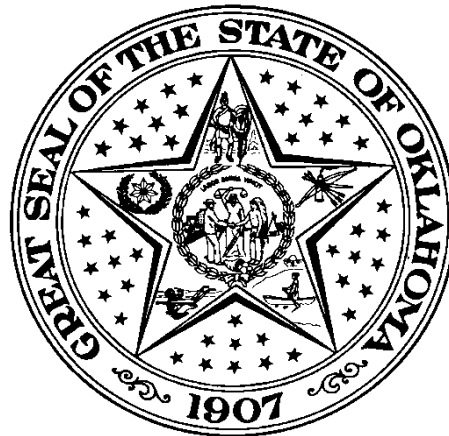


**BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA**

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 )

CASE NO. PUD 2023-000087



**RESPONSIVE TESTIMONY**

**OF**

**FARZAD KHALILI**

**APRIL 26, 2024**

**BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA**

**RESPONSIVE TESTIMONY**

**OF**

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**TABLE OF CONTENTS**

<b>EXECUTIVE SUMMARY.....</b>	<b>3</b>
<b>INTRODUCTION.....</b>	<b>4</b>
<b>PURPOSE.....</b>	<b>5</b>
<b>PUD’S REVIEW PROCESS.....</b>	<b>5</b>
<b>AD VALOREM TAX .....</b>	<b>6</b>
<b>ACCUMULATED DEFERRED INCOME TAX .....</b>	<b>7</b>
<b>EXCESS DEFERRED INCOME TAX.....</b>	<b>7</b>
<b>UNBILLED REVENUE OVER/UNDER ACCOUNTS.....</b>	<b>8</b>
<b>CURRENT INCOME TAX EXPENSE .....</b>	<b>9</b>
<b>CASH WORKING CAPITAL.....</b>	<b>9</b>
<b>INTEREST SYNCHRONIZATION .....</b>	<b>15</b>
<b>REVENUE REQUIREMENT EXHIBIT .....</b>	<b>16</b>
<b>RECOMMENDATION .....</b>	<b>21</b>
<b>LIST OF EXHIBITS.....</b>	<b>23</b>

**EXECUTIVE SUMMARY**

On December 29, 2023, Oklahoma Gas and Electric Company (“OG&E” or “Company”) filed an Application for a modification of its rates, charges, and tariffs for retail electric service in Oklahoma. The Public Utility Division (“PUD”) of the Oklahoma Corporation Commission (“OCC”) reviewed the Application, workpapers, and testimony filed by Company witnesses, and prior Commission Orders. PUD issued data requests and reviewed the responses by OG&E as well as responses to data requests issued by other parties in this case. Additionally, PUD conducted multiple onsite and virtual audit conferences with Company personnel to discuss test year and post-test year adjustments.

After review, PUD recommends that the Commission accept the following adjustments:

- **Revenue Requirement:** OG&E requested an Oklahoma jurisdictional revenue requirement increase of \$332,537,342. Based upon the impact of all PUD-recommended adjustments in this Case, PUD recommends an Oklahoma jurisdictional revenue requirement increase of \$133,474,572. The impact of each adjustment is demonstrated in PUD’s Revenue Requirement Exhibit, filed separately from this testimony.
- **Ad Valorem Tax:** PUD Adjustment **H-8** to decrease Ad Valorem Tax Expense by \$(740,735) based on PUD’s adjustment to Plant in Service.
- **Interest Synchronization:** PUD recommends an adjustment to interest expense within the income tax calculation to reflect changes to rate of return and rate base. Interest Synchronization is a method that provides an interest expense deduction for regulatory income tax purposes equal to the ratepayers’ contribution to OG&E for interest expense coverage. PUD recommends a decrease for the Company’s interest expense of \$(568,051).
- **Current Income Tax Expense:** PUD recommends an increase to OG&E’s pro forma Current Income Taxes of \$37,045,869
- **Cash Working Capital (“CWC”):** PUD recommends an adjustment to CWC to reflect all of PUD’s recommended changes to the expenses included within the CWC calculation in Schedule E. PUD’s recommended adjustment will increase OG&E’s pro forma CWC, resulting in a decrease to rate base of \$(1,135,761).

**INTRODUCTION**

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

A: My name is Farzad Khalili. My business address is Oklahoma Corporation Commission, Public Utility Division, Will Rogers Office Building, PUD Suite 414, 2401 North Lincoln Boulevard, Oklahoma City, Oklahoma 73105.

