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 202100164

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CORPORATION COMMISSION
OF OKLAHOMA

Direct Testimony

of

Jason J. Thenmadathil

on behalf of

Oklahoma Gas and Electric Company

December 30, 2021

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

A. My name is Jason Thenmadathil. My business address is 321 North Harvey, Oklahoma City, Oklahoma 73102.

Q. **By whom are you employed and in what capacity?**

A. I am employed by Oklahoma Gas and Electric Company ("OG&E" or "Company") as the Manager of Regulatory Accounting.

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

A. I received a Bachelor of Science degree in Accounting from the University of Central Oklahoma. In 2005, I was employed by the Public Utility Division ("PUD") of the Oklahoma Corporation Commission ("Commission") as a Public Utility Regulatory Analyst, and later was promoted to Coordinator. As a PUD analyst, I testified in various utility cases filed by electric and gas companies, including rate cases and fuel prudence reviews. In March 2010, I joined OG&E as a Senior Regulatory Accountant. In October 2017, I assumed additional responsibilities as the Supervisor of Regulatory Accounting where I oversee the work of members of the Regulatory Accounting group, whose responsibilities are to prepare the minimum filing requirements ("MFR") for rate cases and determine revenue requirements for various rate filings. In May 2018, I was promoted to Manager of Regulatory Accounting.

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

A. Yes. As a witness for OG&E, I previously submitted testimony in Cause Nos. PUD 201500266, 201500273, 201600319, 201700261, 201700496, 201800084, and 201800140.

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

A. The purpose of my testimony is to sponsor the *pro forma* adjustments to certain test year expenses in this Cause and explain why these adjustments are appropriate. The Company utilized a historical test year ending September 2021 with *pro forma* adjustments through March 2022. I also support the Company's request to establish a regulatory asset for the deferral of operation and maintenance (O&M) expenses associated with the deployment and implementation of the SAP S/4 HANA Project.

Q. **Do other witnesses from your team sponsor accounting *pro forma* adjustments in this case?**

A. Yes, OG&E witness James Fenno sponsors adjustments to the rate base, while OG&E witness Shelby Norton sponsors various expense related pro forma adjustments.

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 O&M expense is necessary to allow the Company to cover operating costs on a going forward basis.

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

A. The Company makes adjustments to the test year books to design rates which reflect revenue, expense, and investment levels the utility expects to experience prospectively. The Company utilizes a historic 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 to not be the customer's responsibility.

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

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

1) Normalization Adjustments are made to rate base and expenses to offset unusual levels of operations recorded during the test year. An example of such an adjustment

would be the use of a four-year average for short-term incentives to address the variable nature of the expense.

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

3) Out of Period Adjustments consider known and measurable changes that occur outside the end of the test year. An example of such an adjustment would be to decrease pension expenses based on actuarial projections for 2021.

4) Certain adjustments remove costs that are unnecessary to provide electric service to customers. An example of such an adjustment would be to remove costs related to donations and contributions.

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

INCOME STATEMENT

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

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

Pro Forma Adjustments to the Income Statement

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

A. Chart 1 shows each of the expense *pro forma* adjustments and gives a description of each 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	Pension and Other Post Retirement Benefits
WP H 2-19	Removal of SAP/S4 related expenses
WP H 2-21	Depreciation Expense
WP H 2-24	Energy Efficiency Program (EEP) Expense Removal
WP H 2-28	Southwest Power Pool Expense
WP H 2-29	Amortization of Pension Regulatory Asset/Liability
WP H 2-30	SPP Transmission Expense recovered from Load Serving Entities (LSE)
WP H 2-35	Intracompany SPP Fees Removal
WP H 2-38	Other Amortization
WP H 2-39	Rate Case Expenses
WP H 2-44	Acquisition Adjustment Amortization

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

A. This adjustment increases property taxes by $7,434,609. To arrive at this adjustment, the Company first calculated a ratio of actual Ad Valorem taxes assessed in 2021 to actual plant and property values at the end of calendar year 2020. This ratio was then multiplied by the *pro forma* level of plant and property included in the rate base to arrive at a *pro forma* level of ad valorem tax expense.

