&E's pro forma CWC included
16 in Rate Base by \$222,178.
- 17 • **Property / Ad Valorem Tax Expense:** PUD recommends an adjustment to current
18 Property / Ad Valorem Taxes to reflect PUD's recommended adjustments to the net
19 plant in service and actual booked expenses as of the six-month post test year of
20 March 31, 2018, resulting in an increase of \$638,746.
- 21 • **Interest Synchronization:** PUD recommends an adjustment to interest expense
22 within the income tax calculation to reflect changes to the rate of return and Rate
23 Base. Interest Synchronization is a method that provides an interest expense
24 deduction for regulatory income tax purposes equal to the ratepayers' contribution to
25 OG&E for interest expense coverage. PUD recommends reducing the Company's
26 interest expense in the amount of \$697,090. The effect on the Revenue Requirement
27 is included below, in the Current Income Tax Expense recommended adjustment.
- 28 • **Current Income Tax Expense:** PUD recommends an adjustment to reduce
29 OG&E's pro forma Current Income Taxes. PUD recommends net adjustments
30 decreasing OG&E's pro forma operating income before income taxes, and therefore,
31 the income taxes are reduced. PUD's recommended adjustment to Current Income
32 Tax Expense is a reduction of \$19,486,071.

PUD'S REVIEW PROCESS

Q: Please explain PUD's review process in this Cause.

A: PUD reviewed the Application, Direct Testimonies, schedules, workpapers, and sponsored exhibits filed by the Company. In addition, PUD reviewed OG&E's prior workpapers, testimonies, and sponsored exhibits, along with Final Order No. 662059 in Cause No. PUD 201500273. PUD also reviewed the data requests and responses issued by all parties. Lastly, PUD conducted onsite audits at the Company's corporate office in Oklahoma City, Oklahoma. During the onsite audits, PUD reviewed confidential information and conducted interviews with Company witnesses who manage and perform the functions under review.

Q: Were there any areas you reviewed for which no adjustment was proposed and no adjustment is recommended?

A: Yes. For the purpose of this testimony, PUD reviewed the Lead-Lag Study utilized by the Company to calculate its CWC and the treatment of ADIT subject to refund as a result of Order No. 671982 in Cause No. PUD 201700569. PUD recommends no adjustments as a result of this review.

Q: What are six-month post test year updates?

A: Oklahoma statute² allows any known and measurable change occurring during the six months following an applicant's test year to be considered in the ratemaking process. OG&E provided updates on April 17, 2018,³ to the balances which occurred during this

² 17 O.S. Sec. 284.

³ OG&E Supplemental Data Response to Data Request AG 12-3.

1 time period on the same Rate Base and expense items originally filed in its Application.
2 PUD analysts then reviewed this information and made recommendations in their
3 Responsive Testimonies concerning OG&E's updated balances. These same
4 recommendations are included in PUD's Accounting Exhibit.

5 PUD'S ACCOUNTING EXHIBIT

6 **Q: Please list the schedules ("Sch.") included in PUD's Accounting Exhibit.**

7 A:

- 8 • Sch. A PUD Revenue Requirement;
- 9 • Sch. B-1 PUD Pro Forma Rate Base;
- 10 • Sch. B-2 PUD Adjustments to Rate Base;
- 11 • Sch. B-3 Explanation of PUD Adjustments to Rate Base;
- 12 • Sch. E Cash Working Capital;
- 13 • Sch. F Capital Structure;
- 14 • Sch. H-1 PUD Pro Forma Operating Income Statement;
- 15 • Sch. H-2 PUD Operating Income Statement Adjustments;
- 16 • Sch. H-3 Explanation of PUD Adjustments to the Operating Income Statement;
- 17 • Sch. J-1 PUD Pro Forma Calculation of Taxable Income;
- 18 • Sch. J-2 Interest Synchronization Calculation;
- 19 • Sch. J-3 Adjustments to Current Income Tax Expense; and
- 20 • Summary of PUD Adjustments.

