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COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

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 201700496

Direct Testimony

of

Jason J. Thenmadathil

on behalf of

Oklahoma Gas and Electric Company

January 16, 2018

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 the
7 Supervisor of Regulatory Accounting.
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. In November
16 2017, I assumed additional responsibilities as the Supervisor of Regulatory Accounting
17 where I oversee the work of members of the Regulatory Accounting group, whose
18 responsibilities are to prepare the minimum filing requirements (“MFR”) for rate cases and
19 determine revenue requirements for various rate filings.
20

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

22 A. Yes. As a witness for OG&E, I previously submitted testimony in Cause Nos. PUD
23 201500266, 201500273, 201600319, and 201700261.
24

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

26 A. The purpose of my testimony is to sponsor the *pro forma* adjustments to the test year
27 expenses in this Cause and explain why these adjustments are appropriate. The Company
28 utilized a historical test year ending September 2017 with *pro forma* adjustments through
29 March 2018.

1 *PRO FORMA* ADJUSTMENTS

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

3 A. The Company's proposed *pro forma* adjustments are critical to establish fair, just and
4 reasonable rates. The *pro forma* adjusted level of operations and maintenance ("O&M")
5 expense are necessary to allow the Company to cover operating costs on a going forward
6 basis.

7
8 Q. **Why are *pro forma* adjustments to a test year necessary?**

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

16
17 Q. **What are the general categories of *pro forma* adjustments proposed by the
18 Company?**

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

20 1) Normalization Adjustments are made to rate base and expenses to offset unusual
21 levels of operations recorded during the test year. An example of such an adjustment
22 would be the use of a 4-year average for short-term incentives to address the variable
23 nature of the expense.

24 2) Annualization adjustments recognize that some action occurred during the test
25 year that will be ongoing and must be captured on a prospective basis. An example of
26 such an adjustment would be the adjustment to payroll to account for salary increases and
27 employee levels by the end of the *pro forma* period. This annualization is necessary to
28 adjust payroll costs to a level reflecting the *pro forma* salary for the entire year.

29 3) Out of Period Adjustments consider known and measurable changes that occur
30 outside the end of the test year. An example of such an adjustment would be to decrease
31 pension expenses based on actuarial projections for 2018.

1 4) Certain adjustments remove costs that are not necessary to provide electric service
2 to customers. An example of such an adjustment would be to remove costs related to
3 donations and contributions.

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

10
11 INCOME STATEMENT

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

14 A. Section H contains schedules and the supporting workpapers which present the elements
15 of the income statement for the test year and associated adjustments. The income
16 statement calculates operating income by subtracting *pro forma* expense from *pro forma*
17 revenue to arrive at *pro forma* operating income. This level of operating income is
18 compared to the Company’s requested level of operating income (the return requirement
19 on the Company’s *pro forma* rate base) to arrive at a revenue excess or deficiency for the
20 utility.

21
22 *Pro Forma Adjustments to the Income Statement*

23 Q. **What *Pro Forma* adjustments will you discuss?**

24 A. Chart 1 shows each of the expense *pro forma* adjustments and gives a description of each
25 one.

Chart 1 – Pro Forma Adjustments to Operating Expense

Pro Forma Adjustment	Operating Expense Description
WP H 2-17	Ad Valorem Taxes
WP H 2-18	Pensions and Other Post-Retirement Benefits
WP H 2-19	Active Member Benefits
WP H 2-20	Insurance Expenses
WP H 2-21	Depreciation Expense
WP H 2-22	Payroll Expense
WP H 2-23	Other Compensation Expense
WP H 2-24	Demand Side Management (DSM) Expense Removal
WP H 2-25	Regulatory Expense
WP H 2-26	Bad Debt Expense
WP H 2-27	Storm Rider Expense Removal
WP H 2-28	Southwest Power Pool Expense
WP H 2-29	Amortization of Pension Regulatory Liability
WP H 2-30	SPP Transmission Expense recovered from Load Serving Entities (LSE)
WP H 2-31	Southwest Power Pool Cost Tracker (SPPCT) Expense Removal
WP H 2-32	Long Term Incentive Removal
WP H 2-33	Fuel Adjustment Clause (FAC) Rider Expense Removal
WP H 2-34	Non-recoverable Expense Removal
WP H 2-35	Intracompany SPP Fees
WP H 2-36	Customer Deposit Interest
WP H 2-37	Advertising Expense
WP H 2-38	Other Amortization
WP H 2-39	Rate Case Expenses
WP H 2-40 & H 2-41	Vegetation Management Distribution and Transmission Expense
WP H 2-42	Wind Power Expense Removal
WP H 2-44	Acquisition Adjustment Amortization

