**BEFORE THE**
**ARKANSAS PUBLIC SERVICE COMMISSION**

| | | |
|---|---|---|
| IN THE MATTER OF THE APPLICATION OF | ) | |
| **OKLAHOMA GAS AND ELECTRIC COMPANY** | ) | |
| FOR APPROVAL OF A GENERAL CHANGE IN | ) | DOCKET NO. 16-052-U |
| RATES, CHARGES AND TARIFFS | ) | |

Direct Testimony

of

Malini R. Gandhi

on behalf of

Oklahoma Gas and Electric Company

QUALIFICATIONS, EXPERIENCE AND PURPOSE

Q. **Please state your name, position and business address.**

A. My name is Malini R. Gandhi, I am employed by Oklahoma Gas and Electric Company ("OG&E" or "Company") as Manager of Regulatory Accounting. My business address is 321 North Harvey, Oklahoma City, Oklahoma 73102.

Q. **Please describe your educational background and professional qualifications.**

A. I received a Bachelor of Science degree in Business Administration, with a major in Business Finance from the University of Central Oklahoma. I also received a Bachelor's degree with a major in Accounting from the University of Bombay. I am a Certified Public Accountant licensed by the Oklahoma Accountancy Board, with over twenty years of experience in both public and private accounting. In 1993, I was employed by the Public Utility Division ("PUD") of the Oklahoma Corporation Commission ("OCC") and have participated in utility cases involving electric, gas, telephone, and water utility companies. I also administered the Oklahoma Universal Service Fund from 1998 to 2006 as a Manager at PUD. From June 2006 to April 2009, I was employed as Deputy Director of auditing for the Office of Regulatory Staff of South Carolina, managing the audit department of Gas, Electric, Water and Telecom regulatory filings. In May 2009, I joined OG&E as a Manager of Regulatory Accounting.

Q. **Have you previously filed testimony before the Arkansas Public Service Commission (the "Commission" or "APSC")?**

A. Yes. I have filed testimonies in Docket No. 10-109-U from 2012 through 2015, annually for the redetermination of billing factors for Smart Grid Rider; and in Docket No. 10-067-U from 2012 through 2016 annually for the redetermination of billing factors for Transmission Cost Rider.

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

A. The purpose of my testimony is to sponsor the *pro forma* adjustments to the test year rate base amount and explain why these adjustments are appropriate. I also discuss rider expense removals for the Energy Efficiency Cost Recovery Rider ("EECR") and Transmission Cost Recovery Rider ("TCR").

## *PRO FORMA* ADJUSTMENTS

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

A. The Company's proposed *pro forma* adjustments are critical to establish fair, just and reasonable rates. The *pro forma* adjusted level of rate base and operations and maintenance ("O&M") expense are necessary to allow the Company the opportunity to earn a rate of return on an adequate rate base level and to cover the Company's operating costs on a going forward basis. As defined in Ark. Code Ann. § 23-4-406, OG&E has a forward looking test period of twelve (12) consecutive months, consisting: (a) of six (6) months actual, historical data derived from the books and records of the Company; and (b) six (6) months of projected data for the test year ending June 2016.

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

A. Pro forma adjustments to the test year books are necessary in order to design rates which reflect revenue, expense and investment levels the utility expects to experience prospectively. The Company utilized a partially projected test year with *pro forma* adjustments reflecting reasonably known and measurable changes. Some of these adjustments include: removal of costs that are recovered elsewhere; costs that did not occur but are, or will be; normal expenses going forward; and cost adjustments that are determined by the Company or past Commission orders not be the customer's responsibility. In this specific proceeding, *pro forma* adjustments result in a *pro forma* test year that recognizes the revenue, expense and investment levels the Company will experience through June 2017.

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

A. Section B of the Minimum Filing Requirement contains schedules and the supporting workpapers which present the elements of the rate base for the test year and adjustments to the test year rate base. The rate base essentially represents the assets and liabilities of the utility. The largest component of the rate base is plant in service. The *pro forma* rate base is multiplied by a rate of return to arrive at the return requirement for capital investment. This return requirement represents a portion of the overall revenue requirement. Chart 1 below lists the *pro forma* adjustments explained in this testimony.

