

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
MAY 02 2018

COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

RESPONSIVE TESTIMONY

OF

EDWIN C. FARRAR

ON BEHALF OF

MIKE HUNTER,

OKLAHOMA ATTORNEY GENERAL

May 2, 2018

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME.

A. My name is Edwin C. Farrar.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR BUSINESS ADDRESS?

A. I am employed by the Office of the Attorney General of Oklahoma ("Attorney General").
My business address is 313 NE 21st Street, Oklahoma City, Oklahoma 73105.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I graduated from Cameron University with a Bachelor of Science degree in Business Administration. I am also a Certified Public Accountant in the State of Oklahoma. I am a member of the American Institute of Certified Public Accountants and the Oklahoma Society of Certified Accountants. I was employed by the Public Utility Division of the Oklahoma Corporation Commission ("Commission") from April 1985 through December 2006 in various analyst and audit positions. From January 2007 until May 2011 I worked as an independent consultant on utility rate cases. I began employment with the Attorney General in May of 2011 as an auditor in the Public Utilities Unit, now called the Utility Regulation Unit.

Q. HAVE YOU TESTIFIED BEFORE THIS COMMISSION BEFORE, AND HAVE YOUR CREDENTIALS BEEN ACCEPTED?

A. Yes. I have previously testified before this Commission, and my credentials have been accepted.

II. PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY IN THIS CAUSE?

A. I am providing testimony to discuss accounting adjustments that I am sponsoring to update rate base and operating income to replace Oklahoma Gas and Electric Company's ("OGE" or "Company") original estimates. I also recommend accounting adjustments to exclude part of the annual incentive plan costs, and non-qualified pension expenses, to adjust depreciation expenses based on the recommendations of Mr. William W. Dunkel, and to recommend a refund of excess income taxes collected by OGE since January 9, 2018.

III. RATE BASE

Q. PLEASE DISCUSS THE RATE BASE ADJUSTMENTS YOU ARE RECOMMENDING FOR OGE.

A. OGE did not update its rate base for known and measurable changes occurring within six months after the end of the test year, as required by statute,¹ because its Application was filed before that date. Instead, the Company only included some post-test year adjustments and estimates. OGE was only able to provide estimates of the post-test year amounts instead of the actual six-month post-test year balances. I recommend adjustments to the amounts in OGE's filed exhibits to recognize its utility investments as of March 31, 2018.

¹ See 17 O.S. § 284, which states the following:

In its review and examination of an application by a utility to change its rates and charges pursuant to Sections 137, 152 or 158.27 of Title 17 of the Oklahoma Statutes, and in any order resulting therefrom, the Corporation Commission shall give effect to known and measurable changes occurring or reasonably certain to occur within six (6) months of the end of the test period upon which the rate review is based.

Id.

1 **Q. WHAT IS THE AMOUNT OF THESE RATE BASE ADJUSTMENTS?**

2 A. The adjustments to update the major components of the jurisdictional rate base to March
3 31, 2018, the end of the six-month post-test year period, are as follows:

4 Plant in Service	\$6,199,091
5 Accumulated Depreciation	\$(10,254,330)
6 Accumulated Deferred Income Taxes	\$(15,201,830)
7 Regulatory Assets	\$31,734,448
8 Regulatory Liabilities	\$(30,933,908)
9 Net Pension Benefit Asset	<u>\$(7,233,904)</u>
10 Net Change in Rate Base	<u>\$(25,690,432)</u>

11 These adjustments are summarized on Exhibit ECF-1, page 2 of 17.

12 **IV. OPERATING REVENUE**

13 **Q. WHAT ADJUSTMENTS ARE YOU RECOMMENDING TO OGE'S OPERATING**
14 **REVENUE?**

15 A. I am recommending an adjustment based on OGE's customer count updated to March 31,
16 2018, which I calculated using the Company's supplemental response to discovery
17 response AG 2-3. This discovery response included OGE's calculation of the impact of
18 changes in customer levels for each rate class through March 31, 2018.

19 **Q. WHAT IS THE AMOUNT OF YOUR PROPOSED ADJUSTMENT TO OGE'S PRO**
20 **FORMA RETAIL ELECTRIC REVENUE TO ACCOUNT FOR CHANGES IN**
21 **CUSTOMER LEVELS AFTER THE END OF THE TEST YEAR?**

22 A. I recommend that OGE's pro forma jurisdictional electric revenue be reduced by
23 \$6,729,429 to reflect the changes in customer levels through March 31, 2018, as

1 summarized on Exhibit ECF-1, page 3 of 17. This adjustment increases OGE's revenue
2 requirement by the same amount.

3 **V. OPERATING EXPENSES**

4 **Q. WHAT ADJUSTMENTS ARE YOU RECOMMENDING TO OPERATING**
5 **EXPENSES?**

6 A. I recommend several adjustments to operating expenses that I have separated into two
7 categories. The first category is for the six-month post-test year adjustments which include
8 payroll, pension costs, the pension liability amortization, rate case expenses, ad valorem
9 taxes, and the excess tax reserve amortization. The second category includes other rate case
10 adjustments to incentive compensation and non-qualified pension expenses.

11 **VI. ADJUSTMENTS TO UPDATE OPERATING EXPENSES**

12 **1. PAYROLL EXPENSE**

13 **Q. PLEASE EXPLAIN OGE'S ADJUSTMENT TO PAYROLL-RELATED**
14 **EXPENSES.**

15 A. OGE adjusted its payroll expense by annualizing the salaries of those employed by the
16 Company on September 30, 2017, increased those salaries for expected year-end pay
17 increases, and adjusted those amounts further for retirements and new hires expected to
18 take place by March 31, 2018. The Company's adjustment increased the test year payroll
19 expense by \$4,348,660 and payroll taxes by an additional \$348,989.²

² Direct Test. of Jason J. Thenmadathil on Behalf of Oklahoma Gas and Electric Co., 9:8-24 (Jan. 16, 2018) [hereinafter "Thenmadathil Direct"].

1 **Q. PLEASE DISCUSS THE PROBLEMS WITH REFLECTING PROSPECTIVE PAY**
2 **INCREASES IN THIS TYPE OF ADJUSTMENT, AS OGE DID.**

3 A. Utilities often include future pay increases in their pro forma payroll costs, often well past
4 the end of the test year. The utilities' projections are almost always based on nominal pay
5 raises instead of average pay raises. The difference is important because not all employees
6 are eligible to receive a raise, and under a merit system, not all employees receive the
7 maximum or nominal raise amount. The only way to ensure that payroll increases at the
8 rate stated by the Company is to annualize payroll costs at a date after the raise has been
9 implemented. This was not possible for OGE because its application was filed on January
10 16, 2018. OGE based its proposed payroll expense on an estimate of the impact of future
11 events, instead of a measurement of the actual level of costs the Company experienced.
12 Estimates are generally less accurate than actual measurements in determining the amount
13 of an expense to include in rates.