21 **Q: What is PUD's total recommended Revenue Requirement?**

22 A: PUD recommends a \$1,246,752,202 Revenue Requirement for the total Company and a
23 \$1,138,834,156 Revenue Requirement for the Oklahoma jurisdiction. This amounts to a
24 \$51,686,499 total Company decrease and a \$44,939,592 Oklahoma jurisdictional decrease
25 to the Company's requested Revenue Requirement in its Application.

1 **Q: What is the major component of PUD's recommended reduction in revenue?**

2 A: While there were multiple Rate Base and Operating Expense adjustments recommended by
3 PUD, the most significant cause of the decrease to Revenue Requirement is PUD's
4 recommended Return on Equity of 8.75%. The Cost of Capital change is approximately
5 \$42M of the \$51M total Company decrease. This recommendation is explained in the
6 Responsive Testimony of PUD witness Geoffrey Rush.

7 **CASH WORKING CAPITAL**

8 **Q: Please explain CWC.**

9 A: CWC is commonly defined as the level of net cash investment required to fund the timing
10 difference between when the utility pays the necessary costs associated with providing
11 service to customers and the time the Company recovers those costs through customer
12 bills.

13 To clearly define CWC, PUD must first define the term "working capital." A general
14 definition of "working capital" is the average amount of capital or money provided by
15 investors to the Company, over and above any investment in plant and other specifically
16 identified Rate Base items, to bridge the gap between the time expenditures are required
17 to provide service and the time collections are received for such service.

18 For ratemaking purposes, working capital is not a measure of liquidity at a point in time,
19 but represents a level of required investment that must be maintained on a continuing
20 basis in order for the utility to continue to provide reliable and safe service to its

1 customers. The general components of working capital include fuel, payroll, other
2 Operating and Maintenance expenses, and taxes. The Company calculates its requested
3 amount of CWC based upon its requested expenses in these areas. During a rate
4 proceeding, these areas are reviewed by PUD analysts. After any adjustments are made
5 to those expenses and inventories, the amount of CWC necessary for the Company to
6 maintain continuing operations is recalculated.

7 **Q: Please explain what methods exist for calculating a utility's CWC requirement.**

8 A: Three primary techniques can be utilized to determine a utility's CWC requirement: (1)
9 utilization of the 45-day Standard Formula Approach; (2) utilization of the Balance Sheet
10 Approach; and (3) the performance of a Lead-Lag Study. None of these three methods
11 will produce an allowance that is a precise measure of CWC. However, the objective of
12 the CWC requirement determination should be to arrive at an allowance level that is
13 reasonable, does not contain obvious defects, and which is not so time-consuming to
14 compute that the cost exceeds the benefits of arriving at what may be perceived as a more
15 accurate determination.

16 **Q: Please provide a brief description of the 45-day Standard Formula Approach for**
17 **determining a utility's CWC allowance.**

18 A: As the name implies, the 45-day Standard Formula Approach uses a simple formula for
19 the calculation of a utility's CWC requirement. For an electric utility, the formula is
20 generally based on $1/8$ ($45/365$ days = $1/8$) of annual Operating and Maintenance
21 Expenses, exclusive of Generating Fuel and Purchased Power Costs. This Formula is

1 often used by the Commission for smaller utilities that do not have a sophisticated cash
2 management department. For a smaller utility, the cost and time required to perform a
3 more detailed CWC analysis would not be a cost-effective undertaking.

4 However, the 45-day Standard Formula Approach has several disadvantages. First, the
5 formula always provides a positive CWC allowance and this may not be necessary
6 depending on a utility's cash flow. Second, the formula method is not a tailored
7 approach – that is, it is not based upon a specific analysis of a company's cash receipt and
8 cash payment patterns.

9 **Q: Please provide a brief description of the Balance Sheet Approach for determining a**
10 **utility's CWC allowance.**

11 A: The Balance Sheet Approach generally involves preparing a 13-month average of all
12 balance sheet amounts. After eliminating separately identified Rate Base items, such as
13 plant and inventory investment balances and capital accounts, assets are compared with
14 liabilities. Under this approach, assets are requirements for CWC, and liabilities are
15 offsets.

