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	)	CASE NO. PUD 2023-000087
RATES, CHARGES, AND TARIFFS FOR RETAIL	)	
ELECTRIC SERVICE IN OKLAHOMA	)	

Direct Testimony

of

James G. Fenno

on behalf of

Oklahoma Gas and Electric Company

December 29, 2023

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

A. My name is James G. Fenno. My business address is 321 North Harvey Avenue, Oklahoma City, Oklahoma 73102.

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

A. Currently, I am a Lead Regulatory Accountant in the Regulatory Affairs group. I earned a Bachelor of Science in Accounting from the University of Central Oklahoma. I joined OG&E in August 2009 as a Property Accountant, since then I have worked in several roles within the Company. During my time at OG&E, I have been involved in multiple rate cases and rider applications in both Oklahoma and Arkansas jurisdictions. I have prepared workpapers and schedules for these applications.

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

A. Yes.

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 in this Cause and explain why these adjustments are appropriate. The Company utilized a historical test year ending September 2023 with *pro forma* adjustments through March 2024.

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

A. The *pro forma* adjusted level of rate base is necessary to allow the Company to earn a rate of return on an adequate level of rate base.

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

A. The Company adjusts the test year books to design rates which reflect the appropriate level of rate base 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 the removal of expenditures that are recovered elsewhere or the addition of expenditures that did not occur during the test year but will occur during the *pro forma* period.

PRO FORMA ADJUSTMENTS TO RATE BASE

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

A. Section B 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. Table 1 below shows the rate base adjustments and gives a description of each one. The rate base essentially represents the investment in facilities and equipment used to provide service to customers. The largest component of the rate base is plant in service. The *pro forma* adjusted rate base is multiplied by a proposed rate of return to arrive at the return requirement for capital investment. This return requirement represents a portion of the overall revenue requirement.

Table 1 – *Pro Forma* Adjustments to Rate Base

Pro Forma Adjustment	Rate Base Description
WP B 3-1	Arkansas AFUDC Adjustment
WP B 3-3	Adjusts Test Year End CWIP balance for projects with completion after March 2024
WP B 3-4	Fuel Inventories
WP B 3-5	Gas in Storage
WP B 3-6	Adjusts CWIP for projects transferred to Plant in Service completed by March 2024
WP B 3-7	Adjusts Test Year Plant in Service for New Projects started after Test Year End and completed by March 2024
WP B 3-8	Materials and Supplies
WP B 3-9	Cash Working Capital
WP B 3-10	Prepayments
WP B 3-11	Plant Held for Future Use

WP B 3-12	Transmission Investments Recovered from Other Load Serving Entities
WP B 3-13	Adjust Accumulated Depreciation through March 2024
WP B 3-14	Accumulated Deferred Income Tax through March 2024
WP B 3-15	Regulatory Assets & Liabilities
WP B 3-16	Accumulated Depreciation Differential between FERC and Oklahoma Approved rates

Q. **Please explain WP B 3-1, *pro forma* adjustment to Arkansas Allowance for Funds Used During Construction ("AFUDC").**

A. There is a difference between how the Arkansas Public Service Commission and the Oklahoma Corporation Commission calculate AFUDC. Arkansas placed a jurisdictional cap on AFUDC that does not apply to Oklahoma. To accurately reflect AFUDC calculated and booked for the Oklahoma jurisdiction, an adjustment must be made to add back to plant in service. This adjustment increases plant in service by $5,491,908 and increases accumulated depreciation by $898,577 resulting in an increase to Net Plant of $4,593,331.

Q. **Please explain WP B 3-3, *pro forma* adjustment to remove certain project construction costs.**

A. This adjustment removes costs for construction projects that will not be completed by the end of the six months post-test year or are reimbursable by a third party. This adjustment is a reduction of $276,787,356 to construction work in progress ("CWIP").

Q. **Please explain WP B 3-4, *pro forma* adjustments to Coal, Oil, and Alternative Fuel Inventories.**

A. The Company is requesting a 13-month average for coal inventory because it reflects the variable nature of the inventory balance during the test year. The adjustment decreases coal inventory by $18,470,195 resulting in an ending balance of $94,842,282. Next, the Company is requesting a 13-month average for oil inventory. This adjustment increases oil inventory by $911,083 resulting in an ending balance of $2,924,989. Additionally, OG&E recommends a 13-month average for alternative fuel inventory. This adjustment decreases alternative fuel inventory by $77,758 resulting in an ending balance of $253,706. The total of these adjustments decreases rate base by $17,636,870.

