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	)	CASE NO. PUD 2023000087
AUTHORIZING APPLICANT TO MODIFY ITS	)	
RATES, CHARGES, AND TARIFFS FOR RETAIL	)	
ELECTRIC SERVICE IN OKLAHOMA	)	

Direct Testimony

of

Jason J. Thenmadathil

on behalf of

Oklahoma Gas and Electric Company

December 29, 2023

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

A. My name is Jason Thenmadathil. My business address is 321 North Harvey, 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 the Senior Manager of Regulatory Accounting.

Q. **Please summarize your educational background and professional qualifications.**

A. I received a Bachelor of Science degree in Accounting from the University of Central Oklahoma. In 2005, I was employed by the Public Utility Division ("PUD") of the Oklahoma Corporation Commission ("Commission") as a Public Utility Regulatory Analyst, and later was promoted to Coordinator. As a PUD analyst, I testified in various utility cases filed by electric and gas companies, including rate cases and fuel prudence reviews. In March 2010, I joined OG&E as a Senior Regulatory Accountant. In October 2017, I assumed additional responsibilities as the Supervisor of Regulatory Accounting where I oversee the work of members of the Regulatory Accounting group, whose responsibilities are to prepare the minimum filing requirements ("MFR") for rate cases and determine revenue requirements for various rate filings. In May 2018, I was promoted to Manager of Regulatory Accounting. In June 2023, I was promoted to my current title of Senior Manager of Regulatory Accounting.

Q. **Have you testified previously before this Commission?**

A. Yes. As a witness for OG&E, I submitted testimony in Case Nos. PUD 201500266, 201500273, 201600319, 201700261, 201700496, 201800084, 201800140, and 202100164.

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

A. The purpose of my testimony is to sponsor the *pro forma* adjustments to certain test year expenses in this Cause and explain why these adjustments are appropriate. The Company utilized a historical test year ending September 2023 with *pro forma* adjustments through March 2024.

Q. **Do other witnesses from your team sponsor accounting *pro forma* adjustments in this case?**

A. Yes, OG&E witness James Fenno sponsors adjustments to the rate base.

***PRO FORMA* ADJUSTMENTS**

Q. **What is the importance of the *pro forma* adjustments in this proceeding?**

A. The Company's proposed *pro forma* adjustments are critical to establish fair, just, and reasonable rates. The *pro forma* adjusted level of O&M expense is necessary to allow the Company to cover operating costs on a going forward basis.

Q. **Why are *pro forma* adjustments to a test year necessary?**

A. The Company adjusts the test year books to design rates which reflect revenue, expense, and investment levels the utility expects to experience prospectively. The Company utilizes a historic test year with *pro forma* adjustments reflecting reasonably known and measurable changes. Some of these adjustments include: removal of costs that are recovered elsewhere, costs that did not occur but are or will be normal expenses going forward and cost adjustments that are determined by the Company or past Commission orders to not be the customer's responsibility.

Q. **What are the general categories of *pro forma* adjustments proposed by the Company?**

A. *Pro forma* adjustments fall into one of the following categories:

1) Normalization Adjustments are made to rate base and expenses to offset unusual levels of operations recorded during the test year. An example of such an adjustment

would be the use of a four-year average for short-term incentives to address the variable nature of the expense.

2) Annualization adjustments recognize that some action occurred during the test year that will be ongoing and must be captured on a prospective basis. An example of such an adjustment would be the adjustment to payroll to account for salary increases and employee levels by the end of the *pro forma* period. This annualization is necessary to adjust payroll costs to a level reflecting the *pro forma* salary for the entire year.

3) Out of Period Adjustments consider known and measurable changes that occur outside the end of the test year. An example of such an adjustment would be to decrease pension expenses based on actuarial projections for 2023.

4) Certain adjustments remove costs that are unnecessary to provide electric service to customers. An example of such an adjustment would be to remove costs related to donations and contributions.

5) Adjustments to remove costs recovered elsewhere adjust the test year to reflect any cost recovery that occurs outside of base rates. An example of such an adjustment would be to remove fuel and purchased power related costs that are recovered through the Fuel Adjustment Clause ("FAC") rider. This decrease is necessary to ensure that customers are not double charged for fuel costs recovered through a separate recovery mechanism.