**Q: Have you previously testified before the Commission and were your qualifications accepted?**

A: Yes. I have previously testified before the Commission and my qualifications were accepted at that time.

**Q: Who employs you and what is your position?**

A: I am employed by the Commission as a PUD Programs Manager VI.

**Q: How long have you been so employed?**

A: I have been employed by the Commission since November 2013.

**Q: What are your duties and responsibilities with PUD?**

A: I conduct research and perform comparative analysis of utility applications, reports, financial records, and workpapers to ensure that PUD can make accurate, fair, just and reasonable recommendations. As a Programs Manager, my work focuses on analyzing and making recommendations for electric, gas, and Oklahoma Universal Service Fund (“OUSF”) cases. I assist PUD’s OUSF group in reviewing the requests for funding,

1 updating forms and templates, and performing research on and analysis of  
2 telecommunications-related matters. My other duties include preparing testimony on  
3 behalf of PUD related to electric, gas, and OUSF cases. For a complete list of my work  
4 history and educational background, please review the attached curriculum vitae.<sup>1</sup>

5 **PURPOSE**

6 **Q: What is the purpose of this Responsive Testimony in this Cause?**

7 A: The purpose of this Responsive Testimony is to present PUD's analysis and recommendations  
8 to the Commission regarding the following areas of review: Ad Valorem Tax, Accumulated  
9 Deferred Income Tax ("ADIT"), Excess Deferred Income Tax ("EDIT"), Unbilled Revenue  
10 Over/Under Accounts, Current Income Tax Expense, Cash Working Capital ("CWC"),  
11 Interest Synchronization, and the Revenue Requirement Exhibit.

12 **PUD'S REVIEW PROCESS**

13 **Q: Please explain PUD's review process in this Cause.**

14 A: PUD reviewed the Application, Direct Testimony of Company witnesses, schedules,  
15 workpapers, and sponsored exhibits filed by the Company. Additionally, PUD reviewed  
16 Commission orders, prior testimony and workpapers. PUD issued data requests and  
17 reviewed the responses provided by OG&E. PUD also reviewed the data requests issued  
18 by intervenors, as well as the associated responses. PUD conducted in-person and virtual  
19 audit conferences with the Company, during which PUD reviewed documentation and held  
20 discussions with the Company witnesses who manage the areas and perform the functions

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<sup>1</sup> Exhibit FK-1.

1 under review. Finally, PUD conducted a subsequent virtual audit conference with OG&E  
2 personnel to discuss six-month post-test year updates.

3 **AD VALOREM TAX**

4 **Q: What adjustment is the Company proposing in Ad Valorem Tax?**

5 A: OG&E proposed adjustment H-2-17 to reflect expected changes due to increases in the rate  
6 base. The Company is requesting a pro forma adjustment of \$8,540,825.

7 **Q: What did PUD do to review the Company's Ad Valorem Tax adjustment?**

8 A: PUD reviewed WP H-2-17 provided by the Company, Direct Testimony<sup>2</sup>, supporting  
9 documentation, and conducted in-person audits with the Company to discuss the area.

10 **Q: Does PUD have any concerns with this proposed adjustment?**

11 A: No. PUD reviewed support for the Ad Valorem Tax expense and found no issues with the  
12 calculations. However, since PUD is making adjustments to the total electric Plant in  
13 Service, a corresponding adjustment to the Company's ad valorem tax expense must be  
14 made. PUD Adjustment H-8 to decrease the ad valorem tax by \$(740,735) is derived by  
15 multiplying PUD adjustment B-1 to decrease the total electric plant in service by  
16 \$(115,030,241)—as explained in Paul Alvarez's and Dennis Stephens' testimonies—by  
17 the ratio of 0.57%.<sup>3</sup> The final ad valorem tax amount should be set at the level consistent  
18 with the total plant amount approved by the Commission.

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<sup>2</sup> Direct Testimony of Jason J. Thenmadathil at page 6, lines 1-19.

<sup>3</sup> WP H2.17 Ad Valorem Taxes.

**ACCUMULATED DEFERRED INCOME TAX**

1  
2 **Q: What adjustment is the Company proposing for Accumulated Deferred Income Tax**  
3 **(“ADIT”)?**

4 A: OG&E is proposing adjustment RB-13 to adjust the ADIT balance as of the test year ending  
5 of September 30, 2023. This results in a decrease of \$30,978,820 to the Company’s rate  
6 base.

