

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

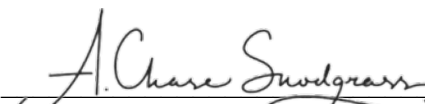
PUD 2023-000087

**REDACTED RESPONSIVE TESTIMONY OF BRICE D. BETCHAN**  
**ON BEHALF OF**  
**GENTNER F. DRUMMOND, OKLAHOMA ATTORNEY GENERAL**

Gentner F. Drummond, the Attorney General of Oklahoma, on behalf of the utility customers of this State, hereby submits the Responsive Testimony of Brice D. Betchan in the proceeding referenced above. The Attorney General urges close consideration of the testimony.

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

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PUD 2023-000087

*Redacted Responsive Testimony of Brice D. Betchan*

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**REDACTED**

**RESPONSIVE TESTIMONY**

**OF**

**BRICE D. BETCHAN**

**ON BEHALF OF**

**GENTNER F. DRUMMOND,**

**OKLAHOMA ATTORNEY GENERAL**

**April 26, 2024**

**TABLE OF CONTENTS**

I. Introduction .....6

II. Six-Month Post-Test-Year Updates .....8

III. Payroll Expense .....11

IV. Pension Regulatory Asset Amortization.....16

V. Severance Pay .....22

VI. HomeServe Home Warranty Program.....24

VII. Vegetation Management O&M Expense .....29

VIII. Insurance Expense.....34

IX. Other Matters .....35

X. Conclusion .....36

1 **I. Introduction**

2 **Q. PLEASE STATE YOUR NAME.**

3 A. My name is Brice D. Betchan.

4 **Q. PLEASE IDENTIFY YOUR EMPLOYER AND YOUR BUSINESS ADDRESS.**

5 A. I am employed by the Oklahoma Office of the Attorney General (“Attorney General”). My  
6 business address is 313 NE 21st Street, Oklahoma City, Oklahoma 73105.

7 **Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?**

8 A. I graduated summa cum laude from Southwestern Oklahoma State University with a  
9 Bachelor of Business Administration degree in Accounting and summa cum laude from  
10 Oklahoma State University with a Master of Science degree in Accounting. I was employed  
11 by Ernst & Young, LLP as an intern from January through March of 2015, then started full  
12 time as a staff member with Ernst & Young, LLP in January of 2016. I became a  
13 credentialed Certified Public Accountant in the State of Oklahoma in April 2017. I was a  
14 Tax Senior III before leaving Ernst & Young in January of 2020. I was employed by the  
15 Attorney General from February of 2020 to August of 2021 as a Certified Public  
16 Accountant in the Utility Regulation Unit. From August of 2021 to August of 2022, I was  
17 a Tax Team Leader at Paycom. From August of 2022 to January of 2024, I was employed  
18 by Ernst & Young, LLP as a Tax Manager and a Tax Senior Manager. My employment  
19 with the Attorney General as a Certified Public Accountant resumed in January of 2024. I  
20 have attached my curriculum vitae as Exhibit BDB-1.

1   **Q.    HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE OKLAHOMA**  
2   **CORPORATION COMMISSION?**

3   A.    Yes, I have previously testified before the Oklahoma Corporation Commission  
4    (“Commission”). My credentials were accepted at that time.

5   **Q.    WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CASE?**

6   A.    The purpose of my testimony is to recommend the Commission take the following actions  
7    regarding the application of Oklahoma Gas and Electric Company (“OGE” or  
8    “Company”):

- 9           1) Update rate base and operating income for known and measurable changes;
- 10          2) Use 2023 payroll O&M expense ratios for OGE’s annualized payroll;
- 11          3) Use a 7.02-year amortization period for OGE’s pension regulatory asset;
- 12          4) Disallow severance pay in OGE’s revenue requirement;
- 13          5) Direct OGE to add additional home warranty disclosures or share 75 percent of  
14            OGE’s home warranty net revenues with customers;
- 15          6) Find that OGE’s request for additional capital for vegetation management is not  
16            supported by the Company’s planned spending; and
- 17          7) Deny OGE’s insurance expense request for policies that did not renew in the 6-  
18            month update period.

19    Further, I prepared Exhibit BDB-2, which incorporates the adjustments proposed above,  
20    adjustments of other Attorney General witnesses, and the depreciation adjustment of  
21    Oklahoma Industrial Energy Consumers (“OIEC”) Witness David Garrett to show their  
22    cumulative impact on OGE’s requested increase.

1 **II. Six-Month Post-Test-Year Updates**

2 **Q. ARE YOU RECOMMENDING SIX-MONTH POST-TEST-YEAR UPDATES?**

3 A. Yes. Title 17, Section 284 of the Oklahoma Statutes directs the Commission to give effect  
 4 to known and measurable changes occurring or reasonably certain to occur within six-  
 5 months of the end of the test period upon which the rate review is based. The test period  
 6 ended September 30, 2023. The six-month update period ended March 31, 2024. OGE  
 7 provided updates as of March 31, 2024, which I include in my testimony.

8 **Q. PLEASE PROVIDE THE SIX-MONTH POST-TEST-YEAR RATE BASE**  
 9 **UPDATES YOU ARE RECOMMENDING.**

10 A. My March 31, 2024, six-month rate base update recommendations are as follows:

11	Plant in Service	\$(75,982,387)
12	Accumulated Depreciation	\$4,288,714
13	Plant Held for Future Use	\$151,248
14	Prepayments	\$1,560,044
15	Materials and Supplies	\$29,075,820
16	Fuel Inventories	\$25,675,037
17	Gas in Storage	\$(7,362,200)
18	Accumulated Deferred Income Tax	\$(3,177,443)
19	Regulatory Assets	\$52,509,963
20	Regulatory Liabilities	\$13,662,638
21	Customer Deposits & Advances	\$(5,131,495)
22	<u>Net Pension Benefit Asset (Obligation)</u>	<u>\$(6,201,010)</u>
23	Increase in Rate Base	\$29,068,929



1           These adjustments are included in Exhibit BDB-3.

2   **Q.   PLEASE DESCRIBE THE SIX-MONTH POST-TEST-YEAR REVENUE AND**  
3   **EXPENSE UPDATES YOU ARE RECOMMENDING.**

4   A.   I recommend OGE update its base revenues, ad valorem tax expense, pension and post-  
5   retirement benefits expense, payroll expense, payroll tax expense, other compensation  
6   expense, payroll taxes on other compensation expense, bad debt expense, SPP expense,  
7   pension regulatory asset amortization expense, long-term incentives expense, payroll taxes  
8   on long-term incentives expense, depreciation expense, regulatory amortization expenses,  
9   rate case expense, and vegetation management expenses to March 31, 2024.

10 **Q.   PLEASE DESCRIBE WHY YOU RECOMMEND SIX-MONTH UPDATES TO**  
11 **REVENUES AND EXPENSES.**

12 A.   In addition to being directed by Title 17, Section 284, updates to revenues and expenses  
13 are consistent with matching an updated rate base as of March 31, 2024, to updated  
14 revenues and expenses for the same period. This ensures comprehensive updates are made  
15 to both rate base and operating income.

16 **Q.   PLEASE PROVIDE THE SIX-MONTH POST-TEST-YEAR REVENUE AND**  
17 **EXPENSE UPDATES YOU ARE RECOMMENDING.**

18 A.   My March 31, 2024, six-month post-test year revenue and expense updates are as follows:

	<u>Revenue</u>	<u>\$(17,645,965)</u>
20	Ad Valorem Tax Expense	\$(79,409)
21	Pension and Post-Retirement Benefits Expense	\$(550,831)
22	Payroll Expense	\$3,597,753
23	Payroll Tax Expense	\$290,815

1	Other Compensation Expense	\$(1,231,529)
2	Payroll Taxes on Other Compensation Expense	\$(99,547)
3	Bad Debt Expense	\$21,763
4	SPP Expense	\$44,229
5	Pension Regulatory Asset Amortization Expense	\$1,345,800
6	Long-Term Incentive Expense	\$(54,406)
7	Payroll Taxes on Long-Term Incentive Expense	\$(4,398)
8	Depreciation Expense	\$(6,410,411)
9	Regulatory Amort. Expense – SAP S4 Software	\$2,062
10	Regulatory Amort. Expense – Sale of Assets	\$0
11	Rate Case Expense	\$(143,795)
12	Vegetation Management Expense – Distribution	\$(1,419,340)
13	<u>Vegetation Management Expense – Transmission</u>	<u>\$(2,191,126)</u>
14	<u>Total Expense Decrease</u>	<u>\$(6,882,370)</u>
15	Total Revenue Requirement Decrease	\$(24,528,335)

16 These adjustments are included in Exhibits BDB-4 and BDB-5.

1 **III. Payroll Expense**

2 **Q. PLEASE DESCRIBE OGE’S PAYROLL ADJUSTMENT?**

3 A. OGE is annualizing base payroll as of March 31, 2024, then applying a three-year average  
4 payroll operations and maintenance (“O&M”) expense ratio to get to its requested level of  
5 base payroll expense.

6 **Q. WHAT DOES IT MEAN TO ANNUALIZE PAYROLL?**

7 A. Annualizing base payroll means including twelve months of current salaries or pay rather  
8 than including the last twelve months of actual salaries.<sup>1</sup> A quick example shows the  
9 difference between annualizing salaries and including the last twelve months of salaries. If  
10 an employee earns a monthly salary of \$7,000 before March 2024, then is awarded a raise  
11 to \$8,000 in March 2024, the employee’s annualized pay would be \$96,000 as of March  
12 2024. The employee’s last twelve months of pay, from April 2023 through March 2024,  
13 would be \$85,000.<sup>2</sup> OGE’s base payroll request considers the higher annualized level of  
14 pay to be more appropriate than the lower last twelve months of pay.