14 **Q. WHAT DATE SHOULD BE USED TO MEASURE THE INCREASE IN PAYROLL**
15 **FOR INCLUSION IN BASE RATES?**

16 A. Payroll should be annualized at March 31, 2018, which is six months after the end of the
17 test year. If a later date is used, there will be bias in the rate-setting process which
18 recognizes increases in the revenue requirement, but not offsetting increases to sales and
19 decreases to other expenses that might offset the increase in payroll costs.

20 **Q. PLEASE DESCRIBE THE PAYROLL ANNUALIZATION YOU RECOMMEND.**

21 A. I recommend using OGE's annualized pay at March 31, 2018, to reflect actual payroll costs
22 at the end of the six-month update period. I based my recommendation on the Company's
23 supplemental response to discovery request AG-OGE-12-3.

1 **Q. WHAT IS THE ADJUSTMENT TO PAYROLL EXPENSE THAT YOU**
2 **RECOMMEND?**

3 A. I recommend that OGE's requested jurisdictional payroll cost be reduced by \$965,425, and
4 its payroll taxes be reduced by \$77,477, for a total cost reduction of \$1,042,902, to reflect
5 the annualized payroll cost at March 31, 2018, which is six months after the end of the test
6 year. This adjustment is found on Exhibit ECF-1, page 4 of 17.

7 **2. SIX-MONTH UPDATES**

8 **Q. PLEASE DISCUSS THE UPDATE TO BAD DEBT EXPENSE.**

9 A. OGE proposed an adjustment to bad debt expense based on its estimates for the six-month
10 post-test year revenue. OGE provided an update based on the update of its revenue
11 requirement to March 31, 2018 in the response to AG-OGE 12-3.

12 **Q. WHAT IS THE AMOUNT OF THE ADJUSTMENT TO UPDATE BAD DEBT**
13 **EXPENSE FOR THE ACTUAL DATA THROUGH MARCH 31, 2018?**

14 A. The adjustment to bad debt expense increases the jurisdictional revenue requirement by
15 \$18,537 as shown on Exhibit ECF-1, page 5 of 17.

16 **Q. PLEASE DISCUSS YOUR RECOMMENDATIONS REGARDING OGE'S**
17 **PENSIONS AND RETIREMENT BENEFITS EXPENSES.**

18 A. OGE included projected pension and retirement benefits expenses in its application based
19 on information provided by the Company's actuary in November 2017.³ As with all
20 projected costs, this expense should be based on actual costs for rate setting purposes. I
21 obtained the actual pension and benefits expense levels at March 31, 2018 in the response

³ Thenmadathil Direct 6:24-8:16.

1 to AG-OGE 12-3. This adjustment is necessary to reflect known and measurable changes
2 occurring within six months after the end of the test year.

3 **Q. WHAT IS THE AMOUNT OF THE ADJUSTMENT TO UPDATE OGE'S**
4 **PENSIONS AND RETIREMENT BENEFITS?**

5 A. The Oklahoma retail jurisdictional amount of this adjustment reduces pro forma expenses
6 by \$583,351, as shown on Exhibit ECF-1, page 6 of 17.

7 **Q. PLEASE DISCUSS YOUR RECOMMENDATIONS REGARDING OGE'S**
8 **PENSION REGULATORY LIABILITY AMORTIZATION.**

9 A. OGE included an amortization of the projected pension regulatory liability in its
10 Application.⁴ The pension regulatory liability has been updated to March 31, 2018, and
11 therefore the related amortization should also be updated to reflect the actual expense levels
12 for rate-setting purposes. I obtained the actual pension and retirement benefits expense
13 levels at March 31, 2018 in the response to AG-OGE 12-3. This adjustment is necessary to
14 reflect known and measurable changes occurring within six months after the end of the test
15 year.

16 **Q. WHAT IS THE AMOUNT OF THE ADJUSTMENT TO AMORTIZE THE**
17 **PENSION REGULATORY LIABILITY?**

18 A. The Oklahoma retail jurisdictional amount of this adjustment reduces pro forma expenses
19 by \$329,573, as shown on Exhibit ECF-1, page 7 of 17.

20 **Q. PLEASE DISCUSS THE UPDATE TO RATE CASE EXPENSES.**

21 A. OGE proposed an adjustment to rate case expenses based on its estimates of the costs for
22 this rate case plus the unrecovered expenses from OGE's last rate case. OGE provided an

⁴ Thenmadathil Direct 12:14-18.

1 update based on the actual expenses for this rate case incurred through March 31, 2018 in
2 the response to AG-OGE 12-3.

3 **Q. WHAT IS THE AMOUNT OF THE ADJUSTMENT TO UPDATE RATE CASE**
4 **EXPENSES FOR THE ACTUAL EXPENSES THROUGH MARCH 31, 2018?**

5 A. The adjustment to update rate case expenses reduces the jurisdictional revenue requirement
6 by \$152,230 as shown on Exhibit ECF-1, page 8 of 17.

7 **Q. PLEASE DISCUSS OGE'S REQUESTED LEVEL OF AD VALOREM TAX**
8 **EXPENSE.**

9 A. OGE filed its exhibits based on a September 30, 2017 test year-end. The Company based
10 its requested level of ad valorem taxes on the 2016 effective ad valorem tax rates, and the
11 pro forma levels of plant investment. OGE requested that \$80,233,568 in ad valorem taxes
12 be included in the total Company revenue requirement.

13 **Q. DO YOU AGREE WITH OGE'S PROPOSED LEVEL OF AD VALOREM TAXES?**

14 A. I agree that the Company used a reasonable methodology, but the adjustment relies on
15 *projected* plant levels. While the Company has provided its March 31, 2018 plant
16 investment amounts, I chose to update this adjustment using the *actual* ad valorem tax
17 accrual for March 2018 for this adjustment.

18 **Q. WHAT IS THE AMOUNT OF THE ADJUSTMENT YOU PROPOSE TO AD**
19 **VALOREM TAXES?**

20 A. This adjustment reduces jurisdictional ad valorem taxes by \$58,886. This adjustment is
21 found on Exhibit ECF-1, page 9 of 17.

1 **Q. PLEASE DISCUSS THE AMORTIZATION OF EXCESS ACCUMULATED**
2 **DEFERRED INCOME TAXES (“ADIT”).**

3 A. OGE included the amortization of excess ADIT as a permanent difference in income tax
4 expense calculation. The permanent difference is calculated by dividing the actual
5 amortization by the effective tax rate to provide the impact of the adjustment on income
6 tax expense. OGE provided an updated amount for this year’s excess ADIT amortization
7 and the related permanent difference for inclusion in its income tax calculation.⁵ The
8 updated net amortization is substantially more than the OGE estimate included in its
9 accounting exhibits filed on January 16, 2018. To calculate the impact on the revenue
10 requirement, I multiplied the updated permanent difference by the effective income tax
11 rate, and then multiplied the result by the tax gross-up factor.