7 **Q: What did PUD do to review the Company’s ADIT adjustment?**

8 A: PUD reviewed W/P B-3-14 provided by the Company, Direct Testimony<sup>4</sup>, supporting  
9 documentation, and conducted in-person and virtual audits with the Company to discuss  
10 the area.

11 **Q: Does PUD have any concerns with this proposed adjustment?**

12 A: No. PUD reviewed support for the ADIT balance level and found no issues with the  
13 calculations. PUD recommends the Adjustment B-9 to decrease OG&E’s ADIT balance  
14 by \$(3,517,205) based on the company’s six-month post-test year update.

**EXCESS DEFERRED INCOME TAX**

16 **Q: What adjustment is the Company proposing for Excess Deferred Income Tax**  
17 **(“EDIT”)?**

18 A: OG&E is proposing the pro forma adjustment of \$3,083,043 to the Federal EDIT and  
19 \$51,795 to the Oklahoma EDIT to adjust both Federal and State EDIT balances as of the

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<sup>4</sup> Direct Testimony of James G. Fenno at page 8, lines 3-7.

1 test year ending September 30, 2023. This results in an adjustment of \$3,083,043 for  
2 Federal EDIT and \$51,795 for State EDIT to the Book Taxable Income.<sup>5</sup>

3 **Q: What did PUD do to review the Company's EDIT adjustment?**

4 A: PUD reviewed W/Ps J-1 and J-2 provided by the Company, supporting documentation, and  
5 conducted in-person and virtual audits with the Company to discuss the area.

6 **Q: Does PUD have any concerns with this proposed adjustment?**

7 A: No. PUD reviewed support for the EDIT balance level and found no issues with the  
8 calculations.

9 **UNBILLED REVENUE OVER/UNDER ACCOUNTS**

10 **Q: What adjustment is the Company proposing for Unbilled Revenue Over/Under**  
11 **Accounts?**

12 A: OG&E is proposing Adjustment H-1 to adjust the Unbilled Revenue and Over/Under  
13 Recoveries balance as of the test year ending September 30, 2023. This results in a decrease  
14 of \$479,939,300 to the Company's rate base.<sup>6</sup>

15 **Q: What did PUD do to review the Company's Unbilled Revenue adjustment?**

16 A: PUD reviewed W/P H-2-1 provided by the Company, Direct Testimony, supporting  
17 documentation and conducted in-person and virtual audits with the Company to discuss the  
18 area.

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<sup>5</sup> WPs J-1 and J-2

<sup>6</sup> Direct Testimony of Johnny Nguyen at pages. 5-6, lines 16-30 and 1-13



1 **Q: Does PUD have any concerns with this proposed adjustment?**

2 A: No. PUD reviewed support for this adjustment and found no issues with the calculations.

3 **CURRENT INCOME TAX EXPENSE**

4 **Q: Please explain the difference between PUD's Income Tax Expense adjustment**  
5 **recommendation and the Income Tax Expense adjustment proposed by OG&E in**  
6 **Schedule H-1 of PUD's Revenue Requirement Exhibit.**

7 A: The difference is that PUD's recommended adjustment is for the change in current tax  
8 expense resulting from all of PUD's recommended adjustments, which affects revenues  
9 and expenses for the test year. This adjustment reflects the proper level of income taxes  
10 resulting from PUD's recommended adjustments, rate base, rate of return, and Revenue  
11 Requirement deficiency.

12 **CASH WORKING CAPITAL**

13 **Q: Please explain CWC.**

14 A: CWC is commonly defined as the level of net cash investment required to fund the timing  
15 difference between the time the utility pays the necessary costs associated with providing  
16 service to customers and the time the Company recovers those costs through customer bills.  
17 The phrase "working capital" must first be defined to clearly define CWC. A general  
18 definition of "working capital" is the average amount of capital or money provided by  
19 investors to the Company, over and above any investment in plant and other specifically  
20 identified rate base items, to bridge the gap between the time expenditures are required to  
21 provide service and the time collections are received for such service.

1 For ratemaking purposes, working capital is not a measure of liquidity at a point in time,  
2 but represents a level of required investment that must be maintained on a continuing basis  
3 in order for the utility to continue to provide safe and reliable service to its customers. The  
4 general components of working capital include fuel inventories, payroll, other operating  
5 and maintenance expenses, and taxes. The Company calculates its requested amount of  
6 CWC based upon its requested expenses in these areas. During a rate proceeding, these  
7 areas are reviewed by PUD analysts. After any adjustments are made to these expenses  
8 and inventories, the amount of CWC necessary for the Company to maintain continuing  
9 operations is recalculated.