16 The Balance Sheet Approach is not widely used by regulatory agencies. This method
17 fails to consider that a number of items included in current liabilities are investor-
18 supplied capital (such as accrued interest) or are applicable to non-utility activities. In
19 addition, the Balance Sheet Approach considers only account balances reflected at the
20 end of each monthly accounting period. Thus, it does not specifically address the

1 relationship that exists between assets and liabilities on a daily basis. Finally, the month-
2 end balance of a specific account, such as supplies, may have very little relevance to the
3 level of activity passing through the account during the month. In other words, this
4 method does not adequately track actual CWC requirements of the utility.

5 **Q: Please explain the Lead-Lag Study method of calculating a utility's CWC allowance.**

6 A: A Lead-Lag Study measures the differences in the time frames between: (1) the period of
7 time services are rendered and the period of time the revenues for those services are
8 received; and (2) the period of time that labor, materials, and services used in providing
9 services are incurred and the period of time they are paid. Any difference in these
10 periods is expressed in terms of days. The number of days, multiplied by the average
11 daily Operating Expense level for each expense category included in the calculation,
12 produces the CWC required to support operations.

13 While performing a Lead-Lag Study is time-consuming, PUD prefers to rely upon this
14 methodology for determining a utility's CWC requirement when possible. The Lead-Lag
15 Study provides a CWC allowance level that is based upon a specific analysis of the cash
16 receipt and cash payment patterns of the company being reviewed, and does so on a daily
17 basis.

1 **Q: Does PUD agree with the Company's methodology and the net lead-lag days utilized**
2 **in Schedule E-1 of the Company's Application?**

3 A: Yes. PUD agrees with the methodology used by the Company and recommends using
4 the net lead-lag days reflected in Column F of OG&E's Schedule E-1. These same net
5 lead-lag days were used in PUD's Accounting Exhibit Sch. E.

6 **Q: Please explain the difference in the development of PUD's CWC allowance**
7 **recommendation and the CWC recommendation supported by OG&E.**

8 A: The primary difference between the two is that PUD's CWC allowance recommendation
9 is based on the pro forma Operating Expense levels recommended by PUD. OG&E
10 developed its CWC recommendation utilizing its own requested Operating Expense
11 levels. Since a utility's CWC requirement is generally a function of the level of
12 Operating Expenses requested, any change in the recommended Operating Expenses can
13 affect the resulting CWC recommendation. With all of PUD's adjustments considered,
14 PUD recommends reducing the Company's requested CWC allowance by \$222,178.
15 OG&E's ultimate CWC requirement will need to be recalculated after the Commission
16 reaches its decision with regard to which of the expense level adjustment
17 recommendations advocated by the parties to this Cause will be accepted.

18 **Q: Please describe the CWC allowance methodology used by PUD.**

19 A: OG&E and PUD included only cash Cost of Service items, which is traditionally
20 earmarked as requiring a CWC allowance in its calculation. Cash Cost of Service items
21 refer to the Cost of Service items requiring the actual outlay of cash during the current

1 accounting period. Depreciation expense, investment tax credits, and return on common
2 equity are traditionally not included in a CWC calculation.

3 **Q: Has the CWC calculation methodology recommended by PUD in this Cause**
4 **previously been accepted by this Commission?**

5 A: Yes. PUD recommended, and the Commission accepted, this CWC calculation
6 methodology in recent Oklahoma Natural Gas Company rate cases,⁴ PSO rate cases,⁵ and
7 OG&E rate cases.⁶

8 **Q: Was OG&E's last general rate case⁷ settled by stipulation of the parties?**

9 A: No. While Rate Design was settled, the Revenue Requirement was determined by the
10 Commissioners after a full hearing on the merits. The Commissioners accepted PUD's
11 CWC calculation methodology after deliberating the extensive testimony and cross-
12 examination presented regarding this question.

