

BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
 FOR APPROVAL OF A GENERAL CHANGE IN) DOCKET NO. 16-052-U
 RATES, CHARGES AND TARIFFS)

Direct Testimony

of

Scott Forbes

on behalf of

Oklahoma Gas and Electric Company

Scott Forbes
Direct Testimony

1 Q. **Would you please state your name and business address?**

2 A. My name is Scott Forbes. My business address is 321 North Harvey, Oklahoma City,
3 Oklahoma 73102.

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

6 A. I am employed by OGE Energy as the Chief Accounting Officer and Controller.
7

8 Q. **Please summarize your educational qualifications and professional experience.**

9 A. I graduated from Texas Tech University in 1979 with a degree in Business
10 Administration and a major in Accounting. I began employment at Gulf States Utilities
11 ("GSU") in Beaumont, Texas in 1979. I became a Certified Public Accountant in 1981.
12 In 1987, I became Manager of External Reporting and Subsidiary Accounting at GSU.
13 On December 31, 1993, GSU merged with Entergy Corporation ("Entergy"), and I
14 became the Manager of External Reporting and Accounting Policy for Entergy Services,
15 Inc. and subsequently the Manager of General, Co-Owner and Nuclear Accounting at
16 Entergy. In September of 1996, I was hired as the Manager of Financial Systems and
17 Reporting at Texas-New Mexico Power Company ("TNMP") and became Controller and
18 Chief Accounting Officer at TNMP in 1997. In August 2002, I was promoted to Senior
19 Vice President & Chief Financial Officer at TNMP. In October 2003, I also became the
20 Chief Financial Officer of First Choice Power (the affiliated retail electric provider of
21 TNMP). In August 2005, I joined OGE Energy as Controller and Chief Accounting
22 Officer for both OGE Energy and OG&E.

23
24 Q. **Have you previously testified before the Arkansas Public Service Commission**
25 **("APSC" or the "Commission")?**

26 A. No. However, I have testified before the Oklahoma Corporation Commission, Public
27 Utility Commission of Texas and New Mexico Public Regulation Commission.

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

2 A. My testimony will address certain affiliate allocations and explain the adjustment for
3 Arkansas specific accumulated depreciation.
4

5 **I. Affiliate Allocation Issue**

6 Q. **Please briefly explain the Company's corporate structure.**

7 A. OG&E was incorporated in 1902, and has incurred administrative services such as
8 auditing, accounting, finance, treasury, human resources, risk management, information
9 technology and supply chain services ever since. OGE Energy was formed in August
10 1995, and has provided those administrative services to its majority owned subsidiaries,
11 OG&E and Enogex, since that time.
12

13 Q. **Is the use of a corporate entity or service company standard in the utility industry?**

14 A. Yes, the vast majority of integrated utility holding companies operating in the United
15 States utilize a corporate entity or service company to provide administrative services.
16 The use of a corporate entity or services company is an efficient way to eliminate
17 redundancy of administrative costs when a company has multiple subsidiaries.
18

19 Q. **Please explain WP C 2-39, the *pro forma* adjustment for expenses no longer
20 allocated to affiliates.**

21 A. This adjustment increases O&M to account for certain expenses that will no longer be
22 allocated to affiliates. In May 2013, the joint venture between OG&E's affiliate Enogex
23 and CenterPoint Energy formed a standalone company named Enable Midstream
24 Partners. Enable Midstream will no longer share costs with OG&E as it has in the past.
25 Reimbursements received from Enable Midstream for shared OGE Energy costs will
26 decrease through the end of the pro forma period, causing expense levels for OG&E to
27 increase.

1 Q. **What is the amount of the *pro forma* adjustment to account for the decrease in**
2 **Enable Midstream reimbursements for previously shared services that will occur**
3 **through June 2017?**

4 A. Based on current forecasts, the reduction in reimbursements will require an increase to
5 total Company O&M of \$4,729,862. This adjustment is reflected under WP C 2-39 and
6 will be updated throughout the audit to better reflect the actual increase to the Company
7 that will occur through the end of the *pro forma* period.
8