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

2 A. This adjustment increases property taxes by \$6,729,712. To arrive at this adjustment, the
3 Company first calculated a ratio of actual Ad Valorem taxes assessed in 2017 to actual
4 plant and property values at the end of calendar year 2016. This ratio was then multiplied
5 by the *pro forma* level of plant and property included in the rate base to arrive at a *pro*
6 *forma* level of ad valorem taxes. This *pro forma* includes an adjustment reducing
7 property tax expense by \$3,991,760 for capitalized Ad Valorem taxes related to projects
8 under construction that are not included in the rate base.

9

10 Q. **Is this methodology for the Ad Valorem Tax adjustment a departure from the**
11 **Company's methodology proposed in the previous rate case?**

12 A. Yes. The Company's previous methodology utilized 3-year average increases to Ad
13 Valorem taxes to arrive at a *pro forma* level. The Company believes the current
14 methodology is more reasonable in that it applies a ratio based on actual Ad Valorem
15 taxes assessed for 2017. Since Ad Valorem taxes for 2017 are based on plant and
16 property at the end of the calendar year 2016, applying this ratio to the *pro forma* level of
17 plant and property in the rate base aligns property taxes with the rate base. The ratio also
18 utilizes the most recent property tax assessment provided by the Oklahoma Tax
19 Commission. The *pro forma* level of Ad Valorem taxes is primarily driven by increases
20 to plant in service, most notably the addition of the Mustang Modernization Project.

21

22 Q. **Please explain WP H 2-18, *pro forma* adjustment to pension and post-retirement**
23 **benefits expense.**

24 A. OG&E has established various employee benefit plans funded by employee and
25 Company contributions. Annually, the Company retains an independent actuary to
26 prepare an actuarial valuation of the pension and retiree medical plans. This valuation
27 determines the net periodic benefit cost which is the annual expense recognized by the
28 Company for generally accepted accounting principles ("GAAP") purposes. For the *pro*
29 *forma* adjustment, the expense level per the November 2017 actuarial report provided by
30 Fidelity was compared with the actual test year level of pension and other post-retirement

1 benefits expense. The level per the actuarial report was adjusted to only include amounts
2 that would be classified as O&M. The result of this comparison is a decrease to pension
3 and post-retirement expenses of \$23,585,487.
4

5 **Q. What are the components of this decrease to the pension and post-retirement**
6 **expenses?**

7 A. This decrease, as demonstrated on W/P H 2-18, can be separated into 3 components: 1)
8 Reductions in pension expense, 2) Reductions in post-retirement medical, and 3)
9 Reductions in post-retirement life insurance.
10

11 **Q. Please explain the decrease related to pension expense.**

12 A. The decrease related to pension expense results from the difference in the expense level
13 per the November 2017 actuarial report provided by Fidelity and the actual expense level
14 reflected in the test year. Reductions in pension expense have occurred primarily due to
15 reductions in interest cost, expiration of amortization amounts associated with previous
16 plan amendments, and changes between expected and actual returns on pension plan
17 assets. This amounted to a decrease of \$13,295,747.
18

19 **Q. Please explain the decrease related to post-retirement medical expense.**

20 A. The decrease related to post-retirement medical expense also results from the difference
21 in the expense level per the November 2017 actuarial report and the actual expense level
22 reflected in the test year. Reductions in post-retirement medical cost have also occurred
23 due primarily to reductions in interest cost, changes due to plan amendments, and
24 changes between expected and actual returns on plan assets. In addition, the Company
25 recently modified its retiree medical supplement program in 2017 for retired members,
26 resulting in further decreases to this expense. In total, these changes amounted to a
27 decrease of \$8,746,160.