INCOME STATEMENT

Q. **What section of the Minimum Filing Requirements contains the adjustments made to the Income Statement?**

A. Section H contains schedules and the supporting workpapers which present the elements of the income statement for the test year and associated adjustments. The income statement calculates operating income by subtracting *pro forma* expense from *pro forma* revenue to arrive at *pro forma* operating income. This level of operating income is compared to the Company's requested level of operating income (the return requirement on the Company's *pro forma* rate base) to arrive at a revenue excess or deficiency for the utility.

Pro Forma Adjustments to the Income Statement

Q. **What *Pro Forma* adjustments will you discuss?**

A. Table 1 shows each of the expense *pro forma* adjustments and gives a description of each one. A table is also shown in the Application Package, under Schedule H-3.

Table 1 – *Pro Forma* Adjustments to Operating Expense

***Pro Forma* Adjustment**	**Operating Expense Description**
WP H 2-17	Ad Valorem Taxes
WP H 2-18	Pension and Other Post Retirement Benefits
WP H 2-20	Insurance Expenses
WP H 2-21	Depreciation Expense
WP H 2-22	Payroll Expenses
WP H 2-23	Other Compensation Expense
WP H 2-24	Energy Efficiency Program (EEP) Expense Removal
WP H 2-25	Regulatory Expense
WP H 2-26	Bad Debt Expense
WP H 2-27	Storm Rider Expense Removal
WP H 2-28	Southwest Power Pool Expense
WP H 2-29	Amortization of Pension Regulatory Asset
WP H 2-30	SPP Transm. Expense recovered from Load Serving Entities (LSE)
WP H 2-32	Long-Term Incentive Expense
WP H 2-33	Fuel Adjustment Clause (FAC) Rider Expense Removal
WP H 2-34	Non-recoverable Expense Removal
WP H 2-35	Intracompany SPP Fees Removal
WP H 2-36	Customer Deposit Interest
WP H 2-37	Advertising Expense
WP H 2-38	Other Amortization
WP H 2-39	Rate Case Expenses
WP H 2-40 & WP H 2-41	Vegetation Management Distribution and Transmission Expense
WP H 2-42	Wind Power Expense Removal
WP H 2-44	Acquisition Adjustment Amortization

Q. **Please explain WP H 2-17, *pro forma* adjustment to Ad Valorem Taxes.**

A. This adjustment increases property taxes by $8,540,825. To arrive at this adjustment, the Company first calculated a ratio of actual Ad Valorem taxes assessed in 2023 to actual plant and property values at the end of calendar year 2022. This ratio was then multiplied by the *pro forma* level of plant and property included in the rate base to arrive at a *pro forma* level of ad valorem tax expense.

Q. **Does the Company believe this methodology for the Ad Valorem Tax adjustment is reasonable?**

A. Yes. The Company believes the current methodology is reasonable in that it applies a ratio based on actual Ad Valorem taxes assessed. Since Ad Valorem taxes for 2023 are based on plant and property at the end of the calendar year 2022, applying this ratio to the *pro forma* level of plant and property in the rate base aligns property taxes with the rate base, and is an appropriate means to calculate a pro forma level of ad valorem tax for ratemaking purposes. The ratio also utilizes the most recent property tax assessment provided by the Oklahoma Tax Commission. This methodology was utilized in the prior rate case. Similar to the prior case, the Company also recommends updating this adjustment utilizing actual plant and property values at the end of the six-month *pro forma* period.

Q. **Please explain WP H 2-18, *pro forma* adjustment to pension and post-retirement benefits 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 *pro forma* adjustment, the expense level per the September 2023 actuarial report provided by Fidelity was compared with the actual test year level of pension and other post-retirement benefits expense. For purposes of calculating pension expense in rates, this amount was adjusted to only include amounts that would be classified as O&M and does not include amounts considered temporary. The result of this comparison is an increase to pension and post-retirement expenses of $16,151,695. The Company recommends updating this level with updated actuarial information received through the end of the six-month post test-year period.

Q. What factors have led to the increases in pension costs?

A. The primary causes for increased cost between the amount previously set in base rates and the amount proposed by the Company relate to external economic events. Those are primarily an increase in interest cost accompanied by a reduction in return on plan assets as calculated in the net periodic pension cost calculation provided by Fidelity.