13 **Q: Were any of the other causes referenced above settled by stipulation of the parties?**

14 A: Yes. However, none of the issues addressed in the respective stipulation agreements
15 concerned PUD's recommended CWC adjustment or the CWC calculation methodology.

⁴ Cause No. PUD 200400610, Order No. 512297 and Cause No. PUD 201500213, Order No. 648326.

⁵ Cause No. PUD 201300217, Final Order No. 639314 and Cause No. PUD 201500208, Final Order No. 657877,
and Cause No. PUD 200500151, Final Order No. 516261.

⁶ Cause No. PUD 201500273, Final Order No. 662059.

⁷ Cause No. PUD 201500273.

INTEREST SYNCHRONIZATION

Q: Please define the term “Interest Synchronization.”

A: Interest Synchronization is a method that provides an interest expense deduction for regulatory income tax purposes equal to the ratepayers’ contribution to the company for interest expense coverage. Since a utility’s Revenue Requirement is partially driven by the application of a rate of return to the utility’s Rate Base investment, the company will recover from its ratepayers interest expense equal to the effective weighted cost of debt embedded in the weighted rate of return.

Q: Please explain Adjustment Line No. 1 on Sch. J-3 of PUD’s Accounting Exhibit.

A: This adjustment represents the change to OG&E’s income tax calculation relating to the synchronization of interest expense based upon the level of Rate Base and the cost of debt recommended by PUD.

Q: Did OG&E propose an Interest Synchronization adjustment in quantifying its income tax expense?

A: Yes. The interest expense amount shown on OG&E’s Schedule J-2 of the current Application was computed in this manner.

Q: Why is an Interest Synchronization adjustment necessary since OG&E has already adjusted its income tax for this expense?

A: The Interest Synchronization calculation developed by OG&E is based on both the Rate Base and cost of debt proposed by OG&E. Since PUD is recommending adjustments to

1 OG&E's Rate Base, it is necessary to also modify the Interest Synchronization
2 components of OG&E's income tax calculation to capture the impact of the adjustments
3 recommended by PUD. This will ensure the total interest expense is properly reflected in
4 rates on a going forward basis. PUD recommends reducing the Company's interest on
5 debt in the amount of \$697,090.

6 **CURRENT INCOME TAX EXPENSE**

7 **Q: Please explain PUD's recommended adjustment to Current Income Tax Expense in**
8 **Sch. H-1 of PUD's Accounting Exhibit.**

9 A: PUD's recommended adjustment is for the change in current tax expense resulting from
10 all of PUD's recommended adjustments affecting revenues and expenses. This
11 adjustment reflects the proper level of income taxes resulting from PUD's recommended
12 adjustments, Rate Base and Rate of Return, and recommended Revenue Requirement
13 deficiency. PUD recommends a decrease in the amount of \$19,486,071 for Income Tax
14 Expense. There is no sub-category adjustment related to this adjustment as it is directly
15 related to the amount of Operating Expense recommended for total tax due. To see the
16 impact of this change, refer to PUD Sch. H-1, Line 15.

17 **Q: How did OG&E address the reduction of federal corporate income taxes as a result**
18 **of the Tax Cuts and Jobs Act of 2017?**

19 A: OG&E calculated its income tax expense for the test year based on the applicable rate
20 during that time period, 35%. OG&E's proposed prospective revenue is based on the
21 new federal corporate tax rate of 21%. The Company's current base rates do not account

1 for the change in the tax rate which became effective January 1, 2018, so the Company is
2 placing the difference in a deferred tax regulatory liability as ordered in Cause No. PUD
3 201700569.⁸ The difference will offset other increases in base rates following the
4 implementation of new rates as a result of this Cause.