1 Q. **Does pension expense and post-retirement medical expense have a tracking**
2 **mechanism to capture any changes in cost that have occurred over time?**

3 A. Yes. The difference between actual expenses and the level in base rates is tracked via the
4 Pension Tracker approved by the Commission. Any under or over recovery associated
5 with pension and post-retirement medical expenses are recorded as a regulatory asset or
6 liability respectively. Please see the direct testimony of OG&E Witness Bailey for
7 further discussion on this tracker as it relates to regulatory assets and liabilities.

8

9 Q. **Please explain the decrease related to post-retirement life insurance.**

10 A. The Company recently modified its post-retirement life insurance program, resulting in a
11 decrease to expenses of \$1,543,581.

12

13 Q. **Please summarize the components of adjustment H 2-18 stated above.**

14 A. The decrease in pension expenses of \$13,295,747, post-retirement medical expenses of
15 \$8,746,160, and post-retirement life expenses of \$1,543,581 result in the total *pro forma*
16 adjustment amount of \$23,585,487.

17

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

19 A. Active member benefits refer to medical, dental, life, and long-term disability benefits for
20 current employees. This adjustment compares actual test year levels with budgeted levels
21 to arrive at a reasonable expense level going forward. Similar to the previous adjustment,
22 only costs classified as O&M were included. The Company recommends an increase of
23 \$1,127,539.

24

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

26 A. The Company compared test year insurance expense to actual insurance expenses for
27 policy period 2017/2018 using information provided by the Company's insurance
28 brokers. The difference between the test year and projected levels were recorded as a *pro*
29 *forma* adjustment to decrease expenses by \$53,337.

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

2 A. This adjustment increases depreciation expense to account for the increased level of plant
3 requested in this case as well as new depreciation rates. The Company requests an
4 increase of \$75,029,649 to depreciation expense. Please see the direct testimony of
5 OG&E Witness Spanos for the reasoning behind the new depreciation rates.
6

7 Q. **Please explain WP H 2-22, *pro forma* adjustment to payroll expense.**

8 A. This adjustment is designed to capture employee compensation levels at the end of the
9 *pro forma* period. This adjustment consists of three parts. First, payroll expense was
10 annualized based on the number of employees and their associated wage levels as of the
11 end of the test year. To accomplish this, the Company calculated the hourly rates of each
12 individual employee at OG&E, and multiplied those hourly rates by the number of hours
13 worked per year. This adjustment has the effect of capturing a full year of payroll for the
14 additional employees hired into the Company during the test year and eliminating the
15 payroll of employees who left the Company during the test year. For the second part, this
16 adjustment increased payroll to account for raises employees will receive at the end of
17 2017. This was accomplished by multiplying the payroll levels by a historical 4-year
18 average of raises. This amounted to an approximate 3% increase. For the third part, a
19 calculation was made to estimate changes to payroll expenses occurring from the end of
20 the test year to the *pro forma* period resulting from hires and retirements. This calculation
21 alone resulted in a decrease to payroll of approximately \$2.4 million. The result of all the
22 calculations mentioned above result in an increase to payroll expenses of \$4,348,660. An
23 additional adjustment of \$348,989 is also made for payroll taxes related to the additional
24 expense level, resulting in a total *pro forma* adjustment of \$4,697,649 Please see the
25 direct testimony of Patricia Ruden for the justification of total employee compensation
26 levels.

1 Q. **Is this methodology for the payroll adjustment a departure from the Company's**
2 **previously recommended methodology to calculate *pro forma* payroll in the prior**
3 **rate case?**

4 A. Yes. This adjustment has several components that are different from the previous
5 methodology. First, payroll expense was annualized based on an analysis of each
6 individual employee rather than annualizing the expense from the last 2 week pay period.
7 This allows the Company to remove any employees who have been terminated or retired
8 on the last day of the test year and exclude those employees in the payroll calculation.

9
10 Q. **What other components of the payroll adjustment are different than the previous**
11 **case methodology?**

12 A. This adjustment also reflects a projection of hires and retirements that will occur through
13 the end of the *pro forma* period. This projection is based on a 4-year historical average of
14 hires and retirements, and also uses a 4-year average of the salaries of hires and retirees
15 to calculate the amount of payroll expense to adjust through the *pro forma* period.