10 **Q: Please explain what methods exist for calculating a utility's CWC requirement.**

11 A: Three primary techniques can be utilized to determine a utility's CWC requirement: (1) the  
12 45-day Standard Formula Approach; (2) the Balance Sheet Approach; and (3) the  
13 performance of a Lead-Lag Study. None of these three methods will produce an allowance  
14 that is a precise measure of CWC. However, the objective of the CWC requirement  
15 determination should be to arrive at an allowance level that is reasonable, does not contain  
16 obvious defects, and is not so time-consuming to compute that the cost exceeds the benefits  
17 of arriving at what may be perceived as a more accurate determination.

18 **Q: Please provide a brief description of the 45-day Standard Formula Approach for**  
19 **determining a utility's CWC allowance.**

20 A: As the name implies, the 45-day Standard Formula Approach uses a simple formula for the  
21 calculation of a utility's CWC allowance. For an electric utility, the formula is generally

1 based on 1/8 (45/365 days  $\approx$  1/8) of annual Operating and Maintenance Expenses,  
2 exclusive of Generating Fuel and Purchased Power Costs. This formula is often used by  
3 the Commission for smaller utilities that do not have a sophisticated cash management  
4 department. For a smaller utility, the cost and time required to perform a more detailed  
5 CWC analysis would not be a cost-effective undertaking.

6 However, the 45-day Standard Formula Approach has several disadvantages. First, the  
7 formula always provides a positive CWC allowance, and this may not be necessary  
8 depending on a utility's cash flow. Second, the formula method is not a tailored approach  
9 – that is, it is not based upon a specific analysis of a company's cash receipt and cash  
10 payment patterns.

11 **Q: Please provide a brief description of the Balance Sheet Approach for determining a**  
12 **utility's CWC allowance.**

13 A: The Balance Sheet Approach generally involves preparing a 13-month average of all  
14 balance sheet amounts. After eliminating separately identified rate base items such as plant  
15 and inventory investment balances and capital accounts, assets are compared with  
16 liabilities. Under this approach, assets are requirements for CWC, and liabilities are  
17 offsets.

18 The Balance Sheet Approach is not widely used by regulatory agencies. This method fails  
19 to consider that a number of items included in current liabilities are investor-supplied  
20 capital (such as accrued interest) or are applicable to non-utility activities. In addition, the

1 Balance Sheet Approach considers only account balances reflected at the end of each  
2 monthly accounting period. Thus, it does not specifically address the relationship that  
3 exists between assets and liabilities on a daily basis. Finally, the month-end balance of a  
4 specific account, such as supplies, may have very little relevance to the level of activity  
5 passing through the account during the month. In other words, this method does not  
6 adequately track the actual CWC requirements of the utility.

7 **Q: Please explain the Lead-Lag Study method of calculating a utility's CWC allowance.**

8 A: A Lead-Lag Study measures the differences in the time frames between: (1) the period of  
9 time services are rendered and the period of time the revenues for those services are  
10 received; and (2) the period of time that labor, materials, and services used in providing  
11 services are incurred and the period of time they are paid. Any difference in these periods  
12 is expressed in terms of days. The number of days multiplied by the average daily  
13 Operating Expense level for each expense category included in the calculation produces  
14 the CWC required to support operations.

15 While performing a Lead-Lag Study is time-consuming, PUD prefers to rely upon this  
16 methodology for determining a utility's CWC requirement when possible. The Lead-Lag  
17 Study provides a CWC allowance level that is based upon a specific analysis of the cash  
18 receipt and cash payment patterns of the company being reviewed and does so on a daily  
19 basis.

1 **Q: Does PUD agree with the Company's methodology and the net lead-lag days utilized**  
2 **in Schedule E-1 of the Company's Application?**

3 A: Yes. PUD agrees with the methodology used by the Company and recommends using the  
4 net lead-lag days reflected in Column F of OG&E's Schedule E-1. These same net lead-  
5 lag days were used in PUD's Revenue Requirement Exhibit Schedule E-1.

6 **Q: Please describe the CWC allowance methodology used by PUD.**

7 A: OG&E and PUD included only cash Cost of Service items, which are traditionally  
8 earmarked as requiring a CWC allowance calculation. Cash Cost of Service items refer to  
9 the Cost of Service items requiring the actual outlay of cash during the current accounting  
10 period. Depreciation expense, investment tax credits, and return on common equity are  
11 traditionally not included in a CWC calculation.