Q. **Does the Company believe this methodology for the Ad Valorem Tax adjustment is reasonable?**

A. Yes. The Company believes the current methodology is reasonable in that it applies a ratio based on actual Ad Valorem taxes assessed. Since Ad Valorem taxes for 2021 are based on plant and property at the end of the calendar year 2020, applying this ratio to the *pro forma* level of plant and property in the rate base aligns property taxes with the rate base. The ratio also utilizes the most recent property tax assessment provided by the Oklahoma Tax Commission. This methodology was utilized in the prior rate case. Similar to the prior case, the Company also recommends updating this adjustment utilizing actual plant and property values at the end of the six-month pro forma period.

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

A. OG&E has established various employee benefit plans funded by employee and Company contributions. Annually, the Company retains an independent actuary to prepare an actuarial valuation of the pension and retiree medical plans. This valuation determines the net periodic benefit cost which is the annual expense recognized by the Company for generally accepted accounting principles ("GAAP") purposes. For the *pro forma* adjustment, the expense level per the September 2021 actuarial report provided by Fidelity was compared with the actual test year level of pension and other post-retirement benefits expense. The level per the actuarial report was adjusted to only include amounts that would be classified as O&M, and does not include amounts considered temporary. The result of this comparison is a decrease to pension and post-retirement expenses of $15,933,235. The Company recommends updating this level with updated actuarial information received through the end of the six-month post test-year.

Q. **Does the level recommended by OG&E include Restoration of Retirement Income Plan and Supplemental Executive Retirement Plan ("SERP") expenses?**

A. No, the Company is not requesting recovery of Restoration and SERP expenses at this time.

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

A. Yes. The difference between actual expenses and the level in base rates is tracked with the Pension Tracker. Any under or over recovery associated with pension and post-retirement medical expenses are recorded as a regulatory asset or liability respectively.

Q. **Please explain WP H 2-19, *pro forma* adjustment to remove SAP/S4 related expenses.**

A. The Company is requesting to defer, as a regulatory asset, expenses associated with the implementation costs of the SAP/S4 project due to the nature of the expense. With this deferral request, the Company is recommending removing expenses associated with this project that were expensed during the test year. The Company is recommending deferral of these expenses and inclusion into a regulatory asset, to be reviewed in a subsequent rate case, as I more fully discuss in the last section of my testimony below. This results in a pro forma adjustment to remove ($162,000) from the test year.

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

A. This adjustment increases depreciation expense to account for the increased level of plant requested in this case as well as new depreciation rates. The Company requests an increase of $105,816,517 to depreciation expense. Please see the direct testimony of OG&E Witness Spanos for the reasoning behind the new depreciation rates.

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

A. This adjustment removes costs related to the Oklahoma Energy Efficiency Program ("EEP") and the Arkansas Energy Efficiency Cost Recovery ("EECR") Rider. These costs are recovered through ongoing rider mechanisms and should therefore be removed from base rates. This adjustment decreases O&M by ($41,641,762).

Q. **Does the Company recommend moving EEP related labor into the EEP mechanism?**

A. Yes. Per the testimony of OG&E witness Jeremy Schwartz, filed in Cause No. PUD 202100121 for the update of the three-year demand portfolio, the Company proposed to transfer all dollars related to EEP labor out of base rates and into the EPP tariff for recovery. This would allow the Company to recover all EEP related expenses through the EEP rider, in addition to presenting all EEP related expenses for annual review. The amount moved to the EEP rider amounts to $740,000.