9 Q. **Please explain what OG&E has done to mitigate the loss of reimbursements from**
10 **Enable Midstream?**

11 A. Upon the formation of Enable Midstream, OGE Energy entered into an initial three-year
12 service agreement to continue providing administrative services to Enable Midstream.
13 The three year term was mutually beneficial to OG&E as well as Enable Midstream. As
14 a newly formed public company, Enable Midstream needed time to develop processes for
15 providing administrative services. More importantly, the three-year term allowed OGE
16 Energy time to reduce or eliminate any variable costs, by the end of the term or earlier, as
17 services were terminated by Enable Midstream.
18

19 Q. **Have the majority of administrative services been terminated?**

20 A. Yes, as of August 2016, the majority of administrative services, historically provided to
21 Enogex/Enable Midstream, have been terminated. The only remaining services are
22 payroll and benefits administration for the remaining 163 employees that are seconded to
23 Enable Midstream, as well as the utilization by Enable Midstream of the OGE Energy
24 information technology infrastructure and network. These remaining services are
25 continuing on a year to year extension term of the existing contract.
26

27 Q. **Is it reasonable for OG&E to increase total Company O&M by \$4,729,862 to**
28 **account for certain expenses that will no longer be allocated to affiliates?**

29 A. Yes. Administrative services such as auditing, accounting, finance, treasury, human
30 resources, risk, information technology, and supply chain services are integral to the
31 operations of a publicly traded company, such as OG&E. OGE Energy, as well as the

1 vast majority of other utility holding companies, provides administrative services, in
2 order to reduce the cost of having redundant administrative costs when a company has
3 multiple subsidiaries. OG&E customers have benefitted from the sharing of fixed
4 administrative costs with Enogex/Enable Midstream since 1986, when OGE Energy
5 acquired Enogex. It is appropriate to allow OG&E recovery of necessary administrative
6 costs.

8 **II. Accumulated Depreciation Adjustment**

9 **Q. Has OG&E determined that it inadvertently erred in the calculation of depreciation**
10 **amounts in a prior rate case before this Commission?**

11 A. Yes. The Company found that it had overstated the depreciation difference on Schedule
12 B 2-5-2 in Docket No. 10-067-U. The error increased Arkansas accumulated
13 depreciation too much, thereby, understating rate base for the last five years.

15 **Q. What is the purpose of Schedule B 2-5-2?**

16 A. During the years 1986 through 2006, the Company recorded depreciation expense and
17 accumulated depreciation based on the authorized depreciation rates in Oklahoma.
18 Arkansas had previously allowed higher depreciation rates. Schedule B 2-5-2 reflects the
19 additional amount of depreciation expense and accumulated depreciation resulting from
20 the higher Arkansas rates for the period 1986 through 2006.

22 **Q. What was the nature of the error in Schedule B 2-5-2 in Docket No. 10-067-U?**

23 A. Following the issuance of the Final Order in Docket No. 10-067-U, the Company
24 conducted an extensive review of both the actual and Arkansas recovery amounts
25 reported on Schedule B 2-5-2. The Company found it had inadvertently omitted actual
26 depreciation amounts for transportation equipment (*i.e.*, cars, truck, heavy trucks and
27 trailers) for some of the years, included transportation amounts with general plant for
28 some of the years, and had overstated the amounts actually recovered in rates from
29 Arkansas for transportation depreciation.

Q. **Has OG&E corrected the depreciation amounts at issue?**

A. Yes. The Company has corrected, as applicable, the amounts for “Book Accrual,” “Arkansas Rate Recovery,” and the resulting “Difference” for years 1986 through 2006. As shown in Chart 1 below, the “Original” was presented by OG&E in Docket No. 10-067-U and the “Corrected” amounts are shown in Chart 1, below.

Chart 1: Book Accrual, Arkansas Rate Recovery, and Difference for Transportation Amounts

