

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 201800140

FILED
DEC 31 2018

COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

Direct Testimony

of

Robert W. Trett

on behalf of

Oklahoma Gas and Electric Company

December 31, 2018

Robert W. Trett
Direct Testimony

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

2 A. My name is Robert W. Trett. My business address is 321 North Harvey Avenue,
3 Oklahoma City, Oklahoma 73102.

4
5 Q. **By whom are you employed and in what capacity?**

6 A. I am employed by Oklahoma Gas and Electric Company (“OG&E” or “Company”) as a
7 Senior Regulatory Accountant.

8
9 Q. **Please summarize your educational background and professional qualifications.**

10 A. I earned a Bachelor of Business Administration in Finance and a Bachelor of Science in
11 Accounting, both from the University of Central Oklahoma. I am also a Certified Public
12 Accountant licensed by the Oklahoma Accountancy Board. I joined OG&E in October
13 2016 as a Senior Regulatory Accountant. During my time at OG&E, I have been involved
14 in rate cases and rider applications in both Oklahoma and Arkansas jurisdictions.
15 Prior to joining OG&E, I was employed by Devon Energy as a Senior Financial Analyst
16 from 2014 to 2016. I was responsible for analyzing and forecasting revenue production
17 accruals and associated price, tax and transportation for the business units. I also prepared
18 budget variance analysis and presented financial statements to accounting and operations
19 management. From 2011 to 2014, I was employed by Chesapeake Energy as a Senior
20 Accountant. I was responsible for booking accounting entries, balance sheet
21 reconciliations, prepared and reviewed financial statements and variance analysis. From
22 2006 to 2011, I was employed by Enterprise Holdings primarily as a Senior Accountant. I
23 was responsible for booking accounting entries, balance sheet reconciliations, branch audits
24 and variance analysis.

25
26 Q. **Have you testified previously before this Commission?**

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

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

2 A. The purpose of my testimony is to sponsor the *pro forma* adjustments to the test year rate
3 base in this Cause and explain why these adjustments are appropriate. The Company
4 utilized a historical test year ending September 2018 with *pro forma* adjustments through
5 March 2019.

6

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

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

10

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

12 A. The Company makes adjustments to the test year books to design rates which reflect the
13 appropriate level of rate base the utility expects to experience, prospectively. The
14 Company utilizes a historic test year with *pro forma* adjustments reflecting reasonably
15 known and measurable changes. Some of these adjustments include the removal of
16 expenditures that are recovered elsewhere or the addition of expenditures that did not
17 occur during the test year but will occur during the *pro forma* period.

18

19 *PRO FORMA* ADJUSTMENTS TO RATE BASE

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

22 A. Section B contains schedules and the supporting workpapers which present the elements
23 of the rate base for the test year and adjustments to the test year rate base. Table 1 below
24 shows the rate base adjustments and gives a description of each one. The rate base
25 essentially represents the investment in facilities, equipment and other equipment used to
26 provide service. The largest component of the rate base is plant in service. The *pro*
27 *forma* adjusted rate base is multiplied by a proposed rate of return to arrive at the return
28 requirement for capital investment. This return requirement represents a portion of the
29 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 3-2	Sooner Scrubbers Regulatory Asset
WP B 3-3	Adjusts Test Year End CWIP balance for projects with completion after March 2019
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 2019
WP B 3-7	Adjusts Test Year Plant in Service for New Projects started after Test Year End and completed by March 2019
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 2019
WP B 3-14	Accumulated Deferred Income Tax through March 2019
WP B 3-15	Regulatory Assets & Liabilities
WP B 3-16	Accumulated Depreciation Differential between FERC and Oklahoma Approved rates

1 Q. **Please explain WP B 3-1, *pro forma* adjustment to Arkansas AFUDC.**

2 A. There is a difference between how the Arkansas Public Service Commission and the
3 Oklahoma Corporation Commission calculated AFUDC. In order to accurately reflect
4 the AFUDC calculated and booked for the Oklahoma jurisdiction, an adjustment has to
5 be made to plant in service. This adjustment increases plant in service by \$3,670,937 and
6 increases accumulated depreciation by \$328,456 resulting in an increase in Net Plant of
7 \$3,342,481.

1 Q. **Please explain WP B 3-2, *pro forma* adjustment to Sooner Scrubbers Regulatory**
2 **Asset.**

3 A. This adjustment increases rate base for accrued cost pertaining to depreciation, debt cost
4 and ad valorem taxes associated with the capital investment related to the Sooner
5 Scrubbers Project Regulatory Asset approved by the Commission per the Joint
6 Stipulation and Settlement Agreement in Cause No. PUD 201700496. These deferred
7 costs have accrued as a regulatory asset from the date each of the scrubbers from Sooner
8 Units 1 & 2 went into service up to the date new rates are effective in the current Cause.
9 The total adjustment increases the Oklahoma jurisdictional rate base amount by
10 \$20,495,146. Please see the testimony of OG&E Witness Jason Thenmadathil for the
11 amortization expense adjustment of the Sooner Scrubbers Regulatory Asset in WP H 2-
12 43.

