

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 201500273

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CORPORATION COMMISSION
OF OKLAHOMA

Rebuttal Testimony

of

Scott Forbes

on behalf of

Oklahoma Gas and Electric Company

April 11, 2016

Scott Forbes
Rebuttal Testimony

1 Q. **Would you please state your name and business address?**

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

4
5 Q. **By whom are you employed and in what capacity?**

6 A. I am employed by OGE Energy as the Chief Accounting Officer and Controller.
7

8 Q. **Did you previously file direct testimony in this proceeding?**

9 A. No.
10

11 Q. **Please summarize your educational qualifications and professional experience.**

12 A. I graduated from Texas Tech University in 1979 with a degree in Business
13 Administration and a major in Accounting. I began employment at Gulf States Utilities
14 (“GSU”) in Beaumont, Texas in 1979. I became a Certified Public Accountant in 1981.
15 In 1987, I became Manager of External Reporting and Subsidiary Accounting at GSU.
16 On December 31, 1993, GSU merged with Entergy Corporation (“Entergy”), and I
17 became the Manager of External Reporting and Accounting Policy for Entergy Services,
18 Inc. and subsequently the Manager of General, Co-Owner and Nuclear Accounting at
19 Entergy. In September of 1996, I was hired as the Manager of Financial Systems and
20 Reporting at Texas-New Mexico Power Company (“TNMP”) and became Controller and
21 Chief Accounting Officer at TNMP in 1997. In August 2002, I was promoted to Senior
22 Vice President & Chief Financial Officer at TNMP. In October 2003, I also became the
23 Chief Financial Officer of First Choice Power (the affiliated retail electric provider of
24 TNMP). In August 2005, I joined OGE Energy as Controller and Chief Accounting
25 Officer for both OGE and OG&E.

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

2 A. I will respond to the responsive testimony filed by certain intervening parties on March
3 21, 2016. My rebuttal testimony will address certain affiliate allocations and explain the
4 Company's recorded Gain on Sale of Assets and the requested amortization period.

5

6

I. Affiliate Allocation Issue

7 Q. **Have you reviewed the responsive testimony AG witness Paul Wielgus and
8 OIEC/OER witness Mark Garrett regarding OG&E's proposal to increase O&M to
9 account for expenses that will no longer be allocated to affiliates?**

10 A. Yes. Both Mr. Wielgus and Mr. Garrett oppose OG&E's proposal but for different
11 reasons.

12

13 Q. **Please respond to Mr. Wielgus' allegation on page 5, lines 3 through 6 that the costs
14 at issue are not a necessary expense to serve OG&E's retail customers.**

15 A. OG&E was incorporated in 1902, and has incurred administrative services such as
16 auditing, accounting, finance, treasury, human resources, risk, information technology
17 and supply chain services ever since. OGE Energy was formed in August 1995, and has
18 provided those administrative services listed to its majority owned subsidiaries, OG&E
19 and Enogex, since that time.

20

21 Q. **Is the use of a corporate entity or service company standard in the utility industry?**

22 A. Yes, the vast majority of integrated utility holding companies operating in the United
23 States utilize a corporate entity or service company to provide administrative services.
24 The use of a corporate entity or services company is an efficient way to eliminate
25 redundancy of administrative costs when a company has multiple subsidiaries.

26

27 Q. **Please explain why it is proper for OG&E to increase O&M to account for certain
28 expenses that will no longer be allocated to affiliates.**

29 A. OG&E customers have benefitted from the sharing of fixed administrative costs with
30 Enogex since 1986, when OGE Energy acquired Enogex. The sharing of those costs
31 began to change in May 2013, following the formation of Enable Midstream Partners

1 which resulted from the combining of Enogex with CenterPoint Energy's mid-stream
2 business. Upon the formation of Enable, OGE Energy entered into a three-year service
3 agreement to continue providing administrative services to Enable. It would be
4 inappropriate to deny OG&E recovery of necessary administrative costs, as Mr. Wielgus
5 proposes, simply because OGE provided a benefit to customers for the last 30 years by
6 offsetting a portion of fixed administrative costs, but is unable to continue to do so.

7
8 **Q. Please explain the rational for the three year term on the service agreement.**

9 A. The three year term was mutually beneficial to OG&E as well as Enable. As a newly
10 formed public company, Enable needed time to develop processes for providing
11 administrative services. More importantly, the three-year term allowed OGE time to
12 reduce or eliminate any variable costs, by the end of the term or earlier, as services were
13 terminated by Enable.

14
15 **Q. Mr. Wielgus, on page 15, lines 8 through 14, states that the industry standard
16 requires termination fees or reimbursement of costs. Is that your understanding?**

17 A. No. I am not aware of any such standard, and I disagree with his assertion that OGE
18 provides the services as an accommodation to the other party. As I discussed above,
19 OGE Energy provided administrative services in order to reduce the cost of having
20 redundant administrative costs when a company has multiple subsidiaries.

21
22 **Q. What is your understanding of the basis for Mr. Garrett's opposition to OG&E's
23 proposal regarding the affiliate expenses?**

24 A. On page 59, lines 22 through 25, and page 60, lines 1 through 15, Mr. Garrett bases his
25 opposition on three arguments: 1) that the cost allocation change is outside the test year
26 and the six-month-post-test-year period contemplated by 17 O.S. §284; 2) the costs are
27 not a reasonable amount to allocate to OG&E; and 3) it is possible that OG&E will "reap
28 a windfall" if the costs are included in rates and OG&E Energy is subsequently able to
29 reduce or eliminate the costs.