Year	Corrected			Original			Change
	1986 - 2006 Book Accrual	1986 - 2006 Arkansas Rate Recovery	Difference	1986 - 2006 Book Accrual	1986 - 2006 Arkansas Rate Recovery	Difference	
1986	\$ 1,340,806	\$ 2,539,156	\$ 1,198,350	\$ -	\$ 3,848,631	\$ 3,848,631	
1987	1,144,794	2,539,156	1,394,362	-	4,009,631	4,009,631	
1988	1,163,095	2,539,156	1,376,061	-	4,125,127	4,125,127	
1989	1,063,533	2,539,156	1,475,623	-	4,131,205	4,131,205	
1990	1,114,442	2,539,156	1,424,714	-	4,264,384	4,264,384	
1991	1,198,790	2,539,156	1,340,366	-	4,615,571	4,615,571	
1992	1,376,577	2,539,156	1,162,579	-	4,853,212	4,853,212	
1993	1,329,376	2,539,156	1,209,780	-	5,093,910	5,093,910	
1994	1,381,021	2,539,156	1,158,135	-	5,290,293	5,290,293	
1995	1,357,261	2,539,156	1,181,895	-	5,208,189	5,208,189	
1996	1,283,068	2,539,156	1,256,088	-	4,926,629	4,926,629	
1997	2,240,527	2,539,156	298,629	-	5,024,080	5,024,080	
1998	2,493,885	2,539,156	45,271	-	5,244,531	5,244,531	
1999	2,454,132	2,539,156	85,024	-	5,179,709	5,179,709	
2000	2,533,318	2,539,156	5,838	-	5,158,223	5,158,223	
2001	2,582,187	2,539,156	(43,031)	-	5,402,639	5,402,639	
2002	2,584,100	2,539,156	(44,944)	-	5,554,307	5,554,307	
2003	2,645,061	2,539,156	(105,905)	2,645,061	5,574,890	2,929,829	
2004	2,681,622	2,539,156	(142,466)	2,681,622	5,685,360	3,003,738	
2005	2,784,215	2,539,156	(245,059)	2,784,215	5,939,910	3,155,695	
2006	5,931,628	2,539,156	(3,392,472)	5,931,628	5,805,653	(125,975)	
	\$ 42,683,438	\$ 53,322,276	\$ 10,638,838	\$ 14,042,526	\$ 104,936,084	\$ 90,893,558	\$ (80,254,720)

Q. **How did you determine the amount of Arkansas Rate Recovery for the period 1986 through 2006 for the corrected calculation?**

A. I reviewed the first Arkansas rate order, prior to 1986, which was Docket No. 83-179-U, to find the authorized depreciation rate for transportation equipment. A complicating factor in that docket is that transportation equipment did not have an authorized depreciation rate; instead it had a fixed amount of Transportation Expense - Clearing in the amount of \$2,539,156. Therefore, I used that amount at the corrected Arkansas recovery rate for transportation equipment for the years 1986 through 2006.

1 Q. **What are the results of correcting that error?**

2 A. Chart 1 shows that the Company recovered only \$10,638,838 of additional transportation
3 depreciation in Arkansas over the level approved in Oklahoma between 1986 and 2006,
4 as opposed to the \$90,893,558 of additional transportation equipment depreciation
5 originally reflected on Schedule B 2-5-2 in Docket No. 10-067-U.
6

7 Q. **What was the effect of this difference?**

8 A. The effect of this error was that OG&E included an inflated amount of accumulated
9 depreciation as an offset to rate base in the last rate case. The amount of accumulated
10 depreciation included in the last rate case was \$104,936,084 instead of \$53,322,276.
11

12 Q. **Was the \$104,936,084 of transportation depreciation originally reflected on**
13 **Schedule B 2-5-2 in Docket No. 10-067-U a reasonable amount?**

14 A. No. The \$104,936,084 of transportation depreciation using Arkansas rates reflected on
15 Schedule B 2-5-2, in Docket No. 10-067-U, was significantly overstated. The entire
16 plant balance of transportation equipment was only \$49,799,876 as of December 31,
17 2006. The Company would not have recorded accumulated depreciation in excess of
18 \$49,799,876 through December 31, 2006. Once the plant balances were fully depreciated
19 the depreciation expense would cease.
20

21 Q. **Are there alternative ways of calculating the transportation depreciation using**
22 **Arkansas rates for the periods of 1986 through 2006, as opposed to using the**
23 **\$2,539,156 per year of Transportation Clearing Expense authorized in 1983?**

24 A. Yes, but in all cases, they would result in total transportation depreciation amounts of less
25 than the \$49,799,876 of total transportation plant as of December 31, 2006, and lower
26 than the proposed recovery amount of \$53,322,276, as reflected in Chart 1 above. The
27 inclusion of \$53,322,276 for total transportation depreciation is the most beneficial
28 amount for Arkansas customers.

- 1 Q. Were there any other related adjustments made?
- 2 A. Yes. Minor adjustments within production, transmission, distribution and general plant
- 3 were also identified and corrected. Those corrections were for the most part to the actual
- 4 recorded depreciation expense. Those corrections are shown in Chart 2, below.