12 **Q: Has the CWC calculation methodology recommended by PUD in this Case previously**  
13 **been accepted by this Commission?**

14 A: Yes. PUD recommended, and the Commission accepted, this CWC calculation  
15 methodology in recent rate cases involving Public Service Company of Oklahoma,<sup>7</sup>  
16 Oklahoma Natural Gas Company,<sup>8</sup> and OG&E.<sup>9</sup>

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<sup>7</sup> Final Order No. 672864 in Cause No. PUD 201700151, Final Order No. 692809 in Cause No. PUD 201800097, and Final Order No. 738571 in Cause No. PUD 2022-000093.

<sup>8</sup> Final Order No. 648326 in Cause No. PUD 201500213, and Final Order No. 721916 in Cause No. PUD 202100063.

<sup>9</sup> Final Order No. 702531 in Cause No. PUD 201800140, and Final Order No. 728277 in Cause No. PUD 202100164.

1 **Q: Please summarize PUD's recommendation for CWC.**

2 A: PUD has determined that OG&E has a CWC requirement of \$(61,371,852) as shown on  
3 Schedule E-1, line 17 of PUD's Revenue Requirement Exhibit. OG&E requested a CWC  
4 requirement of \$(60,236,091). Therefore, PUD recommends an increase of \$1,135,761 to  
5 OG&E's requested CWC allowance to be included in rate base.

6 **Q: Please explain the difference between PUD's CWC allowance recommendation and**  
7 **the CWC proposed by OG&E.**

8 A: The primary difference is that PUD's CWC allowance recommendation is based on the pro  
9 forma Operating Expense levels recommended by PUD. OG&E developed its CWC  
10 recommendation utilizing its own requested Operating Expense levels. Since a utility's  
11 CWC requirement is generally a function of the level of Operating Expenses requested,  
12 any change in the recommended Operating Expenses can affect the resulting CWC  
13 recommendation.

14 With all of PUD's adjustments considered, PUD recommends increasing the Company's  
15 proposed CWC allowance by \$1,135,761. OG&E's ultimate CWC requirement will need  
16 to be recalculated after the Commission reaches its final decision with regard to which of  
17 the expense level adjustment recommendations advocated by the parties to this Case will  
18 be accepted.

**INTEREST SYNCHRONIZATION**

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**Q: Please define Interest Synchronization.**

A: Interest Synchronization is a method that provides an interest expense deduction for regulatory income tax purposes equal to the ratepayers' contribution to the company for interest expense coverage. Since a utility's Revenue Requirement is partially driven by the application of a rate of return to the utility's rate base investment, the company will recover interest expense from its ratepayers equal to the effective weighted cost of debt embedded in the weighted rate of return.

**Q: Please explain PUD's recommended Adjustment J-1.**

A: PUD's Adjustment J-1 represents the change to OG&E's income tax calculation relating to the synchronization of interest expense based upon the level of rate base and the cost of debt recommended by PUD.

**Q: Did OG&E propose an Interest Synchronization adjustment in quantifying its income tax expense?**

A: Yes. The interest expense amount shown on OG&E's Schedule J-2 of the current Application was computed in this manner.

**Q: Why is an Interest Synchronization adjustment necessary since OG&E has already adjusted its income tax for this expense?**

A: The Interest Synchronization calculation developed by OG&E is based on both the rate base and cost of debt proposed by OG&E. Since PUD is recommending adjustments to

1 OG&E's rate base, it is necessary to also modify the Interest Synchronization components  
2 of OG&E's income tax calculation to capture the impact of the adjustments recommended  
3 by PUD. This will ensure the total interest expense is properly reflected in rates on a going  
4 forward basis. PUD recommends decreasing the Company's interest on debt expense by  
5 \$(568,051), which is the difference between OG&E's proposed pro forma interest  
6 synchronization and PUD's recommended interest synchronization.

7 **REVENUE REQUIREMENT EXHIBIT**

8 **Q: What is the Revenue Requirement Exhibit?**

9 A: The Revenue Requirement Exhibit is the calculation of all PUD adjustments impacting the  
10 Company's requested revenue requirement. The Revenue Requirement Exhibit was  
11 prepared and filed as a separate document on the same day as PUD's Responsive  
12 Testimony.

