BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF	)	
OKLAHOMA GAS AND ELECTRIC COMPANY	)	
FOR AN ORDER OF THE COMMISSION	)	
AUTHORIZING APPLICANT TO MODIFY ITS	)	CASE NO. PUD 2023-000087
RATES, CHARGES, AND TARIFFS FOR RETAIL	)	
ELECTRIC SERVICE IN OKLAHOMA	)	

Rebuttal Testimony

of

Kimber L. Shoop

on behalf of

Oklahoma Gas and Electric Company

May 17, 2024

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

A. My name is Kimber L Shoop. My business address is 321 North Harvey, Oklahoma City, Oklahoma 73102.

Q. **Are you the same Kimber L. Shoop who filed Direct Testimony in this Case on December 29, 2023?**

A. Yes.

Q. **What is the purpose of your Rebuttal Testimony?**

A. I provide an overview of the Rebuttal Testimony being filed by OG&E in response to the various witnesses that filed Responsive Testimony on April 26, 2024, and May 3, 2024, in this proceeding.

Q. **Who are the other rebuttal witnesses and what will be their areas of testimony?**

A. Table 1 below lists OG&E's rebuttal witnesses and a brief description of the purpose of each testimony.

Table 1: OG&E Rebuttal Witness List

Witness	Title	Purpose of Rebuttal Testimony
Kimber L. Shoop	Director, Regulatory	Identifies each of the Company rebuttal witnesses and provides an overview of the Rebuttal Testimony
Ann Bulkley	Principal, The Brattle Group	Rebuttal on ROE and Capital Structure
Charles Walworth	OGE Energy Corp. Treasurer	Rebuttal on topics such as ROE, Risk, Capital Structure, and certain expense recovery
Dane Watson	Partner, Alliance Consulting Group	Rebuttal on depreciation
Brian Huckabay	Director, Distribution Engineering Technical Services	Rebuttal on T&D plant disallowances recommended by PUD
Robert Shaffer	Manager, Asset Management	Rebuttal on Vegetation Management
Kandace Smith	Manager, Grid Modernization	Rebuttal on Grid Enhancement

Robert Doupe	Director, Power Supply Services	Rebuttal on coal inventory and the service lives of wind and solar resources
Kelly Riley	Director, Resource Planning	Rebuttal regarding future risks to OG&E, depreciable lives of coal units, and service lives of wind resources
David Kenyon	Chief IT Architect	Rebuttal on the average service lives of software contained in Accounts 303.1 and 303.2
Ryan Einer	Manager, Operations Support	Rebuttal on service lives of smart meters
Scott Briggs	Vice President, Human Resources	Rebuttal on the recovery of incentive compensation
Jason J. Thenmadathil	Senior Manager Regulatory Accounting	Rebuttal on Revenue Requirement Adjustments
Jeremy Schwartz	Manager, Sales Support and Marketing Analytics	Rebuttal on Line Extension Policy and Allowable Expenditure Formula
James Fenno	Lead Regulatory Accountant	Rebuttal on Plant Held for Future Use
James Alexander	Senior Pricing Analyst	Rebuttal on certain tariff recommendations
Lauren Maxey	Manager, Cost of Service	Rebuttal on Cost of Service Issues and Allocator Changes
Gwin Cash	Manager, Pricing and Tariff Administration	Rebuttal on Cost of Service and Rate Design issues
Bryan Scott	Director, Pricing and Load Analysis	Revenue Allocations & DAP/FLEX and LR Co-subscriptions

Q. **Do you have any testimony on the affordability of OG&E's rates?**

A. Yes. S&P recently released an updated version of the rate information referenced by AG witness Mr. Matejcic.[1] The 2023 data shows OG&E Oklahoma rates are the 11th cheapest (total retail) in the country of 159 electric utilities.[2] Even if you were to add in OG&E's entire rate increase as requested in this case, OG&E's rates would still be some of the lowest rates in the U.S. According to the same report, OG&E also has the 8th most affordable residential rates, the 6th most affordable commercial rates and the 3rd most affordable industrial rates. This shows OG&E diligently manages the cost to serve

1 Responsive Testimony of Greg J. Matejcic, Exhibit GJM-3.
2 S&P Capital IQ: Cost per kWh databook 1978-2023 as of April 30, 2024

its customers and will continue to be among the most affordable in the country after the completion of this rate case.