5 **ACCUMULATED DEFERRED INCOME TAXES**

6 **Q: What is ADIT?**

7 **A:** ADIT is a tax liability incurred in a present period but deferred for payment until a future
8 period based on a difference in timing caused by a divergence between a company's
9 approved asset lives. These lives are set in two ways. First, the Commission approves the
10 rate at which assets depreciate through public rate proceedings. When this depreciation rate
11 is set, the amount of related annual tax expense is passed on to ratepayers. Second, the
12 federal government determines depreciation rates of those same assets for tax purposes,
13 often allowing the Company to take advantage of accelerated depreciation in the beginning
14 of an asset's life, reducing its early tax expense.

15 For ratemaking purposes, OG&E will collect the normalized amount of tax expense for
16 those assets across their Commission-approved lives. In the early service years of those
17 assets, OG&E will collect a greater amount from customers than it is actually paying to the
18 federal government, but in later years it will use this surplus balance to pay the higher tax
19 expense once accelerated depreciation has ended.

⁸ Order No. 671982.

1 **Q: How did the Tax Cuts and Jobs Act of 2017 affect OG&E's current ADIT balance?**

2 A: The balance currently accrued is based on what the Company knew at the time rates were
3 set: the federal income tax rate was and would continue to be 35%. OG&E collected the tax
4 expense from ratepayers in accordance with this knowledge. Now that the tax rate is lower,
5 OG&E will only pay the taxable expense at a rate of 21%, and it now has over-collected
6 from ratepayers the necessary amount to pay those future taxes. The Company made Adj.
7 No. 14⁹ to its Rate Base in order to transfer the excess amount of ADIT from its current
8 balance to a deferred tax regulatory liability in compliance with Order No. 671982 in Cause
9 No. PUD 201700569. Pursuant to the same order, this amount will offset other changes in
10 the Company's Revenue Requirement, which may result in a rate reduction depending on
11 the Commission's final order in this Cause. This excess tax balance is currently more than
12 one billion dollars¹⁰ and represents a direct reduction to the Company's Rate Base.

13 **Q: Please explain PUD Adjustment No. B-7 as shown in Sch. B-3 of PUD's Accounting**
14 **Exhibit.**

15 A: PUD's Adjustment No. B-7 for ADIT is to update to the six-month post test year balance
16 as of March 31, 2018. PUD recommended an adjustment to update plant in service,
17 depreciation expense, and accumulated depreciation to the six-month post test year
18 balances. As ADIT is determined based upon these accounts, an adjustment to ADIT in
19 Rate Base as of the same date is warranted to ensure the same accounting period is
20 utilized in determining ADIT. This method is consistent with the method approved

⁹ Application, Sch. B-3,

¹⁰ Application, Sch. B-2, Lines 11 and 13.

1 by the Commission in prior OG&E causes.¹¹ PUD recommends an adjustment to ADIT
2 to decrease Rate Base by \$16,837,746.

3 **Q: How did OG&E address ADIT included in the deferred tax liability created as a**
4 **result of Order No. 671982 in Cause No. PUD 201700569?**

5 A: OG&E amortized the deferred liability and proposed returning the annual amortized
6 amount to its customers by reducing its Operating Income. This effect is demonstrated
7 on Sch. J-1 of PUD's Accounting Exhibit. The reduction to Operating Income will flow
8 to customers through base rates, with a smaller portion occurring in future years through
9 the recalculation and true-up mechanism of a rider proposed by Company witness Gwin
10 Cash.¹²

11 **Q: Please briefly describe how the excess ADIT balance included in the deferred**
12 **liability will be amortized.**

13 A: The excess ADIT balance can be described in two components, protected and
14 unprotected. The protected portion of the excess ADIT balance is federally mandated¹³
15 to be returned using the Average Rate Assumption Method. This portion consists of
16 plant investments which utilize certain privileged tax treatment such as accelerated
17 depreciation. Approximately \$990M of OG&E's \$1B excess ADIT balance is protected.
18 The unprotected portion of excess ADIT is not subject to the same normalization rules as
19 the protected amount. This portion will be amortized according to the expected
20 turnaround on each of its component assets. The turnaround periods for these assets

¹¹ Cause No. PUD 201000050, Cause No. PUD 201300217, and Cause No. PUD 201500208.