Q. **Please explain WP B 3-5, *pro forma* adjustment to Gas in Storage Inventory.**

A. OG&E recommends a 13-month average for Gas in Storage inventory which will result in an increase of $8,894,682 and an ending balance of $16,840,880.

Q. **Does the Company request fuel inventory levels to be updated at the end of six months post-test year?**

A. Yes, the Company will update coal, oil, alternative fuel, and natural gas inventory levels at that time, using 13-month averages ending March 31, 2024.

Q. **Please explain WP B 3-6 and WP B 3-7, *pro forma* adjustments to increase plant in service.**

A. The Company analyzed certain projects that were budgeted for the *pro forma* period and determined which projects would likely be in service by March 31, 2024, which is within six months of the test year end. Adjustment B 3-6 first removes the balance of CWIP related to uncompleted projects from the *pro forma* test year (which reduces CWIP by $211,763,129) and then adds back in CWIP for projects that were not completed by the end of the test year but will be completed by the end of the *pro forma* year ending March 31, 2024. These projects expected to be completed by the end of the *pro forma* year are then transferred to plant (which increases plant in service by $275,589,553). Adjustment B 3-7 adjusts plant in service for new projects that started after the test year end but will be completed by the end of the *pro forma* year ending March 31 2024. WP B 3-7 increases plant in service by $150,980,770. The total adjustment for WPs B 3-6 and B 3-7 increases rate base by $214,807,194. During this proceeding the Company will update this *pro forma* adjustment to reflect actual costs for plant completed and in service as of March 31, 2024.

Q. **Please explain WP B 3-8, *pro forma* adjustment to materials and supplies.**

A. This adjustment is made to account for the fluctuating cost of materials and supplies. The Company proposes adjusting materials and supplies to a 13-month average, which represents an appropriate level on an ongoing basis. This adjustment results in a decrease to rate base of $33,387,964. The Company recommends using a 13-month average ending March 31, 2024 when that information is available.

Q. **Before you explain WP B 3-9, please define cash working capital.**

A. Cash working capital is a component of OG&E's rate base. It is the average amount of capital provided by investors, not including plant in service and other measurable rate base items, which represents the amount of cash needed between the time payment is required for goods and services received by the Company and the time customer collections are received. The majority of rate base components are specific values found on the Company's books as reflected on Schedule B-2. To arrive at a reasonable level for cash working capital, the Company utilized the lead-lag study from Cause No. PUD 201500273 with modifications included from Cause No. PUD 202100164. The study determines the average amount of capital invested by the shareowners relative to the specific investments in other rate base components. There have been no material changes between the Company's billing of its customers and receipt of payments since the lead-lag study was performed.

Q. **Please explain the changes made to the lead-lag study used for cash working capital.**

A. Cash working capital and cash overdraft balances have been updated as of September 30, 2023.

Q. **Please explain WP B 3-9, *pro forma* adjustment to cash working capital.**

A. As noted above, OG&E utilized the lead lag study approach to calculate cash working capital. The results of this study are summarized in Schedule E-1, and the work papers behind the study are included as a part of the WP Es from the MFR Supplemental Package. This resulted in a negative cash working capital *pro forma* level and decrease to rate base of $60,236,091. Please note that OG&E has not included non-cash items such as depreciation, deferred tax expense, investment tax credits, or common equity return in the calculation of cash working capital.

Q. **Please explain WP B 3-10, *pro forma* adjustment to prepayments.**

A. This adjustment is made to account for the fluctuating balance of prepayments recorded on the balance sheet. Prepayments represent expenses paid in advance of actual goods and services being received from suppliers and contractors, and the Company is required to recognize an asset on the balance sheet for such expenses. The Company proposes adjusting prepayments to a 13-month average, which represents an appropriate level on an ongoing basis. This adjustment results in an increase to rate base of $3,313,787.

Q. **Please explain WP B 3-11, *pro forma* adjustment to plant held for future use.**

A. This adjustment removes any plant held for future use with an acquisition date older than 10 years from the test year end and adds any plant to be acquired during the pro forma period, which results in a net decrease to rate base of $2,054,326.