15 **Q. DO YOU AGREE WITH ANNUALIZING BASE PAYROLL EXPENSE?**

16 A. Yes. I agree with annualizing base payroll as of the end of the six-month update period  
17 March 31, 2024. Annualizing base payroll as of this date gives effect to OGE’s current  
18 level of base payroll.

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<sup>1</sup> The terms “salary” and “pay” are used interchangeably when discussing base payroll, and include annualized pay for hourly employees.

<sup>2</sup> \$8,000 multiplied by 12 results in \$96,000, while \$7,000 multiplied by 11 and \$8,000 multiplied by 1, added together, results in \$85,000.

1 **Q. WHY IS OGE APPLYING A PAYROLL O&M EXPENSE RATIO TO TOTAL**  
2 **ANNUALIZED BASE PAYROLL?**

3 A. A portion of total base payroll is capitalized to the balance sheet and a portion is expensed  
4 to the income statement. The capitalized portion of base payroll attaches to and becomes a  
5 component of other utility assets in rate base. The portion of base payroll that is capitalized  
6 is generally recovered by the Company through depreciation with a rate of return while in  
7 rate base. The payroll O&M expense ratio is applied to represent the amount of base payroll  
8 that will be expensed to the income statement. OGE is applying a three-year average  
9 payroll O&M expense ratio to total annualized base payroll to determine the amount of  
10 base payroll it is requesting as payroll expense.

11 **Q. DO YOU AGREE WITH USING A THREE-YEAR AVERAGE PAYROLL O&M**  
12 **EXPENSE RATIO FOR BASE PAYROLL?**

13 A. No. I agree that a payroll O&M expense ratio must be applied to total base payroll, but not  
14 with OGE's use of a three-year average payroll O&M expense ratio.

15 **Q. WHY DO YOU DISAGREE WITH OGE'S USE OF A THREE-YEAR AVERAGE**  
16 **PAYROLL O&M EXPENSE RATIO?**

17 A. I disagree for two reasons. First, a multi-year average ratio should be used when the ratio  
18 varies or fluctuates year to year, or when there is an anomaly in the test-year.<sup>3</sup> As shown  
19 in Table BDB-1 below, OGE's payroll O&M expense ratio has consistently declined over  
20 the past decade, with the most drastic drop in the ratio coming from the past three years.<sup>4</sup>

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<sup>3</sup> National Association of Regulatory Utility Commissioners (NARUC) Staff Subcommittee on Accounting and Finance, Rate Case and Audit Manual 38 (Summer 2003).

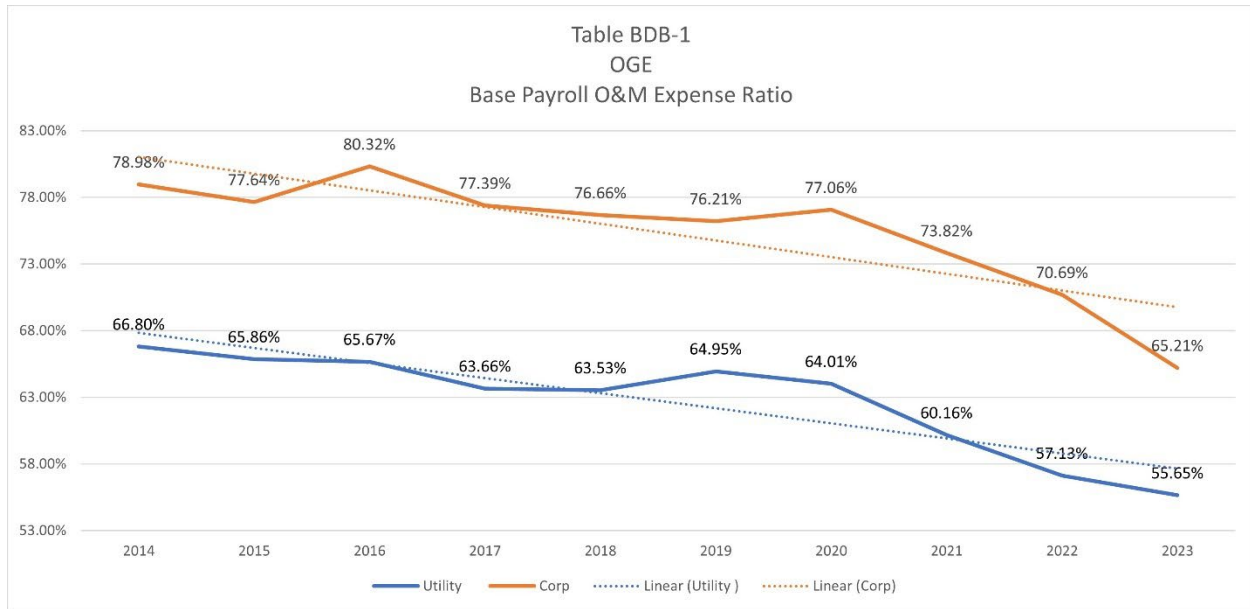
<sup>4</sup> OGE's Response to AG-OGE-26-3, Attachment 1, tab Payroll O&M Alloc Updated.

1 Using a three-year average payroll O&M expense ratio increases base payroll expense to a  
2 prior higher level, which ignores the considerable downtrend in the payroll O&M expense  
3 ratio that may continue to decline. Second, we can look at the underlying expense to which  
4 the payroll O&M expense ratio is applied. OGE is applying the same three-year average  
5 payroll O&M expense ratio to its short-term incentive compensation adjustment.<sup>5</sup> OGE is  
6 requesting a multi-year average (from 2020 to 2023) of short-term incentive compensation,  
7 so it logically follows that a multi-year average O&M expense ratio is used to determine  
8 the amount expensed for short-term incentive compensation.<sup>6</sup> However, this contrasts with  
9 OGE's request for base payroll, which was annualized as of March 31, 2024. Since OGE's  
10 current level of base payroll is annualized, a more current payroll O&M expense ratio  
11 should instead be applied.

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<sup>5</sup> OGE's Response to AG-OGE-26-5, Attachment 1, tab WP H2-23.

<sup>6</sup> Attorney General Witness Matejic will detail the Attorney General's adjustment to short-term incentive compensation. Reference to OGE's proposed short-term incentive compensation adjustment should not infer my support for OGE's adjustment. The purpose of my reference to short-term incentive compensation is to solely evaluate the reasonableness of the same O&M expense ratio used by OGE for both base payroll and short-term incentive compensation.



1 **Q. WHAT ARE OGE’S THREE-YEAR AVERAGE PAYROLL O&M EXPENSE**  
 2 **RATIOS?**

3 A. OGE’s three-year average payroll O&M expense ratio is 69.9 percent for the holding entity  
 4 or “Corp”, and 57.65 percent for the operating Company or “Utility”, as shown in Table  
 5 BDB-1.

6 **Q. WHAT ARE YOUR RECOMMENDED PAYROLL O&M EXPENSE RATIOS?**

7 A. I recommend the Company’s 2023 actual payroll O&M expense ratios be used, which are  
 8 65.21 percent for the holding entity or “Corp”, and 55.65 percent for the operating  
 9 Company or “Utility”. Based on the historical trend seen in Table BDB-1, using the 2023  
 10 payroll O&M expense ratios are more reflective of actual base payroll expense on a  
 11 forward-looking basis. Using the 2023 payroll O&M expense ratios also better matches the  
 12 underlying annualized base payroll to a similar period expense ratio, rather than an average  
 13 of higher prior year ratios.

1 **Q. HOW DID YOU EVALUATE THE REASONABLENESS OF OGE'S REQUEST?**

2 A. I evaluated OGE's request by considering the total amount of base payroll to be recovered  
3 if OGE's recommendation is used, which can be more than 100 percent of March 31, 2024,  
4 annualized pay. As shown above, OGE is requesting a 69.9 percent three-year average  
5 payroll O&M expense ratio for the holding entity. With no changes in base pay from March  
6 31, 2024, and absent any changes in the Company's payroll O&M expense ratio from 2023,  
7 OGE would recover 104.69 percent of annualized base pay, of which 69.9 percent would  
8 be through expense and 34.79 percent would be through capital recovery in a future case  
9 once assets are in rate base.<sup>7</sup> Recovery greater than 100 percent results because of the use  
10 of a three-year average payroll O&M expense ratio. In the same scenario, my  
11 recommendation would result in recovery of 100 percent of March 31, 2024, annualized  
12 base payroll.

13 **Q. IS YOUR RECOMMENDATION CONSERVATIVE?**

14 A. Yes, my recommendation is conservative. It uses 2023 payroll O&M expense ratios and  
15 does not continue to project a further decline in OGE's payroll O&M expense ratios beyond  
16 2023. The Company plans on spending \$6 billion on capital expenditures through 2028,  
17 starting at \$1.1 billion in 2024, increasing to \$1.15 billion in 2025, \$1.2 billion in 2026,  
18 \$1.25 billion in 2027, and \$1.3 billion in 2028.<sup>8</sup> This capital expansion will likely cause a  
19 further decrease in the Company's payroll O&M expense ratio, which will lead to more

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<sup>7</sup> 34.79 percent is the result of 100 percent less the 2023 holding entity payroll O&M expense ratio of 65.21percent shown in Table BDB-1.

<sup>8</sup> Q4 2023 Earnings & Business Update Conference Call, OG&E, Slide 13, <https://ogeenergy.gcs-web.com/static-files/4f898b5d-a859-41fd-9418-a6e81c9737f6> (last visited Apr. 24, 2024).

PUD 2023-000087  
Redacted Responsive Testimony of Brice D. Betchan

1 costs being capitalized. My recommendation to use the 2023 payroll O&M expense ratio  
2 is therefore conservative.

