BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE FORMULA RATE PLAN FILINGS OF **OKLAHOMA GAS** **GAS AND ELECTRIC COMPANY** PURSUANT TO APSC DOCKET NO. 16-052-U	)))))	DOCKET NO. 18-046-FR

Direct Testimony

of

Bradley S. Cochran

on behalf of

Oklahoma Gas and Electric Company

Qualifications, Experience, Purpose

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

A. My name is Bradley Shaun Cochran. My business address is 321 N. Harvey Ave., Oklahoma City, Oklahoma 73102.

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

A. I am employed by Oklahoma Gas and Electric Company ("OG&E" or "Company") as a Lead Regulatory Coordinator.

Q. **Would you please summarize your education and professional background?**

A. I earned a Bachelor's degree in finance from the University of Oklahoma and a Master's in Business Administration from the University of Central Oklahoma. I am also a Certified Public Accountant licensed by the Oklahoma Accountancy Board. I joined OG&E in 2008 and have worked for the utility since that time in the Cost of Service, Regulatory Accounting, Integrated Resource Planning, and Regulatory Affairs departments. During my time at OG&E, I have been involved with several rate cases and rider applications in both Oklahoma and Arkansas jurisdictions. I have prepared schedules and worked on billing factor redeterminations and reporting for these applications. In my current role, I am responsible for the development, support and management of various regulatory case matters.

Q. **Have you testified in prior utility rate proceedings in Arkansas?**

A. Yes, I have testified in Arkansas in Docket No. 07-075-TF in the 2015 and 2016 annual redetermination of EECR billing factors.

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

A. The purpose of my testimony is to describe the mechanics of the Formula Rate Plan Rider ("FRP") and 2018 Evaluation Report, including its results. I will also describe the Attachments required by the FRP Rider. Additionally, I will explain how OG&E complies with the FRP Rider and explain the adjustments the Company is proposing. Last, I will discuss changes to the FRP Tariff the Company is proposing in this case.

Q. **Would you please summarize your role in the 2018 Evaluation Report in the Formula Rate Plan Tariff?**

A. For the 2018 Evaluation Report, my responsibilities were to oversee the development of the Formula Rate Plan Attachments, Schedules, and Workpapers that support the Company's 2018 Evaluation Report. I coordinated the development of the revenue requirement and the adjustments, as well as, provided analysis to support the Company's position.

FRP Rider and Evaluation Report

Q. **Please describe OG&E's FRP Rider.**

A. The FRP Rider is a process by which the Company makes an annual filing in the form of an Application and Evaluation Report which is reviewed by the Arkansas Public Service Commission ("Commission") to determine if a rate adjustment is necessary, pursuant to the FRP Rider.

Q. **How is the Evaluation Report structured?**

A. Each year, on or about October 1, the Company files an Evaluation Report that describes the Company's expected earnings during the Projected Year ("PY") (in this filing the 12 month period ending March 31, 2020), to determine the rates for that year. The Historical Year ("HY") (in this filing the 12 month period ending March 31, 2018) provides accounting data from the Company's book and records, upon which the Projected Year is based. Specifically, the Projected Year equals the Historical Year plus any reasonably known and measurable changes occurring after the Historical Year. [1] During the Filing Year ("FY") (in this filing the 12 month period ending March 31, 2019) and within the Evaluation Report, the Company will file all associated filing requirements, workpapers and any proposed adjustments.

[1] Tariff Sheet No. 80, FRP, Attachment C, I. (D).

Attachments

Q. **Please describe the Attachments filed as part of the Evaluation Report.**

A. The Company's Evaluation Report includes the following Attachments:

- Attachment A-1 – Proposed FRP Rate Adjustment
- Attachment A-2 – Proposed FRP Revenue Change
- Attachment B-1, D-1 – Projected Year and Historical Year Earned Rate of Return Formula on Common Equity
- Attachment B-2, D-2 – Projected Year and Historical Year Rate Base
- Attachment B-3, D-3 – Projected Year and Historical Year Operating Income
- Attachment B-4, D-4 – Projected Year and Historical Year Income Tax
- Attachment B-5, D-5 – Projected Year and Historical Year Benchmark Rate of Return on Rate Base
- Attachment B-6, D-6 – Projected Year and Historical Year Revenue Redetermination Formula
- Attachment C – FRP Adjustments
- Attachment E – FRP Filing Requirements
- Attachment F – FRP Protocols

Q. **Please describe the results of the 2018 Evaluation Report.**

A. After the calculation of the Projected Year Revenues and Revenue Requirement, the Company used the FRP Attachment Schedules to determine whether a revenue adjustment is necessary, and if so, the amount of that adjustment. For the Projected Year, the Company's Earned Rate of Return ("ERR") on Common Equity is 7.41%, which is less than the Target Return Rate ("TRR") of 9.5%. This ERR falls outside of the plus or minus 50 basis point bandwidth and results in an adjustment of 2.09% in order to reach the TRR. This results in a rate adjustment in required FRP revenue of $6.5 million. This change can also be seen by taking the difference between the Projected Year Revenues, $101.4 million, and the Projected Year revenue requirement, $107.9 million, to get to the Rate Adjustment of $6.5 million. While the calculated adjustment is $6.5 million, the 4% cap constraint by individual Rate Class only allows for an adjustment of $6.4 million. These detailed calculations and the rate changes by customer classes can be seen in more detail on Attachments A-1 and A-2. For further discussion on Attachments A-1 and A-2 please see the direct testimony of OG&E witness Bailey.

Q. **Has OG&E's Evaluation Report been prepared in accordance with its FRP Rider?**

A. Yes. The Company has prepared all filing requirements including the Attachments, Schedules, and Workpapers in accordance with the FRP Rider. I will address several of the Attachments below.

Q. **Please explain the purpose of Attachment D, Historical Year Attachments, in the 2018 Evaluation Report.**

A. The Attachment D Schedules will be used to determine a netting adjustment in the Company's 2020 Evaluation Report. However, the Company completed these Schedules in this filing, the 2018 Evaluation Report, in order to develop the basis for its Projected Year. In other words, even though the Company completed the Attachment D Schedules, it only did so to use as a basis for the development of the Projected Year. Specifically, Schedules D-2, D-3, D-4, and D-5 were used to develop the Company's Projected Year. The Company is not asking for the FRP Rider revenue change calculated in the Attachment D Schedules, and the numbers and calculations specifically in Attachments D-1 and D-6 are for informational purposes only.

Q. **Please describe Attachment D.**

A. Attachment D contains six schedules which are used to develop the Company's FRP Rider revenue change for the Historical Year. Attachment D-1 is a summary calculation of the Company's revenue requirement and earned rate of return on common equity. Attachment D-2 through D-5 are Historical Year rate base, operating income, income taxes, and the benchmark rate of return on rate base, respectively. The Historical Year data is the accounting balances supported by the Company's trial balance. Attachment D-6 compares the earned rate of return to the target rate of return and determines whether a return on equity bandwidth adjustment is necessary, and if so, by how much.