12 **Q. WHAT IS THE IMPACT OF THE UPDATED EXCESS ADIT AMORTIZATION?**

13 A. The updated amortization of the excess ADIT reduces the revenue requirement for the
14 Oklahoma jurisdiction by \$7,662,419. This adjustment is found on Exhibit ECF-1, page 10
15 of 17.

16 **Q. DID YOU ALSO REVIEW UPDATES TO OGE’S REVENUES AND EXPENSES**
17 **FOR THE SOUTHWEST POWER POOL?**

18 A. Yes. The amount to update OGE’s Southwest Power Pool (“SPP”) revenues and expenses
19 was provided by OGE. I have included an adjustment for SPP revenues and expenses on
20 Exhibit ECF-1, page 1. The amount of the adjustment for SPP revenues and expenses is an
21 increase in the revenue requirement of \$37,956 for the Oklahoma jurisdiction.

⁵ See OGE Response to AG-OGE-12-3, Attachment 4.

3. INCENTIVE COMPENSATION

Q. PLEASE DISCUSS OGE'S INCENTIVE PLANS.

A. OGE offers its employees an annual or short-term incentive plan, as well as long-term incentive plans. The annual incentive plan covers all employees, while the long-term incentive plans only cover management-level employees. This is similar to the annual incentive plans of other utilities, which typically include a mix of safety and operational goals, with the operational goals usually including company earnings.⁶ OGE's long-term incentive plan is focused on earnings, and the Company did not request the recovery of this expense in this Cause. OGE based its requested recovery of its annual incentive plan expense on a four-year average of the annual plan's awards for the years 2013 through 2016.

Q. WHAT ARE THE MAJOR CATEGORIES FOR OGE'S ANNUAL INCENTIVE PLAN?

A. My review of OGE's annual incentive compensation plan indicates that it includes financial and operational objectives, as well as components related to safety and customer satisfaction. From a regulatory perspective, the primary concerns of a public utility should be safety, reliability, customer satisfaction, and the cost of the utility's service.

Q. WHAT WAS THE DISTRIBUTION OF THE AWARDS THE COMPANY INCLUDED IN THE REVENUE REQUIREMENT?

A. The four-year average of the total incentives awarded, by category, were \$5,687,684 or 31.65% for earnings per share, \$6,518,481 or 36.27% for O&M expenses, \$4,602,319 or 25.61% for customer satisfaction, and \$1,164,745 or 6.48% for safety. This amounts to a

⁶ See OGE Response to AG-OGE-2-16 (including OGE's Annual Incentive Plan).

total of \$17,973,228 (total Company).⁷ These amounts were reduced for capitalization, so the total of the annual incentives included in expenses was \$12,664,806.

Q. WHAT WERE THE RESULTS OF OGE'S ANNUAL INCENTIVE PLAN FOR 2017?

A. The Company awarded significantly lower amounts of annual incentives in 2017 than in the prior four-year average. The 2017 awards were \$0 for earnings per share, \$8,638,982 or 62.66% for O&M expenses, \$2,170,702 or 15.75% for customer satisfaction, and \$2,976,797 or 21.59% for safety.

Q. WHAT RATEMAKING TREATMENT HAS THE COMMISSION GIVEN TO ANNUAL INCENTIVE PLANS IN THE PAST?

A. The Commission has split the cost of annual incentive plans between the utility's shareholders and ratepayers. One half of annual incentives have been included in rates.⁸

Q. SHOULD THE COMMISSION INCLUDE ALL OF THE INCENTIVE COMPENSATION COSTS IN RATES IF THAT IS THE LEVEL OF COMPENSATION THE COMPANY BELIEVES IS FAIR FOR EMPLOYEES?

A. It is not appropriate for all costs to be included in rates. For example, utilities are required to absorb the cost of lobbying activities and promotional advertising that may be against the public interest. Similarly, it would not be appropriate for ratepayers to bear the cost of financial incentives that may motivate utility employees to seek rate increases in order to achieve an annual compensation payout. A well-designed financial incentive should more than pay for itself with added revenue or increased cost savings.

⁷ See OGE Response to AG-OGE-12-18, Attachment.

⁸ See Final Order 19–21, Order No. 564,437, *Pub. Serv. Co. of Okla. Rates & Charges for Elec. Serv.*, No. PUD 200800144 (Okla. Corp. Comm'n Jan. 14, 2009).

1 **Q. WHAT IS YOUR RECOMMENDATION REGARDING OGE’S ANNUAL**
2 **INCENTIVE COMPENSATION PLAN?**

3 A. I recommend that the Commission continue to exclude fifty percent (50%) of OGE’s
4 annual incentive plan expenses from rates, as it has in previous cases.⁹ If the Commission
5 excluded all of the requested earnings per share incentives and shared the O&M incentives,
6 a similar adjustment would result.

7 **Q. WHAT IS THE IMPACT OF THE ADJUSTMENT TO EXCLUDE 50% OF THE**
8 **COST OF THE ANNUAL INCENTIVE PLANS FROM RATES?**

9 A. The adjustment to exclude 50% of the annual incentive plan costs from the revenue
10 requirement for OGE reduces pro forma expenses by \$5,786,550, and it reduces payroll
11 tax expense by an additional \$464,383 for the Oklahoma retail jurisdiction, as reflected on
12 Exhibit ECF-1, page 11 Of 17.

13 **4. NON-QUALIFIED PENSIONS**

14 **Q. DID THE COMPANY INCLUDE EXPENSES FOR A NON-QUALIFIED PENSION**
15 **PLAN IN THE REVENUE REQUIREMENT?**

16 A. Yes, it did.

17 **Q. WHAT IS A NON-QUALIFIED PENSION PLAN?**

18 A. A non-qualified pension plan covers the portion of the executives’ retirement costs for
19 salaries above the Internal Revenue Service limits, which are currently \$275,000 per year.
20 This means that fund contributions are not tax deductible on a current basis, and as a result,
21 companies rarely fund these plans.

⁹ See, e.g., Final Order 77, 99, Order No. 516,261, *Okla. Gas & Elec. Co. Rates, Charges, & Tariffs for Elec. Serv.*, No. PUD 200500151 (Okla. Corp. Comm’n Dec. 12, 2005).

1 **Q. DO YOU RECOMMEND THAT THIS COST BE INCLUDED IN THE REVENUE**
2 **REQUIREMENT?**

3 A. No. This type of indirect compensation for highly paid executives is unnecessary and
4 expensive because of its added cost to consumers. I recommend that the Commission
5 exclude the non-qualified pension cost from expenses.

6 **Q. WHAT IS THE AMOUNT OF THE ADJUSTMENT TO EXCLUDE NON-**
7 **QUALIFIED PENSION COSTS FROM THE REVENUE REQUIREMENT?**

8 A. This adjustment reduces the Oklahoma retail revenue requirement by \$1,028,420 for OGE,
9 as found on Exhibit ECF-1, page 12 of 17.

