BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF	)	
OKLAHOMA GAS AND ELECTRIC COMPANY	)	
FOR AN ORDER OF THE COMMISSION	)	CAUSE NO. PUD 201800140
AUTHORIZING APPLICANT TO MODIFY ITS	)	
RATES, CHARGES, AND TARIFFS FOR RETAIL	)	
ELECTRIC SERVICE IN OKLAHOMA	)	

Direct Testimony

of

Jason J. Thenmadathil

on behalf of

Oklahoma Gas and Electric Company

December 31, 2018

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, and 201800084.

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 expenses in this Cause and explain why these adjustments are appropriate. The Company utilized a historical test year ending September 2018 with *pro forma* adjustments through March 2019.

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 operations and maintenance ("O&M") expense are 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 4-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 2018.

4) Certain adjustments remove costs that are not necessary 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	Pensions and Other Post-Retirement Benefits
WP H 2-19	Active Member Benefits
WP H 2-20	Insurance Expenses
WP H 2-21	Depreciation Expense
WP H 2-22	Payroll Expense
WP H 2-23	Other Compensation Expense
WP H 2-24	Demand Side Management (DSM) Expense Removal
WP H 2-25	Regulatory Expense
WP H 2-26	Bad Debt Expense
WP H 2-27	Storm Rider 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 2-31	Southwest Power Pool Cost Tracker (SPPCT) Expense Removal
WP H 2-32	Long Term Incentive Removal
WP H 2-33	Fuel Adjustment Clause (FAC) Rider Expense Removal
WP H 2-34	Non-recoverable Expense Removal
WP H 2-35	Intracompany SPP Fees Removal
WP H 2-36	Customer Deposit Interest
WP H 2-37	Advertising Expense
WP H 2-38	Other Amortization
WP H 2-39	Rate Case Expenses
WP H 2-40 & H 2-41	Vegetation Management Distribution and Transmission Expense
WP H 2-42	Wind Power Expense Removal

WP H 2-43	Sooner Scrubber Regulatory Asset Amortization
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 $9,055,187. To arrive at this adjustment, the Company first calculated a ratio of actual Ad Valorem taxes assessed in 2018 to actual plant and property values at the end of calendar year 2017. 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 for 2018. Since Ad Valorem taxes for 2018 are based on plant and property at the end of the calendar year 2017, 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.

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 October 2018 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. The result of this comparison is a decrease to pension and post-retirement expenses of $15,991,781.

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 via the Pension Tracker approved by the Commission. Any under or over recovery associated with pension and post-retirement medical expenses are recorded as a regulatory asset or liability respectively.

Q. The Company had a similar reduction to pension and post-retirement expenses in the last rate case. Please explain why a $15,991,781 expense reduction is necessary for the current case.

A. With the Company's current pension and post-retirement medical tracker, as discussed above, the base rate level of pension expense booked in FERC account 926 matches the level set by the Commission. This amount is adjusted when new rates are effective. New rates for Cause No. PUD 201700496 were only effective July 2018. Since the test year for the current case is the year ending September 2018, the reduced level of pension expense from the last case would have only been booked from July through September, or only 3 months out of the test year. Since 9 months out of the test year still reflect a level of pension expense higher than the level going forward, a pro forma reduction is necessary.

Q. **Please explain WP H 2-19, *pro forma* adjustment to active member benefits expense.**

A. Active member benefits refer to medical, dental, life, and long-term disability benefits for current employees. This adjustment compares actual test year levels with budgeted levels to arrive at a reasonable expense level going forward. Similar to the previous adjustment, only costs classified as O&M were included. The Company recommends an increase of $1,551,286.

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 2018/2019 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 $52,290.

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 $84,050,151 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 2-22, *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 raises employees will receive at the end of 2018. This was accomplished by multiplying the payroll levels by a historical 4-year average of raises. This amounted to an approximate 3% increase. 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 result in an increase to payroll expenses of $1,192,392. An additional adjustment of $86,758 is also made for payroll taxes related to the additional expense level, resulting in a total *pro forma* adjustment of $1,279,150. Please see the direct testimony of OG&E witness Michael Halloran for the justification of total employee compensation levels.

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

A. Yes. The Company would recommend updating this adjustment with actual payroll information as of March 2019. By utilizing March 2019 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 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 $4,409,711. Please see the direct testimony of OG&E Witness Halloran for further discussion on short term incentives and overall compensation levels.

Q. **Should the adjustment be updated using actual incentive compensation information for the 2018 level used in the average?**

A. Yes. The Company would recommend updating the 4-year average calculation with actual incentive compensation amounts in 2018 when this information becomes available.

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 Demand Program Rider ("DPR") 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 $42,719,365.

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

A. This adjustment has three components. First, the Company normalized regulatory expenses using a 2-year average for various expenses in the Oklahoma jurisdiction excluding rate case expenses. This decreases operating expenses by $39,001. Second, the Company removed the Annual Public Utility Assessment Fee ("APUAF") in the amount of $2,153,200 since the APUAF fee is recovered through a surcharge on customer's bills. Finally, any amounts related to rate case expenses were adjusted to remove expiring amortization amounts from Cause No. PUD 201500273, annualize current amortization levels from Cause No. PUD 201700496, and remove any rate case expenses that will be deferred as a regulatory asset. This results in a decrease of $617,776. The total for all three adjustments results in a decrease of $2,809,977.

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 decreases operating expense by $355,783.

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 $11,724,962.