Q. **Please describe Attachment B.**

A. Attachment B contains six schedules which are used to develop the Company's FRP Rider revenue change for the Projected Year. Attachment B-1 is a summary calculation of the Company's revenue requirement and earned rate of return on common equity. Attachment B-2 through B-5 are Projected Year rate base, operating income, income taxes, and the benchmark rate of return on rate base, respectively. Attachment B-6 compares the earned rate of return to the target rate of return and determines whether a return on equity bandwidth adjustment is necessary, and if so, by how much.

Q. **Please describe how the Company used Historical Year information to develop Attachment B, Projected Year Attachments, in the 2018 Evaluation Report.**

A. These Projected Year amounts are based on the Adjusted Historical Year plus any reasonably known and measurable changes after March 31, 2018. For example, the Company held constant its total net utility plant from the Historical Year, except for the rate base additions of reasonably known and measurable investments, which I will discuss later in my testimony.

Q. **Please describe Attachment C.**

A. Attachment C describes the adjustments that the Company made to develop the Projected Year. This includes adjustments made during the beginning and ending of the Historical Year and Projected Year, which are used to calculate average rate base. These adjustments are consistent with the adjustments in Order No. 8 in Docket No. 16-052-U. For example, the Company adjusted the beginning of the Historical Year, the end of the Historical Year, the end of the Filing Year, and the end of the Project Year. The adjustments to each of these time periods was necessary to fill out the Attachment Schedules and comply with Attachment C per the terms of the FRP Rider.

Q. **Please describe Attachment E.**

A. Attachment E includes those specific filing requirements per the FRP Rider which support the Company's Evaluation Report and have been included in Volumes 2-5 of the Company's filing package.

Adjustments

Q. **How are the adjustments discussed above reflected in the 2018 Evaluation Report?**

A. There are four time periods in which the Company made adjustments to be used to complete the FRP Attachment Schedules. Those time periods include:

- Beginning of the Historical Year ending March 31, 2017 ("BHY"),
- Historical Year ending March 31, 2018 ("HY"),
- Filing Year ending March 31, 2019 ("FY"), and
- Projected Year ending March 31, 2020 ("PY").

Within these time periods, the Company made several adjustments. These adjustments were to either remove rider revenues and expenses, to be consistent with Docket No. 16-052-U, or other adjustments. These adjustments were made to rate base, revenues and expenses, current and accrued other liabilities, accumulated deferred income taxes, and other capital components. All of these adjustments were used to determine the Projected Year revenue requirement and to complete the FRP Attachments. Please see Chart 1 for an overview of how the rate base adjustments and time periods are represented in the FRP Schedules and workpapers.

Chart 1

Rate Base	Adjustment	BEGINNING HISTORICAL YEAR	HISTORICAL YEAR	FILING YEAR	PROJECTED YEAR
WP B 2-1	Holding Company Assets	(0.8)	-	-	-
WP B 2-2	Windspeed Removal of Partial Investment	(61.4)	(60.1)	-	-
WP B 2-3	Removal of Transmission Expenses Recovered from LSE's	(822.7)	(888.9)	-	-
WP B 2-4	AR Depreciation Rate Differential	(8.4)	(33.2)	-	-
WP B 2-5	Net Plant Additions	-	-	39.2	-
WP B 2-6	Net Plant Additions - Accumulated Depreciation	-	-	5.3	(12.0)
Schedule B-4	Working Capital Adjustments (13-month avg & other adj.)	-	(937.5)	-	-
Schedule B-10	Acquisition Adjustment	(2.8)	(2.7)	-	-

Q. **Please explain what adjustments the Company made, after the Historical Year, to the Filing Year and Projected Year in Chart 1.**

A. The adjusted balance at the end of the Historical Year, or the Adjusted Historical Year, is the beginning balance for the Filing Year, and only reasonably known and measurable adjustments were made to the Adjusted Historical Year balances.

Q. **Please provide a general overview of how the adjustments for each time period are described.**

A. Each adjustment the Company made is identified by a number and description depending on what part of the revenue requirement the adjustment impacts and the time period when the adjustment occurs. For example, adjustment B 2-1 BHY is an adjustment to remove a portion of the Holding Company Assets in the Company's trial balance as of March 31, 2017, or the Beginning of the Historical Year. This is the only time period this adjustment is made for this purpose, resulting in no additional B 2-1 adjustments. An example where there is an adjustment made to multiple time periods for a rate base item is for the Removal of Windspeed partial investment (B 2-2). This adjustment occurs in both the Beginning of the Historical Year (B 2-2 BHY) and the End of the Historical Year (B 2-2 HY) but is not made for any other time periods. Having this adjustment made to the beginning and ending of the Historical Year is necessary to fill out Attachment D-2, which requires beginning and ending year balances in order to calculate an average for the year. Similarly, adjustments to rate base, revenues, expenses, and cost of capital follow the same format for the expense description and time period moniker.

Q. **Please describe how the Rate Base adjustments flow into the FRP Schedules.**

A. Chart 1 shows a summary of adjustments the Company made in the FRP. It shows the four time periods as columns and gives a description of the adjustments made during that time period. For net utility plant, the BHY adjustments can be seen on Attachment D-2 as the beginning balances and the HY adjustments can be seen on Attachment D-2 as the ending balances. These balances are then used on Attachment D-2 to calculate an average for plant in service, accumulated depreciation, plant acquisition adjustment, and amortization of acquisition adjustment. The working capital asset adjustments seen on Attachment D-2 are a combination of using a 13-month average as well as other adjustments consistent with OG&E's last general rate case Docket No. 16-052-U.

Q. **Please explain how the Rate Base adjustments in the Historical Year impact the Projected Year.**

A. The Historical Year balances after the Company has made its adjustments, or the Adjusted Historical Year amounts, are used as the basis for the Projected Year, and only adjusted for reasonably known and measurable changes that occur after March 31, 2018. For example, the Removal of Windspeed Partial Investment adjustment in the Historical Year (B 2-2 HY), removed part of the Windspeed costs from rate base to calculate the Adjusted Historical Year. The Company made no adjustments to increase or decrease the amount determined in the Adjusted Historical Year. Therefore, the Adjusted Historical Year equals the Projected Year and no adjustment was needed after the adjustment made at the end of the Historical Year. With respect to this rate base item, this effectively kept rate base the same as the Adjusted Historical Year.

Q. **Please provide examples of how the Rate Base adjustments in the Historical Year impact the Projected Year.**

A. For example, the Company made adjustments to the Historical Year ending balance for Working Capital Assets to determine the Adjusted Historical Year. The Company did not make any adjustments to Working Capital Assets in either the Filing Year or the Projected Year, ultimately leaving the balance the same as the Adjusted Historical Year. This is consistent with the Company's approach to the FRP where the Historical Year equals the Projected Year plus reasonably known and measurable changes. Additionally, Adjustment B 2-3 HY is a Historical Year rate base adjustment to remove rate base that is ultimately paid for by other Load Serving Entities ("LSE") within the Southwest Power Pool ("SPP"). This adjustment is made for both the Beginning of the Historical Year (Adjustment B 2-3 BHY) and for the end of the Historical Year (Adjustment B 2-3 HY). The BHY adjustment is only used for the averaging required in Attachment D-2, and not for the calculation of the Adjusted Historical Year ending balance. There is no need to make an adjustment to remove LSE costs in the Filing Year or Projected Year because they have already been removed in the calculation of the Adjusted Historical Year. Once the Adjusted Historical Year ending balance is calculated, that amount will roll forward unless the Company makes an adjustment in either the Filing Year or Projected Year.

