



BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

CLERK OF COURT - OKC
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 D. Bailey

on behalf of

Oklahoma Gas and Electric Company

May 29, 2018

Jason Bailey
Rebuttal Testimony

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

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

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

6 A. Yes.

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

9 A. The purpose of my testimony is to discuss certain adjustments made by Commission
10 Public Utility Division Staff (“PUD” or “Staff”), the Attorney General (“AG”),
11 Oklahoma Industrial Energy Consumers (“OIEC”), and Oklahoma Energy Resources
12 (“OER”) to the Company’s *pro forma* updates to rate base. I will be addressing
13 adjustment that the Company is accepting and provide rebuttal testimony regarding *pro*
14 *forma* WP B 3-11, Plant Held for Future Use (“PHFU”).

ACCEPTED ADJUSTMENTS

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

19 A. Yes, the Company provided all the parties with six-month post-test-year updates to
20 March 31, 2018 through multiple data requests. The parties utilized this information in
21 their responsive testimony and the Company agrees with those adjustments. Table 1
22 below depicts those adjustments and specifically references the adjustment number on the
23 PUD Staff’s accounting exhibit filed in responsive testimony. Although I am only
24 referencing and accepting the adjustments made by Staff, similar adjustments were also
25 made by the AG and OIEC/OER which is indicated below as “Accepted” in the
26 corresponding AG and OIEC/OER columns. The only adjustment disputed was *pro*
27 *forma* WP B 3-11 Plant Held for Future Use (“PHFU”) by OIEC/OER witness Mark
28 Garrett which I will discuss next.

Table 1 – PUD Staff Accepted Adjustments
Rate Base Updates for Post Six Months ending March 2018

<i>PUD Adjustments</i>	<i>Rate Base Description</i>	<i>Attorney General</i>	<i>OIEC/OER</i>
PUD Adj. No. 1	Decrease to Cash Working Capital	–	–
PUD Adj. No. 2	Increase to Material & Supplies Inventory	–	–
PUD Adj. No. 3	Increase to Fuel Inventories	–	–
PUD Adj. No. 4	Decrease to Gas in Storage	–	–
PUD Adj. No. 5	Increase to Prepayments	–	–
PUD Adj. No. 6	Increase to Utility Plant	Accepted	Accepted
PUD Adj. No. 7	Decrease to Accumulated Deferred Income Taxes	Accepted	Accepted
PUD Adj. No. 8	Increase to Regulatory Assets	Accepted	Accepted
PUD Adj. No. 9	Decrease to Regulatory Liabilities	Accepted	Accepted
PUD Adj. No. 10	Decrease to Customer Deposit	–	–
PUD Adj. No. 11	Increase to Customer Advances	–	–
PUD Adj. No. 12	Increase to Accumulated Depreciation	Accepted	Accepted
PUD Adj. No. 13	Decrease to Net Pension Benefit Asset/(Obligation)	Accepted	Accepted

REBUTTAL TO DISPUTED ADJUSTMENTS

Q. Please explain the Company's adjustment for PHFU.

A. Consistent with the methodology used in the Company's prior rate cases, Cause Nos. PUD 201100087 and PUD 201500273, the Company removed \$1,400,243 from the test year for any PHFU with an acquisition date older than ten (10) years from the test year. The Company included a list of PHFU in WP C-13 when it filed this rate case, which included the date of acquisition, the forecasted in-service date, and the planned use for the PHFU.

Q. Did other parties agree with the Company's standard adjustment in this Cause?

A. Yes. Staff witness David Melvin reviewed and verified the PHFU included in Rate Base that was acquired in the last 10 years and recommends the Commission accept the Company's adjustment decreasing Plant in Service by \$1,400,243. No other party disagreed with OG&E's adjustment.

1 Q. **Did OIEC/OER agree with the Company's methodology?**

2 A. No. OIEC/OER witness Mark Garrett recommends complete removal citing that the
3 assets are not used and useful at the present time.
4

5 Q. **Why should a return on plant held for future use be included in rates?**

6 A. These assets were purchased based on long-range planning considerations for the benefit
7 of the Company's customers. They were acquired so that the best-situated land will be
8 available when needed in the future. Failure to purchase the land and easements in
9 advance, particularly in growth areas, creates risk of higher costs associated with
10 rerouting of transmission lines and access easements to build substations. In addition,
11 purchasing real estate in advance mitigates the risk of higher real estate costs.
12

13 Q. **Did the Company request recovery for all of the property booked as PHFU?**

14 A. No. The Company records reflect test year PHFU of \$2,758,727. However, OG&E
15 requested to include in rate base only the PHFU purchased in the last 10 years, or
16 \$1,358,484. The Company chose the 10 year period to address the parties' concerns
17 related to the length of time PHFU is being held before going into service. The 10 year
18 period is consistent with the treatment allowed by FERC in OG&E's transmission
19 formula rate. The Company feels its treatment of PHFU strikes an appropriate balance
20 between providing customers the benefits of advanced planning while addressing
21 concerns over funding PHFU which may not be needed in the foreseeable future.
22

23 Q. **Was PHFU allowed by the Oklahoma Corporation Commission in the previous
24 Cause No. PUD 201500273?**

25 A. Yes. In that Cause the Administrative Law Judge ("ALJ") found that the "Commission
26 may add undeveloped property to rate base where there is a definite, near term plan to use
27 the property as part of plant in service." The ALJ stated, "Where a transmission and
28 distribution system is capable of expansion, the prudent operator should acquire property
29 to accommodate system growth and avoid higher acquisition costs caused by escalating

1 real estate prices.”¹ The Oklahoma Corporation Commission adopted the
2 recommendation of the ALJ to include the most recent 10 years of PHFU in rate base.
3

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

5 A. Yes.

¹ *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 201500273, Report of the Administrative Law Judge on the Full Evidentiary Hearing, p. 36.