Q. **Please explain WP H 2-28, *pro forma* adjustment to Southwest Power Pool ("SPP") related expense.**

A. This adjustment results from updated SPP and NERC fees. OG&E proposes an increase to operating expenses of $64,207.

Q. **Does the Company recommend moving the recovery of SPP Schedule 1-A Administrative fees and Schedule 12 fees into the SPPCT mechanism?**

A. Yes. The Company recommends moving $17,434,796 of test year related expenses for Schedule 1-A fees and Schedule 12 fees into the SPPCT rider. Please see the testimony of OG&E witness Rowlett for further discussion on this issue.

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

A. As shown on WP H 2-29, the pension regulatory asset/liability balance at test year end, which would essentially represent the over/under balance of the difference between base rate and actual pension expenses, reflects an under-recovery balance of $39,390,121. The Company would recommend this total year to date balance of pension assets/liabilities be amortized over a five-year period, creating a new expense level of $7,878,024. The difference between the test year level of ($3,167,294) and the pro forma level results in an increase to pension amortization of $11,045,318.

Q. **Please explain WP H 2-30*, pro forma* adjustment to transmission expenses recovered from load serving entities ("LSEs").**

A. This adjustment coincides with rate base adjustment B 3-12. The revenue requirement associated with regionally allocated transmission plant and expense will be assigned to other LSEs around the SPP. This adjustment reduces operating expenses for O&M expense, administrative and general expense, depreciation, and taxes other than income related to those regionally allocated transmission projects. Similar to WP B 3-12, the percentage allocated to other LSEs was derived from the FERC Transmission Formula Rate True-Up Adjustment for the most current 2020 rate year filing. This *pro forma* adjustment is a decrease to expenses of $44,599,182.

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

A. This adjustment removes SPP expenses that are recovered through the SPPCT Rider. This results in a decrease to O&M of $72,723,218. Also, SPP fees directly charged to certain customers were also removed, which amounts to $1,925,982. The total *pro forma* adjustment is a decrease of $74,649,200. Please note that the associated revenues credited through the rider are removed through an adjustment to revenue.

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

A. This rider recovers the cost associated with SPP Schedule 11 Base Plan fees, which are charged by the SPP for OG&E's allocated share of the transmission investment made by third parties. The rider also includes a reduction for SPP revenues and credits. SPP utilizes FERC approved transmission rates and cost allocation methodologies to charge OG&E for costs associated with transmission projects constructed and owned by other transmission owners. Please see the testimony of OG&E witness Don Rowlett who addresses the need for the continuation of the SPPCT.

Q. **Please provide the OK jurisdictional revenue requirement for the SPPCT Rider from 2018 through 2020.**

A. Please see Chart 2 below:

Chart 2

SPPCT Rider Revenue Requirements	
2018	$43,763,748
2019	$47,207,351
2020	$49,037,769

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

A. An adjustment is necessary to eliminate expenses received by OG&E from the SPP for network transmission service provided by OG&E. The FERC has provided guidance to the industry that while these are intra-company charges and are normally eliminated in accordance with GAAP, they should be reflected gross in the FERC Form 1. This adjustment decreases expenses by $145,259,688. The removal of the associated revenues is reflected in the revenue adjustments supported by OG&E Witness Schwartz.

Regulatory Asset Amortizations

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

A. This adjustment results in a reduction of ($4,094,899). It consists of four components listed below, which I will go into detail in this section of testimony:

1. Current Amortizations
2. Proposed Amortizations
3. Less Expiring Amortizations
4. Less Misc. Arkansas/Partial Year Amortizations

Q. **Please discuss the first section for current amortizations.**

A. Various amortization amounts that have been approved in previous Commission orders were included in the calculation of the revenue requirement. This includes the regulatory assets associated with Retail Transmission AFUDC, the Red Rock power plant, the Sooner Scrubber Regulatory Asset, and the Frontier Regulatory Asset, all of which have been approved in prior cases. While most of these amounts are recorded as depreciation expense on the Company's books, a separate *pro forma* adjustment is necessary to include these amounts in the revenue requirement as these amounts are not reflected in *pro forma* depreciation rates. In addition, the Company has annualized the impact of the Frontier Regulatory Asset amortization, since a full year amortization is not reflected in the test year. This results in an increase to pro forma test year expense of $2,890,672.