Q. **Please provide an example where the Company made adjustments to the Adjusted Historical Year to determine the Projected Year.**

A. As seen in Chart 1, the Company is proposing adjustments to Plant in Service (B 2-5 FY) in the Filing Year for reasonably known and measurable projects added to rate base. Thus, the Projected Year reflects these Filing Year adjustments and any incremental adjustment associated with plant additions such as adjustments for accumulated depreciation (B 2-6 FY and B 2-7 PY), accumulated deferred income taxes (Schedule C-10 PY), and depreciation expense (C 2-23 PY).

Q. **Does the methodology described above for rate base adjustments apply to other revenue requirement components, and the adjustments made to those components?**

A. Yes. Revenues, expenses, and those components used to calculate the benchmark return on rate base all use the same methodology. Specifically, that the Company's Historical Year equals the Projected Year plus any reasonably known and measurable changes. This means that if there were no reasonably known and measurable changes after the Company calculated its Adjusted Historical Year, the account balances determined in the Adjusted Historical Year did not change.

Q. **Do the rate base adjustments described above include all of the investments the Company plans to make during the Projected Year?**

A. No. The Company is only making reasonably known and measurable rate base adjustments after the Historical Year. The Projected Year plant balance included in this FRP filing will be different than what the Company actually incurs, but at this time the Company is only asking the Commission to consider the investments included in this filing. The plant investments the Company incurs outside of what is included in this filing will be considered in the Company's third FRP filing when this years Projected Year becomes the Historical Year.

Q. **Please list all the rate base adjustments the Company made.**

A. See Chart 2 for a list of all rate base adjustments.

Chart 2

Adjustment	Description
WP B 2-1 BHY	Holding Company Assets
WP B 2-2 BHY	Windspeed Removal of Partial Investment
WP B 2-3 BHY	Removal of Transmission Expenses Recovered from LSE's
WP B 2-4 BHY	AR Depreciation Rate Differential
Schedule B-10 BHY	Acquisition Adjustment
WP B 2-2 HY	Windspeed Removal of Partial Investment
WP B 2-3 HY	Removal of Transmission Expenses Recovered from LSE's
WP B 2-4 HY	AR Depreciation Rate Differential
Schedule B-4 HY	Working Capital Adjustments
Schedule B-10 HY	Acquisition Adjustment
WP B 2-5 FY	Net Plant Additions
WP B 2-6 FY	Net Plant Additions - Accumulated Depreciation
WP B 2-6 PY	Net Plant Additions - Accumulated Depreciation

Q. **Please explain WP B 2-1 BHY, the adjustment for Holding Company Assets**

A. OG&E includes holding company assets ("OGE Energy Corp.") as a part of plant in service. About sixteen percent (15.73%) of these holding company assets are devoted to non-utility activity and should therefore be excluded from the cost of service. This resulted in a decrease to plant in service of $14,753,945 and a decrease to accumulated depreciation of $13,975,199. This results in a decrease to net rate base of ($778,746). This adjustment was necessary to calculate a beginning Historical Year adjustment amount for Attachment D-2.

Q. **Did the Company make any other adjustment for Holding Company Assets for any other time period?**

A. No, the Holding Company Assets were in the Company's trial balance as of March 31, 2017 but were not in the trial balance as of March 31, 2018. The utility portion of these assets were included in utility plant by the end of the Historical Year. Therefore, no further adjustment was necessary.

Q. **Please explain WP B 2-2 BHY, the adjustment to partially remove the Company's Windspeed investment.**

A. This adjustment reduces rate base by thirty four percent (34%) of the total Windspeed investment as of March 31, 2017 as recommended by Commission Staff and approved by Commission Order No. 6 in Docket No. 10-067-U. This decreased investment amount reduced the plant balance by $72,185,182 and accumulated depreciation by $10,798,167. This resulted in a net plant reduction of $61,387,015. This adjustment was necessary to calculate a beginning Historical Year adjustment amount for Attachment D-2, but the adjustment was not used to determine the Historical Year ending balance. That adjustment is shown in B 2-2 HY.

Q. **Please explain WP B 2-3 BHY, the adjustment to remove transmission related investments paid for by third parties.**

A. This adjustment removes a percentage of certain OG&E transmission related items from rate base. The percentage, which is allocated to other LSE's, was derived from the FERC Transmission Formula Rate True-Up Adjustment for the 2016 rate year. This adjustment reflects the fact that the investments associated with regionally allocated transmission plant is assigned to other LSEs in the SPP. This allocation of OG&E transmission plant costs is necessary so these costs will not be recovered from those LSEs and from OG&E's Arkansas customers. OG&E has adjusted transmission related plant in service, accumulated depreciation, and other various working capital rate base items to reflect this recovery. The impact to plant in service was a decrease of $886,054,925 and a decrease to accumulated depreciation of $63,330,994 resulting in a net plant decrease of $822,723,931. This adjustment was necessary to calculate a beginning Historical Year adjustment amount for Attachment D-2, however the adjustment was not used to determine the Historical Year ending balance. That adjustment is shown in B 2-3 HY.

Q. **Please explain WP B 2-4 BHY, adjustment to the accumulated depreciation rate differential.**

A. This adjustment is made to adjust accumulated depreciation for the differential between the FERC depreciation rates and Arkansas approved depreciation rates. Depreciation reported to FERC is a blended rate comprised of a combination of the currently approved Oklahoma and Arkansas rates. As a result, accumulated depreciation is increased by $8,384,832, which is a decrease to net plant by the same amount. This adjustment was necessary to calculate a beginning Historical Year adjustment amount for Attachment D-2, but the adjustment was not used to determine the Historical Year ending balance. That adjustment is shown in B 2-4 HY.

Q. **Please explain Schedule B-10 BHY, and the adjustment to net plant acquisition adjustment.**

A. Consistent with the final order in Docket No. 16-052-U, the Company only included the net acquisition adjustment as of March 31, 2017 for its purchase of the Redbud Power Plant. The other net acquisition adjustments included in the trial balance were removed from rate base resulting in a reduction to rate base of $2,754,308. This adjustment was necessary to calculate a beginning Historical Year adjustment amount for Attachment D-2, but the adjustment was not used to determine the Historical Year ending balance. That adjustment is shown in Schedule B-10 HY.