Q. **Has OG&E recently lowered its rates to reflect lower fuel costs?**

A. Yes. Effective May 1, 2024, OG&E implemented its latest Fuel Cost Adjustment factor which reduced the average residential customer bill by approximately $25 per month when compared to the prior summer rates. Regardless of the outcome in this case, the average residential customer will pay lower rates for electricity this summer than they did last year.

Q. **Is OG&E proposing an additional affordability option for senior citizens?**

A. Yes. OG&E currently offers senior citizens enrolled in SmartHours a $5 per month discount for the five months June through October. OG&E is proposing to double this discount to $10 per month during those 5 months, as well as add a $5 per month discount in the other months of the year. This would increase the annual benefit of the program from $25 per year to $85 per year and provide the benefit on a year-round basis. OG&E recognizes many of our senior customers may operate on a fixed income and during this period of inflation and economic stress, an increase in this discount would provide some predictability and financial relief to these fixed-income customers. No party has opposed this proposal.

OPPORTUNITY TO EARN A FAIR RETURN

Q. **Are utilities entitled to the opportunity to earn a fair return?**

A. Yes. This is one of the key features of the regulatory compact. In exchange for an obligation to serve, a utility must have the opportunity to earn a fair return. The concept of a fair return was discussed in *Federal Power Commission v. Hope Natural Gas Company* ("Hope"), a landmark Supreme Court decision. Hope established that a utility needs revenue to cover its operating expenses and also the capital costs of the business, and the return should be "sufficient to assure confidence in the financial integrity of the enterprise, to maintain its credit and to attract capital."

Q. **Is it becoming increasingly difficult for OG&E to earn a fair return?**

A. Yes. In particular, I am becoming concerned by the increasing trend of adjustments proposed by parties to disallow reasonable, necessary, and prudent expenses of the utility simply because shareholders benefit some undetermined amount from these expenses.

Q. **Do customers and shareholders benefit from everything the Company does?**

A. Yes. For example, both customers and shareholders benefit from payroll, because without employees, there would be no one to serve our customers. Customers and shareholders benefit from fuel and purchased power, because without it, there would be no fuel to generate electricity. I could go on, but these two examples demonstrate my point. Shareholders and customers benefit from everything the Company does, and customers benefit from the fact that shareholders provide capital for the Company to improve its system and deliver safe and reliable electricity to a growing service area. It is a symbiotic relationship between the shareholders and customers, and it is misleading and inaccurate to frame every expense through this false dichotomy of either benefiting one group or the other.

Q. **Do disallowances of necessary business expenses hurt OG&E's ability to earn a fair return?**

A. Yes. Disallowances proposed by intervenors in this case, such as the Wired Group's plant investment recommendations, incentive compensation, board of directors' compensation, director and officer liability insurance, and investor relations expenses, would reduce OG&E's ability to earn a fair return. OG&E's return on equity ("ROE") recommendation in this case assumed the Commission would allow OG&E to recover the necessary expenses required to run its business. If the Commission disallows these items, OG&E will not have a fair opportunity to earn the return as ordered and would likely result in higher overall risk for investment in OG&E.

Q. **What is your perspective on the true relationship between customers and shareholders?**

A. The interconnected relationship between customers and investors is foundational to ensuring the public receives safe and reliable electric service at an affordable price. In the regulated system, the utility has the obligation to provide customers with safe and reliable service and in turn, customers pay for that service, including the return on and of the capital that is necessary for the provision of that service. The capital needed to meet these obligations comes from equity and debt investors who expect a reasonable opportunity to earn a rate of return that is comparable to the return on other investments of similar risk. This is the regulatory compact investors, utilities and customers accept, and it provides the most efficient access to capital, which benefits customers in the long run.

INCREASING RISK AND ABILITY TO ATTRACT CAPITAL

Q. **Do OG&E witnesses discuss OG&E risks that support a higher return on equity and the approval of the Company's actual capital structure?**

A. Yes. OG&E witness Kelly Riley discusses some of the Company-specific risks facing OG&E in terms of environmental regulation and resource adequacy requirements. OG&E witnesses Brian Huckabay and Charles Walworth discuss the increasing wildfire risk facing electric utilities and OG&E in particular. These witnesses discuss these specific risks in response to PUD witness Geoffrey Rush, who asserts that "[r]isk is the most important factor to consider when determining the required return on equity"[3] and riskier companies deserve higher returns,[4] but fails to acknowledge specific risks facing the utility industry and OG&E.