3 **Q. HAS OGE PREVIOUSLY USED A PAYROLL O&M EXPENSE RATIO SIMILAR**  
4 **TO WHAT YOU'RE RECOMMENDING?**

5 A. Yes. In Cause No. PUD 201100087, OGE used a twelve-month average payroll O&M  
6 expense ratio similar to my recommendation of using 2023 payroll O&M expense ratios.<sup>9</sup>

7 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?**

8 A. My recommendation reduces OGE's request for base payroll and payroll taxes by  
9 \$5,827,959 on a jurisdictional basis. See Exhibit BDB-6.

10 **IV. Pension Regulatory Asset Amortization**

11 **Q. PLEASE DESCRIBE OGE'S PENSION REGULATORY ASSET.**

12 A. The Company's pension regulatory asset represents the difference between net periodic  
13 pension cost ("NPPC") determined by generally accepted accounting principles  
14 ("GAAP"), and the amount collected from customers in rates between rate cases. If NPPC  
15 is higher than the amount customers pay in rates, a regulatory asset results for the  
16 Company. The under-recovered balance would then be collected from customers in future  
17 rates. However, the inverse is also true. If NPPC is lower than the amount customers pay  
18 in rates, a regulatory liability results for the Company. The over-recovered balance would  
19 then be returned to customers in future rates.

20 The Company has an under-recovered balance and is requesting recovery of a pension  
21 regulatory asset in the current proceeding.

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<sup>9</sup> Workpaper H-2-23, Lines 4 and 9, *Okla. Gas & Elec. Co. Rates & Charges for Elec. Serv.*, No. PUD 201100087 (Okla. Corp. Comm'n Jul. 28, 2011).



1 **Q. WHY IS NPPC DIFFERENT FROM THE PENSION EXPENSE CUSTOMERS**  
2 **PAY IN RATES?**

3 A. NPPC is computed by the Company's actuaries on a yearly basis using numerous  
4 assumptions, including employee census data and discount rates. NPPC in rates remains  
5 static between rate cases and is set using prior period data or projected future data. Stated  
6 differently, the amount of pension expense in rates is the best estimate of NPPC at the time  
7 of the rate case, but NPPC in rates is not reflective of NPPC on an ongoing or forward-  
8 looking basis. Regulatory asset and liability deferral ensures that customers pay for actual  
9 NPPC rather than the amounts collected through rates.

10 **Q. HOW DOES THE COMPANY PROPOSE COLLECTING ITS PENSION**  
11 **REGULATORY ASSET BALANCE?**

12 A. OGE's pension regulatory asset balance is \$51,096,441, which the Company proposes to  
13 amortize from customers at a rate of \$10,219,288 per year. The proposal is the result of the  
14 Company's recommended 5-year amortization period.

15 **Q. WHAT WERE YOUR FINDINGS UPON REVIEW OF THE COMPANY'S**  
16 **PENSION REGULATORY ASSET BALANCE?**

17 A. Upon review of OGE's calculation of the pension regulatory asset balance, I found that 61  
18 percent of the Company's pension regulatory asset accrual since the last rate case came  
19 from the Settlement Cost component of NPPC.<sup>10</sup>

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<sup>10</sup> OGE's Response to AG-OGE-26-09, Attachment 1.

1 **Q. WHAT IS THE SETTLEMENT COST COMPONENT OF NPPC?**

2 A. According to the Financial Accounting Standards Board (“FASB”), a settlement of a  
3 pension or postretirement benefit obligation is defined as a “transaction that is an  
4 irrevocable action, relieves the employer (or the plan) of primary responsibility for a  
5 pension or postretirement benefit obligation, and eliminates significant risks related to the  
6 obligation and the assets used to effect the settlement.”<sup>11</sup>

7 Stated differently, a settlement occurs when some or all of the Company’s pension  
8 obligation is relieved or transferred. An example of a common settlement is when plan  
9 participants retire and elect to receive a lump-sum benefit rather than future periodic  
10 payments.<sup>12</sup> Another example of a settlement is when a third-party annuity contract is  
11 purchased, transferring the liability to the third party.<sup>13</sup>

12 **Q. IS THE SETTLEMENT COST COMPONENT OF NPPC ALWAYS**  
13 **RECOGNIZED INTO EARNINGS?**

14 A. No. Settlement Cost is recognized into earnings when it is significant, meaning that  
15 Settlement Cost is recognized in earnings when it is greater than the combination of two  
16 other components of NPPC, Service Cost and Interest Cost.<sup>14</sup>

17 **Q. HAS OGE BEEN IMPACTED BY THE SETTLEMENT COST COMPONENT OF**  
18 **NPPC OVER THE LAST SEVERAL YEARS?**

19 A. Yes. In OGE’s latest annual Form 10-K filing on February 21, 2024, OGE stated:

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<sup>11</sup> Master Glossary, Financial Accounting Standards Board, <https://asc.fasb.org/MasterGlossary> (last visited Apr. 4, 2024).

<sup>12</sup> Accounting Standards Codification 715-30-15-6.

<sup>13</sup> Accounting Standards Codification 715-30-15-6.

<sup>14</sup> Accounting Standards Codification 715-30-35-82.

1 During 2023, 2022 and 2021, [OGE] experienced an increase in both the  
 2 number of employees electing to retire and the amount of lump sum  
 3 payments paid to such employees upon retirement, which resulted in [OGE]  
 4 recording pension plan settlement charges. . . *The pension settlement*  
 5 *charges did not require a cash outlay by [OGE] and did not increase total*  
 6 *pension expense over time, as the charges were an acceleration of costs*  
 7 *that otherwise would be recognized as pension expense in future*  
 8 *periods.*<sup>15</sup>

9 **Q. WHY IS IT IMPORTANT TO DISTINGUISH SETTLEMENT COST FROM**  
 10 **OTHER NPPC COMPONENTS?**

11 A. It is important to distinguish Settlement Cost because GAAP requires an acceleration of  
 12 this cost only when certain criteria are met. As OGE provided in its annual Form 10-K  
 13 filing, Settlement Cost acceleration is not a cash charge and does not represent an increase  
 14 in total pension expense over time. Absent Settlement Cost being greater than the  
 15 combination of Service Cost and Interest Cost, Settlement Cost would be recognized over  
 16 the average future years of service of employees. The average future years of service of  
 17 employees is typically several years rather than a single year. OGE’s average future years  
 18 of service of employees is 8.31 years in Oklahoma.<sup>16</sup>

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<sup>15</sup> Oklahoma Gas & Electric SEC Form 10-K, Page 84, Paragraph 1,  
<https://www.sec.gov/ix?doc=/Archives/edgar/data/0001021635/000095017024017400/oge-20231231.htm>  
 (last visited Apr. 18, 2024) (emphasis added).

<sup>16</sup> OGE’s Response to AG-OGE-24-4.

1 **Q. WHAT PERIOD DOES OGE USE TO AMORTIZE THE SETTLEMENT COST**  
2 **COMPONENT OF NPPC IN ITS OTHER JURISDICTION?**

3 A. In Arkansas, OGE amortizes Settlement Cost over the average future years of service.<sup>17</sup>  
4 OGE's average future years of service in Arkansas is 8.83 years.<sup>18</sup> This approach reverses  
5 the effects of accelerating the Settlement Cost component of NPPC. The Company began  
6 using this approach in 2008, at OGE witness Donald R. Rowlett's recommendation. Mr.  
7 Rowlett, on behalf of OGE stated:

8 FAS 88 [now known as ASC 715] requires immediate recognition of certain  
9 previously unrecognized settlement costs when certain transactions or  
10 events occur. One such event is for certain pension obligation settlements.  
11 Absent the settlement provision, the previously delayed costs for the  
12 obligation would have been recognized over the average expected future  
13 working lifetimes of Company employees. Therefore, the Company  
14 proposes this adjustment to reverse the settlement charges recorded during  
15 2006 and 2007 and instead recover these costs over the proposed  
16 amortization period. This alternative method allows the Company to  
17 recognize these costs over the same timeframe as if FAS 88 [ASC 715] did  
18 not apply here.<sup>19</sup>

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<sup>17</sup> Direct Test. of Peggy Millspaugh for Oklahoma Gas & Electric Company 10:17-19, *In the Matter of the Formula Rate Plan Filings of Okla. Gas & Electric Co. Pursuant to APSC Docket No. 16-052-U*, Docket No. 18-046-FR (Ark. Pub. Svc. Comm'n October 2, 2023).

<sup>18</sup> See OGE's Response to AG-OGE-24-2, Attachment 1, Cell B24 divided by D24.

<sup>19</sup> Direct Test. of Donald R. Rowlett for Oklahoma Gas & Electric Company 29:1-9, *In the Matter of the Application of Okla. Gas & Electric Co. for Approval of a General Change in Rates and Tariffs*, Docket No. 08-103-U (Ark. Pub. Svc. Comm'n August 29, 2008).

1 **Q. WHAT IS YOUR RECOMMENDED AMORTIZATION PERIOD FOR THE**  
2 **PENSION REGULATORY ASSET?**

3 A. I recommend a similar approach to the one OGE proposed and has used in Arkansas since  
4 2008. The Settlement Cost component of the regulatory asset, or 61 percent of the  
5 regulatory asset balance, should be amortized over the average future years of service of  
6 employees or 8.31 years. This recommendation reverses the effects of Settlement Cost  
7 acceleration. I do not take exception with OGE's proposed five-year amortization for the  
8 remaining 39 percent of the regulatory asset. This results in a combined amortization period  
9 of 7.02 years for the pension regulatory asset balance.<sup>20</sup>

10 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION IN THE CURRENT**  
11 **CASE?**

12 A. My recommendation decreases OGE's proposed amortization from \$10,219,288 to  
13 \$7,278,695, or by \$2,940,593. My recommendation reduces OGE's requested expense by  
14 \$2,585,369 on a jurisdictional basis. See Exhibit BDB-7.