10 **5. DEPRECIATION EXPENSES**

11 **Q. PLEASE DISCUSS THE DEPREICATION EXPENSE ADJUSTMENT.**

12 A. The Attorney General's expert witness William W. Dunkel is proposing changes to the
13 depreciation rates requested by OGE, and I applied those rates to the depreciable plant
14 balances updated to March 31, 2018. The combination of the Attorney General's
15 recommended depreciation rates and the update to the depreciable plant balances result in
16 an adjustment to reduce depreciation expense by \$49,058,487 on a total Company basis,
17 net of OGE's supplemental adjustment to reduce depreciation expense by \$1,477,772. The
18 adjustment is approximately \$44,745,676 for the Oklahoma retail jurisdiction using a
19 composite allocation factor. This adjustment is found at Exhibit ECF-1, page 13 of 17.

20 **Q. PLEASE DISCUSS THE DEPRECIATION EXPENSE ADJUSTMENT RELATED**
21 **TO LOAD SERVING ENTITIES.**

22 A. OGE included an adjustment to remove a portion of annualized depreciation expense
23 recovered from Load Serving Entities ("LSE") through the Southwest Power Pool.

1 Attorney General expert witness, Dunkel is proposing changes to the depreciation rates
2 requested by the Company, so those depreciation rate changes should be applied to the
3 OGE's LSE depreciation adjustment.

4 **Q. WHAT IS THE AMOUNT OF THE ADJUSTMENT TO UPDATE AND REVISE**
5 **THE DEPRECIATION ADJUSTMENT IMPACT ON LOAD SERVING**
6 **ENTITIES?**

7 A. The Oklahoma jurisdictional amount of the adjustment for depreciation recovered from
8 LSEs reduces the revenue requirement by \$133,331, as shown on Exhibit ECF-1, page 15
9 of 17.

10 **VII. EXCESS TAX REGULATORY LIABILITY**

11 **Q. IN RESPONSE TO THE ATTORNEY GENERAL'S FINDING TO PROTECT TAX**
12 **SAVINGS DUE TO OGE'S CUSTOMERS, DID THE COMMISSION REQUIRE**
13 **OGE TO ESTABLISH A REGULATORY LIABILITY IN CAUSE NO. PUD**
14 **201700569?**

15 A. Yes. The Commission ordered OGE to record a deferred liability, subject to refund, and
16 accruing interest at OGE's cost of capital. Order No. 671982, dated January 9, 2018, states
17 the following:

18 THE COMMISSION FURTHER ORDERS OG&E shall record a deferred
19 liability beginning on the effective date of this Order, to reflect the reduced
20 federal corporate tax rate to 21 percent and the associated savings in excess
21 ADIT and any other tax implications of the Act on an interim basis subject
22 to refund until utility rates are adjusted to reflect the federal tax savings and
23 a final order is issued in OG&E's pending general rate case in Cause No.

1 PUD 201700496, or as otherwise ordered by the Commission. In the event
2 time delays occur in processing the pending rate case, the Commission may
3 direct OG&E to file a separate proceeding to address the impacts of the Act
4 and establish final rates.

5 THE COMMISSION FURTHER ORDERS the amounts of any refunds
6 determined to be owed to customers shall accrue interest at a rate equivalent
7 to OG&E's cost of capital as recognized in Order No. 662059 issued in
8 Cause No. PUD 201500273 until issuance of a final order in its pending rate
9 case in Cause No. PUD 201700496.¹⁰

10 **Q. PLEASE DISCUSS THE EXCESS TAX EXPENSE, THE EXCESS ADIT**
11 **AMORTIZATION, AND THE INTEREST CALCULATION RELATED TO THIS**
12 **LIABILITY.**

13 A. The accrual of the excess tax expense is based on the return of equity and rate base
14 investment from OGE's last rate case, Cause No. PUD 201500273, to calculate the equity
15 return requiring income taxes. The equity return is then multiplied by the differences in the
16 old income tax gross up factor and the new tax gross up factor, to find the annual amount
17 of excess income taxes being collected this year, until an order is adopted in this Cause.
18 The next component of the refund is the 2018 amortization that is found in OGE's response
19 to discovery request AG-OGE 12-3, Attachment 4. That amount is then allocated to the
20 Oklahoma retail jurisdiction. The excess tax expense and the excess ADIT amortization
21 are added together to provide the total annual refund liability for 2018. This amount is then

¹⁰ Order on the Atty. Gen.'s Mot. for Immediate Reduction in Rates & Protection of Customer Interests 4, Order No. 671,982, *Lower Rates & Charges for Elec. Serv. and Refund Due to Customers of Okla. Gas & Elec. Co. from Tax Cuts and Jobs Act of 2017*, No. PUD 201700569 (Okla. Corp. Comm'n Jan. 9, 2018).

1 divided by 12 to produce the monthly amount, and then interest is calculated on those
2 monthly balances based on the pretax rate of return from the Cause No. PUD 201500273.
3 The monthly amounts of the excess tax expense, the excess ADIT amortization, and interest
4 are accumulated to produce the Company's total refund liability due to OGE's customers.

5 **Q. WHAT WOULD OGE OWE ITS CUSSTOMERS IN TAX REFUNDS IF NEW**
6 **RATES WERE IN EFFECT BEGINNING ON OCTOBER 1 OF THIS YEAR?**

7 A. I calculate an Oklahoma jurisdictional refund liability of \$59,554,522, if new rates become
8 effective on October 1, 2018. My refund calculations are found on Exhibit ECF-1, page 16
9 of 17.

10 **VIII. SUMMARY OF RECOMMENDATIONS**

11 **Q. WHAT IS THE IMPACT OF THE ATTORNEY GENERAL'S**
12 **RECOMMENDATIONS IN THIS CAUSE?**

13 A. Based on the above recommendations and those of other witnesses for the Attorney
14 General, the Attorney General recommends a \$98,932,351 rate reduction in contrast to the
15 rate increase requested by OGE of \$517,220, as shown on Exhibit ECF-1, page 1. The
16 jurisdictional impacts of the adjustments presented on Exhibit ECF-1 are approximate
17 based on composite allocation factors. The precise jurisdictional impact of the final
18 adjustments adopted by the Commission should be determined with the application of a
19 comprehensive revenue requirement model, which also includes the impact on bad debt
20 expense and cash working capital. These recommendations are subject to change based on
21 information that may be presented in this cause after the filing date of this testimony.

1

IX. CONCLUSION

2 **Q. DOES YOUR TESTIMONY ADDRESS ALL ISSUES IN THIS RATE CASE?**

3 A. No, it does not. I will review issues raised by other parties to this Cause and reserve the
4 right to address those issues in rebuttal testimony.

