BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF	)	
OKLAHOMA GAS AND ELECTRIC COMPANY	)	
FOR APPROVAL OF A GENERAL CHANGE IN	)	DOCKET NO. 16-052-U
RATES, CHARGES AND TARIFFS	)	

Rebuttal Testimony

of

Jason Thenmadathil

on behalf of

Oklahoma Gas and Electric Company

I. INTRODUCTION

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. Are you the same Jason Thenmadathil who filed direct testimony in this Docket?

A. Yes.

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my testimony is to discuss certain adjustments made by the Arkansas Public Service Commission ("APSC") Staff, Attorney General ("AG"), and the Arkansas River Valley Energy Consumers ("ARVEC") to the Company's income statement. Specifically, those adjustments associated with *pro formas*: WP C 2-12, pension expenses, WP C 2-16, payroll expenses, WP C 2-18, regulatory expenses, WP C 2-21, Southwest Power Pool ("SPP") expenses, WP C 2-25, fuel expenses, WP C 2-29, Ad Valorem Taxes, WP C 2-32, storm expenses, WP C 2-33, entertainment and gifts, WP C 2-37 Teamshare expenses, and WP C 2-38, long-term incentive compensation. In addition, I will also address Staff adjustments related to contract labor security, relocation expenses, and severance expenses.

Q. Do you agree that several of the adjustments mentioned below will be subject to further updates?

A. Yes.

II. PENSIONS AND BENEFITS

Q. Does the Company agree with Staff's adjustment to remove benefits associated with full-time security guards from the test year?

A. Yes. The Staff has recommended a decrease of test year benefits associated with full-time security guards who were transferred to an outside service security contractor. This adjustment results in a *pro forma* adjustment to decrease pensions and benefits by $6,116 per WP C 2-12.

Q. **Does the Company agree with ARVEC witness Mark Garrett's adjustment to remove supplemental executive retirement plan ("SERP") costs included in the Company's pension expenses?**

A. No. Mr. M. Garrett removed an amount associated with SERP that is not included in this filing. The Company did not include SERP expenses in the *pro forma* level of pension expense, therefore Mr. M. Garrett's adjustment to remove SERP is not necessary.

III. PAYROLL

Q. **Please explain Mr. M. Garrett's adjustment to decrease OG&E's payroll expenses.**

A. Mr. M. Garrett applied a 4-year average increase to payroll based on information provided to him in data request response **APSC 001.25_Att**. This methodology calculates the average increase from 2011 to 2015 and applies an increase of 0.78% for OG&E employees and a 0.68% increase for OGE employees. The data request response did not include a full year of salaries from 2016. His adjustment resulted in a decrease to the Company's updated payroll expenses of $3,112,416.

Q. **Is Mr. M. Garrett's 4-year average methodology consistent with other recommendations he has proposed?**

A. No. While Mr. M. Garrett proposed a 4-year average calculation for payroll, he has recommended a 2-year average calculation for storm expenses and Teamshare. If Mr. M. Garrett applied a 2-year average from the data in **APSC 001.25_Att**, based on increases from 2014 to 2016, ARVEC's adjustment to payroll would have been a $1,117,811 increase to the Company's updated payroll expenses instead of a $3,112,416 decrease, due to increases in salaries from 2014 through 2016.

Q. **Do you agree with Mr. M. Garrett's methodology?**

A. No. Regardless of the calculation used, the data in **APSC 001.25_Att** should not be used to calculate average increases in payroll because the dollars in the response include short term incentives (Teamshare) and other compensation not included in the Company's base payroll adjustment. The swings in Teamshare expenses would impact the average increase from year to year. An adjustment to Teamshare is calculated separately in WP C 2-37.

Q. **Please explain the Company's adjustment for payroll expense.**

A. Payroll expenses were annualized based on wage levels during the last full two-week pay period in June 2016. This was calculated by multiplying payroll levels during the June pay period by 26 (the number of pay periods in the year), resulting in the annualized level. The adjustment then increased payroll to account for end of year employee raises. This amounted to an increase in payroll expenses of $4,317,943.