**Chart 1 – *Pro forma* Adjustments to Rate Base and Others**

| ***Pro forma* Adjustments** | **Description** |
|---|---|
| WP B 2-1 | Holding Company Assets |
| WP B 2-2 | 2015-16 Construction Work in Progress ("CWIP") transferred to Plant in Service |
| WP B 2-3 | 2016-17 CWIP transferred to Plant in Service |
| WP B 2-4 | Windspeed Removal of Partial Investment |
| WP B 2-6 | Transmission Investment Recovered from SPP Load Serving Entities |
| WP C 2-34 | Transmission Expenses Recovered From SPP Load Serving Entities |
| WP B 2-8 | Accumulated Depreciation 2015-16 |
| WP B 2-9 | Beyond 6-30-2017, Cancelled, and Revenue Producing Projects |
| Sch. B-4 | Overall working capital (Including fuel inventories and M&S) |
| Sch. B-6 | Removal of Non-Utility Property |
| Sch. B-7 | Plant held for future use |
| WP C 2-24 | Removal of Transmission Cost Recovery Rider |
| WP C 2-23 & 31 | Removal of Energy Efficiency Cost Recovery Rider for Oklahoma and Arkansas |

Q. **Please explain WP B 2-1, the *pro forma* adjustment to Arkansas for Holding Company Assets**

A. OG&E includes holding company assets ("OGE Energy Corp.") as a part of plant in service. Nineteen percent (19%) of these holding company assets are devoted to non-utility activity and should therefore be excluded from the cost of service. This results in a decrease to plant in service of $24,082,383 and a decrease to accumulated depreciation of $20,502,817.

Q. **Please explain the *pro forma* adjustment to transfer certain project construction costs to Plant in Service.**

A. Per Ark. Code Ann. §23-4-406, as amended, out-of-period adjustments that are reasonably known and measurable within twelve (12) months of the test year are permitted to be included in rate base. Therefore, the Company analyzed the: (i) construction work in progress ("CWIP") at June 2016, reflected in WP B 2-2; and (ii) capital expenditure budget through June 2017, reflected in WP B 2-3. *Pro forma* adjustment WP B 2-2 increased total Company rate base by $120,521,187 to recognize the completed projects and "in-service" construction projects identified as of June 30, 2016. Schedule WP B 2-3 increases the total company rate base by $392,981,314 to recognize completed and "in-service" construction projects during the *pro forma* test period ending June 2017. Additionally, WP B 2-3 reflects a reduction to total company rate base for estimated retirements for the same period amounting to $90,734,468.

Q. **Please explain WP B 2-4, the *pro forma* adjustment to partially remove the Company's Windspeed investment.**

A. This adjustment reduces rate base by thirty four percent (34%) of the total Windspeed investment as recommended by Commission Staff and approved by Commission Order No. 6 in Docket No. 10-067-U, the Company's last general rate case filing. This decreased investment amount resulted in the reduction to plant balance for $72,185,182 and Accumulated Depreciation of $9,653,016.

Q. **Please explain WP B 2-6, the *pro forma* adjustment to remove transmission related plant in service paid for by third parties.**

A. This adjustment removes a percentage of certain OG&E transmission related items from the rate base. This adjustment reflects the fact that the revenue requirement associated with regionally allocated transmission plant is be assigned to other load serving entities ("LSEs") in the SPP. This allocation of OG&E transmission plant costs is necessary so these costs will not be double recovered from OG&E's Arkansas customers. OG&E has adjusted transmission related plant in service, accumulated depreciation, ADIT, and other various rate base items to reflect this recovery. The percentage allocated to other LSE's was derived from the FERC Transmission Formula Rate True-Up Adjustment for the 2015 rate year. The net impact to rate base is a decrease of $845,747,359.

Q. **Please explain the similar adjustment for O&M expense made on the income statement under WP C 2-34 for transmission related plant paid for by third parties.**

A. The Company is also requesting that the operating expenses associated with the excluded transmission plant in service be removed from its Arkansas jurisdictional cost of service for $39,410,616 including Transmission O&M, Administration & General and Depreciation Expenses. The transmission plant in service and associated operating expenses to be excluded is that portion constructed as SPP Base Plan upgrades for which OG&E receives revenues from other members of the SPP.

Q. **Please explain WP B 2-8, the *pro forma* adjustment to accumulated depreciation for the pro forma test year July 1, 2016 to June 30, 2017.**

A. This adjustment estimates an increase to accumulated depreciation through June 30, 2017 to account for increases to the depreciation reserve occurring for the annual *pro forma* period. This adjustment also includes updates to net removal and retirements through June 30, 2017. The net impact to rate base is a decrease of $190,569,897.