13 **Q: What is the formula for calculating the Revenue Requirement?**

14 A: The basic formula is:

15 
$$\text{Revenue Requirement} = \text{Rate Base} \times \text{Rate of Return} + \text{Operating Expenses}^{10}$$

16 **Q: What is the purpose of calculating the Revenue Requirement?**

17 A: The Revenue Requirement is "the total amount of revenue the utility would need to provide  
18 a reasonable opportunity to earn a fair rate of return on its investment, given specified

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<sup>10</sup> Regulatory Assistance Project. (2016, July 12). Electricity Regulation in the US: A Guide. Retrieved from <https://www.raponline.org/wp-content/uploads/2016/05/rap-lazar-electricityregulationintheus-guide-2011-03.pdf>.



1 assumptions about sales and costs.”<sup>11</sup> The utility typically makes adjustments to its books  
2 for the test year to determine its pro forma rate base and operating expenses in order to  
3 reflect a normal operating year on a going forward basis. Once the total Revenue  
4 Requirement is calculated, the utility then allocates the revenue to customer classes and  
5 develops rates for each of those classes.

6 **Q: How does PUD construct its Exhibit and calculate the Revenue Requirement?**

7 A: PUD’s Exhibit is comprised of schedules similar to those required under the Commission’s  
8 Chapter 70 rules for a general rate review.

9 PUD begins with the pro forma numbers filed by the utility for Rate Base, CWC, Capital  
10 Structure and Cost, Operating Revenues and Expenses, Taxes, and the resulting Revenue  
11 Requirement calculation. The pro forma numbers are those which have been already  
12 adjusted by the utility in its original Application.

13 PUD then uses its exhibit to replicate the numbers provided by the utility in order to ensure  
14 they are calculated correctly. This process ensures, beyond basic arithmetic, that the utility  
15 has properly accounted for synchronization issues that can occur with Tax and Interest  
16 Expense, CWC, and other items which impact a utility’s Revenue Requirement. If any  
17 mistakes are discovered in the Company’s per books or pro forma numbers, PUD will  
18 include these material corrections in its own adjustment recommendations.

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<sup>11</sup> Ibid.

1 Following its review of the Company’s books, records, and operations, PUD develops  
 2 adjustments to the pro forma numbers proposed in the Application. These adjustments are  
 3 based upon PUD’s reasonable conclusions for each review area. PUD inputs those  
 4 adjustments into the appropriate schedules of its Revenue Requirement Exhibit. Secondary  
 5 impacts to other areas that determine the Revenue Requirement, such as Cash Working  
 6 Capital, Interest Expense, and Factoring Expense, are considered and included as  
 7 necessary.

8 At the end of this process, PUD calculates its recommended Revenue Requirement and the  
 9 associated revenue increase or decrease, as seen on Schedule A of the Exhibit. This  
 10 detailed process allows PUD to provide the Commission with an accurate rate increase or  
 11 decrease recommendation.

12 **Q: What is PUD’s recommended revenue requirement and how does it compare to the**  
 13 **Company’s Application?**

14 A: Table 1 displays the difference between OG&E’s filed revenue requirement and PUD’s  
 15 recommended revenue requirement. For specific adjustments, please see PUD’s Revenue  
 16 Requirement Exhibit and the supporting testimony of each witness listed therein.

17 **Table 1: Revenue Requirement**<sup>12</sup>

	<b>OG&amp;E</b>	<b>PUD</b>	<b>Reduction</b>
<b>Oklahoma Jurisdiction</b>			
Revenue Increase	\$332,537,342	\$133,474,572	\$(199,062,770)
Revenue Requirement	\$1,650,855,503	\$1,469,438,699	

<sup>12</sup> PUD Revenue Requirement Exhibit, Sch. A-1.

1 **Q: Does PUD have adjustments to update Rate Base and Operating Income amounts to**  
 2 **March 31, 2024, the end of the six-month post-test year period?**

3 **A:** Yes. The adjustments to update rate base and operating income amounts to March 31,  
 4 2024, the end of the six-month post-test year period, are as follows:

