BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF OKLAHOMA GAS AND ELECTRIC COMPANY FOR AN ORDER OF THE COMMISSION AUTHORIZING APPLICANT TO MODIFY ITS RATES, CHARGES, AND TARIFFS FOR RETAIL ELECTRIC SERVICE IN OKLAHOMA	))))))	CAUSE NO. PUD 201700496

Rebuttal Testimony

of

Jason J. Thenmadathil

on behalf of

Oklahoma Gas and Electric Company

May 29, 2018

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

A. My name is Jason J. Thenmadathil. My business address is 321 North Harvey, Oklahoma City, Oklahoma 73102.

Q. **Are you the same Jason J. Thenmadathil who filed direct testimony in this Cause?**

A. Yes.

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

A. The purpose of my testimony is to discuss certain adjustments made by Commission Public Utility Division Staff ("PUD" or "Staff"), the Attorney General ("AG"), Oklahoma Industrial Energy Consumers ("OIEC"), and Oklahoma Energy Resources ("OER") to the Company's expenses as part of the revenue requirement. Specifically, I will be addressing adjustments that the Company is accepting and also providing rebuttal testimony for two issues: Restoration of Retirement Income expenses and transmission O&M expense.

ACCEPTED ADJUSTMENTS

Q. **Does the Company agree with several adjustments proposed by various parties in the case?**

A. Yes, the Company agrees with several adjustments proposed by other parties. Table 1 below depicts those adjustments and specifically references the adjustment number on the PUD Staff's accounting exhibit filed in responsive testimony. Though I am only referencing the adjustment number for the Staff, several of the adjustments below were also made by the AG and the OIEC.

Table 1 – Accepted Adjustments

***Pro Forma* Adjustment**	**Operating Expense Description**
PUD Adj. H-1	Removal of Dues and Donations
PUD Adj. H-2	Removal of Advertising Expenses
PUD Adj. H-3	Removal of Legislative Advocacy
PUD Adj. H-4	Rate Case Expense Forecast Adjustment
PUD Adj. H-6	Increase Customer Deposit Interest to Six Month Post Test Year
PUD Adj. H-7	Increase SPP Expenses to Six Month Post Test Year
PUD Adj. H-8	Increase Bad Debt Expense to Six Month Post Test Year
PUD Adj. H-9	Increase Ad Valorem Expense to Six Month Post Test Year
PUD Adj. H-10	Decrease Payroll Expense to Six Month Post Test Year
PUD Adj. H-11	Decrease Payroll Tax Expense to Six Month Post Test Year
PUD Adj. H-12	Decrease Depreciation Expense to Six Month Post Test Year
PUD Adj. H-13	Decrease Pension Liability Expense to Six Month Post Test Year
PUD Adj. H-14	Decrease Pension & Benefits Expense to Six Month Post Test Year

RESTORATION OF RETIREMENT INCOME EXPENSE

Q. **Please describe the adjustment made by the AG and OIEC to remove the restoration of retirement income ("Restoration") expense.**

A. AG witness Ed Farrar and OIEC witness Mark Garrett both removed restoration plan costs (referred to as non-qualified pension expense) from the revenue requirement. Mr. Farrar's adjustment (Exhibit ECF-1, page 12) amounted to a total company reduction of $1,125,432, while Mr. Garrett's adjustment (Exhibit MG 2.4) amounted to a total company reduction of $723,792.

Q. **Would you please explain the differences in the adjustment amounts?**

A. While both adjustments remove the same item, both amounts are different based upon each party's respective position to the update of pension expenses to the six month post test year. Mr. Farrar removes the amount of restoration plan costs included in the six month update to pension expense provided in the response to data request AG 12-3. Mr. Garrett did not adjust pension expenses based on the six month post test year update, so therefore he removed the amount of restoration plan expenses included in the Company's filed position.

Q. **Why are the Company's Retirement restoration expenses commonly referred to as a "non-qualified" pension plan?**

A. The Internal Revenue Code sets limitations on what can be defined as a qualified pension plan. The retirement restoration (non-qualified) pension plan simply restores an OG&E members benefits to allow the Company to make a matching contribution into their retirement if not for the limitations set out in the Code. For example, in 2018, retirement contributions associated with an employee's salary up to $275,000 can be included in a qualified plan. Any contributions made for an employee's salary above $275,000 are only tax deductible when the employee receives the retirement benefit. Therefore, contributions made for compensation above $275,000 did not meet the requirement for inclusion into the qualified benefit plan

Q. **Why is this expense referred to as "Restoration" by the Company?**

A. As the name implies, it simply "restores" OG&E members to the maximum matching benefit of the Plan regardless of their qualified compensation. Employees receive retirement benefits based on how much they earn, so the Restoration plan restores their retirement limited by the tax treatment stated above and provides an accurate amount of benefits based on salary.