16
17 Q. **Will this adjustment be updated with actual payroll information through the end of**
18 **the *pro forma* period?**

19 A. Yes. The Company would recommend updating this adjustment with actual payroll
20 information as of March 2018. By utilizing March 2018 information, the projections for
21 salary increases as well as hires/retirements would no longer be necessary since the actual
22 employee levels and actual salaries will be available.

23
24 Q. **Please explain WP H 2-23, *pro forma* adjustment to other compensation.**

25 A. The Company averaged the last four years of short-term and other compensation to arrive
26 at a level of other compensation that captures both upward and downward swings in
27 incentive costs. To arrive at the expense level, the ratio of expense to total payroll was
28 applied in order to remove the capitalized amount. When payroll taxes are included, this
29 results in a decrease to operating expenses of \$2,247,885. Please see the direct testimony
30 of OG&E Witness Ruden for further discussion on short term incentives and overall
31 compensation levels.

1 Q. **Please explain WP H 2-24, *pro forma* adjustment related to demand programs and**
2 **energy efficiency expenses for Oklahoma and Arkansas.**

3 A. This adjustment removes costs related to the Oklahoma Demand Program Rider (“DPR”)
4 and the Arkansas Energy Efficiency Cost Recovery (“EECR”) Rider. These costs are
5 recovered through ongoing rider mechanisms and should therefore be removed from base
6 rates. This adjustment decreases O&M by \$43,193,100.

7
8 Q. **Please explain WP H 2-25, *pro forma* adjustment to regulatory expenses.**

9 A. This adjustment has three components. First, the Company normalized regulatory
10 expenses using a 2-year average for various expenses in the Oklahoma jurisdiction
11 excluding rate case expenses. This increases operating expenses by \$41,934. Second, the
12 Company removed the Annual Public Utility Assessment Fee (“APUAF”) in the amount
13 of \$2,316,326 since the APUAF fee is recovered through a surcharge on customer’s bills.
14 Finally, any remaining amortization approved in the previous Oklahoma rate case was
15 removed since those amortizations will expire when new rates are effective in the current
16 filing. This would include amortizations associated with rate case expenses as well as
17 various consulting fees associated with prior regulatory cases. This results in a decrease
18 of \$916,392. The total for all three adjustments results in a decrease of \$3,190,785.

19
20 Q. **Please explain WP H 2-26, *pro forma* adjustment to bad debt expense.**

21 A. The bad debt *pro forma* adjustment includes cost for uncollectible revenues the Company
22 will experience, net of the fuel component of the customer’s bill. This adjustment is
23 made to reflect the expected increase in bad debt not associated with fuel. The fuel
24 component of bad debt flows through the Fuel Adjustment Clause (“FAC”). The
25 Company used a four year average uncollectible rate and multiplied it by the *pro forma*
26 revenues net of fuel to arrive at a new bad debt expense level. This adjustment increases
27 operating expense by \$33,826.

28
29 Q. **Please explain WP H 2-27, *pro forma* adjustment to storm amortization.**

30 A. The Company removed all storm amortization expenses included in the test year. These
31 storm amortization expenses resulted from prior storm expenses that were deferred to a

1 regulatory asset account and are currently being recovered through the Storm Rider.
2 The base rate level of storm expense remains at \$2,739,595, which was the Commission
3 approved level from the previous rate cases. The total adjustment to storm expense is a
4 decrease of \$8,513,168.

5
6 **Q. Please explain WP H 2-28, *pro forma* adjustment to Southwest Power Pool (“SPP”)
7 related expense.**

8 A. This adjustment results from updated SPP and NERC fees, including the SPP Schedule 1-
9 A Administrative fee. OG&E proposes an increase to operating expenses of \$1,752,620
10 to account for these costs.

11
12 **Q. Please explain WP H 2-29, *pro forma* adjustment related to the amortization of the
13 pension regulatory liability.**

14 A. As shown on WP H 2-29, the pension tracker is expected to result in a liability of
15 \$37,653,189 at the end of the *pro forma* period. This amount, along with a contributory
16 life insurance liability of \$4,718,962, results in a total regulatory liability of \$42,372,151.
17 The Company proposes this amount be returned to customers over a 5-year period,
18 resulting in a reduction to expenses of \$8,474,430.