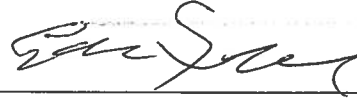
5 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

6 A. Yes, it does.

AFFIDAVIT OF EDWIN C. FARRAR

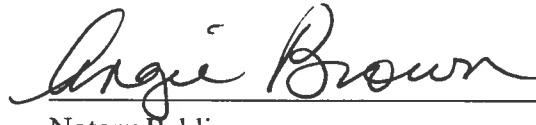
STATE OF OKLAHOMA)
) ss
COUNTY OF OKLAHOMA)

I, Edwin C. Farrar, do hereby swear/affirm that the foregoing testimony is true and correct to the best of my knowledge and belief.

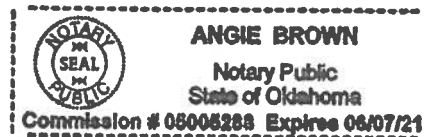


Edwin C. Farrar

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



Notary Public



My Commission expires on _____.

CERTIFICATE OF SERVICE

On this 2nd day of May, 2018, a true and correct copy of the above and foregoing *Responsive Testimony of Edwin C. Farrar on Behalf of Mike Hunter, Oklahoma Attorney General*, along with attached exhibits, was sent via electronic mail to the following interested parties:

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**Oklahoma Gas and Electric Co.
OCC Cause No. PUD 201700496
Attorney General Revenue Requirement Recommendation**

Line No.	Description	Witness	Rate Base	Pre-Tax ROR	Jurisdictional Increase
1	Requested Amounts		\$ 4,583,074,714		\$ 1,860,515
2	Supplemental Adjustment to Depreciation Expense				\$ (1,343,295)
3	Supplemental Revenue Deficiency				\$ 517,220
<i>Six Month Updates to Rate Base</i>					
4	Utility Plant	Farrar	\$ 6,199,091	9.5677545%	\$ 593,114
5	Accumulated Depreciation	Farrar	(10,254,330)	9.5677545%	(981,109)
6	Accumulated Deferred Income Taxes	Farrar	(15,201,830)	9.5677545%	(1,454,474)
7	Regulatory Assets	Farrar	31,734,448	9.5677545%	3,036,274
8	Regulatory Liabilities	Farrar	(30,933,908)	9.5677545%	(2,959,680)
9	Net Pension Benefit	Farrar	(7,233,904)	9.5677545%	(692,122)
10	Total Rate Base Adjustments		\$ (25,690,432)		\$ (2,457,998)
11	Adjusted Rate Base		\$ 4,557,384,282		
<i>Cost of Capital Adjustments</i>					
12	Capital Structure	50.00% Griffing	\$ 4,557,384,282	-0.2659824%	(12,121,839)
13	Return on Equity	9.18% Griffing	\$ 4,557,384,282	-0.4830380%	(22,013,897)
14	Reliability, Cust. Satisfaction	-0.25% Borhmann	\$ 4,557,384,282	-0.1677215%	(7,643,714)
15	Total Cost of Capital Adjustments				\$ (41,779,450)
<i>Six-Month Updates to Revenues & Expenses</i>					
16	Revenue	Farrar			\$ 6,729,429
17	Payroll and Payroll Taxes	Farrar			(1,042,902)
18	SPP Revenues/Expenses	Farrar			37,956
19	Bad Debts Expense	Farrar			18,537
20	Pensions and Retirement Benefits Expense	Farrar			(583,351)
21	Pension Regulatory Liability Amortization	Farrar			(329,573)
22	Rate Case Expense	Farrar			(152,230)
23	Ad Valorem Taxes	Farrar			(58,886)
24	Amortization of Net Unfunded Deferred Income Taxes	Farrar			(7,662,419)
25	Total Six-Month Updates to Revenues & Expenses				\$ (3,043,439)
<i>Other Adjustments to Revenues & Expenses</i>					
26	Profit-Based Incentives	Farrar			(6,250,933)
27	SERP (Non-Qualified Pensions)	Farrar			(1,028,420)
28	Rate Case Expense	Borhmann			(10,325)
29	Depreciation Expense	Dunkel			(44,745,676)
30	Depreciation Expense for Load Serving Entities	Farrar			(133,331)
31	Total Other Adjustments to Revenues & Expenses				\$ (52,168,684)
32	Total Adjustments to Revenues & Expenses				\$ (55,212,124)
33	Total Recommended Adjustments				\$ (99,449,571)
34	Recommended Annual Rate Decrease				\$ (98,932,351)
35	Estimated Customer Refund Due to Tax Order**				\$ (59,554,522)

**Estimate Based on Rates Effective September 30, 2018

**Oklahoma Gas and Electric Co.
OCC Cause No. PUD 201700496
Attorney General Rate Base Update Adjustment**

Line No.	Description	AG Rate Base at 3/31/2018	OG&E Rate Base Proposed	Total Company Adjustment	Jurisdictional Allocation	Oklahoma Retail Adjustment
1	Plant in Service	\$ 10,597,760,540	\$ 10,590,863,620	\$ 6,896,920	89.88%	\$ 6,199,091
2	Accumulated Depreciation	(3,988,602,431)	(3,977,182,717)	(11,419,714)	89.79%	(10,254,330)
3	Accumulated Deferred Income Tax	(642,015,118)	(625,177,372)	(16,837,746)	90.28%	(15,201,830)
4	Regulatory Assets	171,321,284	135,371,741	35,949,543	88.27%	31,734,448
5	Regulatory Liabilities	(1,115,557,733)	(1,081,264,751)	(34,292,982)	90.20%	(30,933,908)
6	Net Pension Benefit Asset	<u>55,583,504</u>	<u>63,487,043</u>	<u>(7,903,539)</u>	91.53%	<u>(7,233,904)</u>
7	Totals	<u>\$ 5,078,490,046</u>	<u>\$ 5,106,097,564</u>	<u>\$ (27,607,518)</u>		<u>\$ (25,690,432)</u>

Oklahoma Gas and Electric Co.
OCC Cause No. PUD 201700496
Attorney General Revenue Update Adjustment

Line No.		Total Company Amount	Jurisdictional Allocation	Oklahoma Retail Adjustment
1	Oklahoma Adjusted Revenue, March 31, 2018	\$ 1,181,913,238	Direct	\$ 1,181,913,238
2	Oklahoma Revenue Requested	<u>1,188,642,667</u>	Direct	<u>1,188,642,667</u>
3	Adjustment to Revenue	<u>\$ (6,729,429)</u>		<u>\$ (6,729,429)</u>