Q. **Does the level recommended by OG&E include Restoration of Retirement Income Plan and Supplemental Executive Retirement Plan ("SERP") expenses?**

A. No, the Company is not requesting recovery of Restoration and SERP expenses in this case.

Q. **Does pension expense and post-retirement medical expense have a tracking mechanism to capture any changes in cost that have occurred over time?**

A. Yes. The difference between actual expenses and the level in base rates is tracked with the Pension Tracker. This tracker was established in Case No. PUD 200500151 and later modified to include post-retirement medical in Case PUD No. 201000029. Any under or over recovery associated with pension and post-retirement medical expenses are recorded as a regulatory asset or liability respectively.

Q. Please explain WP H 2-20, *pro forma* adjustment to insurance expense.

A. The Company compared test year insurance expense to actual insurance expenses for policy period 2023/2024 using information provided by the Company's insurance brokers. The difference between the test year and projected levels were recorded as a *pro forma* adjustment to increase expenses by $2,746,228.

Q. **Please explain WP H 2-21, *pro forma* adjustment to depreciation expense**

A. This adjustment increases depreciation expense to account for the increased level of plant requested in this case, as well as new depreciation rates. The Company's increase to test year depreciation expense amounts to $103,529,245. Please see the direct testimony of OG&E Witness Watson for the reasoning behind the new depreciation rates including the Depreciation Study.

Q. Please explain WP H 2-22, *pro forma* adjustment to payroll expense.

A. This adjustment is designed to capture employee compensation levels at the end of the *pro forma* period. This adjustment consists of four parts. First, payroll expense was annualized based on the number of employees and their associated wage levels as of the end of the test year. To accomplish this, the Company calculated the hourly rates of each individual employee at OG&E and multiplied those hourly rates by the number of hours worked per year. This adjustment has the effect of capturing a full year of payroll for the additional employees hired into the Company during the test year and eliminating the payroll of employees who left the Company during the test year. For the second part, this adjustment increased payroll to account for projected raises employees will receive during the pro forma period. For the third part, a calculation was made to estimate changes to payroll expenses occurring from the end of the test year to the *pro forma* period resulting from hires and retirements. Finally, the Company averaged overtime expense based on a four year average to capture a normalized level of overtime expense. The result of all the calculations mentioned above results in an increase to payroll expenses of $336,383. An additional adjustment of $27,215 is also made for payroll taxes related to the additional expense level, resulting in a total *pro forma* adjustment of $363,598.

Q. **Will this adjustment be updated with actual payroll information through the end of the *pro forma* period?**

A. Yes. The Company will update this adjustment with actual payroll information as of March 2024. By utilizing March 2024 information, any projections for salary increases as well as hires/retirements would no longer be necessary since the actual employee levels and actual salaries will be available.

Q. **Please explain WP H 2-23, *pro forma* adjustment to other compensation.**

A. The Company averaged four years of short-term and other compensation to arrive at a level of other compensation that captures both upward and downward swings in incentive and other compensation related costs. To arrive at the expense level, the ratio of expense to total payroll was applied to remove non-expensed amounts. When payroll taxes are included, this results in an increase to operating expenses of $1,513,760. Please see the direct testimony of OG&E Witness Kimber Shoop for further discussion on short term incentive compensation.

Q. **Should the adjustment be updated using actual incentive compensation information for the 2023 level used in the average?**

A. Yes. The Company will update the four-year average calculation with actual incentive compensation amounts in 2023 when this information becomes available.

Q. **Please explain WP H 2-24, *pro forma* adjustment related to demand programs and energy efficiency expenses for Oklahoma and Arkansas.**

A. This adjustment removes costs related to the Oklahoma Energy Efficiency Program ("EEP") and the Arkansas Energy Efficiency Cost Recovery ("EECR") Rider. These costs are recovered through ongoing rider mechanisms and should therefore be removed from base rates. This adjustment decreases O&M by ($49,366,352).

Q. **Please explain WP H 2-25, *pro forma* adjustment to regulatory expenses.**

A. This adjustment has three components. First, the Company normalized regulatory expenses using a two-year average for various expenses in the Oklahoma jurisdiction excluding rate case expenses. This increases operating expenses by $117,538. Second, the Company removed the Annual Public Utility Assessment Fee ("APUAF") in the amount of $2,473,816 since the APUAF fee is recovered through a surcharge on customers' bills. Third, the Company removed prior rate case expense amortizations that will be fully recovered. The total for both adjustments results in a decrease to operating expenses of $2,582,518.