Q. **Please discuss the second section for proposed amortizations.**

A. These amortizations are for the regulatory assets and liabilities that have been approved for deferral, but not yet recovered in rates. This includes amortization of the Company's COVID-19 regulatory asset of $1,359,567 and a credit for gain on sale of assets of ($193,820) for a total increase of $1,165,746.

Q. **Please discuss the regulatory asset associated with COVID-19.**

A. In Cause No. PUD 202000050, Order No. 711412, the Company was authorized to defer costs associated with bad debt expenses, expanded payment plans, waived fees, and incremental expenses directly related to the suspension of or delay in disconnection of service beginning March 15, 2020, with the issuance of the Governor's Declaration of Emergency (for COVID-19). In addition, the Order authorized utilities to defer expenses associated with ensuring continuity of service and protecting utility personnel, customer, and the general public. For OG&E, since March 15th through the test year end, these costs have totaled $6,797,833. The Company believes the incremental costs included in the regulatory asset were reasonable and necessary costs incurred during the height of the COVID-19 pandemic and therefore requests recovery of this regulatory asset over a five-year period, for an increase to expense of $1,359,567. The Company recommends the regulatory asset balance and amortization level be updated through the end of the six-month post test year period when actual information is available at that time.

Q. **Please discuss the regulatory liability for gain on sale of assets.**

A. In Cause No. PUD 201500273, Order No. 662059, the Commission ordered OG&E to defer the gain on sale of a rotor for the McClain Plant as well as the sale of distribution facilities to the Choctaw Nation. While the Order only mentioned those specific assets, the Company has continued to defer additional asset gains as a regulatory liability. As of the test year end, the balance of these gains amounted to ($1,681,519). For the new gains on asset sales, the Company recommends returning this balance over a five-year period. This amounts to a credit of ($193,820).

Q. **Please explain the expiring amortizations that would offset the items mentioned above.**

A. Since the 2015 rate case, Cause No. PUD 201500273, the Company has included the asset balance and amortization associated with stranded meters and the Smart Grid Web Portal. The Commission ordered this amount to be amortized over a six-year period. This amortization will expire when rates are effective in this current rate case. The Company therefore recommends this amortization be removed from test year expenses. This will result in a decrease to expenses of ($6,742,797).

Q. **Please discuss the amortizations associated with Arkansas and those that are partial year.**

A. Amortizations associated with the Arkansas jurisdiction should be removed. In addition, the test year included partial year amortization associated with the Frontier regulatory asset. To prevent over recovery, the Company removed the partial year amount when adding back the full year of amortization as mentioned in the first section. This adjustment amounted to a credit of ($1,408,521).

Q. **Please summarize the total adjustment for WP H 2-38.**

A. The summary of the adjustments is listed below:

1.	Current Amortizations -	$2,890,672
2.	Proposed Amortizations -	$1,165,746
3.	Expiring Amortizations –	($6,742,797)
4.	Misc. Arkansas/Partial Year –	<u>($1,408,521)</u>
5.	Total WP H 2-38 Adjustment –	($4,094,899).

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

A. This adjustment consists of two components. First, rate case expenses from Cause No. PUD 201800140 incurred after April 2019 and not included in prior rates are being requested for recovery in the current case. This amounted to $228,871. Second, this adjustment includes estimated rate case expenses through March 2022 associated with the current case, which amounts to $490,000. The Company proposes the same treatment recommended in the prior rate case, with inclusion of actual cost through the end of the *pro forma* period ending March 2022. Any costs incurred after this time shall be deferred to the next rate case. The Company continues to recommend a two-year amortization for both of these amounts. This adjustment increases operating expenses by $359,435**.**

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

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

Income Taxes

Q. **Please explain the Oklahoma corporate tax rate reduction reflected in proposed income tax expense.**

A. Under House Bill 2960, for tax years beginning Jan. 1, 2022, the corporate income tax rate is reduced to 4% from 6%. Since this tax change is known and measurable, the Company recommends reducing the Oklahoma corporate tax rate in the calculation of income tax expense.