Chart 2: Book Accrual, Arkansas Rate Recovery, and Difference for Production, Transmission, Distribution and General Plant Amounts

Function	Corrected			Original			Change
	1986 - 2006 Book Accrual	1986 - 2006 Arkansas Rate Recovery	Difference	1986 - 2006 Book Accrual	1986 - 2006 Arkansas Rate Recovery	Difference	
Steam Production	\$ 898,528,382	\$ 1,041,317,242	\$ 142,788,860	\$ 894,312,909	\$ 1,041,317,242	\$ 147,004,333	\$ (4,215,473)
Other Production	82,244,455	46,338,714	(35,905,741)	79,385,673	46,338,714	(33,046,959)	(2,858,782)
Transmission	277,742,984	249,451,266	(28,291,718)	277,742,984	249,342,869	(28,400,115)	108,397
Distribution	866,083,412	848,394,844	(17,688,568)	866,083,412	848,384,988	(17,698,424)	9,856
General Plant. Less Trans.	137,165,391	97,281,686	(39,883,705)	148,306,003	97,281,685	(51,024,318)	11,140,613
Transportation	42,683,438	53,322,276	10,638,838	14,042,526	104,936,084	90,893,558	(80,254,720)
Total	\$2,304,448,062	\$ 2,336,106,028	\$ 31,657,966	\$ 2,279,873,507	\$ 2,387,601,582	\$ 107,728,075	\$ (76,070,109)

- 5 Q. What does this Chart 2 represent?
- 6 A. This Chart shows that, in the 2010 rate case, OG&E mistakenly overstated the difference
- 7 between the Oklahoma and Arkansas jurisdiction by approximately \$76 million. OG&E
- 8 actually should have adjusted depreciation for the 1986 to 2006 period by \$31,657,966
- 9 when setting rates in 2010 instead of \$107,728,075. The overall effect of this was to
- 10 artificially inflate accumulated depreciation and understate rate base.
- 11
- 12 Q. What is the purpose of Schedule B 2-7 in the current case?
- 13 A. During the periods July 1, 2011, through forecasted period June 30, 2017, the Company
- 14 recorded depreciation expense and accumulated depreciation based on the authorized
- 15 depreciation rates in Oklahoma. Effective July 1, 2011, Arkansas ordered lower
- 16 depreciation rates than those in Oklahoma. Schedule B 2-7 reflects \$97,093,177 of lower
- 17 depreciation expense and accumulated depreciation resulting from the lower Arkansas
- 18 rates for the period July 1, 2011 through the *pro forma* period June 30, 2017.
- 19
- 20 Q. What is the total amount of depreciation differences reflected on Schedules B 2-5-2
- 21 and B 2-7?
- 22 A. In Docket No. 06-070-U, OG&E estimated that over the period 1986 to 2006 the
- 23 Company had recovered approximately \$107,728,075 of depreciation, on a total

1 Company basis, in Arkansas rates compared to what was recorded on the Company
2 books. Beginning in 10-067-U, Arkansas rates reflected lower depreciation expense to
3 recognize lower depreciation rates as recommended by Staff and ordered by the
4 Commission. As a result of this reduction of depreciation expense recovered in Arkansas
5 rates, the Company recovered approximately \$97,093,177 less in depreciation for the
6 period July 1, 2011 through the *pro forma* period June 30, 2017. When the 1986-2006
7 difference of \$31,657,966 higher depreciation is combined with the \$97,093,177 of lower
8 depreciation for the period 2011-2017, a net difference of approximately \$65,435,211
9 results. OG&E is trying to correct this difference in order to align the Oklahoma and
10 Arkansas jurisdiction depreciation amounts.

11
12 Q. **Does the Company have a recommendation on how to address the accumulated**
13 **difference of \$65,435,211?**

14 A. Yes. The Company proposes to take the Arkansas jurisdictional difference of
15 \$65,435,211, and to amortize the recovery over 10 years. This results in an increase of
16 \$525,198 in amortization expenses, which is explained in WP C 2-40. Provided that the
17 same depreciation rates are used in both Arkansas and Oklahoma, on a prospective basis,
18 this will reduce the complexity in future Arkansas rate cases by eliminating adjustments
19 to the recorded depreciation.

20
21 Q. **Does this conclude your Direct Testimony?**

22 A. Yes.