Q. **What does OG&E witness Walworth testify to regarding risk and how it should be reflected in the ROE awarded by the Commission?**

A. Mr. Walworth, OGE Energy Corp.'s Treasurer, testifies these risks warrant a higher awarded ROE. Since OG&E competes for capital and must continue to be attractive to

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[3] See Responsive Testimony of Geoffrey Rush, Cause No. PUD 2023-000087 at p. 8.
[4] *Id.* at p. 13, ln. 11-12

investors, an above average ROE would allow OG&E to be attractive despite the risks it faces, its small size and undiversified geographic, jurisdictional, and business portfolio. He testifies the average ROE for vertically integrated utilities over the 12 months ending March 31, 2024, was 9.79 percent. While OG&E believes the awarded ROE should reflect the recommendation of OG&E witness Bulkley, it should at least be higher than the 9.79 percent average.

Q. **Is OG&E concerned Oklahoma is at risk of impairing its ability to attract capital to the state to ensure adequate electrical infrastructure for its future?**

A. Yes. As previously noted, the landmark *Hope* decision at the Supreme Court established that a utility needs to be able to earn a return "sufficient … to attract capital." Further, the critical nature of OG&E's electrical infrastructure to the overall success of economic expansion in the state has never been more apparent, and, as discussed by OG&E witnesses in this case, the Company is facing increasing risks to its operations. These risks include EPA regulations, capacity requirements of the SPP, wildfire and other extreme weather events, and cyber and physical security attacks. The level of ROE and equity capital structure awarded in this case, as well as Commission decisions related to the other matters discussed in rebuttal testimony, will set the tone for whether investors across the nation can consider Oklahoma a constructive state for investment. It is imperative this Commission send a message to stakeholders that Oklahoma is interested in the future of its critical electric infrastructure.

<u>CAPITAL STRUCTURE</u>

Q. **Do OG&E witnesses discuss the importance of using OG&E's actual capital structure?**

A. Yes. OG&E witnesses Charles Walworth and Ann Bulkley discuss OG&E's capital structure and the importance of consistency in the Commission's treatment of utilizing OG&E's actual capital structure for ratemaking purposes.

Q. **What does OG&E witness Walworth testify to regarding OG&E capital structure?**

A. Mr. Walworth explains that using the actual capital structure ensures OG&E can maintain the financial health necessary to attract investment, finance utility operations, and provide safe and reliable service at a reasonable cost. In addition, OG&E's actual capital structure gives OG&E the flexibility to weather significant adverse market conditions and extraordinary events. Mr. Walworth explains consistency in Commission treatment of this issue is extremely important to OG&E and its investors.

Q. **Why is Mr. Walworth's testimony significant on this issue?**

A. Mr. Walworth is OG&E's Treasurer and is responsible for ensuring OG&E is a financially healthy Company that maintains its ability to attract capital. As explained in his Direct Testimony, OG&E competes for capital against companies with much larger market capitalizations (*i.e.*, market cap) across the country, and in order to do so effectively it must protect its reasonable and balanced capital structure.[5]

Q. **What does OG&E witness Bulkley testify to regarding OG&E capital structure?**

A. Ms. Bulkley responds to the analyses presented by the other ROE witnesses in this case and explains that compared to the operating companies of the proxy group, OG&E's actual capital structure is well within the range of authorized equity ratios, and just slightly above the proxy group average of 52.85% equity. Also, Ms. Bulkley shows OG&E's actual equity ratio is well within the range of authorized equity ratios for vertically integrated utilities across the U.S. from 2013 through 2023.

DEPRECIATION

Q. **What rebuttal arguments are OG&E witnesses making with regard to the issue of depreciation?**

A. In Responsive Testimony, various intervenors are recommending unreasonably long depreciable lives for OG&E's various plant accounts. This reduces the depreciation expense for this rate case, but it is not reflective of the actual useful lives of the assets that are in service and underestimate the appropriate level of depreciation expense.

5 Direct Testimony of Charles B. Walworth, pages 8 – 10.

When depreciation rates are too low, there remains an unrecovered investment as exhausted utility assets are retired. As a result, customers then simultaneously pay rates that include the investment for new plant at the same time as the unrecovered balances of old investment. It is a classic "kick the can" solution. It is necessary to apply reasonable and realistic service lives so customers will not incur higher long-term costs.