13
14 Q. **Please explain WP B 3-3, *pro forma* adjustment to remove certain project**
15 **construction costs.**

16 A. This adjustment removes costs for construction projects that will not be completed by the
17 end of the six month post-test year or are reimbursable by a third party. This adjustment
18 is a reduction of \$43,441,072 to construction work in progress (“CWIP”).

19
20 Q. **Please explain WP B 3-4, *pro forma* adjustment to Coal and Oil Inventory.**

21 A. In the previous rate case, Cause No. PUD 201700496, OG&E recommended a 13 month
22 average for the coal inventory account balance. However, this treatment would not be
23 representative of the expected coal inventory level as of the post-six month test year
24 ending March 2019. The Company expects the coal inventory balance to decrease and
25 applying a 13 month average methodology would overstate the coal inventory balance.
26 The Company made adjustments to both the Sooner and Muskogee Facilities. This
27 adjustment includes the effect of the conversion to natural gas from coal for Muskogee
28 Units 4 & 5 that are planned to be completed in the first quarter of 2019. The total
29 adjustment decreases the coal inventory by \$10,224,615 resulting in an ending balance of
30 \$52,306,927. OG&E recommends a 13 month average of the oil inventory account

1 balance. This adjustment increases oil inventory by \$265,839 resulting in an ending
2 balance of \$1,362,596. The total adjustment decreases rate base by \$9,958,776.

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

5 A. In previous rate cases, OG&E has recommended a 13 month average for the gas in
6 storage account balance. However, this treatment would not be representative of the
7 expected gas in storage level as of the post six month test year ending March 2019
8 primarily due to the Cushion Gas Inventory being fully depleted in August of 2018.
9 OG&E recommends using the September 2018 test year-end balance of \$882,669 and to
10 update with actuals through March 2019. There is no adjustment needed for gas in
11 storage.

12
13 **Q. Please explain WP B 3-6 and WP B 3-7, *pro forma* adjustments to increase plant in
14 service.**

15 A. The Commission accepts out-of-period adjustments that are known and measurable
16 beyond the end of the test year. The Company analyzed certain projects that were
17 budgeted for the *pro forma* test year period and determined which projects would likely
18 be in service by March 31, 2019, which is within six months of the test year. Adjustment
19 B 3-6 adjusts CWIP for projects that were not completed by the end of the test year but
20 will be completed by the end of the *pro forma* year ending March 31, 2019, and
21 transferred to plant. Adjustment B 3-7 adjusts plant in service for new projects that
22 started after the test year and will be completed by the end of the *pro forma* year. WP B
23 3-6 and B 3-7 increase plant in service by \$643,134,165 and \$88,172,221 respectively.
24 WP B 3-6 also removes the remaining balance of CWIP from the test year. This
25 reduction amounted to \$589,535,590. The Company will update this *pro forma* to reflect
26 actual costs for plant completed and in service as of March 31, 2019 during this
27 proceeding. The total adjustment increases rate base by \$141,770,796.

28
29 **Q. Please explain WP B 3-8, *pro forma* adjustment to materials and supplies.**

30 A. This adjustment is made to account for the fluctuating cost of materials and supplies. The
31 Company proposes adjusting materials and supplies to a 13 month average, which

1 represents an appropriate level on an ongoing basis. This adjustment results in a decrease
2 to rate base of \$2,343,688.

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

5 A. Cash working capital is a component of OG&E's rate base. It is the average amount of
6 capital provided by investors, not including plant in service and other measurable rate
7 base items, which represent the amount of cash needed between the time expenditures are
8 required for services and the time collections are received. The majority of the rate base
9 components are specific values found on the Company's books as reflected on Schedule
10 B-2. In order to arrive at a reasonable level for cash working capital, the Company
11 utilized the lead-lag study from Cause No. PUD 201500273. The study determines the
12 average amount of capital invested by the shareowners relative to the specific
13 investments in other rate base components. There have been no material changes
14 between the Company's billing of its customers and its receipt of payments since the
15 lead-lag study was performed.

16
17 **Q. Please explain WP B 3-9, *pro forma* adjustment to cash working capital.**

18 A. OG&E utilized the lead lag study approach to calculate cash working capital. The results
19 of this study are summarized in Schedule E-1, and the work papers behind the study are
20 included as a part of the WP E's from the MFR Supplemental Package. This resulted in a
21 negative cash working capital *pro forma* level of \$40,178,267. Please note that OG&E
22 has not included depreciation, deferred tax expense, investment tax credits, or common
23 equity return in the calculation of cash working capital.

24
25 **Q. Please explain WP B 3-10, *pro forma* adjustment to prepayments.**

26 A. This adjustment is made to account for the fluctuating balance of prepayments recorded
27 on the balance sheet. Prepayments represent expenses paid in advance of actual services
28 being performed. The Company is required to recognize an asset on the balance sheet for
29 those expenses paid in advance until the suppliers/contractors have actually performed
30 the service required. The Company proposes adjusting prepayments to a 13 month

1 average, which represents an appropriate level on an ongoing basis. This adjustment
2 results in an increase to rate base of \$2,345,519.