Q. **Please explain WP B 2-2 HY, the adjustment to partially remove the Company's Windspeed investment.**

A. This adjustment reduces rate base by thirty four percent (34%) of the total Windspeed investment as of March 31, 2018 as recommended by Commission Staff and approved by Commission Order No. 6 in Docket No. 10-067-U. This decreased investment amount reduced the plant balance by $72,185,182 and accumulated depreciation by $12,134,446. This resulted in a net plant reduction of $60,050,736. This adjustment was used to determine the Adjusted Historical Year, and since there were no reasonably known or measurable changes occurring after March 31, 2018, the Company made no further adjustments to this balance in the Filing or Projected Year.

Q. **Please explain WP B 2-3 HY, the adjustment to remove transmission related investments paid for by third parties.**

A. This adjustment removes a percentage of certain OG&E transmission related items from rate base. The percentage allocated to other LSE's was derived from the FERC Transmission Formula Rate True-Up Adjustment for the 2017 rate year. The impact plant in service was a decrease of $954,872,471 and a decrease to accumulated depreciation of $74,969,945 resulting in a net plant decrease of $879,902,526. The working capital asset adjustment was a reduction to rate base of $9,043,816. This adjustment was used to determine the Adjusted Historical Year, and since there were no reasonably known or measurable changes occurring after March 31, 2018, the Company made no further adjustments to this balance in the Filing or Projected Year.

Q. **Please explain WP B 2-4 HY, adjustment to accumulated depreciation rate differential.**

A. This adjustment is made to adjust accumulated depreciation for the differential between the FERC depreciation rates and Arkansas approved depreciation rates. Depreciation reported to FERC is a blended rate comprised of a combination of the currently approved Oklahoma and Arkansas rates. As a result, accumulated depreciation is increased by $33,160,563, which is a decrease to net plant by the same amount. This adjustment was used to determine the Adjusted Historical Year, and since there were no reasonably known or measurable changes occurring after March 31, 2018, the Company made no further adjustments to this balance in the Filing or Projected Year.

Q. **Please explain Schedule B-4 HY, adjustment to working capital assets.**

A. A component of OG&E's rate base is working capital assets. Consistent with the FRP Tariff Attachment C requirements, the Company adjusted working capital assets to represent a 13-month average. However, there were account balances where a 13-month average was not representative of a normal account balance, and the adjustment used year-end March 31, 2018 values instead. Additionally, some account balances were eliminated, because they were specific to another jurisdiction and not charged to Arkansas customers. The treatment for those account balances was consistent with Order No. 8 in Docket No.

16-052-U. Along with the working capital asset adjustment related to WP B 2-3 HY, working capital assets were adjusted another $937,537,567 for a total decrease to rate base for working capital assets of $946,581,383.

Q. **Please explain why the only time period adjustment to working capital assets was made in Schedule B-4 HY.**

A. Consistent with the Company's methodology that the Historical Year equals the Projected Year plus any reasonably known and measurable changes, the Company did not make any known and measurable changes after its adjustments to the March 31, 2018. Therefore, the balance at the end of the Adjusted Historical Year is the balance used for the Projected Year working capital assets.

Q. **Please explain Schedule B-10 HY, and the adjustment shown to net plant acquisition adjustment.**

A. Consistent with the order in Docket No. 16-052-U, the Company only included the net acquisition adjustment as of March 31, 2018 for its purchase of the Redbud Power Plant.[2] The other net acquisition adjustments included in the trial balance were removed from rate base resulting in a reduction to rate base of $2,679,634. This adjustment was used to determine the Adjusted Historical Year, and since there were no reasonably known or measurable changes occurring after March 31, 2018, the Company made no further adjustments to this balance in the Filing or Projected Year.

Q. **Please explain WP B 2-5 FY, the adjustment to plant in service for the Filing Year, twelve months ending March 31, 2019.**

A. This adjustment increases plant in service for the Filing Year by adding incremental reasonably known and measurable investments after the Historical Year. This adjustment includes additional plant of $53,931,497 and retirements to plant of $14,705,605 for a plant in service and rate base increase of $39,225,892. Please see Attachment E Item 9 in Volume 2 of the Company's filing package for a detailed list of these investments.

[2] Docket No. 16-052-U Direct Testimony of William L. Matthews, p. 11, ln 6-9

Q. **Please explain WP B 2-6 FY, the adjustment to accumulated depreciation for the Filing Year, twelve months ending March 31, 2019.**

A. This adjustment estimates the increase to accumulated depreciation to account for increases to the depreciation reserve occurring after the Historical Year end. This adjustment only considers those changes that would occur related to the incremental plant in service additions made in WP B 2-5 FY. The change to accumulated depreciation assumes a half-year convention for depreciation for investments going into service during the Filing Year and a full year depreciation on the Mustang Combustion Turbine ("CT")[3] assets that were in service at the end of the Historical Year, using depreciation rates approved in Docket No. 16-052-U. This adjustment also includes updates to net removal and retirements. The net impact to accumulated depreciation is a decrease of $5,265,998 and an increase to rate base of the same amount.

Q. **Please explain WP B 2-6 PY, the adjustment to accumulated depreciation for the Projected Year, twelve months ending March 31, 2020.**

A. This adjustment estimates an increase to accumulated depreciation to account for increases to the depreciation reserve occurring after the Filing Year end. The change to accumulated depreciation assumes a full-year depreciation for investments going into service during the Filing Year including the Historical Year balance of the Mustang CTs. This adjustment also includes updates to net removal and retirements. The net impact to accumulated depreciation is an increase of $12,037,013 and a decrease to rate base of the same amount.

Q. **Are there other adjustments to the Historical Year that you would like to explain?**

A. Yes, consistent with the FRP Tariff Attachment C requirements, the rate base amounts for construction work in progress ("CWIP"), Non-Utility plant, Plant Held for Future Use, and Asset Retirement Obligations were removed from the rate base for the beginning and end

[3]The Mustang CTs were approved by this Commission in Order No. 3, Docket No. 17-030-U, *In the Matter of the Application of Oklahoma Gas and Electric Company Seeking a Declaratory Order Finding its Mustang Generation Plant Modernization Plan is Consistent with the Public Interest.*

of the Historical Year. This adjustment was only made for these two time periods because none of these assets were added or considered in the Filing or Projected Years.

Q. **Please list the Cost of Capital account adjustments the Company made.**

A. Chart 3 below lists all adjustments to Cost of Capital items that determine the Benchmark Rate of Return on Rate Base ("BRORB").

Chart 3

Adjustment	**Description**
Attachment D and Attachment B supporting workpapers	Long-Term Debt
Attachment D and Attachment B supporting workpapers	Common Equity
Schedule C-10	ADIT
Schedule D-6.1	Current and Accrued Other Liabilities
Attachment D and Attachment B supporting workpapers	Post-1970 Investment Tax Credits
Attachment D and Attachment B supporting workpapers	Customer Deposits
Attachment D and Attachment B supporting workpapers	Short-Term Debt
Attachment D and Attachment B supporting workpapers	Other Capital

Q. **Please identify the Cost of Capital adjustments the FRP Tariff describes to calculate a BRORB for the Historical Year and Projected Year.**

A. The FRP Tariff Attachment C, Attachment B-5, and Attachment D-5 identify specific Cost of Capital balances and the type of average to be used for the calculation of a BRORB. According to the FRP Tariff: a 13-month average is used for Current and Accrued Other Liabilities ("CAOL"); a beginning and ending year average is used for Accumulated Deferred Income Taxes ("ADIT") while the Long-Term Debt, Common Equity, Post-1970 Investment Tax Credits, Customer Deposits, Short-Term Debt and Other Capital amounts use a September 30 (mid-year) balance. The Debt to Equity ratio for external capital, including short-term debt of 2.9% is fixed at 50/50, and the return on equity of 9.5% are all based on the last general rate case Docket No. 16-052-U.