As I discussed in my Direct Testimony, setting unreasonable depreciation rates is analogous to financing a car for an unreasonably long amount of time. If you finance a car too long, you may continue to pay for the old car when you also have to begin paying for your next car. It is important to have depreciation rates that reflect the actual life of the assets, so customers do not have to pay for a return on assets that are retired, obsolete or replaced (while also paying for new assets). That is, unreasonably long depreciable lives increase the risk of assets failing (or becoming functionally obsolete) prior to being recovered, thus creating potential stranded cost issues with which both the Company and the Commission will have to address at a later date.

Q. **Are there any clear examples of how intervenors are trying to extend the depreciable lives of certain accounts beyond a reasonable period?**

A. Yes, there are several. First, it should be noted that OG&E's witness Dane Watson conducted interviews with OG&E subject matter experts to determine what the appropriate service lives should be when discerning his recommended depreciation rates. Therefore, his recommendations were based on his judgment after considering the input from those subject matter experts, who are the people that are most familiar with OG&E's investments, how long those investments will last, and what the retirement data means. None of the intervenor depreciation witnesses conducted any interviews with OG&E's subject matter experts and their recommendations seem to be based on the mere review of data and trying to match mathematical curves.

Second, there are unreasonable intervenor recommendations that should be rejected when one considers the testimony of OG&E's subject matter experts. OG&E witnesses Kelly Riley and Robert Doupe have filed Rebuttal Testimony showing that the service lives for OG&E's wind assets should be 25 years instead of the 30 years recommended by intervenors. A service life of 25 years was found to be reasonable by both the ALJ and the Commission in OG&E's last litigated rate case (Cause No. PUD 201500273) and the Commission has not issued a ruling since that time making a finding of anything different.[6] Additionally, no party has provided any evidence OG&E's existing wind assets (of specific age and vintage) should have service lives of longer than 25 years.

Another clear example of intervenors pushing out service lives without any convincing evidence involves software in Accounts 303.1 and Account 303.2. As explained by OG&E witness David Kenyon, the software contained in Account 303.1 all has service lives of 3 to 5 years, and the software contained in Account 303.2 has 10-year service lives. Witness Kenyon, who is the Chief IT Architect at OG&E, testifies why it is not appropriate to extend the average service life for those accounts.

Additionally, OG&E witness Ryan Einer presents evidence that the appropriate average service life of smart meters should not be extended to 20 years. If anything, the average service life being proposed by OG&E in this case (*i.e.*, 15 years) may be too long when you consider retirements that our subject matter experts are seeing in the field. Intervenor witnesses make this academic-driven recommendation in an effort to extend service lives and lower depreciation expense without considering the real-world experience and data that our OG&E operations employees are observing.

Q. **Does OG&E highlight any new challenges to OG&E's depreciation rates for its coal units after the EPA recently released a series of final environmental rules?**

A. Yes. As stated above, it is important to have depreciation rates that reflect the actual life of the assets and for this Commission to avoid unreasonably long depreciable lives that could create potential stranded cost issues with which both the Company and the Commission will have to address at a later date. Since the filing of its Direct Testimony, EPA has finalized a series of environmental rules that put a lot of pressure on OG&E's coal units. In fact, OIEC witness Scott Norwood discusses the risk of environmental

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[6] In its 2021 rate case, OG&E entered into a settlement agreement that resulted in recommendations of a specific party being used to calculate depreciation rates. While a 30-year life for OG&E's wind may have been part of the agreed settlement package of depreciation rates in that previous rate case, that 30-year service life for wind was never included in any finding of factor or ruling by the Commission.

rules and the possibility of early retirement of OG&E's coal units in his Responsive Testimony.[7] These rules, and the risks they impose, are addressed in the Rebuttal Testimony of Kelly Riley. She explains the EPA just issued a final rule that would require OG&E to retire its existing coal units by 2039 if it cannot install carbon capture and sequestration/storage technology for each plant by 2032. Given this stringent requirement and Mr. Norwood's recommendation, this Commission may need to consider adjusting the depreciable lives of the coal units to a retirement date of 2039 in order to reduce the amount of stranded costs that would exist if the coal units are retired earlier. More specifically, if the Commission decides to accept the depreciation recommendations of PUD or the OIEC and the longer depreciable lives that go along with those recommendations, the Commission should also consider offsetting those recommendations with an adjustment to OG&E's coal unit depreciable lives to reflect a retirement date of 2039. This will help protect the Company and its customers in the event early retirement (as suggested by OIEC witness Scott Norwood) proves to be necessary.