**Oklahoma Gas and Electric Co.
OCC Cause No. PUD 201700496
Attorney General Payroll Adjustment**

Line No.	AG Payroll Annualization	OG&E Payroll Annualization	Total Company Adjustment	O&M Jurisdictional Allocation	Oklahoma Retail Adjustment
	(3/31/18)				
	<u>Holding Company</u>				
1	Annualized Holding Company Payroll	\$ 42,471,691	\$ 44,042,324		
2	4 Year Average O&M Expense Percent	78.731137%	78.731137%		
3	Annualized Holding Company Payroll Expense	\$ 33,438,445	\$ 34,675,023		
4	Holding Company Overtime	501,470	501,470		
5	Total Holding Company Payroll Expense Allocated to I	\$ 33,939,915	\$ 35,176,493	\$ (1,236,577)	91.38% \$ (1,129,984)
	<u>Utility</u>				
6	Year End Annualized Utility Payroll	\$ 157,218,709	\$ 156,947,363		
7	4 Year Average O&M Expense Percent	66.366358%	66.366358%		
8	Annualized Utility Payroll Expense	\$ 104,340,331	\$ 104,160,248		
9	Utility Overtime	10,057,023	10,057,023		
10	Total Utility Payroll Expense	\$ 114,397,354	\$ 114,217,271	\$ 180,082	91.38% \$ 164,559
11	Total Adjustment to Annualized Payroll Expense		\$ (1,056,495)		\$ (965,425)
12	Payroll Tax Effective Rate		8.03%		8.03%
13	Payroll Tax Adjustment		\$ (84,786)		\$ (77,477)
14	Total Adjustment to Payroll and Payroll Taxes		\$ (1,141,281)		\$ (1,042,902)

**Oklahoma Gas and Electric Co.
OCC Cause No. PUD 201700496
Attorney General Bad Debt Expense Update Adjustment**

Line No.		Total Company Amount	Jurisdictional Allocation	Oklahoma Retail Adjustment
1	Oklahoma Adjusted Bad Debt Expense, March 31, 2018	2,071,531	Direct	\$ 2,071,531
2	Oklahoma Requested Bad Debt Expense	<u>2,052,994</u>	Direct	<u>2,052,994</u>
3	Adjustment to the Pension Regulatory Liability Amortization	<u>\$ 18,537</u>		<u>\$ 18,537</u>

**Oklahoma Gas and Electric Co.
OCC Cause No. PUD 201700496
Attorney General Pensions and Benefits Adjustment**

Line No.	Description	AG Benefit Annualization (3/31/2018)	OG&E Benefit Annualization	Total Company Adjustment	O&M Jurisdictional Allocation	Oklahoma Retail Adjustment
1	Pension Expense - OG&E	\$ 4,470,767	\$ 5,318,426	\$ (847,659)	91.38%	\$ (774,591)
2	Pension Expense - OGE	2,238,126	2,022,902	215,224	91.38%	196,672
3	Total Pension Expense	\$ 6,708,893	\$ 7,341,328	\$ (632,435)		\$ (577,919)
4	Postretirement Benefits - Medical Expense - OG&E	\$ 228,308	\$ (39,553)	\$ 267,861	91.38%	\$ 244,771
5	Postretirement Benefits - Medical Expense - OGE	(418,753)	(400,540)	(18,213)	91.38%	(16,643)
6	Total Postretirement Benefits - Medical Expense	\$ (190,445)	\$ (440,093)	\$ 249,648		\$ 228,128
7	Postretirement Benefits - Life Insurance - OG&E	\$ 44,408	\$ 172,690	\$ (128,282)	91.38%	\$ (117,224)
8	Postretirement Benefits - Life Insurance - OGE	-	127,310	(127,310)	91.38%	(116,336)
9	Total Postretirement Benefits - Life Insurance	\$ 44,408	\$ 300,000	\$ (255,592)		\$ (233,560)
10	Totals	\$ 6,562,856	\$ 7,201,235	\$ (638,379)		\$ (583,351)

Oklahoma Gas and Electric Co.
OCC Cause No. PUD 201700496
Attorney General Pension Regulatory Liability Amortization Adjustment

Line No.		Total Company Amount	Jurisdictional Allocation	Oklahoma Retail Adjustment
1	Pension Regulatory Liability Amortization at March 31, 2018	\$ (8,804,003)	Direct	\$ (8,804,003)
2	Pension Regulatory Liability Amortization Requested	<u>(8,474,430)</u>	Direct	<u>(8,474,430)</u>
3	Adjustment to the Pension Regulatory Liability Amortization	<u>\$ (329,573)</u>		<u>\$ (329,573)</u>

Oklahoma Gas and Electric Co.
OCC Cause No. PUD 201700496
Attorney General Rate Case Expense Update Adjustment

Line No.		Total Company Amount	Jurisdictional Allocation	Oklahoma Retail Adjustment
1	Oklahoma Adjusted Bad Debt Expense, March 31, 2018	\$ 381,215	Direct	\$ 381,215
2	Oklahoma Requested Bad Debt Expense	<u>533,445</u>	Direct	<u>533,445</u>
3	Adjustment to the Pension Regulatory Liability Amortization	<u>\$ (152,230)</u>		<u>\$ (152,230)</u>

Oklahoma Gas and Electric Co.
OCC Cause No. PUD 201700496
Attorney General Ad Valorem Tax Adjustment

Line No.	Description	Amount
1	2018 Monthly Accrual	\$ 7,013,056
2	Annualization Factor	<u>12</u>
3	2018 Annualized Ad Valorem Tax	\$ 84,156,672
4	Capitalized Percent	<u>-4.74%</u>
5	Capitalized Amount	<u>\$ (3,988,506)</u>
6	Annualized Ad Valorem Tax Expense	\$ 80,168,166
7	OG&E Annualized Ad Valorem Tax	<u>80,233,568</u>
8	Total Company Adjustment	\$ (65,402)
9	Jurisdictional Allocation Factor	<u>90.04%</u>
10	Jurisdictional Adjustment	<u><u>\$ (58,886)</u></u>

Oklahoma Gas and Electric Co.
OCC Cause No. PUD 201700496
Attorney General Excess Tax Reserve Amortization Adjustment

Line No.		Total Company Amount	Jurisdictional Allocation	Oklahoma Retail Adjustment
1	Amortization of Net Unfunded Deferred Income Taxes, Updated	\$ (30,021,153)	89.75%	\$ (26,943,985)
2	Unfunded Tax Amortization Requested	<u>(5,041,018)</u>	89.75%	<u>(4,524,314)</u>
3	Adjustment to the Amortization of Net Unfunded Deferred Income Taxes	\$ (24,980,135)		\$ (22,419,671)
4	Combined Effective Tax Rate	<u>25.471698%</u>		<u>25.471698%</u>
5	Adjustment Impact on Income Tax Expense	\$ (6,362,865)		\$ (5,710,671)
6	Income Tax Gross Up Factor	<u>1.341772</u>		<u>1.341772</u>
7	Tax Amortization Adjustment to the Revenue Requirement	<u><u>\$ (8,537,514)</u></u>		<u><u>\$ (7,662,419)</u></u>