Q. **Do you agree with Mr. Farrar and Mr. Garrett that retirement benefits not meeting the definition of a qualified benefit plan per the Internal Revenue Code should be disallowed?**

A. No. Since this benefit is not an "incentive contribution" but rather just a regular retirement contribution that receives a deferred tax benefit, there is no need to disallow the cost.

TRANSMISSION O&M EXPENSE

Q. **Please explain the adjustment made by OIEC witness Scott Norwood to reduce transmission O&M expenses.**

A. Mr. Norwood proposes reducing the level of transmission O&M requested by the Company by $18.2 million on a total company basis. He calculates this figure by calculating the difference between the test year booked expense level (Oct. 2016 – Sept. 2017) in FERC account 566 and the year-ending 2016 booked expense level to arrive at a difference of $18.2 million.

Q. **Please provide clarification on the amount of expenses in FERC account 566 that are ultimately passed through to customers in base rates.**

A. It is important to note that test year expense levels recorded on our FERC books are not transferred to base rates directly. The Company makes adjustments to the test year when calculating a forward looking (or *pro-forma*) level of base rate expense. In the case of FERC account 566, large adjustments are made to this account in the calculation of the base rate revenue requirement. Table 2 below depicts the same analysis that Mr. Norwood performed, except my analysis shows the level of expenses in Account 566 that are ultimately passed through to customers in base rates. Please note that the analysis below depicts total company numbers so that a comparison can be made to Mr. Norwood's analysis.

Table 2 – Adjusted FERC 566 Expenses (Total Company)

Description	**YE 2016**	**Oct 2016 - Sept 2017**	Difference
Misc. Trans. Expense (FERC 566)	136,207,870	154,441,559	18,233,689
Rider Expenses (WP H 2-34)	(57,868,094)	(73,616,064)	
Intracompany SPP Fees (WP H 2-35)	(73,024,249)	(77,226,646)	
SPP Fees Adjustment (WP H 2-28)		1,110,400	
Base Rate Expense	**5,315,528**	**4,709,249**	**(606,279)**

As you can see, there are 3 adjustments made to FERC account 566. The first adjustment removes rider expenses recovered through the SPPCT rider. The second adjustment removes Intracompany SPP Fees that are offset by an equal adjustment to revenues in the cost of service. The third adjustment updates SPP Fees to the pro forma level requested by the Company. Once all three adjustments are made, the remaining level of expense in account 566 included in the Company's revenue requirement is $4,709,249. When comparing the booked level of expenses, you arrive at Mr. Norwood's adjustment of $18.2 million as shown above, but after adjustments are made to the test year, the difference is actually a decrease in expenses of $606,279.

Q. **Do you recommend further refinement to Mr. Norwood's analysis?**

A. Yes, Mr. Norwood compares the calendar year 2016 to the test year, but since the test year is between October 2016 and September 2017, it includes three months of 2016 and therefore the analysis is skewed. Mr. Norwood's analysis also does not show the offsetting transmission credits that are returned to customers via rider mechanisms to show the ultimate impact to customers. Table 3 below includes this additional analysis:

Table 3 – Customer Impact (Total Company)

Description	**Oct 2015 - Sept 2016**	**Oct 2016 - Sept 2017**	Difference
Misc. Trans. Expense (FERC 566)	106,387,793	154,441,559	
Rider Expenses (WP H 2-34)	(47,252,560)	(73,616,064)	
Intracompany SPP Fees (WP H 2-35)	(52,702,463)	(77,226,646)	
SPP Fees Adjustment (WP H 2-28)		1,110,400	
Base Rate Expense	**6,432,770**	**4,709,249**	**(1,723,521)**
SPPCT Rider Expenses	47,252,560	73,616,064	
Credits Passed through to Customers*	(17,159,456)	(59,643,770)	
Net Rider Expense to Customers	**30,093,105**	**13,972,295**	**(16,120,810)**
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Notes			
* Credits were passed through via the Renewable Transmission System Additions ("RTSA")			
Rider. Effective May 2017 with the Final Order in Cause No. PUD 2015-273, credits			
are now passed through the SPPCT Rider.			

Please note that the analysis above depicts total company numbers so that a comparison can be made to Mr. Norwood's analysis. As you can see, when comparing two similar periods, the change in the adjusted expense level is actually a decrease of \$1,723,521. Further, when comparing SPPCT rider expenses passed through to customers during those two time periods, customers actually experienced a total company decrease of \$16,120,810. SPP Transmission credits were authorized by the Commission to be passed through to customers via the RTSA rider and eventually through the SPPCT rider. The increase in the credits offset the increase to expenses, and therefore customers actually experienced a net decrease.

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

A. Yes.