15 **Q. IS OGE COMPENSATED WHEN USING A LONGER AMORTIZATION**  
16 **PERIOD?**

17 A. Yes. OGE is compensated for the longer amortization period. The unamortized portion of  
18 the pension regulatory asset is included in rate base. Therefore, the Company receives its  
19 weighted average cost of capital ("WACC") return on a larger regulatory asset balance for  
20 longer.

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<sup>20</sup> 7.02 years equals the sum of 61 percent times 8.31 years plus 39 percent times 5 years.

1 **V. Severance Pay**

2 **Q. WHAT IS SEVERANCE PAY?**

3 A. Severance pay is any compensation paid by an employer to an employee once employment  
4 has ended. Severance pay is sometimes provided to individuals who are subject to  
5 workforce reductions through no fault of their own. However, severance pay can also be  
6 paid to those employees who willingly resign because severance pay is optional unless  
7 contractually or otherwise legally bound.

8 **Q. WHY DO COMPANIES PROVIDE SEVERANCE PAY?**

9 A. Fidelity Investments provides three reasons why employers provide severance pay.<sup>21</sup> First,  
10 severance pay can help companies avoid negative press after layoffs. Second, severance  
11 pay agreements often stipulate that the former employee cannot bring legal action against  
12 the former employer if they accept the severance payment. Third, some companies provide  
13 severance pay because they want to do right by their former employees, regardless of the  
14 cost to the business.

15 **Q. WHAT IS OGE'S REQUEST CONCERNING SEVERANCE PAY?**

16 A. For the test-year, OGE incurred \$23,959 of severance pay expenses. OGE is increasing its  
17 request to its four-year average severance pay of \$528,415 or \$502,135 on a jurisdictional  
18 basis including payroll taxes.

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<sup>21</sup> Severance Pay Basics, Fidelity Investments, <https://www.fidelity.com/learning-center/smart-money/severance-pay> (last visited Apr. 18, 2024).

1 **Q. WHAT IS OGE'S PRACTICE OF PAYING SEVERANCE PAY?**

2 A. OGE was unable to provide any policies concerning severance pay.<sup>22</sup> Although OGE has  
3 no formal policy concerning severance pay, the Company provided that its standard  
4 practice is to provide a lump sum payment of two weeks salary per year of service, with a  
5 minimum of two weeks of severance and a maximum of 26 weeks, or 6 months of  
6 severance pay.<sup>23</sup> Under the Company's standard practice, an employee would receive 10  
7 weeks of salary as severance pay for 5 years of service.

8 **Q. ARE THERE ANY CONDITIONS FOR OGE TO PROVIDE SEVERANCE PAY?**

9 A. Yes. OGE notes that severance pay is conditioned upon the separating employee returning  
10 a signed separation agreement and release.<sup>24</sup>

11 **Q. WHAT IS YOUR RECOMMENDATION?**

12 A. I recommend the Commission disallow all severance pay in OGE's revenue requirement.  
13 Severance pay is an optional expense, which is primarily designed to shield the Company  
14 from legal claims and negative press that may arise from employee separation. To the  
15 extent the Company believes it should provide severance pay to do right by former  
16 employees, shareholders should pay for this discretion. Utility customers expect, at a  
17 minimum, their utility to operate within the confines of the law. Since severance pay is  
18 provided to backstop management's deliberate actions, it is not a necessary cost of  
19 providing utility service.

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<sup>22</sup> OGE's Response to AG-OGE-17-1.

<sup>23</sup> OGE's Response to AG-OGE-17-1.

<sup>24</sup> OGE's Response to AG-OGE-17-1.

1 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION IN THE CURRENT**  
2 **CASE?**

3 A. My recommendation decreases OGE’s requested expense by \$502,135 on a jurisdictional  
4 basis. See Exhibit BDB-8.

5 **VI. HomeServe Home Warranty Program**

6 **Q. WHAT IS THE HOMESERVE HOME WARRANTY PROGRAM?**

7 A. HomeServe USA Repair Management Corp. (“HomeServe”) provides home infrastructure  
8 repair service plans for a monthly fee. OGE partners with HomeServe to make available  
9 home repair service plans.<sup>25</sup> The Company provided that the HomeServe home warranty  
10 program is optional and not a service offered in regulated rates.<sup>26</sup>

11 **Q. WHAT ARE SOME OF THE HOME WARRANTY SERVICES OFFERED?**

12 A. Some of the services include Exterior Electric Line Protection, Interior Electric Line  
13 Protection, and Surge Protection.<sup>27</sup>

14 **Q. ARE THE HOME WARRANTY SERVICES OFERED BY OGE?**

15 A. No. The warranty services are provided by HomeServe, but OGE has an agreement with  
16 HomeServe. \*\* [REDACTED]

17 [REDACTED] <sup>28</sup> [REDACTED]

18 [REDACTED]

19 [REDACTED]

<sup>25</sup> OGE’s Response to AG-OGE-14-1.

<sup>26</sup> OGE’s Response to AG-OGE-14-1; OGE’s Response to AG-OGE-14-8.

<sup>27</sup> OGE’s Response to AG-OGE-14-1.

<sup>28</sup> **OGE’s Confidential Response to AG-OGE-14-13, Attachment 1.**



PUD 2023-000087  
*Redacted Responsive Testimony of Brice D. Betchan*

1 [REDACTED]

2 [REDACTED]

3 [REDACTED]

4 [REDACTED]

5 [REDACTED]

6 [REDACTED]

7 [REDACTED]

8 [REDACTED]

9 [REDACTED]

10 [REDACTED]

11 [REDACTED]

12 [REDACTED]

13 [REDACTED]

14 [REDACTED]

15 [REDACTED]

16 [REDACTED]

17 [REDACTED]

18 [REDACTED]

19 [REDACTED]

20 [REDACTED]

21 [REDACTED]

22 [REDACTED]

1 [REDACTED]  
2 [REDACTED]  
3 [REDACTED]  
4 [REDACTED]  
5 [REDACTED] \*\*

6 **Q. ARE CUSTOMERS CREDITED WITH ANY HOME WARRANTY REVENUES**  
7 **OR EXPENSES?**

8 A. No. OGE maintains that the home warranty program is not a rate offering.<sup>29</sup>

9 **Q. ARE REGULATED ELECTRIC UTILITIES PERMITTED TO HAVE**  
10 **NONUTILITY OPERATIONS IN OKLAHOMA?**

11 A. Yes. Regulated electric utilities are permitted to have nonutility operations. Oklahoma  
12 Administrative Code 165:35-27-1 contemplates utilities engaging in nonutility businesses  
13 and provides that separate accounting data must be available for both utility and nonutility  
14 operations.

15 **Q. WHEN PROVIDING MARKETING MATERIALS FOR HOME WARRANTY**  
16 **SERVICES, IS A DISTINGUISHMENT MADE BETWEEN OGE'S UTILITY AND**  
17 **NONUTILITY OPERATIONS TO OGE'S CUSTOMERS?**

18 A. OGE and HomeServe provide that home warranty service is optional. In its mailers,  
19 HomeServe states:

20 HomeServe USA Repair Management Corp. ("HomeServe"), with  
21 corporate offices located at 601 Merritt 7, 6th Floor, Norwalk, CT 06851,

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<sup>29</sup> OGE's Response to AG-OGE-14-8.

1 is an independent company separate from OG&E and offers this optional  
2 service plan as an authorized representative of the contract issuer, North  
3 American Warranty, Inc., 175 West Jackson Blvd., Chicago, IL 60604.  
4 Your choice of whether to participate in this service plan will not affect the  
5 price, availability or terms of service from OG&E.<sup>30</sup>

6 HomeServe has a similar provision on its website for OGE customers.<sup>31</sup>

7 **Q. ARE THESE DISCLOSURES ADEQUATE FOR OGE CUSTOMERS TO MAKE**  
8 **AN INFORMED DECISION CONCERNING HOME WARRANTY SERVICES?**

9 A. No. Neither OGE nor HomeServe fully disclose the nature of their relationship.<sup>32</sup> \*\*  
10 [REDACTED]  
11 [REDACTED]  
12 [REDACTED]  
13 [REDACTED]  
14 [REDACTED]  
15 [REDACTED] \*\*<sup>33</sup>

16 **Q. DOES OGE ACKNOWLEDGE THAT IT DOES NOT FULLY DISCLOSE THE**  
17 **NATURE OF ITS RELATIONSHIP WITH HOMESERVE TO CUSTOMERS?**

18 A. Yes. The Attorney General asked the Company whether OGE or HomeServe disclose to  
19 potential HomeServe home warranty customers that the compensation OGE receives from

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<sup>30</sup> OGE's Response to AG-OGE-14-9, Attachment 3.

<sup>31</sup> Affordable Repair Plans for OG&E Customers, HomeServe, [https://www.homeserve.com/sc/digital/oklahomage-web?utm\\_medium=referral&utm\\_source=oge&utm\\_campaign=policy\\_3470](https://www.homeserve.com/sc/digital/oklahomage-web?utm_medium=referral&utm_source=oge&utm_campaign=policy_3470) (last visited Apr. 18, 2024).

<sup>32</sup> OGE's Response to AG-OGE-20-02.

<sup>33</sup> *Id.*

1 HomeServe is not provided in regulated rates. OGE states that it is not aware of any  
2 notifications to customers regarding the partnership or how OGE books that revenue.<sup>34</sup>

3 **Q. WHAT IS YOUR RECOMMENDATION?**

4 A. Additional customer protections are necessary. Beginning with the effective date of rates  
5 in the current case, future home warranty marketing materials should include that OGE  
6 may receive commissions from HomeServe and that none of the home warranty revenues  
7 are in regulated rates because they relate to OGE's non-utility operations. Future home  
8 warranty marketing materials should also disclose that OGE customers may have other  
9 providers willing to offer similar home warranty protections. If the Company is not willing  
10 to rectify these disclosure inadequacies, customers should be credited with a portion of  
11 home warranty revenues. Revenue sharing is necessary if OGE is unwilling to fully  
12 disclose the nature of its relationship with HomeServe, as the Company would then be  
13 affirmatively using its incumbency as a regulated utility to collect home warranty partner  
14 revenues.