Q. **Why do you believe that annualization of payroll expenses in the manner recommended by OG&E and the Staff is appropriate?**

A. Annualization is a necessary practice in traditional ratemaking. For example, depreciation rates are multiplied by *pro forma* plant levels to calculate, or annualize, an expense level that more accurately reflects anticipated costs. It recognizes that some action occurred during the *pro forma* year that will be ongoing and must be captured on a prospective basis. Similarly, the Company's payroll adjustment is necessary to increase, or annualize, payroll costs to a level reflecting the *pro forma* employee and salary levels for a full year. The annualization methodology takes into account the actual level of employees and their associated pay rate during the most recent pay period available, thereby considering all employee additions, retirements, and pay-raises occurring within the twelve-month-post-test-year.

Q. **Do you agree with the adjustment made by Staff witness Claude Robertson to update payroll expenses based on salaries from the first pay period in December 2016?**

A. Yes, the Company agrees with the Staff's methodology. It is also the Company's understanding that the Staff will update their payroll adjustment in surrebuttal testimony based on actual payroll information in 2017. Since 2017 payroll data would already incorporate salary increases for the calendar year 2017, the Company's adjustment to apply average wage increases would not be necessary. The Company believes utilizing 2017 information with actual salary increases would alleviate Mr. M. Garrett's concerns about a nominal pay raise not being known and measurable.[1]

IV. RATE CASE EXPENSES

Q. **Does the Company agree with Staff's recommendation to amortize rate case expenses over 5 years?**

A. Yes. Amortizing rate case expenses over 5 years, combined with the adjustment to remove Oklahoma jurisdictional regulatory expenses, results in a decrease of $5,560,476 reflected on WP C 2-18. This adjustment reflects a 5 year amortization of rate case expenses instead of 2 years, which decreased the Company's updated adjustment by $156,000.

V. SPP EXPENSES

Q. **Does the Company agree with Staff's adjustment to update SPP Expenses based on actual information as of December 2016?**

A. Yes. This adjustment results in an increase of $104,771 reflected on WP C 2-21.

VI. FUEL EXPENSES

Q. Does the Company recommend an additional increase for Arkansas related curtailment costs?

A. Yes. The Company recommends an increase in Arkansas jurisdictional curtailment costs associated with the Load Reduction Rider of $241,560 based on information as of calendar year-end 2016. A similar adjustment to revenues for this same amount is also required. Please see the rebuttal testimonies of OG&E witnesses Gwin Cash and David Smith for further discussion.

[1] Direct Testimony of Mark. E. Garrett, pg. 36, ln11-pg. 37, ln. 15.

VII. AD VALOREM TAXES

Q. Does the Company agree with Staff's methodology for calculating ad valorem taxes?

A. Yes. However, the Company recommends that Staff update their ad valorem tax calculation based on actual property tax information available through December 2016. This results in a *pro forma* adjustment of $514,367 as reflected in WP C 2-29, resulting in a decrease from the updated MFR of $2,728,629.

VIII. STORM EXPENSE

Q. Please explain the Company's adjustment to storm expenses.

A. The Company averaged the last four years of storm recovery costs from 2013 to the test year for Arkansas to arrive at a base rate level of storm costs that captures both upward and downward swings that occur. This adjustment increases O&M by $694,635.

Q. Please explain the storm cost adjustments of AG Witness William Marcus and ARVEC witness Mark Garrett?

A. Both the AG and ARVEC agree that an average of storm costs is appropriate to include in the filing, however both parties have recommended different adjustments. Mr. M. Garrett recommended a 2 year average using 2014 and 2015, while the AG recommended a 5 year average based on 2011 through the test year, with an adjustment to remove straight-time labor from storm expenses. The AG cited Entergy Arkansas' use of a five-year average as approved by the Commission as justification for their adjustment[2].

Q. Do you agree with the AG's five-year average methodology and adjustment to remove straight-time labor from storm expenses?