Q. **Please generally describe the adjustments the Company made to calculate a BRORB for the Historical Year.**

A. In the Attachment D workpapers, the Company made adjustments to calculate a BRORB. The workpapers start with the trial balance values as of March 31, 2018, then makes adjustments consistent with those listed FRP Tariff Attachment C, which I detailed above. These adjustments can be seen in the Company's Attachment D supporting workpapers.

Q. **Are there specific Historical Year adjustments that you would like to provide additional detail?**

A. Yes, I would like to further explain the Company's adjustments to CAOL and ADIT. In Schedule D-6.1 HY, the Company made adjustments to its CAOL account balances to get to a 13-month average. However, there were account balances where a 13-month average was not representative of a normal account balance, and the adjustment used year-end March 31, 2018 values instead. Additionally, some account balances were eliminated, instead of using a 13-month average because they were specific to another jurisdiction or they were treated in a similar manner to the settlement in Docket No. 16-052-U. This is similar treatment to that of the working capital assets. Specifically, the income tax other regulatory liability accounts used a year-end March 31, 2018 account balance rather than a 13-month average. Additionally, since the Company used a March 31, 2018 account balance for the income tax other regulatory liability accounts, the Company also used a March 31, 2018 account balance for ADIT instead of a beginning and ending year average. The Company believes that using year end balances in this case is more representative of a normal account balance for the Historical Year than using an average. The Company's adjustments to these accounts is conservative and results in a lower BRORB than it would have if it did not make these adjustments. Additionally, since there is no netting adjustment in this case, the Historical Year BRORB is calculated but does not contribute to any increase or decrease. However, these adjustments do impact the Adjusted Historical Year, which the Company uses as the basis for its Projected Year.

Q. **Please generally describe the adjustments the Company made to calculate a BRORB for the Projected Year.**

A. In the Attachment B workpapers, the Company made adjustments to calculate a BRORB. The workpapers starts with the Adjusted Historical Year account balances and then adjusts for reasonably known and measurable changes made after March 31, 2018. These adjustments can be seen in the Company's Attachment B supporting workpapers.

Q. **Are there specific Projected Year adjustments that you would like to provide additional detail?**

A. Yes, I would like to further explain the Company's adjustments to Long-Term Debt, CAOL, and ADIT. For Long-Term Debt and Common Equity portions of the Cost of Capital, the Company used the Historical Year balance ending March 31, 2018 and made adjustments to comply with the allowed capital structure determined in Docket No. 16-052-U. Additionally, for Long-Term Debt, the Company made adjustments to the Historical Year balance for changes in debt by the end of the Projected Year. The adjustment also includes an adjustment to the Long-Term Debt rate used to calculate the cost of Long-Term Debt. In Schedule D-6.1 PY, the Company used the Adjusted Historical Year as its basis to determine the Projected Year CAOL. This methodology is similar to the calculation of Projected Year working capital assets, and consistent with the methodology that the Company's Historical Year equals its Projected Year plus reasonably known and measurable changes. The Company did make one adjustment to CAOL during the Projected Year for a reasonably known and measurable change. This adjustment was to account for the amortization of the regulatory tax liability created by the 2017 Tax Cuts and Jobs Act ("TCJA"). The ADIT adjustment reflects a beginning and ending average, and it shows the additional investments the Company made after its March 31, 2018 Historical Year as well as an estimated level of credits at the end of the Projected Year.

Q. **Does the Company expect there to be differences in the Projected Year cost of capital balances shown in this filing compared to actuals?**

A. Yes. In addition to the averaging adjustments described in the FRP Tariff, the Company is only making reasonably known and measurable adjustments to its cost of capital balances that occur after the Historical Year. The Projected Year cost of capital balances included in this FRP filing will be different than what the Company shows in the Company's third FRP filing when this years Projected Year becomes the Historical Year. This is when any differences will be taken into account and adjusted for in the Netting adjustment.

Q. **Please list the Revenue adjustments the Company made.**

A. See Chart 4 for a list of all revenue adjustments.

Chart 4

Adjustment	Description
WP C 2-1 HY	Over & Under
WP C 2-2 HY	Energy Cost Recovery
WP C 2-3 HY	Non Fuel Riders
WP C 2-4 HY	Day Ahead Pricing
WP C 2-5 HY	Mustang Credit Rider
WP C 2-6 HY	Year End Customer Average
WP C 2-7 HY	Weather
WP C 2-8 HY	Renewable Energy Program
WP C 2-9 HY	Growth
WP C 2-10 HY	Jurisdictions Not at Issue
WP C 2-11 HY	Rate Recalculation
WP C 2-1 PY	Over & Under
WP C 2-2 PY	Energy Cost Recovery
WP C 2-3 PY	Non Fuel Riders
WP C 2-4 PY	Day Ahead Pricing
WP C 2-5 PY	Mustang Credit Rider
WP C 2-6 PY	Year End Customer Average
WP C 2-7 PY	Weather
WP C 2-8 PY	Renewable Energy Program
WP C 2-9 PY	Growth
WP C 2-10 PY	Jurisdictions Not at Issue
WP C 2-11 PY	Rate Recalculation

Q. **Please generally describe the adjustments the Company made to Revenues.**

A. For the Historical Year, the revenue amounts included were per book amounts with adjustments to remove rider revenues or revenues from other jurisdictions. In other words, the Company used actual revenues and there were no adjustments made for weather or growth in the Historical Year. This was consistent with the FRP Attachment C. The

Company used the Historical Year as the basis for its Projected Year. For further explanation on the Company's revenue adjustments, please see the Direct Testimony of OG&E witness Schwartz.

