

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR AN ORDER OF THE COMMISSION)
AUTHORIZING APPLICANT TO MODIFY ITS)
RATES, CHARGES, AND TARIFFS FOR RETAIL)
ELECTRIC SERVICE IN OKLAHOMA)

CAUSE NO. PUD 201700496

FILED
MAY 07 2018

COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA



SUMMARY TESTIMONY OF

GEOFFREY M. RUSH

MAY 7, 2018

1 Mr. Geoffrey Rush is employed by the Public Utility Division (“PUD”) of the Oklahoma
2 Corporation Commission (“Commission” or “OCC”) as Public Utility Division Energy
3 Coordinator. On January 16, 2018, Oklahoma Gas & Electric Company (“OG&E” or
4 “Company”) filed its Application for an adjustment in its rates, charges, and tariffs for
5 retail electric service in Oklahoma. Mr. Geoffrey Patel filed Responsive Testimony on
6 May 2, 2018.

7 Geoffrey M. Rush reviewed the Application, testimony of Company witnesses, and
8 Company workpapers. Mr. Rush also interviewed Company personnel regarding various
9 areas of assignment and conducted onsite audits to review confidential information at the
10 Company’s corporate office in Oklahoma City, Oklahoma.

11 The items specifically covered in his Testimony are as follows: Return on Equity
12 (“ROE”), Cost of Debt and Capital Structure, Short-Term Incentive Compensation
13 (“STI”), Long-Term Incentive Compensation (“LTI”), Payroll Expense, Amortization of
14 Pension Regulatory Liability, Materials and Supplies, Adjust Coal and Oil to reflect 13-
15 month average, Adjust Gas in Storage to reflect 13-month average, Fuels and Purchased
16 Power Expenses, Unbilled Revenues and Over/Under Recoveries, Prepayments Expense,
17 Outside Services / Attorney Fees, Rate Case Expense, and Regulatory Expense.
18 Additionally, this Responsive Testimony will list all of the areas that PUD reviewed.

1 OG&E's cost of capital is comprised of two components: debt and equity. Fixed,
2 contractual interest payments determine the cost of debt, while the cost of equity must be
3 estimated through financial models and other analyses. PUD employed three financial
4 models on a group of similar proxy companies to arrive at an estimate of the Company's
5 cost of equity in this Cause, including (1) the Discounted Cash Flow Model ("DCF"); (2)
6 the Capital Asset Pricing Model ("CAPM"); and (3) the Comparable Earnings ("CE")
7 Model. In addition, Mr. Rush added a market analysis to review the return of utility fund
8 companies compared to the market as a whole. Finally, Mr. Rush conducted an analysis
9 to determine the Company's optimal capital structure.

10 The DCF Model is based on a fundamental financial model called the dividend discount
11 model, which maintains that the value of a security is equal to the present value of the
12 future cash flows that it generates. The average DCF result for the proxy companies
13 using the Quarterly Approximation DCF model is 9.84%. The CAPM is a market-based
14 model where investors require higher returns for adding additional risk. The average
15 CAPM result for the proxy companies is 6.65%. The CE Model involves averaging the
16 earned returns on other utility companies. The composite average and result of the CE
17 Model is 9.84%. The market analysis looked at 14 of the top utility funds, as well as the
18 17 proxy group companies, and compared the returns over a 3-year, 5-year, and 10-year
19 time span. The average market analysis result, using the 10-year time span of the 17
20 proxy companies, is 8.62%. Mr. Rush's recommended ROE is 8.75%, which represents
21 the midpoint, rounded to the nearest quarter percent, in a range of reasonableness as
22 determined by Mr. Rush.

1 Capital Structure refers to the way a firm finances its overall operations through external
2 debt and equity capital. Mr. Rush recommended the Company's proposed debt to equity
3 ratio of 46.7% debt and 53.3% equity.