19
20 **Q. Please explain WP H 2-30, *pro forma* adjustment to transmission expenses recovered
21 from load serving entities (“LSE’s”).**

22 A. This adjustment coincides with rate base adjustment B 3-12. The revenue requirement
23 associated with regionally allocated transmission plant and expense will be assigned to
24 other LSEs around the SPP. This adjustment reduces operating expenses for O&M
25 expense, administrative and general expense, depreciation, and taxes other than income
26 related to those regionally allocated transmission projects. Similar to WP B 3-12, the
27 percentage allocated to other LSE’s was derived from the FERC Transmission Formula
28 Rate True-Up Adjustment for the most current 2016 rate year filing. This *pro forma*
29 adjustment is a decrease to expenses of \$44,721,489.

1 Q. **Please explain WP H 2-31, *pro forma* adjustment for SPPCT Rider Expenses.**

2 A. This adjustment removes SPP costs that are recovered through the SPPCT Rider. This
3 results in a decrease to O&M of \$73,616,064. Also, SPP fees directly charged to certain
4 customers were also removed, which amounts to \$571,776. The total *pro forma*
5 adjustment is a decrease of \$74,187,840.
6

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

8 A. This rider recovers the cost associated with SPP Schedule 11 Base Plan fees, which are
9 charged by the SPP for OG&E's allocated share of the transmission investment made by
10 third parties. The rider also includes a reduction for SPP revenues and credits. SPP's
11 regional cost allocation mechanisms have been approved by the Federal Energy
12 Regulatory Commission ("FERC"). SPP utilizes FERC approved transmission rates and
13 cost allocation methodologies to charge OG&E for costs associated with transmission
14 projects constructed and owned by other transmission owners.
15

16 Q. **Please explain the annual re-determination of the SPPCT factor.**

17 A. Per the SPPCT tariff approved in last rate case filed under Cause No. PUD 201500273,
18 the Company shall submit re-determined SPPCT rates to the Commission Staff for
19 implementation on the first billing cycle of April each year. The Company is required to
20 submit a set of workpapers sufficient to document the calculations of the re-determined
21 SPPCT rates. This documentation has been submitted to the Commission Staff, and re-
22 determined factors have been approved and implemented accordingly. Additionally,
23 please see the testimony of OG&E witness Greg McAuley which describes OG&E's role
24 as a member of the SPP, including the Company's participation in the stakeholder
25 process.
26

27 Q. **Please explain WP H 2-32, *pro forma* adjustment to remove long-term incentives.**

28 A. This adjustment removes the Company's long-term incentives paid to employees. While
29 the Company believes this cost should be shared by customers because of the operational
30 and financial benefits that customers receive as a result, the Company is not requesting

1 rate recovery of these costs in this Cause. The result of this removal is a reduction to
2 expenses of \$5,487,519.

3
4 **Q. Please explain WP H 2-33, *pro forma* adjustment to remove Fuel Adjustment Clause**
5 **(“FAC”) related costs.**

6 A. This adjustment removes all expenses recovered through the FAC Rider. This would
7 include costs associated with fuel, purchased power (with the exception of cogeneration
8 capacity payments), and air quality control systems (“AQCS”) costs. This adjustment
9 removes \$787,820,444 from operating expenses while leaving \$76,402,988 in base rates
10 for the cogeneration capacity payments.

11
12 **Q. Please explain WP H 2-34, *pro forma* adjustment to remove certain non-recoverable**
13 **items.**

14 A. This adjustment removes costs related to entertainment, gifts, donations, sponsorships,
15 and shareholder related legal expenses that were included in various “above the line”
16 FERC accounts (accounts included in the test year). OG&E proposes a decrease to
17 operating expenses of \$599,240.