5 **Table 2: List of Six-Month Post Test Year Adjustments<sup>13</sup>**

<b>PUD Adj. No.</b>	<b>Category</b>	<b>Area</b>	<b>Amount</b>
B-5	Rate Base	Update Fuel Inventories to Six-Month Post Test Year	\$28,093,923
B-6	Rate Base	Update Gas In Storage to Six-Month Post Test Year	\$(8,055,805)
B-7	Rate Base	Update Materials & Supplies to Six-Month Post Test Year	\$31,597,283
B-8	Rate Base	Update Prepayments to Six-Month Post Test Year	\$1,705,339
B-9	Rate Base	Update Accumulated Deferred Income Taxes to Six-Month Post Test Year	\$(3,517,205)
B-10	Rate Base	Update Regulatory Assets to Six-Month Post Test Year	\$59,293,093
B-11	Rate Base	Update Regulatory Liabilities to Six-Month Post Test Year	\$15,133,626
B-12	Rate Base	Update Customer Deposits to Six-Month Post Test Year	\$(5,704,196)
B-13	Rate Base	Update Pension Benefit Asset to Six-Month Post Test Year	\$(7,059,437)
H-6	Expense	Update Bad Debt Expense to Six-Month Post Test Year	\$(24,753)
H-7	Revenue	Update Revenue to Six-Month Post Test Year	\$17,645,965
H-9	Expense	Update Pension Benefit to Six-Month Post Test Year	\$625,514
H-10	Expense	Update Payroll Expense to Six-Month Post Test Year	\$(4,092,075)
H-11	Expense	Update Payroll Tax to Six-Month Post Test Year	\$(331,073)

<sup>13</sup> PUD Revenue Requirement Exhibit, Summary Tab.

H-14	Expense	Update SPP Expense to Six-Month Post Test Year	\$(50,306)
H-16	Expense	Update Amortization of Pension Reg Asset/Liability to Six-Month Post Test Year	\$(2,268)
H-17	Expense	Update Rate Case Expense to Six-Month Post Test Year	\$163,552

1 **Q: Other than the adjustments to update OG&E’s filed amounts to the six-month post**  
 2 **test year amounts, does PUD recommend adjustments to OG&E’s Rate Base and**  
 3 **Operating Income amounts for other reasons?**

4 **A:** Yes. The adjustments PUD recommends are explained in the PUD analysts’ individual  
 5 testimonies as follows:

6 **Table 3: List of Other PUD Adjustments** <sup>14</sup>

Adj. No.	Category	Area	Amount	Analyst
B-1	Rate Base	Cash Working Capital Adjumstment- E-1	\$(1,135,761)	Khalili
B-2	Rate Base	Remove Grid Enhancement Projects	\$(90,774,555)	Alvarez
B-3	Rate Base	Disallow Plant Held for Future Use	\$(2,099,537)	Givens
B-4	Rate Base	Update Accumulated Depreciation to Six-month Post Test Year and Recalculate Using PUD Recommended Plant Balance	\$10,427,655	Givens
B-14	Rate Base	Reduce the Amount of Revenue Moving to Rate Base Based on GEM Rider	\$(4,498,050)	Campbell
B-15	Rate Base	Reduce the Amount Allocated to Transmission Substation Equipment Replacement Projects	\$(7,783,878)	Stephens
B-16	Rate Base	Reduce Discretionary Transmission Spending	\$(16,501,808)	Stephens
H-1	Income	Disallow 100% of Long Term Incentive Compensation	\$9,100,498	Scribner
H-2	Income	Reduce Payroll Tax associated with LTI	\$736,284	Scribner
H-3	Income	Reduce Other Compesnation	\$9,106,749	Scribner
H-4	Income	Reduce Payroll Tax associated with Other Compensation	\$736,736	Scribner

<sup>14</sup> PUD Revenue Requirement Exhibit, Summary Tab.

H-5	Income	Reduce Chamber of Commerce Dues	\$177,908	Aguirre
H-8	Income	Update Ad Valorem Tax Expense to Six-month Post Test Year and Recalculated Using PUD Recommended Plant Balance	\$740,735	Khalili
H-12	Income	Reduce Amortization of Pension Reg Asset/liability	\$5,282,149	Scribner
H-13	Income	Update Depreciation Expense to Six-month Post Test Year and Recalculate Using PUD Recommended Rates and Plant Balances	\$91,979,480	Givens
H-15	Income	Reduce Vegetation Management Expense	\$19,680,666	Alvarez
H-18	Income	Reduce Investor Relations Expense by 50%	\$397,915	Alsup

**RECOMMENDATION**

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**Q: What is the Public Utility Division’s (“PUD”) recommendation to the Oklahoma Corporation Commission (“Commission”) concerning Oklahoma Gas and Electric Company’s (“OG&E” or “Company”) request for a modification of its rates, charges, and tariffs for retail electric service in Oklahoma?**