4 The Company has requested \$17,973,228 in STI Compensation. Mr. Rush recommended
5 that the Commission allow full recovery of STI. Mr. Rush believes that STI is
6 appropriate to include in the overall compensation package of OG&E and recommended
7 full allowance of its cost recovery from customers, as he believes that short-term
8 incentives are an important way for OG&E to attract and retain qualified employees. In
9 addition, because the Company's incentive compensation package is not directly tied to
10 financial performance, there is no "trigger" which, if met, would provide incentive
11 payout. Focusing on the entire incentive package benefits both ratepayers and
12 shareholders, as employees are focused on creating a company which is not only
13 financially sound and strong, but also one that is safe, reliable, and has efficient
14 infrastructure in place.

15 Mr. Rush recommended the Company's proposed removal of LTI Compensation in the
16 amount of \$5,487,519.

17 Mr. Rush recommended the Company's proposed amortization of the Pension Regulatory
18 Liability in the amount of \$44,020,103 and with the proposed amortization period of five
19 years, results in a reduction to expenses (i.e., a credit to customers) in the amount of
20 \$8,804,003.

1 Mr. Rush testified that PUD reviewed Materials and Supplies; Adjust Coal and Oil to
2 reflect 13-month average; Adjust Gas in Storage to reflect 13-month average; Adjust
3 Prepayments to the 13-month average; Fuels and Purchased Power Expenses Removal;
4 and Unbilled and Over/Under Recoveries, Mr. Rush recommends the Commission accept
5 OG&E's proposed adjustment WP H 2-33 which removes all expenses recovered through
6 the fuel adjustment clause rider. This includes costs associated with fuel, purchased
7 power with the exception of cogeneration capacity payments, and AQCS (air quality
8 control system) costs. This adjustment removes \$787,820,444 from operating expenses,
9 while leaving \$76,402,988 in base rates for the cogeneration capacity payments. Mr.
10 Rush further recommends the Commission accept OG&E's Adjustment No. 1, removing
11 the over-recovery of fuel and rider collections, decreasing revenue by \$56,056,608,
12 removing the provision for rate refund through decreasing revenue by \$12,346,571, and
13 adding unbilled revenue by increasing revenue by \$1,600,000. These adjustments
14 proposed by the Company result in a net adjustment to decrease revenue by \$66,803,179.

15 Mr. Rush also recommends the Commission accept PUD's Adjustment No. B-2 to increase
16 Materials and Supplies by \$299,243 to the 13-month average balance based on the six-
17 month post test year. PUD compared the Materials and Supplies 13-month average
18 balance based on the six-month post test year of \$127,899,873 to OG&E's 13-month
19 average balance of \$127,600,630. Mr. Rush recommends the Commission accept PUD's
20 Adjustment No. B-3 to increase Coal and Oil Inventories by \$1,389,919 to the 13-month
21 average balance based on the six-month post test year and compared the Coal and Oil
22 Inventories 13-month average based on the six-month post test year of \$79,241,890 to

1 OG&E's 13-month average balance of \$77,851,970. Mr. Rush recommends the
2 Commission accept PUD Adjustment No. B-4, in the amount of \$1,229,162, to decrease
3 the level of Gas in Storage to the 13-month average balance based on the six-month post
4 test year, and compared the Gas in Storage 13-month average based on the six-month
5 post test year of \$4,806,032 to OG&E's 13-month average balance of \$6,035,194. Mr.
6 Rush recommends Adjustment No. B-5 to increase Prepayments Expense by \$278,416 to
7 the 13-month average balance based on the six-month post test year and compared the
8 Prepayments Expense 13-month average based on the six-month post test year of
9 \$7,121,945 to OG&E's 13-month average balance of \$6,843,529.