Q. **Please list the Expense adjustments the Company made.**

A. See Chart 5 for a list of all expense adjustments.

Chart 5

Adjustment	Description
WP C 2-12 HY	Pensions, Medical & Other Employee Costs
WP C 2-13 HY	Advertising
WP C 2-14 HY	Insurance Expense
WP C 2-15 HY	Payroll Adjustment at Year End
WP C 2-16 HY	Payroll Taxes
WP C 2-17 HY	Regulatory Expense
WP C 2-18 HY	Bad Debt Expense
WP C 2-19 HY	Vegetation Management
WP C 2-20 HY	DPR Expense Removal
WP C 2-21 HY	Removal Of Transmission Cost Recovery Rider
WP C 2-22 HY	Fuel Expense Removal
WP C 2-23 HY	Depreciation And Amortization
WP C 2-24 HY	Removal Of Regulatory Asset Amortization
WP C 2-25 HY	Ad Valorem Taxes
WP C 2-26 HY	Acquisition Adjustment Amortization
WP C 2-27 HY	EECR Expense Removal
WP C 2-28 HY	Storm Cost Recovery
WP C 2-29 HY	Entertainment, Gifts and Other
WP C 2-30 HY	Transmission Expenses Recovered From LSE's
WP C 2-31 HY	Eliminate Revenue & Expense to/from OG&E
WP C 2-32 HY	Other Amortization For Regulatory Assets
WP C 2-33 HY	STI and related taxes
WP C 2-34 HY	LTI and related taxes
WP C 2-12 PY	Pensions, Medical & Other Employee Costs
WP C 2-15 PY	Payroll Adjustment at Year End
WP C 2-16 PY	Payroll Taxes
WP C 2-17 PY	Regulatory Expense
WP C 2-18 PY	Bad Debt Expense
WP C 2-19 PY	Vegetation Management
WP C 2-23 PY	Depreciation And Amortization

WP C 2-25 PY	Ad Valorem Taxes
WP C 2-28 PY	Storm Cost Recovery
WP C 2-32 PY	Other Amortization For Regulatory Assets
WP C 2-33 PY	STI and related taxes
WP C 2-35 PY	Pension Settlement Amortization

Q. **Please generally describe the adjustments the Company made to Expenses.**

A. Pursuant to FRP Attachment C, the Company used actuals based on the Company's trial balance for the Historical Year expense balances. The adjustments made during this time period were either to remove expenses related to riders, adjustments consistent with the Company's last general rate case and Order No. 8 in Docket No. 16-052-U, and other adjustments. For the Projected Year, the Company used the Adjusted Historical Year as the basis for its Projected Year, only making adjustments for reasonably known and measurable changes after March 31, 2018.

Q. **Please explain how the Expense adjustments in the Historical Year impact the Projected Year.**

A. Expense adjustments that are made to the Historical Year determine the Adjusted Historical Year balances. These balances, unless adjusted for reasonably known and measurable changes after March 31, 2018, will be the balances used for the Projected Year.

Q. **Please provide an example for how the Expense adjustments in the Historical Year impact the Projected Year.**

A. For example, WP C 2-22 HY, the Fuel Expense Removal adjustment removes all fuel and purchased power costs from the Historical Year that are recovered through the Energy Cost Rider. This adjustment was made to determine the Adjusted Historical Year. Since the Adjusted Historical balance is used to determine the Projected Year, no fuel expense adjustment to the Projected Year is needed because it has already been removed.

Q. **Please identify the workpapers, for the Historical Year, where the Company provided information, but made no adjustments.**

A. OG&E did not make any adjustments to the Historical Year trial balance amounts for adjustments: C 2-12 HY, C 2-15 HY, C 2-16 HY, C 2-19 HY, C 2-25, and C 2-28 HY. These workpapers show the Historical Year account balances but make no adjustments to the Historical Year. This was done for transparency or to show a jurisdictional breakdown of costs for use in the Cost of Service Study.

Q. **Please explain WP C 2-13 HY, the adjustment to remove certain advertising expense.**

A. Arkansas law defines advertising expenses that may be included by a public utility in its operating expenses for ratemaking purposes.[4] OG&E excluded expenses that did not meet the statutory definition. This results in an adjustment to reduce expenses by $1,173,252. This adjustment also removes $176,679 of wind power education expense that was incurred during the Historical Year. These costs are recovered through another cost recovery mechanism and should therefore be excluded. In total, this adjustment reduces expenses by $1,349,931.

Q. **Please explain WP C 2-14 HY, the adjustment to insurance expense.**

A. The Company used the actual Historical Year insurance expense and made an adjustment to remove 50% of the Directors & Officers Liability expense consistent with the Settlement in Docket No. 16-052-U[5]. The adjustment decreases expenses by $519,973.

Q. **Please explain WP C 2-17 HY, the adjustment to regulatory expenses.**

A. For this adjustment, the Company removed regulatory expenses associated directly with the Oklahoma and FERC jurisdictions, and only included actual regulatory expenses in the Historical Year. The Adjustment amounts to a decrease to expenses of $5,191,980.

[4] ARK. CODE ANN. § 23-4-207 (2015).
[5] Docket No. 16-052-U Direct Testimony of Troy Eggleton, p. 5, ln 5-7

Q. **Please explain WP C 2-18 HY, the adjustment to bad debt expense.**

A. This adjustment removes the Oklahoma jurisdiction portion of bad debt and decreases operating expense by $1,782,252.

Q. **Please explain the adjustment WP C 2-20 HY, Oklahoma Demand Program Rider Expense Removal.**

A. This adjustment removes the Historical Year expenses related to the Oklahoma demand side management programs and energy efficiency expenses recovered through the Demand Program Rider ("DPR"). This adjustment decreases operating expense by $37,808,963.

Q. **Please explain the adjustment WP C 2-21 HY, Removal of Transmission Cost Recovery Rider.**

A. This adjustment removes the Historical Year expenses related to the transmission costs that are recovered through the Transmission Cost Recovery Rider ("TCR"). This adjustment decreases operating expense by $90,818,953.

Q. **Please explain the adjustment WP C 2-22 HY, Fuel Expense Removal.**

A. This adjustment removes all fuel and purchased power costs from the Historical Year that are associated with the Energy Cost Rider ("ECR"). This adjustment decreases operating expense by $825,187,103.

Q. **Please explain WP C 2-23 HY, the adjustment to depreciation expense.**

A. This adjustment to depreciation expense accounts for the rate differential determined in adjustment B 2-4 HY. This increased the Historical Year level of depreciation by $25,418,478. Also, the Company has removed depreciation expense of $1,305,852 associated with 34 percent of the Windspeed transmission project that was removed from rate base in adjustment B 2-2 HY. In total, both adjustments result in an increase of $24,112,626.

Q. **Please explain WP C 2-24 HY, the adjustment related to the removal of various regulatory asset amortization amounts.**

A. This adjustment removes amortizations of regulatory assets associated with the Oklahoma jurisdiction decreases operating expenses by $17,489,481.

Q. **Please explain WP C 2-26 HY, the adjustment to include acquisition adjustment amortization.**

A. An acquisition adjustment is based on the difference between the purchase price of an asset and its original cost. This adjustment is only related to the acquisition adjustment for the Redbud Power Plant, consistent with the Settlement in Docket No. 16-052-U. This amortization is the equivalent of depreciation expense for the acquisition premium associated with the plant purchase. This adjustment increases operating expenses by $5,492,663.

Q. **Please explain the adjustment WP C 2-27 HY, Arkansas Energy Efficiency Rider Expense Removal.**

A. This adjustment removes the Historical Year expenses related to the Arkansas demand side management programs and energy efficiency expenses recovered through the Energy Efficiency Cost Rider ("EECR"). This adjustment decreases operating expense by $6,877,988.