Q. **Please explain WP B 2-9, the *pro forma* adjustment to remove CWIP for cancelled and revenue producing capital projects beyond June 30, 2017, the *pro forma* test year.**

A. This adjustment removes from rate base the CWIP for construction projects that are: (1) determined to be reimbursable; (2) expected to be completed after June 30, 2017; (3) revenue producing; (4) cancelled; or (5) that have received a prepaid contribution in aid of construction. Exclusion of these items for $179,585,052 is consistent with the Commission's treatment of CWIP in previous rate proceedings.

Q. **What is the Company proposing with respect to Working Capital Assets in Schedule B-4?**

A. A component of OG&E's rate base is working capital assets. Generally these assets include: inventories for natural gas, coal and fuel oil; materials and supplies; and short-term assets. In order to arrive at a reasonable level for working capital assets, the Company analyzed each asset account and its related year-end balance. Based on this information, the Company first determines the relevance of the account to providing utility service. This analysis results in the exclusion of some account balances, including balances that are specific to Oklahoma, and non-utility etc. The Company next determines the expected level of investment for the remaining accounts. If the year-end balance is appropriate, it is retained. In other instances, some adjustments, which are discussed below, are adjusted either up or down to reflect balances that are more indicative of expected investment levels. After reflecting these adjustments in Schedule B-4, the Company included $475,086,632 for working capital assets in the calculation of rate base for this proceeding.

Q. **What adjustment is the Company proposing regarding coal?**

A. OG&E is requesting a 60 day inventory (1,980,000 tons) of coal in this proceeding. This inventory level was approved in the Company's last two rate cases. The Company still believes the 60 day level requested is sufficient to meet normal operations and maintain fuel security during periods of uncontrollable events such as rail transportation and supply interruptions. The Company proposes a *pro forma* adjustment to reduce the test year balance for coal inventory to 60 days.

Q. **Please explain the basis of the adjustment for natural gas inventory.**

A. The natural gas inventory varied from a low of 3,538,663 MMBTU to a high of 4,457,617 MMBTU during the test year. The 13 month average was 3,728,578 MMBTU. OG&E proposes a *pro forma* adjustment to adjust the test yearend inventory level to the 13 month average. This is a reduction of 1,398,731 MMBTU. Using the Company's

2015/16 forecasted natural gas cost of $2.56 per MMBTU[1] results in a decrease in the Company's working capital assets of $3,783,085.

Q. **Please explain the adjustment being proposed for the fuel oil inventory.**

A. OG&E proposes to adjust the fuel oil inventory to the 13 month average using $1.99 which is the 2016 weighted average cost per gallon.

Q. **Please explain the materials and supplies component of the working capital adjustment.**

A. Materials and supplies consist of items that are necessary to sustain ongoing utility construction, operations and maintenance. OG&E's *pro forma* adjustment updates the materials and supplies balance to 13 month average at June 30, 2016.

Q. **Please explain WP B-6, the *pro forma* adjustment for Non-Utility Property.**

A. Adjustment WP B-6 results in a decrease of $5,367,055 to the test year plant balances, and $2,205,038 to the test year accumulated depreciation for non-utility plant like Sapulpa or Chandler service center structure, and other miscellaneous items as listed on Schedule B-6. This results in a net impact reduction to rate base by $3,162,017.

Q. **Please explain WP B-7, the *pro forma* adjustment to plant held for future use.**

A. Adjustment WP B-7 results in a decrease of $1,196,667 to the test year plant balances. Plant held for future use with an acquisition date older than 10 years from the test year was removed from the rate base.

Q. **Please explain the *pro forma* adjustment WP C 2-24, removal of TCR Rider.**

A. *Pro forma* Adjustments C 2-24 adjusts the test year expense for the amount recovered through the TCR rider in Arkansas.

---

[1] The Company develops a short-term forecast of natural gas prices based on the NYMEX forward market prices plus or minus the basis difference for delivery points at which OG&E purchases its natural gas. This forecast is used to establish the annual ECR factor.

Q. **Please explain the *pro forma* Adjustment WP C 2-23, Oklahoma Demand Program Rider Expense and WP C 2-31 EECR Rider Expense.**

A. *Pro forma* Adjustments C 2-23 and C 2-31 adjust the test year expense by reducing O&M for Oklahoma and Arkansas demand side management programs and energy efficiency expenses recovered through riders. In Arkansas, the related expenses are recovered through the EECR rider; and in Oklahoma, the related expenses are recovered through the Demand Program Rider ("DPR") rider.

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

A. Yes, it does.