10 Mr. Rush recommended PUD Adjustment No. H-3 which will decrease OG&E's
11 requested Outside Services / Attorney Fees by \$2,835. While reviewing invoices, Mr.
12 Rush discovered that 7% of a \$40,500 invoice was estimated to be related to influencing
13 legislation. As this amount of \$2,835 does not facilitate the provision of electric service,
14 and because legislative advocacy expenses are to be reported below the line, Mr. Rush
15 recommends that this expense should not be passed on to ratepayers. Thus, 7% of the
16 \$40,500 results in a PUD-recommended adjustment to decrease Outside Services /
17 Attorney Fees by \$2,835.

18 Mr. Rush recommended PUD Adjustment No. H-4 to amortize Rate Case Expenses to the
19 actual incurred level of expenses. Mr. Rush's recommended adjustment will result in a
20 decrease of \$152,230 from the \$533,445 per year of Rate Case Expenses requested by
21 OG&E, and Mr. Rush recommends that the Company only recover the actual Rate Case

1 Expenses incurred and that these expenses are amortized over two years. This adjustment
2 would decrease OG&E's Rate Case Expenses from \$1,066,891 to \$762,432.

3 Mr. Rush recommended PUD Adjustment No. H-5 to remove unnecessary expenses from
4 Rate Case Expenses. This adjustment removed the actual amount the Company has
5 incurred thus far, with respect to the expert witness fees of Dr. Russell R. Evans, which
6 results in a decrease of \$10,325 per year for two years. Further, Mr. Rush recommended
7 the Commission disallow all future fees associated with this expert witness for this
8 Cause.

9 Mr. Rush requested the Commission accept the following recommendations:

- 10 (1) PUD's recommended cost of equity of 8.75%, which is the midpoint, rounded to
11 the nearest quarter percent, in a range of reasonableness between 8.24% and
12 9.24%;
- 13 (2) The Company's proposed cost of debt of 5.32%, and capital structure consisting
14 of 46.7% debt and 53.3% equity;
- 15 (3) Full recovery of Short-Term Incentive Compensation in the amount of
16 \$17,973,228;
- 17 (4) The Company's proposed removal of Long-Term Incentive Compensation in the
18 amount of \$5,487,519;
- 19 (5) The Company's proposed increase to Payroll Expense in the amount of
20 \$3,292,166;
- 21 (6) The Company's proposed increase to Pension Expense and related Pension
22 Regulatory Liability in the amount of \$44,020,013, and its proposed amortization
23 period of five years, resulting in an annual benefit to customers in the amount of
24 \$8,804,003;
- 25 (7) PUD Adjustment No. B-2, to increase Materials and Supplies by \$299,243 to the
26 13-month average balance based on the six-month post test year;
- 27 (8) PUD Adjustment No. B-3, to increase Coal and Oil Inventories by \$1,389,919 to
28 the 13-month average balance based on the six-month post test year;
- 29 (9) PUD Adjustment No. B-4, to decrease the level of Gas in Storage by \$1,229,162
30 to the 13-month average balance based on the six-month post test year;
- 31 (10) The Company's proposed an adjustment to remove all fuel expenses and
32 purchased power costs for the test year in the amount of \$787,820,444 from
33 operating expense, while leaving \$76,402,988 in base rates for cogeneration
34 capacity payments;

- 1 (11) The Company's proposed an adjustment for Unbilled Revenue and Over/Under
2 Recoveries amount of net decrease in revenues of \$66,803,179;
3 (12) PUD Adjustment No. B-5, to increase Prepayments Expense by \$278,416 to the
4 13-month average balance based on the six-month post test year;
5 (13) PUD's recommended adjustment H-3 to decrease Outside Services / Attorney
6 Fees by \$2,835;
7 (14) PUD's recommended adjustment H-4 to amortize Rate Case Expenses to the
8 actual incurred level of expenses. This adjustment will result in a decrease of
9 \$152,230 from the \$533,445 per year of Rate Case Expenses requested by OG&E;
10 and
11 (15) PUD's recommended adjustment H-5 to remove unnecessary expenses from Rate
12 Case Expenses over two years. This adjustment will remove \$10,325 of
13 unnecessary expenses from Rate Case Expenses per year over two years.