Q. **Please explain WP H 2-26, *pro forma* adjustment to bad debt expense.**

A. The bad debt *pro forma* adjustment includes cost for uncollectible revenues the Company will experience, net of the fuel component of the customer's bill. This adjustment is made to reflect the expected change in bad debt not associated with fuel. The fuel component of bad debt flows through the Fuel Adjustment Clause ("FAC"). The Company used a four-year average uncollectible rate and multiplied it by the *pro forma* revenues net of fuel to arrive at a new bad debt expense level. This adjustment decreases operating expense by $1,442,645.

Q. **Please explain WP H 2-27, *pro forma* adjustment to storm amortization.**

A. The Company removed all storm amortization expenses included in the test year. These storm amortization expenses resulted from prior storm expenses that were deferred to a regulatory asset account and are currently being recovered through the Storm Rider. The base rate level of storm expense remains at $2,739,595, which was the Commission approved level from previous rate cases. The total adjustment to storm expense is a decrease of $33,678,206.

Q. **Please explain WP H 2-28, *pro forma* adjustment to Southwest Power Pool ("SPP") related expense.**

A. This adjustment results from updated SPP and NERC fees. OG&E proposes an increase to operating expenses of $72,853 for SPP Schedule 1 and Schedule 9 expenses. Please note that an update to SPP Schedule 1-A administrative fees and Schedule 12 fees are no longer included in this adjustment, since these amounts were moved to the SPPCT Rider in the previous rate case.

Q. **Please explain WP H 2-29, *pro forma* adjustment related to the amortization of the pension regulatory assets.**

A. This adjustment represents the amortization of the pension regulatory asset resulting from the Company's authorized pension tracker, as explained in the section covering pension expenses for adjustment H 2-18. As shown on WP H 2-29, the pension regulatory asset layer at test year end reflects an under-recovery balance of $43,442,894. The Company would recommend this total year to date balance of pension assets be amortized over a five-year period, creating an additional expense of $8,688,579. This would essentially represent recovery of an under-recovered balance deferred from the end of Case No. PUD 2021-164 to this current case. The Company is not proposing a change to the prior layer of pension expense settled and approved in the prior rate case, which was amortized over a 15-year period.

Q. **Please explain why the Company is once again recommending a five year amortization period for the additional layer of pension tracker related under-recoveries presented in this case?**

A. This amortization period was presented by the Company in prior rate cases and was utilized in the 2018 and 2021 rate cases. Since the inception of the pension tracker in the 2005 rate case, the amortization level has been presented as either an asset (charge) or a liability (credit) with amortization periods ranging from two to five years. The 15-year amortization approved in the prior case was the result of a Joint Stipulation and Settlement Agreement. The Company believes that returning to a 5 year amortization is appropriate to prevent under-recoveries from possibly amassing over a long period of time due to the use of an extended 15 year amortization period. Since OG&E typically comes in for a rate case every 2 years, there is enough support to utilize a 2-year recovery period between rate cases, where the balance would return to zero and an additional layer of assets or liabilities would be introduced in the next rate case. The Company's proposal of a 5-year amortization period represents a "middle-ground" approach.

Q. **Please explain WP H 2-30, *pro forma* adjustment to transmission expenses recovered from load serving entities ("LSEs").**

A. This adjustment coincides with rate base adjustment B 3-12. The revenue requirement associated with regionally allocated transmission plant and expense will be assigned to other LSEs around the SPP. This adjustment reduces operating expenses for O&M expense, administrative and general expense, depreciation, and taxes other than income related to those regionally allocated transmission projects. Similar to WP B 3-12, the percentage allocated to other LSEs was derived from the FERC Transmission Formula Rate True-Up Adjustment for the most current 2022 rate year filing. This *pro forma* adjustment is a decrease to expenses of $40,577,120.

Q. **Please explain WP H 2-31, *pro forma* adjustment for SPPCT Rider Expenses.**

A. This adjustment removes SPP expenses that are recovered through the SPPCT Rider. This results in a decrease to O&M of $79,932,603. Also, SPP fees directly charged to certain customers were also removed, which amounts to $2,944,751. The total *pro forma* adjustment is a decrease of $82,877,354. Please note that the associated revenues credited through the rider are removed through an adjustment to revenue.