Q. **With the change in the Oklahoma corporate tax rate, will this generate a deferred tax liability?**

A. Yes. OG&E has recorded accumulated deferred income taxes ("ADIT") for temporary differences between book and tax income. These accumulated income taxes are currently based on a 6% Oklahoma corporate income tax rate. With the change by Oklahoma of the Corporate tax rate, the deferred income tax liability must be remeasured at the reduced 4% Oklahoma income tax rate. OG&E has previously included the provision for deferred income taxes in determining its revenue requirement. The difference between the ADIT balance previously recorded and the remeasured amount should be recorded as a regulatory liability. The regulatory liability should be grossed up for the income tax benefit that OG&E will realize. This regulatory liability, when grossed up for income taxes, is approximately $98 Million.

Q. **How does the Company propose returning the excess deferred tax liability to customers.**

A. The Company proposes returning the liability over a 37-year period, which represents the approximate average life of OG&E's plant assets based on 2020 plant in service and depreciation expense. The current year turnaround of the excess deferred income taxes results in a reduction to OG&E's revenue requirement of approximately $2 million.

<u>S4/HANA Regulatory Asset Request</u>

Q. **What is the Company's request related to its SAP S/4 HANA Project ("S/4 HANA" or "Project")?**

A. The Company is seeking authority from the Commission to establish a regulatory asset to capitalize O&M costs associated with the development and implementation of the Project.

Q. **What is the S/4 HANA Project?**

A. At a high-level, S/4 HANA is the successor to OG&E's current SAP system, which is the foundation for OG&E's technology platforms.

Q. **Please describe OG&E's current SAP operating system.**

A. SAP is the enterprise resource planning ("ERP") system that serves as the backbone of OG&E's technology platforms. SAP integrates essentially all aspects of OG&E's business, such as Customer Operations, Work and Asset Management, Human

Resources, Finance and Accounting, and Information Technology. It is critical to our ability to manage the day-to-day operations of the Company. OG&E has utilized the current version of SAP for almost 25 years, first implementing it in 1997.

Q. **Why is OG&E transitioning to S/4 HANA?**

A. The functionality of the current version of SAP is outdated and is becoming obsolete. In 2015, SAP announced S/4 HANA as its new ERP platform. OG&E must transition to the new platform before SAP ends support for its current version in order to avoid system security issues and potential failure of the system if run in an unsupported environment. S/4 HANA also provides additional improvements in business processes, master data, reporting and analytics and customization features.

Q. **Are there accounting issues with the implementation of a project like S/4 HANA?**

A. Yes. The current accounting guidance for software project costs has variable treatment for capitalizing and expensing projects such as S/4 HANA. Under GAAP, some project costs are treated as capital investment, while other components are expensed.

While the accounting guidance applies to all types of industries, it creates a mismatch between the Project's expenditures and corresponding benefits that effect the rate setting process for a regulated utility such as OG&E, which results in an uneven expense recognition that does not benefit customers or the Company. That is, for projects that take many years to implement (like S/4 HANA implementation), deployment costs that are expensed as O&M are not capitalized and reviewed as a total project cost like other plant investments. In the rate setting process, plant investment should be used and useful before being charged to customers in rates. Since each phase of the S4/HANA project will provide benefits to customers after implementation, deployment costs should not be expensed immediately but rather recognized after the project phase is completed and providing those benefits to customers. To do otherwise would require customers to begin paying for costs associated with the project before it is actually in service. Also, a multi-year project like S/4HANA implementation does not necessarily have a representative year of deployment expense for ratemaking purposes; some years could have a high cost and others could have a lower cost. If this cost is included as pro forma expense, this could mean customers might pay too much or too little for the Project instead of a normalized and more equitable share representative of the benefits received and less disruptive to customer rates.