1 Q. **Do you agree with Mr. Garrett that expenses associated with the cost allocation fall**
2 **outside the six-month-post-test-year period?**

3 A. No, I do not. The administrative costs existed throughout the test period, as well as
4 during the six-month-post-test-year period. During the test year, Enable began canceling
5 certain services. During the six-month-post-test-year period Enable canceled a number of
6 the remaining services in August 2015 and December 2015. Copies of the service
7 termination notices were provided in response to Attorney General Data Request AG 6-7.
8 Additionally, we provided the same service termination notices to Mr. Garrett on March
9 2, 2016, during a meeting with the OIEC to explain the "Enable allocations".

10
11 Q. **Are you aware of any order of this Commission establishing that utility expenses**
12 **occurring beyond the six-month-post-test-year period may not be considered in**
13 **establishing rates?**

14 A. No, I'm not aware of any such order. However, I am aware of two orders in which the
15 Commission explicitly stated that consideration of changes outside the six-month period
16 is appropriate. In Order No. 492407, in Cause No. PUD 20030076, the Commission
17 adopted the following *Finding of Fact* and *Conclusion of Law*: "The ALJ advised counsel
18 that although the Oklahoma statutes mandated that the Commission give consideration to
19 known and measurable changes that are within six months outside of the test year, there
20 is no legal prohibition against considering changes which occur beyond that time frame if
21 the Commission finds it appropriate to do so." That Order was cited in Order No. 545168,
22 Cause No. PUD 200600285, as support for review of measurable changes beyond the six-
23 month-post-test-year period. In that regard, the Commission stated at page 126: "As a
24 practical matter, OCC Staff has generally limited its review to those changes occurring,
25 or reasonably expected to occur, within six (6) months of the end of the test year but it
26 may, if determined to in the public's best interest, extend it review beyond those six (6)
27 months."

1 Q. **Do you agree with Mr. Garrett that the costs proposed by OG&E are not a**
2 **reasonable cost to allocate to OG&E?**

3 A. No, I do not. Administrative services such as auditing, accounting, finance, treasury,
4 human resources, risk, information technology, and supply chain services are integral to
5 the operations of a publicly traded company, such as OG&E. OGE Energy, as well as the
6 vast majority of other utility holding companies, provides administrative services, in
7 order to reduce the cost of having redundant administrative costs when a company has
8 multiple subsidiaries. OG&E customers have benefitted from the sharing of fixed
9 administrative costs with Enogex since 1986, when OGE Energy acquired Enogex. As
10 stated previously in response to Mr. Wielgus' position, it would be inappropriate to deny
11 OG&E recovery of necessary administrative costs, as Mr. Garrett proposes, simply
12 because OGE was able to benefit customers for the last 30 years by offsetting a portion of
13 fixed administrative costs, but is unable to continue to do so.

14
15 Q. **Have either Mr. Wielgus or Mr. Garrett, or any other party, provided testimony**
16 **that the level of cost in regards to these administrative services are excessive?**

17 A. No.

18
19 Q. **Do you agree with Mr. Garrett that there is a probability OG&E will “reap a**
20 **windfall” if these expenses are considered in rate base?**

21 A. No, I do not. As I explained to Mr. Garrett at our meeting on March 2, 2016, the
22 remainder of the allocations primarily deals with fixed information technology and
23 related infrastructure costs, which can't be eliminated, as OG&E relies on that technology
24 and infrastructure.

25
26 **II. Amortization Period for Gain on Assets**

27 Q. **Have you reviewed the responsive testimony of AG witness Edwin Farrar and**
28 **OIEC/OER witness Mark Garrett regarding amortization of gains on the sale of**
29 **utility assets?**

30 A. Yes I have.

1 Q. **Do you agree with their characterization of the gain and the recommended**
2 **amortization period?**

3 A. No. With regard to the gain realized on the turbine rotor, Mr. Farrar states “some
4 utilities, like OG&E, will follow a different procedure when a gain is realized on the
5 retirement of an asset. In that case, the utility may take the gain directly to shareholders
6 instead of using it to offset the asset retirement losses it is asking ratepayers to bear. That
7 is what OG&E did with its sale of utility assets in the test year.” Mr. Farrar’s statement is
8 incorrect. The majority of the gains were incurred in December 2015, during the post-
9 test-year-period, and OG&E recorded the gain as a regulatory liability so the gain would
10 be returned to customers. Additionally, Mr. Farrar improperly includes gains outside of
11 the test year as well as gains on property not included in rate base.

12
13 Q. **Does OG&E agree with the intervenor’s recommended amortization period of two**
14 **years?**

15 A. No. Intervenors have provided no basis for a two year amortization period on the turbine
16 rotor. OG&E believes the gain should be amortized to customers over 30 years, the
17 remaining life of the McClain plant. The gain resulted from the sale in December 2015
18 and subsequent repurchase of a rotor in March 2016. As a result of the transaction, the
19 company was able to incur a \$962,500 gain for the benefit of customers. The rotor will
20 be used in a future outage at McClain, and is expected to be in service through the
21 expected retirement in 2046.

22
23 Q. **Does this conclude your Rebuttal Testimony?**

24 A. Yes.