PLANT DISALLOWANCES

Q. **Please summarize OG&E's rebuttal with regard to plant disallowances recommended by PUD witnesses Alvarez and Stephens.**

A. OG&E's 2,300 members work every day to build and maintain an electric power system that provides safe and reliable service for our customers. The Wired Group – a consultant group represented in this case by Paul Alvarez and Dennis Stephens testifying on behalf of the Commission's own PUD – has recommended some of the investments made to provide safe and reliable service be disallowed from OG&E's rates. The Wired Group has also made appearances in OG&E's 2021 general rate case and its 2020 Grid Enhancement case, and each time their recommendations were not adopted.

As explained by other OG&E witnesses, The Wired Group's recommendations in this case are based upon woefully inaccurate analyses and assumptions. For instance, OG&E rebuttal witness Brian Huckabay explains how PUD witness Mr. Stephens recommended seven projects for disallowance that were already deemed prudent in a

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7 Responsive Testimony of Scott Norwood, April 26, 2024, page 9, lines 3 – 8.

prior rate case. Mr. Stephens also incorrectly labeled a transmission project recommended for disallowance as a proactive "Asset Improvement" project instead of reactive "Failed in Service" project. OG&E witness Kandace Smith describes how PUD witness Mr. Alvarez failed to screen his cost-benefit analysis for basic cause exclusions, such as outages on the customer side of the meter. Correcting this simple failure resulted in his analysis showing a $13-to-$1 benefit-to-cost ratio rather than the 44-cent benefit claimed by Mr. Alvarez.

As explained in the Rebuttal Testimony of OG&E witnesses Brian Huckabay and Kandace Smith, these assessments are also in direct opposition to the PUD's assessment of the same Grid Enhancement circuits in OG&E's last rate case. At the time, PUD stated, "…it is also intuitive and undeniable that the act of intentionally targeting and replacing aging equipment or using new technology to communicate within the system or to customers, provides real benefits to all customers through a reduction in unplanned outage events and in recovery time from those events."[8] Now, Mr. Stephens has reviewed the same circuits and inexplicably reached a different conclusion for projects already deemed prudent by this Commission.

The truth is OG&E has focused its capital plan on repairing, rebuilding, replacing, and modernizing its transmission and distribution system to improve its reliability in the face of Oklahoma's severe and volatile weather. OG&E cannot delay investments until its level of service deteriorates enough to satisfy consultants who have no responsibility for delivering safe and reliable power to our customers. Further, the presentation of such analysis on behalf of the Commission's own PUD introduces a risk to future investment in Oklahoma. Therefore, based on the testimony of OG&E's rebuttal witnesses, the recommendations of The Wired Group should be affirmatively rejected by the Commission to ensure OG&E can continue to attract the necessary capital to provide reliable service to its customers.

[8] Rebuttal Testimony of Brian Huckabay, pg. 6.

VEGETATION MANAGEMENT

Q. Why is OG&E's request for an increase in vegetation management important?

A. OG&E's vegetation management expense included in base rates remains unchanged since OG&E's 2015 rate case.[9] In the last two years in particular, OG&E has experienced inflationary increases to labor rates for tree trimming and it is becoming more difficult to do the work necessary to manage vegetation with the existing base rate expense level. Therefore, OG&E is requesting the expense level in rates for vegetation management be increased by approximately $24 million on a prospective basis over the test year expense. OG&E witness Robert Shaffer explains in his Direct Testimony why increasing the expense level is extremely important given the increased investment and improvement in the electric grid. OG&E's investment in its delivery system to improve reliability and performance can be jeopardized by vegetation issues.

Yet, outside consultants have filed testimony rejecting that increase in vegetation management expense, despite OG&E's in-house expert recommendations. Robert Shaffer and the operational team at OG&E are the ones responsible for stretching dollars to ensure a reliable power delivery system is maintained. Mr. Shaffer explains how budget levels set almost a decade ago need to be updated to reflect increased labor rates and inflation and the requested increase will allow OG&E to focus on the proper balance of different vegetation management cycle techniques while factoring in customer and reliability requests (which are considered non-cycle) and distribution substation clearing.