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

5 A. Adjustment WP B 3-11 removes plant held for future use with an acquisition date older
6 than 10 years from the test year and results in a decrease to rate base of \$1,580,023. This
7 adjustment is consistent with the adjustments made in the prior four rate cases, Cause
8 Nos. PUD 201700496, PUD 201500273, PUD 201100087 and PUD 200800398.

9
10 **Q. Please explain WP B 3-12, *pro forma* adjustment to remove transmission related
11 plant in service paid for by third parties.**

12 A. This adjustment removes a percentage of certain OG&E transmission related items from
13 the rate base. This adjustment reflects the fact that the revenue requirement associated
14 with regionally allocated transmission plant will be assigned to other load serving entities
15 (“LSEs”) around the SPP and should not be recovered from OG&E customers. OG&E
16 has adjusted transmission related plant in service, accumulated depreciation, ADIT, and
17 other various rate base items to reflect this recovery. The percentage allocated to other
18 LSE’s was derived from the FERC Transmission Formula Rate True-Up Adjustment for
19 the most current filing, which is the 2017 rate year. The net impact to rate base is a
20 decrease of \$742,303,921. A similar expense adjustment is made and will be explained
21 in OG&E Witness Thenmadathil’s direct testimony on WP H 2-30.

22
23 **Q. Please explain WP B 3-13, *pro forma* adjustment to update accumulated
24 depreciation through the *pro forma* period.**

25 A. This adjustment estimates an increase to accumulated depreciation through March 31,
26 2019 to account for increases to the depreciation reserve occurring as a result of an
27 additional six months of depreciation expense associated with the *pro forma* period. This
28 adjustment also includes updates to net removal and retirements through March 31, 2019.
29 The net impact to the rate base is a decrease of \$50,008,383.

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

3 A. This adjustment estimates the balance of ADIT as of March 2019. The net impact to the
4 rate base is a decrease of \$11,085,068.

5
6 Q. **Please explain what regulatory assets and regulatory liabilities are.**

7 A. OG&E, as a regulated utility, is subject to accounting principles for certain types of rate-
8 regulated activities, which provide that certain incurred costs that would otherwise be
9 charged to expense can be deferred as regulatory assets, based on the expected recovery
10 from customers in future rates. Likewise, certain actual or anticipated credits that would
11 otherwise reduce expense can be deferred as regulatory liabilities, based on the expected
12 flowback to customers in future rates.

13
14 Q. **Please explain WP B 3-15, *pro forma* adjustment to regulatory assets and regulatory**
15 **liabilities.**

16 A. WP B 3-15 includes all of OG&E’s regulatory assets and regulatory liabilities. The top
17 section, line numbers 1 through 23 provide all of the Company’s regulatory assets with
18 certain *pro forma* adjustments to these regulatory assets on line numbers 24 and 25. The
19 bottom section, line numbers 27 through 33 provide all of the Company’s regulatory
20 liabilities with certain *pro forma* adjustments to these regulatory liabilities on line
21 numbers 34 through 36. These adjustments include the removal of the Storm Cost
22 Recovery Rider, a projected increase to the pension regulatory asset, updates to the
23 pension regulatory liability and tax regulatory liability through the *pro forma* period.
24 First, I will explain the adjustments to the regulatory assets, then I will explain the
25 adjustments to the regulatory liabilities and finally I will explain the overall net *pro forma*
26 adjustment to the regulatory assets and regulatory liabilities.

27
28 Q. **Please explain the first part of WP 3-15, which updates regulatory assets.**

29 A. This first adjustment on line number 24 removes \$37,420,076 from rate base associated
30 with the storm regulatory asset that is recovered through the Storm Cost Recovery Rider.
31 The second adjustment on line number 25 increases rate base by \$10,114,089 associated

1 with a projected increase to the pension regulatory asset through March 2019. The total
2 adjustment to regulatory assets results in a decrease to rate base of \$27,305,987.
3

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

5 A. The first and second adjustment reduce the pension regulatory liability by \$4,401,999, of
6 which, \$3,837,519 on line number 34 pertains to the pension and post-retirement benefits
7 amortization and \$564,480 on line number 35 pertains to the post-retirement life credit
8 amortization, respectively. The third adjustment on line number 36 reduces the tax
9 regulatory liability pertaining to the excess deferred ADIT amortization by \$15,476,274.
10 The total adjustment to regulatory liabilities results in an increase to rate base of
11 \$19,878,273.
12

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

15 A. The adjustments to decrease regulatory assets by \$27,305,987 and decreases to regulatory
16 liabilities by \$19,878,273, results in a net *pro forma* adjustment that decreases rate base
17 by \$7,427,714.
18

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

21 A. This adjustment is made to adjust accumulated depreciation for the differential between
22 the FERC rates and Oklahoma approved rates. Depreciation reported to FERC is a
23 blended rate comprised of a jurisdictionalized combination of the currently approved
24 Oklahoma and Arkansas rates. As a result, accumulated depreciation is decreased by
25 \$4,163,385, which is an increase to Net Plant by the same amount.
26

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

28 A. Yes.