15 **Q. YOU MENTIONED THAT HOMESERVE PROVIDED THE MARKETING**  
16 **MATERIALS AND ADMINISTERED THE PROGRAM. HOW WOULD OGE**  
17 **ENSURE ITS CUSTOMERS RECEIVE ADEQUATE DISCLOSURES?**

18 A. There are a couple of options. First, OGE could coordinate with HomeServe to revise its  
19 marketing materials to include these additional disclosures. Alternatively, OGE could  
20 separately send out these disclosures, referring to the HomeServe home warranty program.

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<sup>34</sup> OGE's Response to AG-OGE-20-03.

1 **Q. HOW SHOULD CUSTOMERS BE CREDITED WITH HOME WARRANTY**  
2 **REVENUES OR EXPENSES?**

3 A. If OGE does not rectify customer disclosure inadequacies with its home warranty program,  
4 customers should receive 75 percent of home warranty net revenues. OGE should retain  
5 the remaining 25 percent. The 75/25 sharing ratio would encourage OGE to continue  
6 offering home warranty services.

7 **Q. WHAT IS THE IMPACT OF YOUR RECOMMENDATION?**

8 A. Should OGE not correct its disclosure inadequacies, my recommendation increases the  
9 Company's operating income by \$157,403.<sup>35</sup> See Exhibit BDB-9.

10 **VII. Vegetation Management O&M Expense**

11 **Q. PLEASE DESCRIBE OGE'S REQUEST FOR VEGETATION MANAGEMENT**  
12 **O&M EXPENSES.**

13 A. In addition to OGE's test year vegetation management O&M expenses of \$33,778,458, the  
14 Company is requesting an additional \$24,446,304 for trimming activities. OGE's request  
15 represents a 72 percent increase in vegetation management O&M expenses over its test  
16 year. OGE's total requested vegetation O&M expense is \$58,224,762.<sup>36</sup>

17 **Q. DOES OGE HAVE ANY OTHER REQUESTS CONCERNING VEGETATION**  
18 **MANAGEMENT O&M EXPENSES?**

19 A. Yes. In addition to OGE's requested increase for vegetation O&M expenses in base rates,  
20 the Company is requesting approval of a tracking mechanism that would allow the

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<sup>35</sup> A 100 percent jurisdictional factor was applied to this value as OGE did not provide a jurisdictional factor when requested in discovery. See OGE's response to AG-OGE-21-1.

<sup>36</sup> OGE's Supplemental Response to PUD-OGE-10-7, Attachment 3, Workpapers H-2-40 and H-2-41.

1 Company to true-up or adjust for any over or under recovery of vegetation O&M spending  
2 between rate cases.<sup>37</sup> Any Company spending below the amount in rates would result in a  
3 regulatory liability that would be returned to customers in future rates. Any Company  
4 spending above the amount in rates would result in a regulatory asset that would be  
5 recovered from customers in future rates.

6 **Q. WHAT ANALYSIS HAVE YOU PERFORMED IN REVIEWING OGE'S**  
7 **REQUESTED INCREASE IN VEGETATION MANAGEMENT O&M**  
8 **EXPENSES?**

9 A. My analysis focuses on the financial aspects of OGE's request. I reviewed the calculations  
10 underlying the requested increase. I also reviewed historical and projected vegetation  
11 management O&M expense data. Attorney General witness Greg Matejcic's testimony will  
12 evaluate the operational and policy aspects of OGE's request, including the Company's  
13 request for regulatory asset or liability treatment.

14 **Q. PLEASE PROVIDE AN OVERVIEW OF OGE'S REQUEST TO INCREASE**  
15 **VEGETATION MANAGEMENT O&M SPENDING?**

16 A. As previously mentioned, OGE is requesting a 72 percent increase or an additional  
17 \$24,446,304 for O&M expenses. Table BDB-2 below summarizes OGE's test year  
18 spending for vegetation management and compares it to the Company's requested increase.  
19 I examine the distribution cycle trimming and distribution non cycle customer reliability  
20 trimming which relate to the two largest components of OGE's requested increase. My

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<sup>37</sup> Direct Test. of Jason Thenmadathil for Oklahoma Gas & Electric Company 18:26-27 (Dec. 29, 2023).

1 examination represents 98 percent of the Company’s requested increase for vegetation  
 2 management expense.

Table BDB-2

OGE's Oklahoma Vegetation Management Request					
Description	Reference	2023 OGE Test Year	Company Requested	Requested \$ Increase	Requested % Increase
<b>Distribution</b>					
Distribution Cycle	PUD 10-	\$ 23,596,765	\$ 39,349,066	\$ 15,752,301	67%
Distribution Non Cycle (Distribution Customer & Reliability Requests)	7_Supp1_Att3,	\$ 1,805,041	\$ 10,000,000	\$ 8,194,959	454%
Distribution Substations	H-2-40	\$ 1,515,185	\$ 1,598,760	\$ 83,575	6%
<b>Total OK Distribution Expense</b>		<b>\$ 26,916,991</b>	<b>\$ 50,947,826</b>	<b>\$ 24,030,835</b>	<b>89%</b>
<b>Transmission</b>					
Transmission Cycle	PUD 10-	\$ 4,435,225	\$ 4,679,866	\$ 244,641	6%
Transmission Hazard Tree Program	7_Supp1_Att3,	\$ -	\$ 37,000	\$ 37,000	N/A
Transmission Substations	H-2-41	\$ 2,426,242	\$ 2,560,070	\$ 133,828	6%
<b>Total OK Transmission Expense</b>		<b>\$ 6,861,467</b>	<b>\$ 7,276,936</b>	<b>\$ 415,469</b>	<b>6%</b>
<b>Total</b>		<b>\$ 33,778,458</b>	<b>\$ 58,224,762</b>	<b>\$ 24,446,304</b>	<b>72%</b>

3 **Q. HOW DID OGE COMPUTE THE REQUESTED \$15.8M INCREASE FOR**  
 4 **DISTRIBUTION CYCLE TRIMMING?**

5 A. For the requested \$15,752,301 increase for distribution cycle trimming, OGE used 2015 as  
 6 the starting year to examine vegetation management contract labor rates on an hourly basis,  
 7 as 2015 was the first time OGE’s current level of vegetation O&M expenses were set in  
 8 rates.<sup>38</sup> OGE’s contract labor rate analysis determined that hourly vegetation management  
 9 rates increased 63 percent from 2015 to 2023, or at a six percent compound annual growth  
 10 rate (“CAGR”). OGE calculated the additional \$15,752,301 request by increasing 2015  
 11 base year distribution cycle trimming expenses by 69 percent, which is the 63 percent 2015  
 12 to 2023 hourly contract labor rate increase percentage plus the six percent CAGR to adjust

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<sup>38</sup> Direct Test. of Robert Shaffer for Oklahoma Gas & Electric Company 7:4-6 (Dec. 29, 2023) [hereinafter “Shaffer Direct”].

1 to 2024 levels.<sup>39</sup> As shown in Table BDB-2 above, OGE's request represents a 67 percent  
2 increase over its test year level of spending for distribution cycle trimming.

3 **Q. HOW DID OGE COMPUTE THE REQUESTED \$8.2M INCREASE FOR**  
4 **DISTRIBUTION CUSTOMER RELIABILITY REQUESTS?**

5 A. The Company is requesting \$10,000,000 for distribution non cycle customer reliability  
6 requests, which represents an increase of \$8,194,959 over OGE's test year spend of  
7 \$1,805,041. OGE calculated the \$10,000,000 by estimating that it receives 8,000 customer  
8 requests per year and that it costs \$1,000 to \$1,500 for each request depending on the  
9 complexity of the work.<sup>40</sup> As shown in Table BDB-2 above, the Company's request  
10 represents a 454 percent increase over its test year level of spending.

11 **Q. PLEASE PROVIDE AN ANALYSIS OF OGE'S REQUESTED VEGETATION**  
12 **MANAGEMENT EXPENSE INCREASE.**

13 A. First, it is important to clarify the difference between hourly labor rate increases and total  
14 dollar spending. OGE is requesting a 69 percent increase (over 2015 levels) based solely  
15 on hourly labor rates, which neglects to examine total costs. From 2019 to the end of the  
16 2023 test year, OGE's total vegetation management spending increased only twelve  
17 percent in total, which is a two percent CAGR.<sup>41</sup> Second, while OGE maintains that it  
18 needs additional amounts for vegetation management spending, the Company is planning  
19 to spend significantly less for its 2024 trimming activities. As demonstrated by Table BDB-  
20 3 below, OGE plans to spend 20 percent less for 2024 trimming activities than it spent in

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<sup>39</sup> OGE's Response to AG-OGE-16-12, Attachment 1.

<sup>40</sup> OGE's Response to AG-OGE-16-13.

<sup>41</sup> OGE's Response to OIEC-OGE-4-6, Attachment 1.