**A:** PUD recommends the Commission accept the following adjustments:

- **Revenue Requirement:** OG&E requested an Oklahoma jurisdictional revenue requirement increase of \$332,537,342. Based upon the impact of all PUD-recommended adjustments in this Case, PUD recommends an Oklahoma jurisdictional revenue requirement increase of \$133,474,572. The impact of each adjustment is demonstrated in PUD’s Revenue Requirement Exhibit, filed separately from this testimony.
- **Ad Valorem Tax:** PUD Adjustment **H-8** to decrease Ad Valorem Tax Expense by \$(740,735) based on PUD’s adjustment to Plant in Service.
- **Interest Synchronization:** PUD recommends an adjustment to interest expense within the income tax calculation to reflect changes to rate of return and rate base. Interest Synchronization is a method that provides an interest expense deduction for regulatory income tax purposes equal to the ratepayers’ contribution to OG&E for interest expense coverage. PUD recommends a decrease for the Company’s interest expense of \$(568,051).

- 1                   • **Current Income Tax Expense:** PUD recommends an increase to OG&E's pro forma  
2                   Current Income Taxes of \$37,045,869.
- 3                   • **Cash Working Capital ("CWC"):** PUD recommends an adjustment to CWC to  
4                   reflect all of PUD's recommended changes to the expenses included within the CWC  
5                   calculation in Schedule E. PUD's recommended adjustment will increase OG&E's  
6                   pro forma CWC, resulting in a decrease to rate base of \$(1,135,761).

I state, under penalty of perjury under the laws of Oklahoma, that the foregoing is true and correct to the best of my knowledge and belief.

*Farzad Khalili*

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Farzad Khalili

**Oklahoma Gas & Electric Company – Case No. PUD 2023-000087**

**LIST OF EXHIBITS**

FK-1

*Curriculum Vitae*



# Farzad Khalili

Curriculum Vitae

**Contact**

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P.O. Box 52000  
Oklahoma City, OK 73152

**Work Experience**

**Oklahoma Corporation Commission** 2013-Present

**Programs Manager VI- 3/2021-Present**

- Research and perform comparative analyses of public utility issues that are brought forth to the Commission.
- Analyze utility financial records, cost studies, and reports to make recommendations concerning utility operations, terms, conditions, and prices of utility services.
- Prepare and assist in the preparation of testimony and interrogatories in order to serve as expert witness in state proceedings.

**Public Utility Division Manager - 4/2018-2/2021**

- Oversaw a team of Regulatory Analysts and Auditors.
- Enforced Commission rules and statutes related to telecommunications.
- Prepared final orders and testimonies for Commission review.
- Reviewed current rules and statutes related to the Oklahoma Universal Service Fund.

**Oklahoma Universal Service Fund Coordinator- 11/2015-3/2018**

- Oversaw a team of Regulatory Analysts and Auditors.
- Reviewed policies related to the Oklahoma Universal Service Fund.
- Reviewed documentation presented by schools, libraries, and health care facilities for accounting accuracy.
- Provided training for the Oklahoma Universal Service Fund Regulatory Analysts and Auditors.

**Public Utility Division Auditor - 11/2013-10/2015**

- Performed comparative analysis of the Oklahoma Universal Service Fund applications and all work papers.
- Ensured that Public Utility Division made accurate recommendations in the area of Special Universal Services and Primary Universal Service causes.
- Reviewed the OUSF applications, conducted onsite visits of the schools, libraries, and health care facilities that requested OUSF funding, as well as reviewed bids that each entity received for competitive bid compliance.
- Reviewed documentation presented by schools, libraries, and health care facilities for accounting accuracy.
- Audited the outgoing monthly requested true-up funding for the OUSF applications that had been previously approved by the Oklahoma Corporation Commission.

**Cole and Reed, P.C.** 2008-2009

**Auditor**

- Prepared audit work papers and drafts of audit reports for review.
- Reviewed the adequacy of systems and testing to verify the accuracy of data provided.
- Evaluated the initial internal controls and reconciled general ledger accounts.





# Farzad Khalili

Curriculum Vitae

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## Education

### University of Oklahoma

- Master of Public Administration-Public Policy

### New Mexico State University

- Graduate Certificate- Public Utility Regulation and Economics

### John F. Kennedy University-College of Law

- Doctor of Jurisprudence

### University of Central Oklahoma

- Master of Business Administration- General Business
  - Bachelor of Science- Accounting
-

**CERTIFICATE OF ELECTRONIC SERVICE**

This is to certify that on the 26<sup>th</sup> day of April, 2024, a true and correct copy of the above and foregoing was electronically served via the Electronic Case Filing System to those on the Official Electronic Case Filing Service List, or via electronic mail to the following persons:

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