**Oklahoma Gas and Electric Co.
OCC Cause No. PUD 201700496
Attorney General Short-Term Incentive Adjustment**

Line No.		Total Company Amount	Jurisdictional Allocation	Oklahoma Retail Amount
1	Adjusted Holding Company Short-Term Incentives ("STI")	\$ 5,957,476		
2	Percent Expense	<u>78.73%</u>		
3	Holding Company STI in O&M Expenses	\$ 4,690,389		
4	Adjusted Utility STI	\$ 12,015,752		
5	Percent Expense	<u>66.37%</u>		
6	Utility STI in O&M Expenses	<u>\$ 7,974,417</u>		
7	Total STI in the Revenue Requirement	\$ 12,664,806		
8	Ratepayer Sharing Percentage	<u>50%</u>		
9	Ratepayer Share	<u>\$ 6,332,403</u>		
10	Adjustment to STI	\$ (6,332,403)	91.38%	\$ (5,786,550)
11	Payroll Tax Percentage	<u>8.03%</u>		<u>8.03%</u>
12	Pro Forma Adjustment to Payroll Taxes	<u>\$ (508,189)</u>		<u>\$ (464,383)</u>
14	Adjustment to Short-Term Incentives and Payroll Taxes	<u><u>\$ (6,840,592)</u></u>		<u><u>\$ (6,250,933)</u></u>

**Oklahoma Gas and Electric Co.
OCC Cause No. PUD 201700496
Attorney General Non-Qualified Pensions Adjustment**

Line No.		AG Annualized Non-Qualified Pensions	Jurisdictional Allocation	Oklahoma Retail Amount
1	2018 Pension Restoration - OG&E	\$ 665,369		
2	Percent to Expense	63.92%		
3	2018 Pension Restoration Expense - OG&E	<u>\$ 425,326</u>	91.38%	\$ 388,663
4	2018 Pension Restoration - OGE	\$ 927,520		
5	Percent to Expense	75.48%		
6	2018 Pension Restoration Expense - OGE	<u>\$ 700,105</u>	91.38%	<u>\$ 639,756</u>
7	Total AG Annualized Non-Qualified Pension Expense	\$ 1,125,432		\$ 1,028,420
8	Adjustment to Non-Qualified Pension Expense	<u>\$ (1,125,432)</u>		<u>\$ (1,028,420)</u>

**Oklahoma Gas and Electric Co.
OCC Cause No. PUD 201700496
Attorney General Depreciation Expense Adjustment**

Line No.	Description	Total Company Amount	Jurisdictional Allocation	Oklahoma Retail Adjustment
1	Attorney General Annualized Depreciation Expense at Recommended Rates	\$ 299,833,321	90.90%	\$ 272,548,488
2	Oklahoma Depreciation Expense Requested	\$ 350,536,259		
3	Supplemental Depreciation Expense Adjustment	<u>(1,477,772)</u>		
		<u>349,058,487</u>	90.90%	<u>317,294,165</u>
	Adjustment to the Pension Regulatory Liability Amortization	<u>\$ (49,225,166)</u>		<u>\$ (44,745,676)</u>

**Oklahoma Gas and Electric Co.
OCC Cause No. PUD 201700496
Attorney General Depreciation Expense Calculation**

Line No.	Acct No.	Plant	Adjusted Plant In Service March 31, 2018 (AG-OGE 12-3)	Add back Transmission LSE (AG-OGE 12-3)	Non-Depreciable Plant In Service (AG-OGE 12-3)	Adjusted Depreciable Plant In Service (AG-OGE 12-3)	AG Proposed Composite Rate	Proposed DD&A Expense
INTANGIBLE PLANT								
1	301	Organization	\$ 80,900	\$ -	\$ 80,900	\$ -	0.00%	\$ -
2	302	Franchise and Consents	2,420,073	-	-	2,420,073	4.43%	107,209
3	303	Miscellaneous Intangible Plant	173,593,981	-	74,517,307	99,076,674	6.24%	6,182,384
4		TOTAL INTANGIBLE PLANT	\$ 176,094,955	\$ -	\$ 74,598,207	\$ 101,496,748		\$ 6,289,594
PRODUCTION PLANT								
STEAM PRODUCTION								
5	310	Land and Land Rights	\$ 11,420,830	\$ -	\$ 10,480,767	\$ 940,063	2.88%	\$ 27,074
6	311	Structures and Improvements	262,126,816	-	-	262,126,816	1.85%	4,849,346
7	312	Boiler Plant Equipment	1,146,152,545	-	-	1,146,152,545	2.06%	23,610,742
8	314	Turbogenerator Units	416,050,714	-	-	416,050,714	2.42%	10,068,427
9	315	Accessory Electric Equipment	143,830,592	-	-	143,830,592	1.93%	2,775,930
10	316	Miscellaneous Power Plant Equipment	34,046,372	-	-	34,046,372	2.54%	864,778
11	317	ARO Cost - Steam Production	11,527,007	-	-	11,527,007	10.61%	1,223,015
		TOTAL STEAM PRODUCTION	\$ 2,025,154,875	\$ -	\$ 10,480,767	\$ 2,014,674,108		\$ 43,419,313
OTHER PRODUCTION								
12	340	Land and Land Rights	\$ 2,187,473	\$ -	\$ 2,176,658	\$ 10,816	0.00%	\$ -
13	341	Structures and Improvements	100,389,256	-	2,753,418	97,635,838	2.70%	2,636,168
14	342	Fuel Holders, Producers and Accessories	22,634,319	-	192,026	22,442,293	2.14%	480,265
15	343	Prime movers	838,216,347	-	77,186,138	761,030,209	2.94%	22,374,288
16	344	Generators	876,277,499	-	-	876,277,499	4.13%	36,190,261
17	345	Accessory Electric Equipment	139,008,174	-	5,479,772	133,528,401	2.99%	3,992,499
18	346	Miscellaneous Power Plant Equipment	15,233,285	-	590,269	14,643,016	3.27%	478,827
19	347	ARO Cost - Other Production	43,620,335	-	-	43,620,335	4.41%	1,923,657
20		TOTAL OTHER PRODUCTION	\$ 2,037,566,688	\$ -	\$ 88,378,280	\$ 1,949,188,407	3.49%	\$ 68,075,964
21		TOTAL PRODUCTION PLANT	\$ 4,062,721,562	\$ -	\$ 98,859,047	\$ 3,963,862,515		\$ 111,495,277
TRANSMISSION PLANT								
22	350	Land and Land Rights	\$ 127,479,630	\$ -	\$ 3,737,687	\$ 123,741,943	1.35%	\$ 1,670,516
23	352	Structures and Improvements	6,707,757	-	-	6,707,757	1.60%	107,324
24	353	Station Equipment	481,823,002	321,461,928	2,666,214	800,618,716	2.33%	18,654,416
25	354	Towers and Fixtures	100,659,017	62,751,999	-	163,411,017	1.63%	2,663,600
26	355	Poles and Fixtures	610,746,728	399,764,177	-	1,010,510,905	2.69%	27,182,743
27	356	Overhead Conductors and Devices	399,973,962	239,179,446	-	639,153,408	2.02%	12,910,899
28	358	Underground Conductors and Devices	110,494	-	-	110,494	0.00%	-
29	359	ARO Cost - Transmission	585,057	-	-	585,057	4.59%	26,854
30		TOTAL TRANSMISSION PLANT	\$ 1,728,085,648	\$ 1,023,157,550	\$ 6,403,901	\$ 2,744,839,297		\$ 63,216,352
DISTRIBUTION PLANT								
31	360	Land and Land Rights	\$ 13,282,695	\$ -	\$ 7,797,841	\$ 5,484,854	1.34%	\$ 73,497
32	361	Structures and Improvements	7,429,586	-	-	7,429,586	1.42%	105,500
33	362	Station Equipment	641,824,278	-	-	641,824,278	2.16%	13,863,404
34	364	Poles, Towers, and Fixtures	650,248,197	-	-	650,248,197	2.40%	15,605,957
35	365	Overhead Conductors and Devices	504,919,802	-	-	504,919,802	2.36%	11,916,107
36	366	Underground Conduit	230,159,779	-	-	230,159,779	1.44%	3,314,301
37	367	Underground Conductors and Devices	805,121,709	-	-	805,121,709	1.68%	13,526,045
38	368	Line Transformers	477,227,420	-	-	477,227,420	3.37%	16,082,564
39	369	Services	247,138,448	-	-	247,138,448	1.38%	3,410,511
40	370	Meters	191,461,749	-	-	191,461,749	5.55%	10,626,127
41	371	Installation on Customers' Premises	56,366,476	-	-	56,366,476	9.75%	5,495,731
43	373	Street Lighting and Signal Systems	249,610,034	-	-	249,610,034	2.91%	7,263,652
44		TOTAL DISTRIBUTION PLANT	\$ 4,074,790,172	\$ -	\$ 7,797,841	\$ 4,066,992,331		\$ 101,283,396
GENERAL PLANT								
45	389	Land and Land Rights	\$ 3,181,563	\$ -	\$ 3,002,965	\$ 178,598	2.06%	\$ 3,679
46	390	Structures and Improvements	193,728,277	-	-	193,728,277	2.33%	4,513,869
47	391	Office Furniture and Equipment	45,868,166	-	-	45,868,166	13.81%	6,334,394
48	392	Transportation Equipment	89,313,602	-	-	89,313,602	5.49%	4,903,317
49	393	Stores Equipment	1,710,402	-	-	1,710,402	4.00%	68,416
50	394	Tools, Shop and Garage Equipment	11,813,177	-	-	11,813,177	4.00%	472,527
51	395	Laboratory Equipment	11,930,620	-	-	11,930,620	5.00%	596,531
52	396	Power Operated Equipment	12,751,042	-	-	12,751,042	4.58%	583,998
53	397	Communication Equipment	27,642,167	-	-	27,642,167	10.00%	2,764,217
54	398	Miscellaneous Equipment	6,485,483	-	-	6,485,483	5.00%	324,274
55		TOTAL GENERAL PLANT	\$ 404,424,499	\$ -	\$ 3,002,965	\$ 401,421,534		\$ 20,565,221
56		TOTAL ELECTRIC PLANT IN SERVICE	\$ 10,446,116,836	\$ 1,023,157,550	\$ 190,661,961	\$ 11,278,612,425		\$ 302,849,841
57		Remove Transportation Activity Depreciation					61.52%	(3,016,521)
58		ATTORNEY GENERAL RECOMMENDED DEPRECIATION EXPENSE						\$ 299,833,321