1 the 2023 test year. OGE’s requested trimming expense of \$58,224,762 is more than two  
 2 times its planned 2024 spending. Third, OGE’s requested increase for distribution non-  
 3 cycle customer reliability requests lacks the necessary detail. OGE states that it currently  
 4 has no formal policy for customer-initiated vegetation management requests, but that the  
 5 Company intends on creating a formal policy.<sup>42</sup> OGE has not provided this proposed  
 6 policy. Fourth, OGE’s requested \$10,000,000 for customer-initiated vegetation  
 7 management requests is based on accommodating all 8,000 estimated yearly requests. The  
 8 Company maintains they do not accommodate all requests.<sup>43</sup>

Table BDB-3

OGE's Oklahoma Vegetation Management Projected 2024 Spending					
Description	Reference	2023 OGE Test Year	2024 OGE Plan	Projected Inc./ (Decr.)	Projected Inc./ (Decr.)
<b>Distribution</b>					
Distribution Cycle	WP H-2-40 &	\$ 23,596,765	\$ 20,618,485	\$ (2,978,280)	-13%
Distribution Non Cycle (Distribution Customer & Reliability Requests)	OIEC-OGE 8-	\$ 1,805,041	\$ 2,191,861	\$ 386,820	21%
Distribution Substations	13_Att1	\$ 1,515,185	\$ -	\$ (1,515,185)	-100%
<i>Total OK Distribution Expense</i>		\$ 26,916,991	\$ 22,810,346	\$ (4,106,645)	-15%
<b>Transmission</b>					
Transmission Cycle	WP H-2-41 &	\$ 4,435,225	\$ 4,374,327	\$ (60,898)	-1%
Transmission Hazard Tree Program	OIEC-OGE 8-	\$ -	\$ -	\$ -	N/A
Transmission Substations	13_Att1	\$ 2,426,242	\$ -	\$ (2,426,242)	-100%
<i>Total OK Transmission Expense</i>		\$ 6,861,468	\$ 4,374,327	\$ (2,487,140)	-36%
<b>Total</b>		<b>\$33,778,458</b>	<b>\$27,184,673</b>	<b>\$ (6,593,785)</b>	<b>-20%</b>

9 **Q. WHAT DOES OGE’S SPENDING FOR VEGETATION MANAGEMENT LOOK**  
 10 **LIKE BEYOND 2024?**

11 A. It is unclear what OGE’s forecasted spending for vegetation management looks like beyond  
 12 2024. When asked for its forecasted vegetation management spending for the next five  
 13 years, OGE maintained that it has not forecasted past 2024.<sup>44</sup>

<sup>42</sup> OGE’s Response to AG-OGE-20-4; OGE’s Response to AG-OGE-20-5.

<sup>43</sup> OGE’s Response to AG-OGE-20-6.

<sup>44</sup> OGE’s Response to OIEC-OGE-8-13.

1 **Q. WHAT IS YOUR CONCLUSION?**

2 A. I have three key takeaways from my analysis. First, Witness Matejic will further detail  
3 the Attorney General's recommendation, but OGE's own projections support lowering the  
4 Company's test-year vegetation management budget by \$6,593,785 to the 2024 projected  
5 level. OGE's request is not supported by the Company's planned spending. Second, OGE's  
6 cost projections provided to support its request are based on past hourly unit rate increases  
7 and unrealistic accommodations of all trimming requests. Third, OGE details technologies  
8 it would like to explore in testimony but has not provided any detail to support estimated  
9 costs of these technologies or the potential savings these technologies could provide.<sup>45</sup>

10 **VIII. Insurance Expense**

11 **Q. PLEASE EXPLAIN OGE'S INSURANCE EXPENSE ADJUSTMENT.**

12 A. The Company compared its 2024 projected insurance expense to its test year actuals.  
13 OGE's comparison resulted in a \$2,746,228 increase in operating expense.

14 **Q. HOW DID YOU ANALYZE THE COMPANY'S INSURANCE EXPENSE**  
15 **ADJUSTMENT?**

16 A. To validate the requested insurance expense increase, the Attorney General requested the  
17 Company's insurance renewal quotes and asked if any quotes were subject to change.<sup>46</sup>  
18 OGE was unable to provide insurance renewal quotes for its Fidelity & Crime and Cyber  
19 Liability policies because these policies do not renew until May 1, 2024, which is after the  
20 six-month update period March 31, 2024.<sup>47</sup> The Company was also unable to provide that

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<sup>45</sup> Shaffer Direct 11:15-12:10.

<sup>46</sup> OGE's Response to AG-OGE-15-5; OGE's Response to AG-OGE-15-6.

<sup>47</sup> OGE's Response to AG-OGE-15-7.

1 the amounts requested for these insurance policies were finalized, therefore are subject to  
2 change.<sup>48</sup>

3 **Q. DO YOU HAVE ANY PROPOSED CHANGES TO THE COMPANY'S**  
4 **INSURANCE EXPENSE ADJUSTMENT?**

5 A. Yes. Since the Fidelity & Crime and Cyber Liability policies do not renew until after the  
6 six-month update period and the quotes are subject to change, I recommend a \$68,025  
7 reduction in the Company's insurance expense request. The six-month cutoff period,  
8 March 31, 2024, should be respected. The Company's request for insurance expense fails  
9 to appropriately match revenues with like expenses, which is known as the matching  
10 principle in accounting. My recommendation properly matches revenues with like  
11 expenses by respecting the six-month cutoff period March 31, 2024. My recommendation  
12 also takes into consideration only those adjustments to insurance expense that are known  
13 and measurable. See Exhibit BDB-10.

14 **IX. Other Matters**

15 **Q. DO YOU HAVE ANY OTHER ISSUES TO DISCUSS AT THIS TIME?**

16 A. Yes. The Attorney General would like to adopt the depreciation portion of the Responsive  
17 Testimony of David Garrett who is testifying on behalf of OIEC.

18 **Q. WHAT IS THE IMPACT OF THIS RECOMMENDATION?**

19 A. As shown in Exhibit BDB-2, this recommendation would reduce OGE's depreciation  
20 expense by \$79,476,478 on a jurisdictional basis.

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<sup>48</sup> OGE's Response to AG-OGE-15-7.

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**X. Conclusion**

**Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

A. OGE should update rate base and operating income for known and measurable changes as of March 31, 2024. OGE should use 2023 payroll O&M expense ratios rather than three-year average payroll O&M expense ratios. OGE should use a 7.02 year amortization period for its pension regulatory asset, which incorporates a reversal of accelerated settlement costs. Severance pay should not be recovered from ratepayers since it is optional and provided to backstop management’s deliberate actions. OGE receives home warranty revenues from HomeServe based on its service territory, and its incumbency as a regulated utility. OGE must provide additional home warranty disclosures or share 75 percent of net revenues with ratepayers. Further, OGE’s request for vegetation management is not supported by the Company’s planned spending, as the Company is projecting a twenty percent decrease in vegetation management expenses for 2024. Lastly, OGE’s request for insurance expense outside of the six-month update period should be rejected. A summary of the impact of my recommendations and the recommendations of other witnesses on behalf of the Attorney General is attached as Exhibit BDB-2.

**Q. DO YOU HAVE ANY ADDITIONAL COMMENTS?**

A. Yes. My testimony is limited to the subject matters discussed. The Commission and the stakeholders should not infer my agreement with or support for a subject matter not covered in this testimony.

**Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

A. Yes, it does.



PUD 2023-000087

Exhibit BDB-1

Page 1 of 2

## BRICE D. BETCHAN, CPA

313 NE 21st Street  
Oklahoma City, Oklahoma 73105  
405-522-4412  
brice.betchan@oag.ok.gov

### Professional Experience

#### Oklahoma Office of the Attorney General

*Certified Public Accountant*

*Certified Public Accountant*

- Review and evaluate utility financial data
- Calculate ratemaking adjustments
- Provide expert witness testimony on regulatory matters

**Oklahoma City, OK**

*Jan. 2024-Present*

*Feb. 2020-Aug. 2021*

#### Ernst and Young

*Tax Senior Manager*

*Tax Senior*

- Reviewed federal forms 720, 1040, 1065, 1120 and 1120S for public and large private clients
- Reviewed state tax filings for public and large private clients
- Reviewed tax provisions prepared in accordance with ASC 740 for public oil and gas clients
- Reviewed tax provisions prepared in accordance with ASC 740 for private Global 360 clients
- Supervised three to five staff members

**Oklahoma City, OK**

*Aug. 2022-Jan. 2024*

*Jan. 2015-Jan. 2020*

#### Paycom Payroll, LLC

*Tax Team Leader – Tax Issues*

- Worked with clients and taxing authorities to resolve escalated tax notices
- Managed a team of eight tax specialists who consistently exceeded their SLA resolving tax issues
- Lead NoticeNinja notice tracking software implementation

**Oklahoma City, OK**

*Aug. 2021-Aug. 2022*

### Education

#### Oklahoma State University

*Master of Science*

*Summa Cum Laude*

**Stillwater, OK**

*Major: Accounting*

*Dec. 2015*

#### Southwestern Oklahoma State University

*Bachelor of Business Administration*

*Summa Cum Laude*

**Weatherford, OK**

*Major: Accounting*

*May 2014*

### Professional Certification

Certified Public Accountant

### Professional Groups

Southwestern Oklahoma State University Everett Dobson School of Business & Technology Advisory Board Member

### Ratemaking Courses

Michigan State University Institute of Public Utilities Accounting and Ratemaking Course