Q. **What type of cost does the SPPCT recover from ratepayers on an annual basis?**

A. This rider recovers the cost associated with SPP Schedule 11 Base Plan fees, which are charged by the SPP for OG&E's allocated share of the transmission investment made by third parties. The rider also includes a reduction for SPP revenues and credits. SPP utilizes FERC approved transmission rates and cost allocation methodologies to charge OG&E for costs associated with transmission projects constructed and owned by other transmission owners. In the previous rate case, OG&E was authorized to include SPP Schedule 1-A and Schedule 12 FERC assessment fees through the SPPCT Rider.

Q. **Please provide the OK jurisdictional revenue requirement for the SPPCT Rider from 2020 through 2022.**

A. Please see Table 2 below. Please note the increase in 2022 is due to the inclusion of SPP 1-A and 12 assessment fees as mentioned previously:

Table 2: SPPCT Rider Revenue Requirements

Year	Revenue Requirement
2020	$49,037,769
2021	$49,727,224
2022	$55,029,455

Q. **Please discuss the reasonableness of the Southwest Power Pool Cost Tracker ("SPPCT") charges, and specifically as it relates to OG&E's role as a member of the Southwest Power Pool ("SPP").**

A. OG&E is a member of the SPP Regional Transmission Organization ("RTO") and a participant in SPP's Integrated Marketplace ("IM"). As a member of the SPP RTO, OG&E has placed its transmission facilities under the functional control of SPP and under the SPP Open Access Transmission Tariff ("OATT"). As such, OG&E is subject to and a participant in the stakeholder process implemented by SPP as approved by the Federal Energy Regulatory Commission ("FERC"). OG&E's involvement and leadership in the SPP ensures the projects whose costs are recovered by the SPPCT undergo rigorous evaluation, prior to those costs being passed on to OG&E customers.

Q. **Please describe the stakeholder process at the SPP.**

A. OG&E actively participates in the resource-intensive stakeholder process to advocate for the most reliable, cost-effective outcomes for its customers. OG&E members retain positions on key stakeholder groups within their respective areas of expertise to represent our customers at every step of the process. Where a voting position is not possible, OG&E participates in all open group meetings. OG&E ensures that the right people service in the right roles within the stakeholder process at SPP and we are in constant internal coordination with those subject matter experts. This coordination helps produce a consistent and deliberate approach to the various issues under consideration at the SPP.

Q. **Can you comment on the various groups at the SPP that OG&E is involved in?**

A. Yes. Many OG&E members interact with various parts of SPP, which includes either following or being a voting member of a particular stakeholder groups in the SPP stakeholder process. These stakeholder groups are used to develop rules and policies that monitor and control the way the SPP operates as an RTO through its strategies, finances, transmission operations, market operations, supply adequacy, etc. In addition to issue working groups, OG&E also holds voting positions on key strategy and policy committees.

Q. **Does the Company recommend continuation of the SPPCT?**

A. Yes.

Q. **Please explain WP H 2-32, *pro forma* adjustment to long-term incentives.**

A. The Company averaged four years of long-term incentives paid to employees to arrive at a level of long-term incentive expense that captures both upward and downward swings in incentive costs. This results in a decrease of $1,598,509. When factoring in a related payroll tax reduction of $129,329, the total reduction to operating expenses is $1,727,837. Please see the Direct Testimony of OG&E Witness Shoop for further discussion on long-term incentive compensation.

Q. **Please explain WP H 2-33, *pro forma* adjustment to remove Fuel Adjustment Clause ("FAC") related costs.**

A. This adjustment removes all expenses recovered through the FAC Rider. This would include costs associated with fuel, purchased power and air quality control systems ("AQCS") costs. This adjustment removes $1,010,701,348 from operating expenses.

Q. **Please explain WP H 2-34, *pro forma* adjustment to remove certain non-recoverable items.**

A. This adjustment removes costs related to entertainment, gifts, donations, sponsorships, shareholder related legal expenses, and other expenses that were included in various "above the line" FERC accounts (accounts included in the test year). OG&E proposes a decrease to operating expenses of $1,985,362. The Company considered these expenses as non-recoverable and removed them from the cost of service.

