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	)	CAUSE NO. PUD 202100164
AUTHORIZING APPLICANT TO MODIFY ITS	)	
RATES, CHARGES, AND TARIFFS FOR RETAIL	)	
ELECTRIC SERVICE IN OKLAHOMA	)	

Direct Testimony

of

Shelby L. Norton

on behalf of

Oklahoma Gas and Electric Company

December 30, 2021

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

A. My name is Shelby Norton. 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 a Senior Regulatory Accountant.

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

A. I earned a Bachelor of Accountancy degree, with a minor in Finance, from the University of Oklahoma. I am also a Certified Public Accountant licensed by the Oklahoma Accountancy Board. I joined OG&E in October 2016 as a Senior Regulatory Accountant. During my time at OG&E, I have been involved in rate cases and rider applications in both Oklahoma and Arkansas jurisdictions. Prior to joining OG&E, I was employed by Enable Midstream Partners LP (formerly Enogex LLC) from 2008 to 2016, where I held roles as Senior Revenue Accountant, Senior Financial Analyst, and Senior SEC Accountant. My responsibilities included variance analysis, monthly revenue margin reporting, budgeting and forecasting operating costs, and preparing quarterly and annual filings with the Securities & Exchange Commission. From 1998 to 2008, I was employed by Chesapeake Energy as an Accounting Coordinator responsible for account analysis, reviewing and posting general ledger journal entries, and quarterly reporting. From 1995 to 1998 I was employed by Arthur Andersen LLP as an In-Charge Staff Auditor, where I was responsible for preparing financial statements for public and nonpublic companies, variance analysis, and running benefit plans and internal control audits.

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

A. No. I ask that the Commission accept my credentials.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to sponsor *pro forma* adjustments to the 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.

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 2-20	Insurance Expenses
WP H 2-22	Payroll Expense & Related Taxes
WP H 2-23	Other Compensation Expense
WP H 2-25	Regulatory Expense
WP H 2-26	Bad Debt Expense
WP H 2-27	Storm Rider Expense Removal
WP H 2-32	Long-Term Incentive Expense
WP H 2-33	Fuel Adjustment Clause (FAC) Rider Expense Removal
WP H 2-34	Non-recoverable Expense Removal
WP H 2-36	Customer Deposit Interest
WP H 2-37	Advertising Expense
WP H 2-40 & WP H 2-41	Vegetation Management Distribution and Transmission Expense
WP H 2-42	Wind Power Expense Removal

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

A. The Company compared test year insurance expense to actual insurance expenses for policy period 2021/2022 using information provided by the Company's insurance brokers. The difference between the test year and projected levels were recorded as a *pro forma* adjustment to increase expenses by $1,041,123.

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

A. This adjustment is designed to capture employee compensation levels at the end of the *pro forma* period. This adjustment consists of three parts. First, payroll expense was annualized based on the number of employees and their associated wage levels as of the end of the test year. To accomplish this, the Company calculated the hourly rates of each individual employee at OG&E, and multiplied those hourly rates by the number of hours worked per year. This adjustment has the effect of capturing a full year of payroll for the additional employees hired into the Company during the test year and eliminating the payroll of employees who left the Company during the test year. For the second part, this adjustment increased payroll to account for projected raises employees will receive at the end of 2021. This amounted to an approximate 2% increase in salaries. For the third part, a calculation was made to estimate changes to payroll expenses occurring from the end of the test year to the *pro forma* period resulting from hires and retirements. The result of all the calculations mentioned above is an increase to payroll expenses of $1,573,686. An additional adjustment of $125,002 is also made for payroll taxes related to the additional expense level, resulting in a total *pro forma* adjustment of $1,698,688.

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

A. Yes. The Company will update this adjustment with actual payroll information as of March 2022. By utilizing March 2022 information, the projections for salary increases as well as hires/retirements would no longer be necessary since the actual employee levels and actual salaries will be available.