Q. Why is OG&E requesting a vegetation management tracker in this case?

A. OG&E is requesting a vegetation management tracker in this case because of the variable nature of vegetation management costs. OG&E is currently planning to spend $58 million in annual vegetation management. If OG&E had a tracker in place, it would create a regulatory liability and return costs to customers if it cannot ramp up spending in any given year. On the other hand, if OG&E needs to spend more on vegetation management in a given year, it has the ability to do so, while protecting customers by preventing any of those costs from being passed through without a full prudence review

[9] *See* Cause No. PUD 201500273.

in a general rate case. This is responsible given the variable and volatile nature of these vegetation management expenses, which is supported by Direct and Rebuttal Testimony of OG&E witness Shaffer.

Q. **Are there customer protections built into OG&E's proposal for a tracker?**

A. Yes. The vegetation management tracker as proposed by OG&E would not collect any dollars from customers until the costs have been fully reviewed as part of a future general rate case and determined to be prudent by the Commission. Only then would costs be collected from customers in base rates and with an appropriate amortization period set by the Commission. In addition, the tracker helps protect customers from large increases because the Commission will be able to determine the appropriate amortization period at the same time it determines the prudence of costs. If OG&E needed to spend more on vegetation management one year, then the Commission can order OG&E to spread those costs over a longer period, as opposed to collecting them all in a single year.

Q. **Some of the intervenor witnesses appear to reference a 2009 white paper published by the National Regulatory Research Institute ("NRRI") that discussed how regulators should view "cost trackers." What are the criteria for cost trackers discussed by OIEC witness Mark Garrett and AG witness Greg J. Matejcic?**

A. The criteria, as presented in the NRRI white paper and by OIEC and AG witnesses, are that the costs must be (i) largely outside the control of the utility, (ii) unpredictable and volatile, (iii) substantial and recurring, and (iv) causing severe financial consequences to the company.

Q. **How do you respond to the criteria for cost trackers discussed in the 2009 white paper?**

A. First, the NRRI white paper defines "cost tracker" as follows: "A cost tracker allows a utility to recover its actual costs from customers for a specified function on a periodical basis outside of a rate case. A tracker, in other words, involves the recovery of a utility's actual costs in the periods between rate cases." The entire point of the white paper was to address cost trackers that allow interim recovery of costs between rate cases and outside a rate case. In Oklahoma, we typically refer to these as "riders" rather than "trackers." OG&E is not asking for a rider or any interim recovery of costs between rate cases or outside a rate case. We are seeking deferred accounting treatment so that differences between expense levels in base rates and actual expenses can be reviewed for reasonableness in the next general rate case.

Page 7 of the NRRI white paper states cost trackers shorten regulatory lag, increase cost recovery certainty, and lessen regulatory scrutiny. But OG&E is not asking for a shortening of regulatory lag for these expenses through recovery outside of base rates. We are also not seeking any increased certainty of recovery or any lessened regulatory scrutiny. All the differences between the amount of vegetation management expense in base rates and the amount of expense booked to the tracker will be thoroughly reviewed for reasonableness and prudence in the next general rate case before being allowed to be recovered.

The NRRI white paper criteria have not, to my knowledge, been adopted by the National Association of Regulatory Utility Commissioners ("NARUC"). It is also important to note the NRRI's recommended approach to riders is contrary to this Commission's past practices. In fact, this Commission has approved recovery of vegetation management expense before through a cost recovery rider, *i.e.*, the System Hardening Rider. While OG&E is not seeking rider recovery for its vegetation management expense, there is certainly precedent for recovery of these costs through a rider.

Q. **Regardless of the inapplicability of the NRRI whitepaper criteria to the deferred accounting proposal of the Company, if this Commission were to review the request for a vegetation management tracker according to the criteria discussed by in the NRRI white paper, do you believe OG&E satisfies the criteria?**

A. Yes. In his Direct Testimony, OG&E witness Shaffer describes how these costs are volatile, substantial, and outside OG&E control. He cited to changes in labor costs, trimming crew availability, differences between costs of bucket versus climbing work, specific customer requests, variations in vegetation growth rates in urban and rural areas, right of way access issues, complexities caused by customer landscaping and improvements, equipment pathway obstructions, easement encroachments and customer refusals. All these factors are outside the Company's control and cause large variations in customer costs. And since we are requesting to increase vegetation management expense from a $30 million per year level set in the 2015 rate case to $58 million in this case shows how substantial these costs are becoming.