Q. **Please explain WP C 2-29 HY, the adjustment to remove certain non-recoverable items.**

A. This adjustment removes costs related to entertainment, gifts, dues, and other non-recoverable costs that were included in various FERC accounts during the Historical Year. OG&E proposes a decrease to operating expenses of $1,925,441.

Q. **Please explain WP C 2-30 HY, the adjustment to remove expenses for transmission related plant paid for by third parties.**

A. The Company is also requesting that the operating expenses associated with the excluded transmission plant in service (WP B 2-3 HY) be removed from its Arkansas jurisdictional cost of service. The transmission plant in service and associated operating expenses to be excluded is that portion constructed as SPP Base Plan upgrades for which OG&E receives revenues from other members of the SPP. This adjustment includes Transmission O&M, Administration & General and Depreciation Expenses and is a decrease to operating expenses of $35,885,296.

Q. **Please explain WP C 2-31 HY, the adjustment to remove intracompany SPP fees.**

A. An adjustment is necessary to eliminate expenses received by OG&E from the SPP for network transmission service provided by OG&E. The FERC has provided guidance to the industry that while these are intracompany charges and are normally eliminated in accordance with GAAP, they should be reflected as a gross amount in the FERC Form 1. This adjustment decreases expenses by $155,964,242.

Q. **Please explain WP C 2-32 HY, the adjustment for other amortization for regulatory assets.**

A. There was an adjustment made to include the amortization of transmission related allowance for funds used during construction ("AFUDC") in the Historical Year, which increased operating expense by $214,317. This workpaper also shows, for informational purposes, amounts that are direct assigned to Arkansas. Pursuant to Commission Order No. 8 issued in Docket No. 10-109-U, OG&E is allowed to accrue a regulatory asset for costs related to Smart Grid stranded meters as well as customer pricing education costs. The Historical Year ending balance of the regulatory asset associated with both items is $1,864,848 and $512,692, respectively. The Commission order authorized a six year amortization of these costs. The amortization of these two regulatory assets are direct assigned to the Arkansas Jurisdiction in the amount of $300,782 for stranded meters and $82,692 for customer pricing education. No adjustment to this actual Historical Year balance was made.

Q. **Please explain WP C 2-33 HY, the adjustment to short-term incentive compensation.**

A. The Company used the actual Historical Year amounts for short-term incentive ("STI") compensation and made adjustments consistent with the Settlement in Docket No. 16-052-

U. The adjustment allows the Company to include all of the operational STI measures and only allows half of the financial measures.[6] This adjustment decreased operating expenses by $3,202,535 for STI and $260,045 for payroll taxes on STI for a total decrease of $3,462,580.

Q. **Please explain WP C 2-34 HY, the adjustment to long-term incentive compensation.**

A. The Company used the actual Historical Year amounts for long-term incentive ("LTI") compensation and made adjustments consistent with the Settlement in Docket No. 16-052-U. This adjustment removes all LTI from operating expenses, which decreases operating expenses by $8,399,327 for LTI and $682,024 for payroll taxes on LTI for a total decrease of $9,081,351.

Q. **Please explain WP C 2-12 PY, the adjustment to pension expense, other post-retirement benefits expense, and active medical expense.**

A. OG&E has established various employee benefit plans funded by employee and Company contributions. Annually, the Company retains an independent actuary to prepare an actuarial valuation of the pension and retiree medical plans. This valuation determines the net periodic benefit cost which is the annual expense recognized by the Company for generally accepted accounting principles ("GAAP") purposes. For the adjustment, the expense level per the actuarial report provided by Fidelity was compared with the Historical Year level of pension expense and other post-retirement benefits expense. The level per the actuarial report was adjusted to only include amounts that would be classified as O&M. The Company also adjusted for changes to active medical expense. The result of this analysis is a decrease to operating expense of $1,105,429.

Q. **Please explain WP C 2-15 PY, the adjustment to payroll expense.**

A. This adjustment takes the Historical Year account balances for payroll expense and adjusts them through March 31, 2020, the Projected Year. This adjustment consists of two parts. First, this adjustment increased payroll to account for raises employees will receive at the

[6] Docket No. 16-052-U Direct Testimony of Claude Robertson, p. 9, ln 10-14

beginning of the Filing Year and the beginning of the Projected Year. This was accomplished by multiplying payroll levels by a historical 4-year average of raises. This amounted to an approximate 3 percent increase per year. Second, a historical 4-year average of hires and retires were calculated and applied to both the Filing Year and Projected Year. The result of all the calculations mentioned above is an increase to expenses of $4,814,744.

Q. **Please explain WP C 2-16 PY, the adjustment to payroll taxes.**

A. This adjustment increases payroll taxes associated with adjustment C 2-15 PY, above, by using a ratio of Historical Year payroll taxes to wages and applying this percentage to the payroll adjustment mentioned above. This adjustment increases payroll taxes by $390,957.

Q. **Please explain WP C 2-17 PY, the adjustment to regulatory expenses.**

A. For this adjustment, the Company removed regulatory expenses associated with consulting services from prior Arkansas cases, expenses which the Company does not expect to incur in the Projected Year. The Company removed these costs from the Historical Year Arkansas Regulatory Expense that was adjusted in WP C 2-17 HY. The Adjustment amounts to a decrease to expenses of $63,205.

Q. **Please explain WP C 2-18 PY, the adjustment to bad debt expense.**

A. The bad debt adjustment starts with the Arkansas jurisdiction portion cost of uncollectible revenues and adjusts it based on the Projected Year revenues. This adjustment increases operating expense by $100,416.

Q. **Please explain WP C 2-19 PY, the adjustment to vegetation management expense.**

A. This adjustment, first, adjusts the Historical Year balances of Vegetation Management cost associated with the Arkansas Jurisdiction to the approved level in Docket No. 16-052-U. Then an adjustment is made to project to the level of expense the Company expects to incur during the Projected Year. This total adjustment decreases operating expense by $441,138.

Q. **Please explain WP C 2-23 PY, the adjustment to depreciation expense.**

A. This adjustment adjusts the Adjusted Historical Year depreciation expense balance to account for investments made after the Historical Year. It also makes an adjustment to include a full year's depreciation expense of OG&E's Mustang CT investment that went into service during the Historical Year. The Company only includes incremental depreciation expense in this adjustment that increases operating expenses by $12,037,013.

Q. **Please explain WP C 2-25 PY, the adjustment to Ad Valorem Taxes.**

A. To arrive at this adjustment, the Company started with the ad valorem taxes from the Historical Year balance shown in WP C 2-25 HY. Then, the Company calculated a Projected Year level of ad valorem by applying the four year average of annual percentage increases to the 2018 estimated level. This adjustment increases ad valorem taxes by $10,080,130.

Q. **Please explain WP C 2-28 PY, the adjustment for storm cost recovery.**

A. The Company averaged the last four years of storm recovery costs for Arkansas to arrive at a normalized level of storm costs that captures both upward and downward swings that occur. The Company then compared that to the Historical Year level of storm costs and made an adjustment that decreases O&M by $487,092.