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

A. The Company averaged four years of short-term and other compensation to arrive at a level of other compensation that captures both upward and downward swings in incentive and other compensation related costs. To arrive at the expense level, the ratio of expense to total payroll was applied in order to remove the capitalized amount. When payroll taxes are included, this results in a decrease to operating expenses of $4,632,716. Please see the direct testimony of OG&E Witness Donald Rowlett for further discussion on short term incentive compensation.

Q. **Should the adjustment be updated using actual incentive compensation information for the 2021 level used in the average?**

A. Yes. The Company will update the four-year average calculation with actual incentive compensation amounts in 2021 when this information becomes available. Updating the four-year average to include the most recent incentive compensation amounts has been accepted in past rate cases, including Cause Nos. PUD 201700496 and 201800140.

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

A. This adjustment has two components. First, the Company normalized regulatory expenses using a two-year average for various expenses in the Oklahoma jurisdiction excluding rate case expenses. This decreases operating expenses by $159,536. Second, the Company removed the Annual Public Utility Assessment Fee ("APUAF") in the amount of $2,108,193 since the APUAF fee is recovered through a surcharge on customers' bills. The total for both adjustments results in a decrease to operating expenses of $2,267,730.

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

A. The bad debt *pro forma* adjustment includes cost for uncollectible revenues the Company will experience, net of the fuel component of the customer's bill. This adjustment is made to reflect the expected change in bad debt not associated with fuel. The fuel component of bad debt flows through the Fuel Adjustment Clause ("FAC"). The Company used a four-year average uncollectible rate and multiplied it by the *pro forma* revenues net of fuel to arrive at a new bad debt expense level. This adjustment increases operating expense by $231,435.

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

A. The Company removed all storm amortization expenses included in the test year. These storm amortization expenses resulted from prior storm expenses that were deferred to a regulatory asset account and are currently being recovered through the Storm Rider. The base rate level of storm expense remains at $2,739,595, which was the Commission approved level from the previous rate cases. The total adjustment to storm expense is a decrease of $19,447,441.

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

A. The Company averaged four years of long-term incentives paid to employees to arrive at a level of long-term incentive expense that captures both upward and downward swings in incentive costs. When payroll taxes are included, this results in an increase to operating expenses of $1,088,354. Please see the direct testimony of OG&E Witness Rowlett for further discussion on long-term incentive compensation.

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

A. This adjustment removes all expenses recovered through the FAC Rider. This would include costs associated with fuel, purchased power and air quality control systems ("AQCS") costs. This adjustment removes $1,185,369,800 from operating expenses. This adjustment includes all fuel costs associated with the Winter Weather Event that occurred in February 2021.

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

A. This adjustment removes costs related to entertainment, gifts, donations, sponsorships, and shareholder related legal expenses that were included in various "above the line" FERC accounts (accounts included in the test year). OG&E proposes a decrease to operating expenses of $591,267.

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

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

Commission's treatment of interest paid on customer deposits in prior utility rate case proceedings. This results in an increase to operating expenses of $720,841.

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

A. Title 17, Section 180 of the Oklahoma Statutes defines the advertising expenses that may be included by a public utility in its operating expenses for ratemaking purposes. OG&E excluded expenses that did not meet the statutory definition. This results in a *pro forma* adjustment decreasing expenses by $3,463,932.

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

A. Both adjustments modify distribution and transmission vegetation management expenses to the level approved by in Order No. 662059 of Cause No. PUD 2015000273. These adjustments increase O&M by $825,972 for distribution and decrease O&M by ($1,251,777) for transmission for a total decrease to O&M of ($425,805) for vegetation management.

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

A. This adjustment removes ($4,407) of wind power education expense that was incurred during the test year. Since wind power education expenses are recovered through the Green Power Wind Rider ("GPWR"), the test year expense should be removed. Since the ($4,407) represents credits received, the result is an increase to operating expenses of $4,407.

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

A. Yes.