## Expert Witness Testimony

- Responsive Testimony on Behalf of John O'Connor, Attorney General of Oklahoma, in Oklahoma Corporation Commission Cause No. PUD 202100055 "Application Of Public Service Company Of Oklahoma, An Oklahoma Corporation, For An Adjustment In Its Rates And Charges And The Electric Service Rules, Regulations And Conditions Of Service For Electric Service In The State Of Oklahoma."
- Responsive Testimony on Behalf of Dawn Cash, Acting Attorney General of Oklahoma, in Oklahoma Corporation Commission Cause No. PUD 202100114 "Joint Application of CenterPoint Energy Resources Corp., Southern Col MidCo, LLC, and Summit Utilities Oklahoma, Inc. For Transfer of Jurisdictional Utility Assets and Customer Accounts Pursuant to OAC 165:45-3-5."
- Responsive Testimony on Behalf of Dawn Cash, Acting Attorney General of Oklahoma, in Oklahoma Corporation Commission Cause No. PUD 202100081 "Application of Arkansas Oklahoma Gas Corporation for Approval of Its Performance Based Rate Plan Adjustments for the Twelve Months Ended December 31, 2020."
- Responsive Testimony on Behalf of Mike Hunter, Attorney General of Oklahoma, in Oklahoma Corporation Commission Cause No. PUD 20210057 "Application of Ft. Cobb Fuel Authority, LLC for Approval of Special Regulatory Treatment For Abnormal Gas Supply Costs Arising From Extreme Winter Weather and Waiver of Applicable Purchased Gas Adjustment Tariffs and Rules Under OAC 165:50 Specifying Methodology For Recover of Gas Supply Costs."
- Responsive Testimony on Behalf of Mike Hunter, Attorney General of Oklahoma, in Oklahoma Corporation Commission Cause No. PUD 20200097 "Application of Public Service Company of Oklahoma For Approval of The Cost Recovery of Facilities to Be Located at Ft. Sill; Approval For Future Inclusion in Base Rates; For Cost Recovery of Prudent Costs Incurred by PSO For the Facilities; Approval of a Temporary Cost Recovery Rider; and Such Other Relief The Commission Deems PSO is Entitled."
- Direct Testimony on Behalf of Mike Hunter, Attorney General of Oklahoma, in Oklahoma Corporation Commission Cause No. 201700570, "Application Of Mike Hunter, The Attorney General of Oklahoma, to Lower the Rates and Charges for Natural Gas Service and Provide for any Refund Due to the Customers of Arkansas Oklahoma Gas Corporation Resulting from the Tax Cuts and Jobs Act of 2017."
- Responsive and Settlement Testimony on Behalf of Mike Hunter, Attorney General of Oklahoma, in Oklahoma Corporation Commission Cause No. 202000051, "Application Of Arkansas Oklahoma Gas Corporation For Approval Of Its Performance Based Rate Plan Adjustments For The Twelve Months Ended December 31, 2019."
- Responsive Testimony on Behalf of Mike Hunter, Attorney General of Oklahoma, in Oklahoma Corporation Commission Cause No. 202000021, "In The Matter Of The Application Of Oklahoma Gas And Electric Company For An Order Of The Commission Approving A Recovery Mechanism For Expenditures Related to The Oklahoma Grid Enhancement Plan."
- Responsive Testimony on Behalf of Mike Hunter, Attorney General of Oklahoma, in Oklahoma Corporation Commission Cause No. 202000022, "Application of Oklahoma Natural Gas Company, A Division of One Gas, Inc. For Approval of its Performance Based Rate Change Plan Calculations for the Twelve Months Ending December 31, 2019, Energy Efficiency True-up and Utility Incentive Adjustments for Program Year 2019, and Changes or Modifications to Its Tariffs."

**Oklahoma Gas and Electric Company**  
**CAUSE NO. PUD 2023-000087; TEST YEAR END SEPTEMBER 30, 2023**  
**ATTORNEY GENERAL RECOMMENDATION SUMMARY**

<b>Line No.</b>	<b>Description</b>	<b>Witness</b>	<b>Rate Base</b>	<b>Pre-Tax ROR</b>	<b>Rate Adjustment</b>
1	OGE Requested Gross Revenue Requirement Increase		\$ 7,194,821,285		\$ 332,537,342
	<i>Six-Month Updates to Rate Base</i>				
2	Total Six-Month Updates to Rate Base	Betchan	\$ 29,068,929	9.677%	\$ 2,813,000
3	Total Rate Base Adjustments		29,068,929		2,813,000
4	Adjusted Rate Base		\$ 7,223,890,214		
	<i>Cost of Capital Adjustments</i>				
5	Return on Equity	9.50% Woolridge	\$ 7,223,890,214	-0.707%	\$ (51,072,904)
6	Capital Structure	50/50 Woolridge	7,223,890,214	-0.270%	(19,504,504)
7	Total Cost of Capital Adjustments				(70,577,408)
	<i>Six-Month Updates to Revenues &amp; Expenses</i>				
8	Six-Month Updates to Revenues	Betchan			\$ (17,645,965)
9	Six-Month Updates to Expenses	Betchan			\$ (6,882,370)
	<i>Other Adjustments to Revenues &amp; Expenses</i>				
10	Payroll Expense	Betchan			\$ (5,827,959)
11	Pension Amortization	Betchan			(2,585,369)
12	Severance Pay	Betchan			(502,135)
13	Home Warranty Sharing	Betchan			(157,403)
14	Insurance Expense	Betchan			(68,025)
15	Board of Directors Compensation	Matejcic			(1,464,418)
16	Investor Relations	Matejcic			(370,428)
17	Directors & Officers Liability Insurance	Matejcic			(619,568)
18	Short-Term Incentives Inc. Payroll Taxes	Matejcic			(7,663,899)
19	Long-Term Incentives Inc. Payroll Taxes	Matejcic			(8,589,105)
20	Vegetation Management	Matejcic			(20,374,574)
21	Chamber of Commerce Dues	Matejcic			(156,416)
22	EEI Dues	Matejcic			(820,835)
23	Other Membership Dues	Matejcic			(152,323)
24	Depreciation Rate Adjustment	OIEC			(79,476,478)
25	Total Operating Income Adjustments				\$ (153,357,270)
26	Total Adjustments				\$ (221,121,678)
27	Rate Adjustment				\$ 111,415,664



Oklahoma Gas and Electric Company  
CAUSE NO. PUD 2023-000087; TEST YEAR END SEPTEMBER 30, 2023  
ATTORNEY GENERAL'S RATE BASE UPDATE ADJUSTMENT

Line No.	Description	Reference	Balance 3/31/2024	Amount Requested	Gross Adjustment	Allocation Factor	Jurisdictional Adjustment
		<i>PUD 10-7-Supp1_Att2_Supp</i>					
1	Plant in Service	<i>Sch_C-1</i>	\$ 15,333,506,950	\$ 15,417,660,662	\$ (84,153,712)	90.29%	\$ (75,982,387)
2	Accumulated Depreciation	<i>Sch_D-1</i>	(5,617,977,602)	(5,622,718,608)	4,741,006	90.46%	4,288,714
3	Plant Held for Future Use	<i>Sch_C-1</i>	2,256,157	2,099,537	156,620	96.57%	151,248
4	Prepayments	<i>WP B-3-10</i>	12,105,692	10,400,353	1,705,339	91.48%	1,560,044
5	Materials and Supplies	<i>WP B-3-8, See Below</i>	231,838,575	200,241,292	31,597,283	92.02%	29,075,820
6	Fuel Inventories	<i>WP B-3-4</i>	126,114,901	98,020,977	28,093,924	91.39%	25,675,037
7	Gas in Storage	<i>WP B-3-5</i>	8,785,076	16,840,880	(8,055,804)	91.39%	(7,362,200)
8	Accum Deferred Inc Taxes	<i>WP B-3-14, See Below</i>	(1,219,407,521)	(1,215,890,316)	(3,517,205)	90.34%	(3,177,443)
9	Regulatory Assets	<i>WP B-3-15, See Below</i>	280,089,477	220,796,384	59,293,093	88.56%	52,509,963
10	Regulatory Liabilities	<i>WP B-3-15, See Below</i>	(869,571,910)	(884,705,536)	15,133,626	90.28%	13,662,638
11	Customer Deposits & Advances	<i>WP B-6</i>	(105,589,718)	(99,885,522)	(5,704,196)	89.96%	(5,131,495)
12	Net Pension Benefit Asset (Obligation)	<i>Net PB Asset(Obligation)</i>	(31,423,711)	(24,364,274)	(7,059,437)	87.84%	(6,201,010)
13	Rate Base Update		<u>\$8,150,726,366</u>	<u>\$8,118,495,829</u>			<u>\$ 29,068,929</u>

Note 1: Materials & Supplies, ADIT, and Regulatory Liabilities were subject to other adjustments not provided within OGE's 6-month update.

	Updated	Filed	Variance
M&S	237,140,432	205,543,149	
Other Transmission Adj.	(5,301,857)	(5,301,857)	
	<u>231,838,575</u>	<u>200,241,292</u>	31,597,283
ADIT	(1,330,863,053)	(1,327,345,848)	
Other Transmission Adj.	111,455,532	111,455,532	
	<u>(1,219,407,521)</u>	<u>(1,215,890,316)</u>	(3,517,205)
Reg. Assets	635,770,285	586,904,408	
Other Adjustments	(355,680,808)	(366,108,024)	
	<u>280,089,477</u>	<u>220,796,384</u>	59,293,093
Reg. Liab.	(925,690,425)	(940,824,051)	
Other Transmission Adj.	56,118,515	56,118,515	
	<u>(869,571,910)</u>	<u>(884,705,536)</u>	15,133,626

Oklahoma Gas and Electric Company  
CAUSE NO. PUD 2023-000087; TEST YEAR END SEPTEMBER 30, 2023  
ATTORNEY GENERAL'S REVENUE UPDATE ADJUSTMENT

Line No.	Description	Reference	Balance 3/31/2024	Amount Requested	Gross Adjustment	Allocation Factor	Jurisdictional Adjustment
1	Revenue	<i>PUD 10-7-Supp1_Att4_Supp WP H-2 Revenues, tab OKREV</i>	\$ (1,335,964,127)	\$ (1,318,318,162)	\$ (17,645,965)	Direct	<u>\$ (17,645,965)</u>

Oklahoma Gas and Electric Company  
CAUSE NO. PUD 2023-000087; TEST YEAR END SEPTEMBER 30, 2023  
ATTORNEY GENERAL'S EXPENSE UPDATE ADJUSTMENT