A. Yes, the Company would agree with the AG's adjustment to remove straight time labor, as well as the use of a five year average. The Company, however, recommends that a five year average from 2012 through 2016 is appropriate, since 2016 data is now available. This update to the Company's adjustment would result in an increase to storm expenses of $636,624 instead of $694,635 as provided in WP C 2-32 of the updated MFR.

[2] Direct testimony of William Marcus, p.92, ln 5.

IX. OTHER CONTRIBUTIONS

Q. **Do you agree with the Staff's adjustment to remove additional community development expenses, chamber of commerce dues, and other contributions?**

A. Yes. This results in a *pro forma* decrease of $1,253,518 instead of $1,224,330 as provided in WP C 2-33 of the updated MFR.

X. TEAMSHARE EXPENSE

Q. **Please explain your rebuttal of issues associated with Teamshare expense.**

A. There are two issues associated with Teamshare expenses. The first issue relates to the recovery of 100% of Teamshare expenses from customers. The second issue relates to the appropriate averaging methodology necessary for calculating a level of Teamshare expense. My testimony will address the average calculation. OG&E witness Trish Ruden will address the recovery of Teamshare expenses through rates.

Q. **Have the parties recommended various averages associated with Teamshare expenses?**

A. Yes. OG&E recommended a 4-year average of Teamshare expenses. The APSC Staff recommended a 5-year average of Teamshare, while the AG recommended using 2015 data. ARVEC recommended a 2-year average using 2014 and 2015 data.

Q. **Do you agree with the AG's methodology?**

A. No. Similar to the Company's adjustment for storm expenses, Teamshare should also be adjusted based on an average to capture both upward and downward swings in cost. The AG agreed that an average was appropriate for storm expenses, but did not agree with an average for Teamshare expenses, even though similar swings in cost occur. Adjusting Teamshare based on 2015 data would not provide a level of Teamshare that is appropriate on a going forward basis.

Q. **Do you agree with ARVEC's methodology?**

A. No. Similar to the issues with storm and payroll expenses, the Company does not agree with Mr. M. Garrett's averaging methodology. While Mr. M. Garrett proposed a 4-year average calculation for payroll, he recommended a 2-year average calculation for storm expenses and Teamshare.

Q. **Do you agree with the Staff's methodology?**

A. Yes. OG&E agrees with the Staff's use of a 5-year average, but would recommend the use of a 5-year average ending 2016 to be consistent with other changes recommended in this testimony. The calculation would result in an increase to Teamshare expenses and related payroll taxes of $4,582,108 instead of $3,879,248 as provided in WP C 2-37 of the updated MFR.

XI. LONG-TERM INCENTIVE COMPENSATION

Q. **Does the Company recommend a different methodology for long-term incentive compensation?**

A. Yes. To be consistent with the 5-year average for Teamshare mentioned above, the Company recommends a 5-year average from 2012-2016 for long-term incentive compensation. The calculation would result in an increase to long-term incentives and related payroll taxes of $506,966 instead of $1,068,058 as provided in WP C 2-38, resulting in a decrease to the updated MFR of $561,092. Please note that OG&E witness Trish Ruden will address the recovery of long-term incentives in rates.

XII. CONTRACT LABOR-SECURITY

Q. **Do you agree with the Staff's adjustment to increase O&M to account for the transfer of in-house security guards to an outside service security contractor during the *pro forma* year?**

A. Yes. This adjustment would increase expenses by $1,984,369.

XIII. RELOCATION AND SEVERANCE EXPENSE

Q. **Do you agree with the Staff's adjustment to normalize relocation and severance expenses based on a 5-year average?**

A. Yes, however to be consistent with other changes recommended in this testimony, the Company recommends the use of a 5-year average ending 2016. The result of this modification is a decrease to relocation expense of $26,644 instead of $9,815 recommended by the Staff. This also results in a decrease to severance expense of $248,859 instead of $296,112 recommended by the Staff.

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

A. Yes.