Q. **Please explain WP H 2-35, *pro forma* 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 intra-company charges and are normally eliminated in accordance with GAAP, they should be reflected gross in the FERC Form 1. This adjustment decreases expenses by $147,847,760. The removal of the associated revenues is reflected in the revenue adjustments supported by OG&E Witness Nguyen.

Q. **Please explain WP H 2-36, *pro forma* adjustment to customer deposit interest.**

A. This adjustment includes interest expense based on year-end customer deposits that are deducted from rate base as non-investor supplied capital. This expense is not included in the utility operating expense category as reported in FERC Form 1 and should therefore be included in the revenue requirement calculation. This adjustment is consistent with the Commission's treatment of interest paid on customer deposits in prior utility rate case proceedings. This results in an increase to operating expenses of $2,718,666.

Q. **Please explain WP H 2-37, *pro forma* adjustment to remove certain advertising expense.**

A. Title 17, Section 180 of the Oklahoma Statutes defines the advertising expenses that may be included by a public utility in its operating expenses for ratemaking purposes. OG&E excluded expenses that did not meet the statutory definition. This results in a *pro forma* adjustment decreasing expenses by $3,517,349.

<u>Regulatory Asset Amortizations</u>

Q. **Please explain WP H 2-38, *pro forma* adjustment to include "other amortization."**

A. This adjustment results in a reduction of ($4,094,899). It consists of four components listed below, which I will go into detail in this section of testimony:

1. Current Amortizations
2. Proposed Amortizations
3. Less Misc. Arkansas Amortizations

Q. **Please discuss the first section for current amortizations.**

A. Various amortization amounts that have been approved in previous Commission orders were included in the calculation of the revenue requirement. This includes the regulatory assets associated with Retail Transmission AFUDC, the Red Rock power plant, the Sooner Scrubber Regulatory Asset, and the Frontier Regulatory Asset, all of which have been approved in prior cases. While most of these amounts are recorded as depreciation expense on the Company's books, a separate *pro forma* adjustment is necessary to include these amounts in the revenue requirement as these amounts are not reflected in *pro forma* depreciation rates. This results in an increase to pro forma test year expense of $1,825,397.

Q. **Please discuss the second section for proposed amortizations.**

A. These amortizations are for the regulatory assets and liabilities that have been approved for deferral, but not yet recovered in rates. This includes amortization of the Company's S4 regulatory asset of $593,709 and a credit for gain on sale of assets of ($241,347) for a total increase of $352,362.

Q. **Please discuss the regulatory asset associated with OG&E's S/4 HANA Project.**

A. Regulatory asset treatment for this project was established in Case No. PUD 202100164 for consideration in future rate proceedings. The Company is presenting the first layer of S/4 HANA projects in service for consideration in this rate case. The costs that are deferred relate to project deployment expenses which are not classified as plant in service. Any deferred amounts relating to projects not yet in service are not being requested for recovery in this case. The regulatory asset level requested for recovery is $2,968,543. The Company is proposing this level be amortized over a 5 year period, consistent with other regulatory asset amortizations in this case, for an increase of $593,709.

Q. **Please discuss the regulatory liability for gain on sale of assets.**

A. In Cause No. PUD 201500273, Order No. 662059, the Commission ordered OG&E to defer the gain on sale of a rotor for the McClain Plant as well as the sale of distribution facilities to the Choctaw Nation. While the Order only mentioned those specific assets, the Company has continued to defer additional asset gains as a regulatory liability. As of the test year end, the balance of these gains amounted to ($1,522,182). For the new gains on asset sales, the Company recommends returning this balance over a five-year period. This amounts to a credit of ($209,263).

Q. **Please discuss the amortizations associated with Arkansas related items.**

A. Amortizations associated with the Arkansas jurisdiction should be removed. This adjustment amounted to a decrease of ($1,389,176).