Q. **Please explain WP B 3-12, *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 rate base. It reflects the fact that the revenue requirement associated with regionally allocated transmission plant will be assigned to other load serving entities ("LSEs") around the SPP and should not be recovered again from OG&E 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 LSEs was derived from the FERC Transmission Formula Rate Baseline ATRR True-Up for the most current filing, which is the 2022 rate year. The net impact to rate base is a decrease of $684,560,409. A similar expense adjustment is made and will be explained in OG&E Witness Thenmadathil's direct testimony on WP H 2-30.

Q. **Please explain WP B 3-13, *pro forma* adjustment to update accumulated depreciation through the *pro forma* period.**

A. This adjustment estimates an increase to accumulated depreciation through March 31, 2024 to account for increases to the depreciation reserve occurring as a result of an additional six months of depreciation expense associated with the *pro forma* period. This adjustment also includes updates to net removal and retirements through March 31, 2024. The net impact to the rate base is a decrease of $162,027,940.

Q. **Please explain WP B 3-14, *pro forma* adjustment to update accumulated deferred income taxes ("ADIT") to the *pro forma* period.**

A. This adjustment estimates the balance of ADIT as of March 31, 2024. The net impact to the rate base is a decrease of $30,978,820. The Company would recommend that the ADIT balance be updated with actual information as of March 31, 2024.

Q. **Please explain what regulatory assets and regulatory liabilities are.**

A. For a regulated utility such as OG&E, some types of rate-regulated activities are subject to different accounting treatment which provides that certain incurred costs otherwise charged to expense can be deferred as regulatory assets, based on expected recovery from customers in future rates. Likewise, certain actual or anticipated credits that would otherwise reduce expense can be deferred as regulatory liabilities, based on the expected flowback to customers in future rates.

Q. **Please explain WP B 3-15, *pro forma* adjustment to regulatory assets and regulatory liabilities.**

A. This adjustment includes all of OG&E's regulatory assets and regulatory liabilities. Line numbers 1 through 30 of WP B 3-15 list all the Company's regulatory assets, with pro forma adjustments to these regulatory assets listed on line numbers 33 through 38. The bottom section, line numbers 41 through 44, provides all the Company's regulatory liabilities with pro forma adjustments to these regulatory liabilities listed on line numbers 46 through 47. These adjustments include removal of the Arkansas pension and updates to the Tax regulatory liabilities through the *pro forma* period.

Q. **Please explain the first part of WP 3-15, which updates regulatory assets.**

A. The Oklahoma storm rider amounts to $262,693,724, Arkansas-related items amount to $87,765,213, Oklahoma SAP Upgrade S/4 HANA project costs not in service amounts to

$2,506,841, and the FERC TCJA amounts to $13,142,246. The total of these adjustments to regulatory assets results in a decrease to rate base of $366,108,024.

Q. **Please explain the second part of WP 3-15, which updates regulatory liabilities.**

A. The adjustments to regulatory liabilities come from amortization of the regulatory tax liability through March 2024, and Arkansas post-retirement life, refund to customers. The total of these adjustments to regulatory liabilities results in an increase to rate base of $19,231,177.

Q. **What is the overall *pro forma* adjustment for WP B 3-15 for regulatory assets and liabilities?**

A. The adjustments to decrease regulatory assets by $366,108,024 and decrease regulatory liabilities by $19,231,177 result in a net *pro forma* adjustment to decrease rate base by $346,876,847.

Q. **Please explain WP B 3-16, *pro forma* adjustment to accumulated depreciation rate differential.**

A. This adjustment is made to adjust accumulated depreciation for the differential between FERC rates and Oklahoma-approved rates. Depreciation expense reported to FERC is calculated from FERC blended rates — a jurisdictionalized combination of the currently approved Oklahoma and Arkansas rates. As a result of this adjustment, accumulated depreciation decreases by $9,007,593, which is also an increase to Net Plant by the same amount.

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

A. Yes.

AFFIDAVIT

STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA)

On the 28th day of December 2023, before me appeared James Fenno, to me personally known, who, being by me first duly sworn, states that he is a Lead Regulatory Accountant for Oklahoma Gas and Electric ("OG&E") and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge, and belief.

Print JAMES FENNO

Signature

Subscribed and sworn to before this 28th day of December, 2023.

Notary Public

My commission expires: 10-17-2026

Seal HARRISON L. BURTON NOTARY # 14009452 EXP. 10/17/26 PUBLIC STATE OF OKLAHOMA