18
19 **Q. Please explain WP H 2-35, *pro forma* adjustment to remove intracompany SPP fees.**

20 A. An adjustment is necessary to eliminate expenses received by OG&E from the SPP for
21 network transmission service provided by OG&E. The FERC has provided guidance to
22 the industry that while these are intra-company charges and are normally eliminated in
23 accordance with GAAP, they should be reflected gross in the FERC Form 1. This
24 adjustment decreases expenses by \$167,927,025. The removal of the associated revenues
25 is reflected in the revenue adjustments supported by OG&E Witness Knight.

26
27 **Q. Please explain WP H 2-36, *pro forma* adjustment to customer deposit interest.**

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

1 the Commission's treatment of interest paid on customer deposits in prior utility rate case
2 proceedings. This results in an increase of \$1,107,217.

3
4 **Q. Please explain WP H 2-37, *pro forma* adjustment to remove certain advertising
5 expense.**

6 A. Title 17, Section 180 of the Oklahoma Statutes defines the advertising expenses that may
7 be included by a public utility in its operating expenses for ratemaking purposes. OG&E
8 excluded expenses that did not meet the statutory definition. This results in a *pro forma*
9 adjustment reducing expenses by \$1,659,342.

10
11 **Q. Please explain WP H 2-38, *pro forma* adjustment to include other amortization.**

12 A. This adjustment consists of three components. First, various amortization amounts that
13 have been approved in previous Commission orders were included in the calculation of
14 the revenue requirement. This includes the amortization on the regulatory asset associated
15 with stranded customer meters and the Smart Grid Web Portal, the regulatory asset
16 associated with the Red Rock power plant, and the regulatory asset associated with Retail
17 Transmission AFUDC. While these amounts are recorded as depreciation expense on the
18 Company's books, a separate *pro forma* adjustment is necessary to include these amounts
19 in the revenue requirement as these amounts are not reflected in *pro forma* depreciation
20 rates. This amounts to an increase of \$7,236,765. For the second adjustment, the pension
21 regulatory liability amortization level that was approved in the previous rate case must be
22 removed from the test year, as this amortization is set to expire around the time new rates
23 will be effective in this rate case. This amounts to an increase of \$4,730,420. For the
24 third adjustment, amounts related to the Arkansas jurisdiction were removed. This
25 amounts to a decrease of \$674,926. In total, this *pro forma* adjustment increases test year
26 operating expenses by \$11,292,259.

27
28 **Q. Please explain WP H 2-39, *pro forma* adjustment to include rate case expenses.**

29 A. This adjustment consists of two components. First, rate case expenses from Cause No.
30 PUD 201500273 incurred after April 2016 are being requested for recovery in the current
31 case. The Commission Order from the prior rate case stated that "any rate case related

1 expenses incurred after April 30, 2016, should be treated as a regulatory asset subject to
2 review and recovery in the next general rate case.” (Final Order No. 662059, p. 72 of
3 238). This amounted to \$557,141. Second, this adjustment includes estimated rate case
4 expenses associated with the current case, which amounts to \$509,750. The Company
5 proposes the same treatment approved in the prior rate case, with inclusion of actual cost
6 through the end of the *pro forma* period ending March 2018. Any costs incurred after
7 this time shall be deferred to the next rate case. The Company recommends a two year
8 amortization for both of these amounts. This adjustment increases operating expenses by
9 \$533,445.

10
11 **Q. Please explain WP H 2-40, and H 2-41, *pro forma* adjustments to vegetation**
12 **management expense.**

13 A. Both adjustments are increases to the test year to adjust distribution and transmission
14 vegetation management expenses to the level approved by Commission Order #662059 in
15 March 2017 filed under Cause No. PUD 2015000273. These adjustments increased
16 O&M by \$6,458,917 and \$1,255,357 respectively for a total increase to O&M of
17 \$7,714,274 for vegetation management.

18
19 **Q. Please explain WP H 2-42, *pro forma* adjustment to wind power expense.**

20 A. This adjustment removes \$333,896 of wind power education expense that was incurred
21 during the test year. Since wind power education expenses are recovered through the
22 Green Power Wind Rider (“GPWR”), the test year expense should be removed.

23
24 **Q. Please explain WP H 2-44, *pro forma* adjustment to include acquisition adjustment**
25 **amortization.**

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

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

2 A. Yes.