¹² Direct Testimony of Gwin Cash, Page 12.

¹³ 26 U.S. § 1561(d)(1)

1 range from two to more than twenty-five years. OG&E has estimated these amounts and
2 included those estimates in its six-month post test year amortization amount of
3 \$30,021,153. Any actual differences incurred in subsequent years will be trued-up in the
4 tax rider proposed by Company witness Gwin Cash.

5 **Q: Does PUD believe it is reasonable to pass the benefits of the Tax Cuts and Jobs Act**
6 **of 2017 through base rates?**

7 A: Yes. PUD reviews each cause brought before the Commission on a case-by-case basis.
8 Due to both the timing of the tax law change and this current Cause, PUD is able to
9 conduct a review of the Company's Rate Base, Operating Expenses, and revenues while
10 simultaneously considering the impact of the tax law on OG&E and its customers. In this
11 instance, it is appropriate to return those benefits to ratepayers through base rates rather
12 than returning the full balance through a rider. The benefits of the change in tax law on
13 OG&E and its customers will not be withheld for an unwarranted amount of time,
14 making an alternative refund mechanism unnecessary.

15 **Q: Does PUD have any adjustments to this amortization amount?**

16 A: Yes. In Sch. J-3, PUD has recommended an adjustment on Line No. 2. This adjustment
17 updates the amortization to the six-month post test year amount as of March 31, 2018, to
18 reflect changes in the ADIT balance. As demonstrated on Line 3 of PUD's Sch. J-1, this
19 adjustment reduces OG&E's Operating Income before taxes by an additional
20 \$24,980,135.

1 **Q: Does PUD have any additional recommendations for returning the excess tax back**
2 **to customers?**

3 A: Yes. PUD plans to address the Rate Design of the excess tax benefit to customers in its
4 Rate Design Testimony to be filed on May 16, 2018.

5 **PROPERTY / AD VALOREM TAX EXPENSE**

6 **Q: How did PUD review Property / Ad Valorem Tax Expense?**

7 A: PUD reconciled the Company's reported tax expense to its general ledger. PUD then
8 performed a trend analysis to identify any substantial increases in Ad Valorem Tax
9 Expense. PUD noted that Ad Valorem Tax Expense has remained relatively stable, only
10 increasing 0.01% versus the previous year when compared with actual amounts paid
11 through March 31, 2018.

12 **Q: Explain PUD's recommended adjustment to Property / Ad Valorem Tax Expense.**

13 A: OG&E provided updated balances of Ad Valorem Tax Expense to the six-month post test
14 year. The adjustment was based upon the net value of plant and property on March 31,
15 2018, and actual Ad Valorem taxes booked as of that date. The resulting proposed
16 increase in Ad Valorem tax expense was \$638,746. PUD recommends that the
17 Commission accept this adjustment of Ad Valorem tax expense to the Company's six-
18 month post test year balance.

1 **OVERALL RECOMMENDATION**

2 **Q: What is PUD's overall recommendation?**

3 **A:** PUD recommends that the Commission accept the following PUD adjustments:

- 4 • **PUD Adj. No. B-1:** Reduce Rate Base by \$222,178 to adjust OG&E's CWC to the
5 amount required if all PUD adjustments are adopted.
- 6 • **PUD Adj. No. B-7:** Reduce Rate Base by \$16,837,746 to update OG&E's ADIT
7 balance to its six-month post test year level reflecting changes in utility plant in
8 the same period.
- 9 • **PUD Adj. No. H-9:** Increase Operating Expenses by \$638,746 to update OG&E's
10 Ad Valorem Tax Expense to the six-month post test year level reflecting changes in
11 utility plant and property in the same period.
- 12 • **PUD Adj. No. J-1:** Reduce total Interest Expense by \$697,090 to reflect OG&E's
13 updated interest expense based upon all of PUD's recommended adjustments.
- 14 • **PUD Adj. No. J-2:** Reduce Operating Expenses by \$24,980,135 to account for
15 OG&E's six-month post test year excess ADIT amortization level based on
16 additional information for excess ADIT related to OG&E's current assets.
- 17 • Reduce OG&E's income tax expense to reflect the level necessary at PUD's
18 recommended Revenue Requirement.