Q. **Does deferring O&M implementation costs of S/4 HANA project to a regulatory asset address these accounting issues**?

A. Yes. Deferring project deployment expenses, such as data preparation and software training, to a regulatory asset captures those costs across the project implementation period and allows for a review of all costs in a subsequent rate case after the projects is completed and providing benefits to customers. Also, this accounting treatment avoids implementing an unrepresentative annual O&M expense in rates for an ongoing project.

Q. **Is this accounting treatment consistent with other utility projects?**

A. Yes. The proposed accounting treatment is more consistent with that of other utility projects and results in a more appropriate and uniform application. It allows the deployment costs to be capitalized and recovered over the life of the assets.

Q. **Do you have an example of what most of this cost is similar to in ratemaking?**

A. The nature of this O&M is more comparable to construction work in progress ("CWIP") than O&M expense. During a capital project's development, costs associated with the project are recorded as CWIP on the balance sheet. During the rate setting process, any project that is completed and moved to plant in service at the end of the six-month post test-year is included in the rate base calculation. Any project not completed or in service is not included in the calculation of rate base.

Q. **Would this regulatory asset treatment recommended by the Company have a similar impact as CWIP?**

A. Yes, essentially by deferring the development costs classified as O&M into a regulatory asset, the Company is moving those items on to the balance sheet as a regulatory asset but not recovering the cost in rates, similar to CWIP. When the project is in service, the regulatory asset balance would be presented to the Commission and amortized over a time period set by the Commission. CWIP functions similarly, in that CWIP is only recovered when it is transferred to plant in service. The plant is only included in rates after a rate case review.

Q. **When will the O&M expenses deferred to the regulatory asset be reviewed and included in rates?**

A. The Company will request recovery in the rate case after each S/4 HANA module is placed in-service and benefitting customers. At that time, the Company will request an appropriate amortization period.

Q. **What is the estimated amount of deployment O&M the Company anticipates deferring?**

A. The Company is estimating about $7 million in deployment of O&M expenses for 2022 and $15 million in 2023. The total deployment costs classified as O&M for the S/4 HANA project is estimated to be $48 million through 2025

Q. **Have other jurisdictions allowed similar accounting treatment for software projects like the Company's S4/HANA Project?**

A. Yes. Other jurisdictions that have approved similar treatment for the O&M implementation costs associated with similar projects include Alabama, Indiana, North Carolina, Pennsylvania, and Texas.

Q. **Please summarize your recommendation regarding S4/HANA.**

A. The Company recommends that development costs classified as O&M and associated with the SAP/S4 update be deferred to a regulatory asset. This regulatory asset would then be reviewed in a later rate case when the associated project is used and useful and providing a benefit to customers, and an amortization period would then be set. This treatment more closely aligns the in-service date of the project with inclusion in base rates.

Riders Rolling into Base Rates

Q. **Please explain the riders rolling into base rates.**

A. Costs associated with the Generation Capacity Replacement Rider ("GCRR") and the Grid Enhancement Mechanism ("GEM") are being included in base rates, with recovery ceasing through each of those respective mechanisms. The GCRR, which included recovery of the River Valley and Frontier power plants, will be recovered in base rates via plant in service, depreciation, O&M, ad valorem taxes, and other amortizations, effective with the implementation of new rates. In addition, amounts recovered via the GEM shall be included in base rates. Please note that while the GEM was capped at $7 million, the annualized level of GEM projects was included in plant in service for recovery in base rates.

Q. **Since riders rolling into base rates do not increase the deficiency to customers, did the Company make an adjustment to increase revenues to account for this?**

A. Yes, an increase to revenues of $35,044,676 was made to decrease the deficiency, since riders rolling into base rates were already being recovered through their respective mechanisms. Please see the testimony of OG&E witness Schwartz for information on this adjustment.

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

A. Yes.