INCENTIVE COMPENSATION

Q. **Should the Company be able to recover the costs of its total, market-based compensation paid to employees?**

A. Yes. As discussed in my Direct Testimony, OG&E pays its employees a total compensation package composed of a base salary and incentive compensation. An attractive total compensation package allows OG&E to be competitive in the job market and attract and retain the necessary people to provide excellent service to our customers. OG&E must provide market-based compensation, which includes attractive incentive compensation similar to other electric companies. OG&E witness Scott Briggs, Vice President of Human Resources, rebuts arguments made by various intervenors that call for reducing the amount of incentive compensation allowed in base rates.

Q. **Does it make sense the Commission has continually excluded incentive compensation from rates?**

A. No. OG&E has repeatedly sought recovery of the total amount of compensation it pays OG&E employees, both salary and incentive compensation. Despite evidence incentive compensation is a necessary piece of compensation to attract and retain employees and to keep up with market compensation practices, the Commission has historically disallowed 100 percent of long-term incentive compensation and 50 percent of the short-term incentive compensation for electric utilities. The rationale for excluding these reasonable and necessary costs comes from the Company's inclusion of "earnings per share" metrics in assessing performance within the incentive compensation structure. As discussed by OG&E witness Briggs, OG&E disagrees with the notion that earnings per share metrics solely benefit shareholders. It is particularly perplexing when considering the Commission has consistently awarded 100% of short-term incentive recovery to certain Oklahoma gas utilities whose plans are designed similarly to OG&E's plan.

Q. **Does the Company agree with the rationale for such a disallowance of incentive compensation from rates?**

A. No. As discussed in OG&E witness Briggs' Rebuttal Testimony, incentive compensation is a very necessary and reasonable expense for the utility to be able to retain and attract a strong workforce, which provides benefits to customers through efficient management and lower operating costs. Absent the incentive compensation structure, OG&E would need to increase base salaries to attract the same quality of management it currently employs. Structuring compensation as a base plus incentive provides the ability to focus performance on key metrics that are important to customers.

It makes little sense to disallow those necessary expenses because some of the metrics are related to earnings and involve a review of the Company's financial performance. These financial performance metrics simply indicate how efficiently the Company is run, which ends up benefiting customers as well through access to capital at reasonable rates and lower cost debt. Disallowance of incentive compensation simply penalizes the Company for paying its employees compensation amounts that are required by and standard in the market. Moreover, no party in this case has provided any evidence OG&E's incentive compensation program is unreasonable or imprudent.

Q. **Does OG&E believe including 50% short-term incentive compensation and zero long term incentive compensation in rates is reasonable?**

A. No. These are reasonable costs; no one has provided evidence to the contrary. A 50% disallowance of short-term incentive compensation especially does not make sense given only 30% of the targeted performance incentives are tied to earnings per share. The other 70% are tied to O&M, customer satisfaction, safety, and environmental operations. And the average payout from these other categories over the past 4 years and over the past 7 years is higher than 50%.

Removing 100% of the long-term incentive is unreasonable. This is also part of employee compensation, and it is a valid expense that should be recovered in rates. However, at a minimum, the Commission should include at least 35% of the long-term incentive because this amount is awarded to employees as restricted stock awards. This part of the long-term incentive is primarily designed for employee retention. Those awards automatically vest at the end of each 3-year performance cycle if the employee stays with the Company and are not subject to achieving any performance metrics.

CONCLUSION

Q. **Do you have any concluding remarks?**

A. Yes. OG&E provides electric service to nearly 900,000 customers in Oklahoma and Arkansas at some of the lowest rates in the country. Our customers enjoy reliable service at an affordable price. At the same time, reliable service is not without a cost. OG&E's service area experiences some of the most extreme and volatile weather in the nation. OG&E's system is also getting older and in need of maintenance and modernization. Maintaining a safe and reliable power system requires the efforts of our 2,300 members and the knowledge and leadership provided by our excellent workforce of committed Oklahoma and Arkansas citizens. In addition, it is important to continue to invest in the system. The ability to attract capital on reasonable terms in order to make the necessary investments in the system will help ensure customers continue to receive the high-quality service they have come to expect from OG&E in the most cost-efficient manner possible. I request the Commission consider the testimony presented by OG&E witnesses in this case and issue a decision allowing OG&E to recover the cost to serve customers at a reasonable rate of return.

Q. **Does this conclude your Rebuttal Testimony?**

A. Yes.