Oklahoma Gas and Electric Co.
OCC Cause No. PUD 201700496
Attorney General Depreciation for Load Serving Entities

Line No.	Description	Transmission for LSE's at 3/31/2018	AG Depreciation Rates	AG LSE Depreciation Exclusion
1	Station Equipment	\$ 321,461,928	2.33%	\$ (7,490,063)
2	Towers and Fixtures	62,751,999	1.63%	(1,022,858)
3	Poles and Fixtures	399,764,177	2.69%	(10,753,656)
4	Overhead Conductors and Devices	239,179,446	2.02%	(4,831,425)
5	Total Company Amounts			<u>\$ (24,098,002)</u>
6	OG&E Proposed Adjustment for LSE Depreciation Expense			<u>\$ (23,951,323)</u>
7	Adjustment to Update the LSE Deprecation Expense			\$ (146,679)
8	Jurisdictional Allocation Factor			<u>90.90%</u>
9	Oklahoma Jurisdictional Amount			<u><u>\$ (133,331)</u></u>

Oklahoma Gas and Electric Co.
OCC Cause No. PUD 201700496
Attorney General's Customer Refund Recommendation

Line No.	Description	Amount
1	Rate Base, PUD 201500273	\$ 4,202,129,058
2	Weighted ROE, PUD 15-273	5.064%
3	Tax Factor Difference	(0.288997079)
4	Excess Tax Expense	\$ (61,497,369)
5	Excess ADIT Amortization	\$ (19,112,825)
6	Retail Factor	0.878627068
7	Jurisdictional Factor	0.897491517
8	Oklahoma Amortization	\$ (15,071,616)
9	Total Annual Impact	\$ (76,568,985)
10	Monthly Amount	\$ (6,380,749)

	Month	Monthly Amount	Interest 10.8822%	Cummulative Balance
11	January	\$ (6,380,749)		\$ (6,380,749)
12	February	(6,380,749)	\$ (57,864)	(12,819,361)
13	March	(6,380,749)	(116,253)	(19,316,363)
14	April	(6,380,749)	(175,171)	(25,872,282)
15	May	(6,380,749)	(234,623)	(32,487,654)
16	June	(6,380,749)	(294,615)	(39,163,017)
17	July	(6,380,749)	(355,150)	(45,898,916)
18	August	(6,380,749)	(416,235)	(52,695,900)
19	September	(6,380,749)	(477,873)	\$ (59,554,522)

Oklahoma Gas and Electric Co.
OCC Cause No. PUD 201700496
Attorney General Cost of Capital

Line No		Capital Ratio	Cost of Capital	Weighted Cost of Capital	Tax Factor	Pre-Tax Cost of Capital
Requested Cost of Capital:						
1	Long-Term Debt	46.66%	5.32%	2.482%	1.000000	2.482%
2	Common Equity	53.34%	9.90%	5.281%	1.341772	7.085%
3	Total	100.00%		7.763%		9.568%
Recommended Capital Structure:						
4	Long-Term Debt	50.00%	5.32%	2.660%	1.000000	2.660%
5	Common Equity	50.00%	9.90%	4.950%	1.341772	6.642%
6	Total	100.00%		7.610%		9.302%
7	Difference					-0.266%
Recommended Return on Equity:						
8	Long-Term Debt	50.00%	5.32%	2.660%	1.000000	2.660%
9	Common Equity	50.00%	9.18%	4.590%	1.341772	6.159%
10	Total	100.00%		7.250%		8.819%
11	Difference					-0.483%
Recommended Return on Equity Penalty for Reliability:						
12	Long-Term Debt	50.00%	5.32%	2.660%	1.000000	2.660%
13	Common Equity	50.00%	8.93%	4.465%	1.341772	5.991%
14	Total	100.00%		7.125%		8.651%
15	Difference					-0.168%