14 PUD believes that the recommendations in this Responsive Testimony are fair in
15 balancing the interests of both the Company and its ratepayers. PUD believes these
16 recommendations are fair, just, reasonable, and in the public interest.

CERTIFICATE OF SERVICE

I, the undersigned, do hereby certify that on the 2nd day of May, 2018, a true and correct copy of the above and foregoing was sent **electronically**, addressed to the following:

Katy Boren
Jared Haines
Victoria Korrekt
A. Chase Snodgrass
Jennifer Lewis
Office of Attorney General
313 NE 21st Street
Oklahoma City, OK 73105
katy.boren@oag.ok.gov
jared.haines@oag.ok.gov
victoria.korrekt@oag.ok.gov
chase.snodgrass@oag.ok.gov
jennifer.lewis@oag.ok.gov

Bill Bullard
Williams, Box, Foshee & Bullard, PC
522 Colcord Dr.
Oklahoma City, OK 73102
bullard@wbflaw.com

Kimber Shoop
Crooks, Stanford & Shoop, PLLC
171 Stone Bridge Blvd
Edmond, OK 73010
ks@crooksstanford.com

J. Eric Turner
DERRYBERRY & NAIFEH, LLP
4800 North Lincoln Blvd.
Oklahoma City, OK 73105
eturner@derryberrylaw.com

Cheryl A. Vaught
Vaught & Conner, PLLC
1900 NW Expressway, Suite 1300
Oklahoma City, OK 73118
cvaught@vcokc.com

William Humes
John D. Rhea
Dominic Williams
OG&E
Post Office Box 321
Oklahoma City, OK 73101-0321
humeswl@oge.com
rheajd@oge.com
williardo@oge.com

Curtis M. Long
Conner & Winters, LLP
4000 Williams Center
Tulsa, OK 74172
Clong@cwlaw.com

Jack G. "Chip" Clark, Jr.
Clark Wood & Patten PC
3545 N. W. 58th Street Suite 400
Oklahoma City, OK 73112
cclark@cswp-law.com

Thomas P. Schroedter
Hall Estill Hardwick Gable Golden & Nelson, PC
320 S. Boston
Suite 400
Tulsa, OK 74103
tschroedter@hallestill.com

Jon Laasch
Jacobson & Laasch
212 East Second Street
Edmond, OK 73034
jonlaasch@yahoo.com

Rick D. Chamberlain
Behrens, Taylor, Wheeler & Chamberlain
Six Northeast 63rd, Suite 400
Oklahoma City, OK 73105
rchamberlain@okenergylaw.com

Ronald E. Stakem
Cheek & Falcone, PLLC
6301 Waterford Blvd., Suite 320
Oklahoma City, OK 73118
rstakem@cheekfalcone.com

Deborah Thompson
OK Energy Firm, PLLC
PO Box 54632
Oklahoma City, OK 73154
dthompson@okenergyfirm.com

Andrew Unsicker
Lanny Zieman
Matthew Zellner
AFLOA/JACE-USFSC
139 Barnes Drive, Suite 1
Tyndall Air Force Base, FL 32403
Andrew.unsicker@us.af.mil
Lanny.zieman.1@us.af.mil
Matthew.zellner@us.af.mil

Jim Roth
Marc Edwards
C. Eric Davis
Phillips Murrah, P.C.
Corporate Tower, 13th Floor
101 N. Robinson
Oklahoma City, OK 73102
Jaroth@phillipsmurrah.com
medwards@phillipsmurrah.com
cedavis@phillipsmurrah.com



TISH COATS, Manager
BARBARA COLBERT, Administrative Assistant
SUSAN HARWELL, Regulatory Analyst
KELI WEBB, Administrative Assistant
OKLAHOMA CORPORATION COMMISSION