Q. **Please summarize the total adjustment for WP H 2-38.**

A. The summary of the adjustments is listed below:

1.	Current Amortizations -	$1,825,397
2.	Proposed Amortizations -	$352,362
3.	Misc. Arkansas –	($1,389,176)
5.	Total WP H 2-38 Adjustment –	$788,583

Q. **Please explain WP H 2-39, *pro forma* adjustment to include rate case expenses.**

A. This adjustment consists of two components. First, rate case expenses from Cause No. PUD 202100164 incurred after April 2022 and not included in prior rates are being requested for recovery in the current case. This amounted to $463,973. Second, this adjustment includes estimated rate case expenses through March 2024 associated with the current case, which amounts to $494,000. The Company proposes the same treatment recommended in the prior rate case, with inclusion of actual cost through the end of the *pro forma* period ending March 2024. Any costs incurred after this time shall be deferred to the next rate case. The Company continues to recommend a two-year amortization for both of these amounts. This adjustment increases operating expenses by $478,987**.**

Q. **Please explain WP H 2-40, and H 2-41, *pro forma* adjustments to vegetation management expense.**

A. Both adjustments modify distribution and transmission vegetation management expenses to a level necessary to address current issues associated with vegetation management. These adjustments increase O&M by $25,645,189 for distribution and $2,907,650 for transmission for a total increase to test year O&M of $28,552,839 for vegetation management. Please see the testimony of OG&E witness Robert Shaffer for a complete discussion of vegetation management and justification for the amounts requested by the Company.

Q. **Please explain WP H 2-42, *pro forma* adjustment to wind power expense.**

A. This adjustment removes ($150,316) of wind power education expense that was incurred during the test year. Since wind power education expenses are recovered through the Green Power Wind Rider ("GPWR"), the test year expense should be removed.

Q. **Please explain WP H 2-44, *pro forma* 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 *pro forma* adjustment is primarily related to the acquisition adjustment for the Redbud Power Plant. This amortization is the equivalent of depreciation expense for the acquisition premium associated with the plant purchase. This adjustment increases operating expenses by $5,567,337.

VEGETATION MANAGEMENT TRACKER

Q. **Please explain the Company's request for a Vegetation Management Tracker.**

A. The Company is requesting the Commission to authorize the use of a tracker for vegetation management costs. This tracker would authorize OG&E to record a regulatory asset or liability for vegetation management related expenses above or below the amount set in base rates in this current case. The testimony of OG&E witness Robert Shaffer justifies the need for the level requested in base rates, as adjusted for in WP H 2-40 and H 2-41.

Q. **Would you please explain the difference between a rider mechanism and a tracker?**

A. A rider is a billing mechanism which allows the Company to modify customer bills on an annual (or other) basis to recover certain types of costs, whether they be capital costs or expenses, on a concurrent basis. An example of a rider mechanism would be the Fuel Adjustment Clause, which recovers fuel expenses separately from base rates, with customer bills modified on a now semi-annual basis. Riders would include a calculation of an over/under recovery balance, which is either charged or credited to customers during every factor redetermination. These costs would be excluded from base rates since they are recovered separately.

For a tracking mechanism, there would still be an amount included in base rates. As the name suggests, the Company would "track" actual costs and compare those costs to the amount set in base rates. If actual costs are above this amount, a regulatory asset is recorded on the balance sheet. Likewise, if actuals are below the amount in base, a regulatory liability is recorded. Rates would not change on an annual or semi-annual basis to charge or credit this deferred amount as they would with a rider mechanism. The amount would remain on the Company's balance sheet until requested for recovery in the next base rate case.

Q. How would such a request look like in a base rate case?

A. Similar to the S/4 HANA regulatory asset mentioned in WP H 2-38 in my testimony, we would present the deferred asset or liability in the next base rate case for review and approval by the Commission. The Company would also recommend an amortization period for this specific regulatory asset or liability.

Q. **How does a tracker protect the interests of all OG&E stakeholders?**

A. The mechanism works both ways, allowing a regulatory asset (future charge) or a regulatory liability (future credit) to be recorded. The amount that is set aside for future recovery is not charged or credited until the Commission has had a chance to review the dollars. In the event circumstances cause actual expenses to come in below the amount set in base rates, customers are credited back those dollars. As is the case for riders or trackers, there is an opportunity to review charges or credits before they are passed on to customers.

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

A. Yes.

AFFIDAVIT

STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA)

On the 28th day of December 2023, before me appeared Jason Thenmadathil, to me personally known, who, being by me first duly sworn, states that he is the Senior Manager of Regulatory Accounting for Oklahoma Gas and Electric ("OG&E") and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge, and belief.

Print Jason Thenmadathil

Signature

Subscribed and sworn to before this 28th day of December, 2023.

Notary Public

My commission expires: 10-17-2026

Seal

HARRISON L. BURTON
NOTARY
#14009452
EXP. 10/17/26
PUBLIC
STATE OF OKLAHOMA