19 These adjustments incorporate the recommendations of all PUD analysts, the impact of
20 which is demonstrated in PUD's Accounting Exhibit. Furthermore, OG&E has
21 appropriately recorded the benefits of the federal corporate income tax rate change, and
22 PUD agrees with the Company's proposal to accordingly return the resulting benefit to
23 customers largely through base rates. PUD plans to make additional recommendations in
24 its Rate Design Testimony to be filed May 16, 2018, concerning the tax rider proposed by
25 Company witness Gwin Cash. PUD believes that its recommendations are fair, just,
26 reasonable, and in the public interest.

I state, under penalty of perjury under the laws of Oklahoma, that the foregoing is true and correct to the best of my knowledge and belief.


Zachary Quintero

State of Oklahoma

County of Oklahoma

Subscribed and sworn to before me this 2nd day of May, 2018.




NOTARY PUBLIC

(Seal, if any)

My Commission Number: 16005761

My Commission Expires: June 13, 2020

Oklahoma Gas and Electric Company – Cause No. PUD 201700496

LIST OF EXHIBITS

ZJQ-1

Curriculum Vitae



Zachary Quintero

Curriculum Vitae

Contact

z.quintero@occemail.com
Tel: 405-521-4114

580 Jim Thorpe Building
P.O. Box 52000
Oklahoma City, OK 73152

Work Experience

Oklahoma Corporation Commission

2017-Present

Public Utility Regulatory Analyst

- Analyzes applications of public utilities for ratemaking purposes.
- Reviews and approves new utility tariffs, ensuring compliance with Commission orders.
- Performs analysis of multiple public utility issues, including:
 - Revenue Requirement Accounting
 - Tax Equity Partnerships
 - Production Tax Credits
 - Electric and Gas Fuel Adjustment Clauses
 - Tax Cuts and Jobs Act of 2017
 - Water Utility Ratemaking
- Lead Analyst in the following causes:
 - PUD 201700144, PUD 201700499, PUD 201700568, PUD201700569, PUD 201700570, PUD 201700571, PUD 201700572.
- Assigned analyst in the following causes:
 - PUD 201700258, PUD 201700265, PUD 201700471, PUD 201700495, PUD 201700496.

Target Corporation

2010 – 2017

Assets Protection

- Analyzed data and conducted audits in order to determine sources and methods of loss.
- Reviewed operational processes to align execution with standard company procedures.
- Conducted and resolved simple and complex investigations of customers, vendors, and employees.
- Testified in criminal and civil courts on behalf of the company.
- Developed relationships with external organizations and law enforcement to resolve ongoing incidents impacting the company.

Property Management

- Established and maintained relationships with third party vendors and business partners.
- Managed maintenance programs for a wide range of company assets.
- Worked with external individuals and organizations to resolve multiple complex issues negatively impacting property value.
- Maintained annual property management budget.

Education

University of Science and Arts of Oklahoma

2011-2014

B.A., Economics

- *Summa cum laude*
- Distinguished Graduate
- Outstanding Graduate for Division of Business and Social Science
- Authored published original research at Butler University
- Co-authored multiple published public policy research articles.

Professional Licences and Associations

- Board of Directors, USAO Alumni Association
 - Audit/Money Management Committee

CERTIFICATE OF SERVICE

I, the undersigned, do hereby certify that on the 2nd day of May, 2018, a true and correct copy of the above and foregoing was sent **electronically**, addressed to the following:

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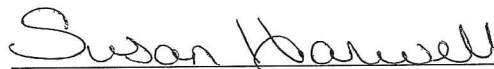
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