Line No.	Description	Reference	Balance 3/31/2024	Amount Requested	Gross Adjustment	Allocation Factor	Jurisdictional Adjustment
		<i>PUD 10-7-Suppl_Att3_Supp</i>					
1	Ad Valorem Tax Expense	<i>WP H-2-17</i>	\$ 95,066,383	\$ 95,154,022	\$ (87,639)	90.61%	\$ (79,409)
2	Pension and Post-Retirement Benefits Expense	<i>WP H-2-18</i>	13,065,149	13,691,663	(626,514)	87.92%	(550,831)
3	Payroll Expense	<i>WP H-2-22</i>	160,869,717	156,777,642	4,092,075	87.92%	3,597,753
4	Payroll Tax Expense	<i>WP H-2-22a</i>	13,015,313	12,684,239	331,073	87.84%	290,815
5	Other Compensation Expense	<i>WP H-2-23</i>	16,658,392	18,059,130	(1,400,738)	87.92%	(1,231,529)
6	Payroll Taxes on Other Compensation Expense	<i>WP H-2-23</i>	1,347,763	1,461,091	(113,328)	87.84%	(99,547)
7	Bad Debt Expense	<i>WP H-2-26</i>	2,111,415	2,086,662	24,753	87.92%	21,763
8	SPP Expense	<i>WP H-2-28</i>	5,511,752	5,461,446	50,306	87.92%	44,229
9	Pension Regulatory Asset Amortization Expense	<i>WP H-2-29</i>	10,219,288	8,688,579	1,530,709	87.92%	1,345,800
10	Long-Term Incentive Expense	<i>AG-26-10_Att1</i>	9,038,616	9,100,498	(61,882)	87.92%	(54,406)
11	Payroll Taxes on Long-Term Incentive Expense	<i>AG-26-10_Att1</i>	731,278	736,284	(5,007)	87.84%	(4,398)
12	Depreciation Expense	<i>WP I-1-1</i>	549,237,454	556,289,611	(7,052,157)	90.90%	(6,410,411)
13	Regulatory Amortization Expense- SAP S4 Software	<i>WP H-2-38</i>	595,977	593,709	2,268	90.90%	2,062
14	Regulatory Amortization Expense - Sale of Assets	<i>WP H-2-38</i>	(241,347)	(241,347)	-	90.90%	-
15	Rate Case Expense	<i>WP H-2-39</i>	315,434	478,987	(163,552)	87.92%	(143,795)
16	Vegetation Management Expense - Distribution	<i>WP H-2-40</i>	50,947,826	52,562,180	(1,614,353)	87.92%	(1,419,340)
17	Vegetation Management Expense - Transmission	<i>WP H-2-41</i>	7,276,936	9,769,118	(2,492,182)	87.92%	(2,191,126)
18	Expense Update						<u>\$ (6,882,370)</u>

Oklahoma Gas and Electric Company  
CAUSE NO. PUD 2023-000087; TEST YEAR END SEPTEMBER 30, 2023  
ATTORNEY GENERAL'S ADJUSTMENT TO PAYROLL EXPENSE

Line No.	Description	Reference	Holding - OGE	Holding - AG	Utility - OGE	Utility - AG	Total
1	OGE Annualized Payroll at March 31, 2024	AG-26-03_Att1, WP_H2-22 Payroll	\$ 44,648,534	\$ 44,648,534	\$ 202,011,432	\$ 202,011,432	
2	3-Year Average Payroll O&M Expense Ratio (OGE)	AG-26-03_Att1, WP_H2-22 Payroll	69.90%		57.65%		
3	2023 Payroll O&M Expense Ratio (AG)	AG-26-03_Att1, Payroll O&M Alloc Updated		65.21%		55.65%	
4	Annualized Payroll Expense	Line 1 times Line 2 or Line 1 times Line 3	\$ 31,211,178	\$ 29,115,441	\$ 116,450,350	\$ 112,413,121	
5	Payroll Jurisdictional Factor	WP H-1	87.92%	87.92%	87.92%	87.92%	
6	Payroll Tax Rate	WP H-2-23	8.09%	8.09%	8.09%	8.09%	
7	Payroll Tax Jurisdictional Factor	WP H-1	87.84%	87.84%	87.84%	87.84%	
8	Total Jurisdictional Payroll and Payroll Tax	Line 4 times Line 5 plus Line 4 times Lines 6 and 7	\$ 29,658,976	\$ 27,667,465	\$ 110,659,013	\$ 106,822,565	\$ (5,827,959)
9	Total Jurisdictional Payroll and Payroll Tax Adjustment	AG recommendation less OGE recommendation		\$ (1,991,511)		\$ (3,836,448)	\$ (5,827,959)

**Oklahoma Gas and Electric Company**  
**CAUSE NO. PUD 2023-000087; TEST YEAR END SEPTEMBER 30, 2023**  
**ATTORNEY GENERAL'S ADJUSTMENT TO AMORTIZATION OF PENSION REGULATORY ASSET**

Line No.	Description	Reference	Amount
1	OGE Pension Regulatory Asset at March 31, 2024	<i>PUD 10-7-Supp1_Att3_Supp, H-2-29</i>	\$ 51,096,441
2	OGE Proposed Amortization Period - Years (d)	<i>PUD 10-7-Supp1_Att3_Supp, H-2-29</i>	<u>5</u>
3	OGE Proposed Pension Amortization	<i>PUD 10-7-Supp1_Att3_Supp, H-2-29</i>	10,219,288
4	AG Proposed Amortization Period - Years (a)*(b)+(c)*(d)		<u>7.02</u>
5	AG Proposed Pension Amortization	<i>Line 1 divided by Line 4</i>	7,278,695
6	AG Adjustment	<i>Line 5 minus Line 3</i>	(2,940,593)
7	Jurisdictional Factor	<i>WP H-1</i>	87.92%
8	AG Jurisdictional Pension Adjustment	<i>Line 6 times Line 7</i>	<u><u>\$ (2,585,369)</u></u>
(a)	NPPC Settlement Cost Percent Weighting	<i>61% AG-OGE-26-09_Att1</i>	
(b)	Average Future Years of Service	<i>8.31 AG-OGE-24-4</i>	
(c)	Other NPPC Percent Weighting	<i>39%</i>	
(d)	OGE Proposed Amortization Period - Years	<i>5</i>	

**Oklahoma Gas and Electric Company**  
**CAUSE NO. PUD 2023-000087; TEST YEAR END SEPTEMBER 30, 2023**  
**ATTORNEY GENERAL'S ADJUSTMENT TO SEVERANCE PAY**

Line No.	Description	Reference	Amount
1	OGE Requested Severance Pay	<i>PUD 10-7-Supp1_Att3_Supp - Expenses, H-2-23</i>	\$ 528,415
2	AG Recommended Severance Pay Adjustment		<u>\$ (528,415)</u>
3	Severance Pay Jurisdictional Factor	<i>WP H-1</i>	<u>87.92%</u>
4	AG Jurisdictional Adjustment before Payroll Tax	<i>Line 2 times Line 3</i>	<u>\$ (464,582)</u>
5	Payroll Tax Rate	<i>WP H-2-23</i>	<u>8.09%</u>
6	Payroll Tax Jurisdictional Factor	<i>WP H-1</i>	<u>87.84%</u>
7	Payroll Tax Adjustment	<i>Line 2 times Lines 5 and 6</i>	<u>\$ (37,553)</u>
8	AG Jurisdictional Severance and Payroll Tax Adjustment	<i>Line 4 plus Line 7</i>	<u>\$ (502,135)</u>

**Oklahoma Gas and Electric Company**  
**CAUSE NO. PUD 2023-000087; TEST YEAR END SEPTEMBER 30, 2023**  
**ATTORNEY GENERAL'S HOME WARRANTY ADJUSTMENT**

Line No.	Description	Reference	Amount
1	OGE Home Warranty Net Income	<i>AG 14-10-Supp1_Att1_Supp</i>	\$ (209,871)
2	Home Warranty Customer Sharing Ratio		<u>75%</u>
3	Home Warranty Income Customer Credit	<i>Line 1 times Line 2</i>	\$ (157,403)
4	Jurisdictional Factor	<i>AG-OGE-21-1</i>	100%
5	AG Jurisdictional Home Warranty Adjustment	<i>Line 3 times Line 4</i>	<u><u>\$ (157,403)</u></u>

**Oklahoma Gas and Electric Company**  
**CAUSE NO. PUD 2023-000087; TEST YEAR END SEPTEMBER 30, 2023**  
**ATTORNEY GENERAL'S ADJUSTMENT TO INSURANCE EXPENSE**

<b>Line No.</b>	<b>Description</b>	<b>Reference</b>	<b>Amount</b>
1	May 1, 2024 Estimated Insurance Policy Increases	<i>H-10-1</i>	\$ (77,371)
2	Jurisdictional Factor	<i>WP H-1</i>	87.92%
3	AG Jurisdictional Insurance Expense Adjustment		\$ (68,025)



**Oklahoma Gas and Electric Company  
 CAUSE NO. PUD 2023-000087; TEST YEAR END SEPTEMBER 30, 2023  
 ATTORNEY GENERAL'S COST OF CAPITAL RECOMMENDATION**

<b>Line No.</b>	<b>Description</b>	<b>Capital Structure</b>	<b>Rate of Return</b>	<b>Weighted Cost</b>	<b>Tax Factor</b>	<b>Pre-Tax Cost of Capital</b>
<b><u>OGE Requested Cost of Capital</u></b>						
1	Long Term Debt	46.50%	4.85%	2.255%	1	2.255%
2	Common Equity	53.50%	10.50%	5.618%	1.32103	7.422%
3	Total	100.00%		7.873%		9.677%
<b><u>AG Recommended Return on Equity</u></b>						
4	Long Term Debt	46.50%	4.85%	2.255%	1	2.255%
5	Common Equity	53.50%	9.50%	5.083%	1.32103	6.715%
6	Total	100.00%		7.338%		8.970%
7	Difference					-0.707%
<b><u>AG Recommended Capital Structure</u></b>						
8	Long Term Debt	50.00%	4.85%	2.425%	1	2.425%
9	Common Equity	50.00%	9.50%	4.750%	1.32103	6.275%
10	Total	100.00%		7.175%		8.700%
11	Difference					-0.270%
12	Adjustment					-0.977%