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, including the SPP Schedule 1-A Administrative fee. OG&E proposes an increase to operating expenses of $199,957

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

A. As shown on WP H 2-29, pension regulatory assets and liabilities are expected to result in a net liability of $22,826,378 at the end of the *pro forma* period. The amortization consists of two parts. First, a credit of $8,804,003 related to the amortization of the pension liability and a contributory life insurance liability approved in the last rate case was included. Since new rates from the last rate case were only effective in July 2018, the test year does not include a full year amortization of the credit to customers, therefore a full 12-months of the credit are included in this adjustment. Second, a net pension regulatory asset of $14,614,711 is projected to accrue from July 2018 through March 2019. An amortization level of $2,922,942 related to the pension regulatory asset was included in this adjustment. Similar to the prior rate case, the Company continues to propose a 5-year amortization, resulting in an overall reduction to expenses of $5,881,060.

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

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 LSE's was derived from the FERC Transmission Formula Rate True-Up Adjustment for the most current 2017 rate year filing. This *pro forma* adjustment is a decrease to expenses of $37,166,617.

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 $75,218,502. Also, SPP fees directly charged to certain customers were also removed, which amounts to $653,064. The total *pro forma* adjustment is a decrease of $75,871.567. 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 Greg McAuley which describes OG&E's role as a member of the SPP, including the Company's participation in the stakeholder process. Also, please see the testimony of OG&E witness Don Rowlett who addresses the need for the continuation of the SPPCT.

Q. **Prior to 2017, were the SPP revenues stated above included in another rider mechanism?**

A. Yes, those amounts were included in the Renewable Transmission System Additions ("RTSA") rider, under the SPP Transmission Revenue ("SPPTR") section. In 2017, following Cause No. PUD 201500273, SPP revenues were credited through the SPPCT and the RTSA Rider was eliminated.

Q. **Please provide the OK jurisdictional revenue requirement for the SPPCT Rider as well as credits that went through the RTSA Rider from 2015 through 2017.**

A. Please see Chart 2 below:

Chart 2

Rider Revenue Requirements

	SPPCT Rider	SPPTR Credits	Net Cost
2015	$38,436,820	($6,792,653)	$31,644,167
2016	$52,884,586	($32,266,320)	$20,618,266
2017	$50,038,531	($4,109,853) [1]	$45,928,678

Footnote

[1] SPP Revenue credits were moved to the SPPCT Rider in 2017. SPPCT amount in 2017 includes credits.

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

A. This adjustment removes the Company's test year long-term incentives paid to employees. While the Company believes this cost should be shared by customers because of the operational and financial benefits that customers receive as a result, the Company is not requesting rate recovery of these costs in this Cause. The result of this removal is a reduction to expenses of $12,969,699.

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 $795,464,181 from operating expenses. This adjustment also removes the test year level of cogeneration capacity payments from fuel expenses.

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 $1,747,035.

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 $170,596,372. The removal of the associated revenues is reflected in the revenue adjustments supported by OG&E Witness Knight.

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 of $1,317,983.

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 reducing expenses by $1,217,312.

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

A. This adjustment consists of three components. First, various amortization amounts that have been approved in previous Commission orders were included in the calculation of the revenue requirement. This includes the amortization on the regulatory asset associated with stranded customer meters and the Smart Grid Web Portal, the regulatory asset associated with the Red Rock power plant, and the regulatory asset associated with Retail Transmission AFUDC. While 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. This amounts to an increase of $7,236,765. For the second adjustment, the pension regulatory liability amortization level that was approved in Cause No. PUD 201500273 must be removed from the test year, as this amortization has already expired. In addition, an adjustment was also made to remove 3 months of amortization approved in Cause No. PUD 201700496 booked when new rates were effective in that Cause. The full 12 months of amortization associated with the pension liability from that Cause were included in WP H 2-29. This amounts to an increase of $5,015,176. For the third adjustment, amounts related to the Arkansas jurisdiction were removed. This amounts to a decrease of $781,701. In total, this *pro forma* adjustment increases test year operating expenses by $11,470,240.

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 201700496 incurred after April 2018 and not included in prior rates are being requested for recovery in the current case. This amounted to $79,915. Second, this adjustment includes estimated rate case expenses through March 2019 associated with the current case, which amounts to $316,000. 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 2019. Any costs incurred after this time shall be deferred to the next rate case. The Company recommends a two year amortization for both of these amounts. This adjustment increases operating expenses by $197,957**.**

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

A. Both adjustments are decreases to the test year to adjust distribution and transmission vegetation management expenses to the level approved by Commission Order #662059 in March 2017 filed under Cause No. PUD 2015000273. These adjustments decreased

O&M by $1,768,831 and $399,916 respectively for a total decrease to O&M of $2,168,747 for vegetation management.

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

A. This adjustment removes $132,557 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.

Q. **Please explain WP H 2-43, *pro forma* adjustment to include the amortization of the Sooner Scrubber Regulatory Asset.**

A. This adjustment increases operating expenses by $4,099,029 to include the amortization of the Sooner Scrubber Regulatory Asset in base rates. This regulatory asset consists of the debt cost, depreciation expense, and ad valorem taxes associated with the Sooner Scrubber project that are projected to accrue from the date each of the scrubbers from Sooner Units 1 & 2 go into service up to the date new rates are effective in the current cause. The Company recommends a 5-year amortization for this regulatory asset. The Commission approved the use of regulatory asset accounting for the Scrubbers in Cause No. PUD 201700496. Please see the testimony of OG&E witness Robert Trett for the inclusion of the regulatory asset amount in rate base under WP B 2-2.

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.

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

A. Yes.