Q. **Please explain WP C 2-32 PY, the adjustment for other amortization for regulatory assets.**

A. In the Historical Year adjustment WP C 2-32 HY, the Company direct assigned amortization of the regulatory assets for costs related to Smart Grid stranded meters as well as customer pricing education costs. The Historical Year amortization only included 10 months (June 2017 – March 2018) of amortization for these two regulatory assets due to the timing of when rates went into effect for Docket No. 16-052-U, which was June 2017. Therefore, the Company is making an adjustment to include the additional two months of amortization in the Projected Year to ensure it has a full year's amortization level for these regulatory assets. The total increase in operating expenses due to this adjustment is $76,695.

Q. **Please explain WP C 2-33 PY, the adjustment to short-term incentive compensation.**

A. The Company used the Adjusted Historical Year amounts calculated in WP C 2-33 HY for STI. Then OG&E made an adjustment to the Adjusted Historical Year amount to normalize the balance of STI based on a 5-year average. As stated in the Historical Year adjustment to STI, this adjustment allows the Company to include all of the operational STI measures and only allows half of the financial measures. This adjustment increased operating expenses by $4,585,495 for STI and $372,342 for payroll taxes on STI for a total increase of $4,957,837.

Q. **Please explain WP C 2-35 PY, the adjustment related to the amortization of pension settlement expenses.**

A. This adjustment amortizes the 2017 pension settlement expenses included in the rate base as a regulatory asset. Pension settlement expenses of $1,094,449 included in the Historical Year rate base have been amortized over 11.83 years, based on the actuarial report provided by Fidelity, to arrive at an annual amortization expense level of $92,515 for the Arkansas jurisdiction. Additionally, the 2013 and 2015 pension settlement expense regulatory assets that were approved in Docket No. 16-052-U only include amortization for 10 months (June 2017 – March 2018) of the Historical Year due to the timing of rates being implemented in June 2017. Therefore, the Company has made an adjustment to include two months of amortization for the 2013 and 2015 pension settlement regulatory assets of $34,691 and $29,249, respectively. Last, the Company made an out of period adjustment for the 2013 settlement expense deferral of $2,304,201. The total impact of these adjustments is an increase of $2,460,656 to operating expenses.

Q. **Do the expense adjustments described above include the exact level of expenses the Company plans to have during the Projected Year?**

A. No. The Company is only making reasonably known and measurable expense adjustments after the Historical Year. The Projected Year expense balances included in this FRP filing will be different than what the Company actually incurs, but the Company is only asking the Commission to consider the expense balances included in this filing. The additional expense balance differences the Company incurs will be considered in the Company's third FRP filing when this years Projected Year becomes the Historical Year.

FRP Tariff

Q. **Is the Company proposing any changes to the FRP Tariff in this case?**

A. Yes. As OG&E was completing the Attachment Schedules and other filing requirements outlined in the FRP Tariff, OG&E found some instances where changes to the Tariff could help to clarify the requirement or help provide the information in a more meaningful way. It is important to note that the Company is not proposing any changes to the Tariff that will impact the structure of the FRP. The clean and redline versions of the proposed FRP Tariff can be seen attached to my testimony as Direct Exhibit BSC-1 and Direct Exhibit BSC-2, respectively.

Q. **Please discuss the changes the Company is proposing to the FRP Tariff.**

A. On Attachment A-2, the proposed change to the Incremental FRP Base Rate Change will be calculated by taking the bounded increase/decrease calculated for the Projected Year divided by the sum of the Base Rate Revenues from Docket No. 16-052-U and the Annualized Filing Year Rider Revenue. The Company believes this change is a better representation of the incremental FRP change than the previous formula. This calculation is done for presentation purposes only and will not impact any change in revenue proposed by the Company.

On Attachment B-1 and Attachment D-1, the Company is proposing to remove the Total Company analysis section because it does not provide meaningful information. Since OG&E operates in two jurisdictions and files an Arkansas Jurisdictional Cost of Service where it allocates costs, the Total Company revenue requirement and the allocation factors calculated in Attachment B-1 and Attachment D-1 are not necessary and may add confusion. These changes in no way change the calculation of the Earned Rate of Return on Common Equity that is calculated in these attachments.

On Attachment B-3 and Attachment D-3, the Company is proposing to add clarifying language and additional line items to the revenue section of the Attachments. This will allow the Company to provide a more detailed breakdown of the revenues it receives from its two jurisdictions. The Company is also proposing a change to the federal and state income tax lines to remove the words "current" from each line. This grammatically aligns the tax lines in Attachment B-3 and Attachment D-3 to Attachments B-4 and D-4, respectively, which are used to calculate total income tax. A note on Attachment B-4 and D-4 was added to reiterate this point and explain that the state and federal taxes calculated in these Attachments are both current and deferred income taxes. These changes are for clarification purposes only and do not impact any of the calculations in the FRP.

On Attachment C, the Company removed language about the manufacturing tax deduction since it is no longer applicable.

On Attachment E, the Company added language to a few of the filing requirement Items. This language helps to clarify the time period for the historical data the Company provides for several Items in its Evaluation Report. The Company believes these edits will clarify what information is to be provided in its Evaluation Report.

Q. **Can you provide an example as to why the Company feels a change to the FRP Tariff would be helpful?**

A. On Attachment B-1 and D-1 in the Total Company revenue requirement section, there are references to two revenue lines on Attachment B-3 and Attachment D-3. The revenue descriptions are Retail Rate Schedule Revenue and Wholesale Sales. These line items are used to calculate the Total Company revenue requirement and the Retail Rate Schedule Revenue is also used to help determine an Arkansas retail revenue deficiency, or excess in the Total Arkansas Retail section on Attachments B-1 and D-1. Since the Company must use only Arkansas retail rate schedule revenue compared to the Arkansas retail revenue requirement to determine an Arkansas retail deficiency, or excess, the Company must only include Arkansas retail rate schedule revenue in the Retail Rate Schedule revenues. This also impacts the Total Company section where a total company revenue requirement is calculated by adding the total company deficiency, or excess, to the two revenue line items mentioned above. Since only the Arkansas retail rate schedule revenues can be included in the Retail Rate Schedule Revenue, the Company must put all other jurisdictional revenues in the Wholesale Sales revenue line. The issue is that the Company does not actually have wholesale sales revenue. The Company believes the changes it is proposing above should alleviate this issue, and will be clear to those reviewing the Company's filing.

Q. **What is your overall recommendation to the Commission?**

A. I recommend that the Commission approve the adjustments discussed in this testimony, find that OG&E is in compliance with the requirements of the FRP, and accept the proposed changes to the FRP Tariff.

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

A. Yes.

CERTIFICATE OF SERVICE

I, Lawrence E. Chisenhall, Jr., hereby state that a copy of the foregoing instrument was served on all the parties of record via the APSC Electronic Filing System on this the 1st day of October, 2018.

/s/ Lawrence E. Chisenhall, Jr.

Lawrence E. Chisenhall, Jr.