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

Scott Forbes

on behalf of

Oklahoma Gas and Electric Company

I. INTRODUCTION

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

A. My name is Scott Forbes. My business address is 321 North Harvey Avenue, Oklahoma City, Oklahoma 73101.

Q. **Are you the same Scott Forbes 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 respond to certain witnesses' testimony regarding diminished contribution by Enable for corporate costs, depreciation regarding Horseshoe Lake Unit 6, and Allowance for Funds Used During Construction ("AFUDC") amounts related to retail transmission projects.

II. ENABLE ALLOCATIONS

Q. **Have you reviewed the testimony of Troy Eggleton on behalf of APSC staff regarding the issue of reimbursement by enable for the costs of previously-shared administrative services?**

A. Yes. Mr. Eggleton agrees with the Company that an adjustment is appropriate to recognize the increased costs to the Company related to the diminished allocation of costs being reimbursed by Enable. Mr. Eggleton recommends an adjustment of $4,643,005 as opposed to the Company's adjustment of $4,729,862. Mr. Eggleton's adjustment is based on actual test year and updated information.

Q. **Do you agree with Mr. Eggleton's position regarding this issue or his adjustment?**

A. Yes.

Q. **Have you reviewed the testimony of Mark E. Garrett on behalf of ARVEC regarding the Enable allocation issue?**

A. Yes. Unlike, Mr. Eggleton, Mr. Garrett believes the Company's adjustment that accounts for the diminished contribution by Enable represents an unreasonable amount. Mr. Garrett recommends an adjustment of $3,737,862.

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

A. No, I do not. First, I disagree with Mr. Garrett's characterization that OGE Energy Corporation is sloughing off excess costs onto OG&E. Administrative costs such as auditing, accounting, finance, treasury, human resources, risk, information technology, and supply chain services are necessary and integral to the operations of a publicly-traded company such as OG&E and are appropriately allocated costs. Second, Mr. Garrett has failed to provide specific evidence that OGE Energy is operating in an imprudent manner with respect to the provision of administrative services. Specifically, there are no excess costs to reduce or eliminate as the remaining allocations are related to fixed information technology and related infrastructure costs which cannot be eliminated as OG&E relies on that technology and infrastructure.

Q. **Do you believe that Mr. Garrett's position is fair and reasonable?**

A. No. It is inappropriate and unfair to deny the Company recovery of necessary administrative costs simply because OGE Energy has provided a benefit to customers for the last thirty years by offsetting a portion of fixed administrative costs, but is unable to continue to do so.

III. <u>HORSESHOE LAKE UNIT 6 LAND DEPRECIATION</u>

Q. **Have you reviewed the testimony of Gerrilynn Wolfe on behalf of APSC staff regarding accumulated depreciation and over-accrued accounts?**

A. Yes. In her testimony, Ms. Wolfe identifies seven depreciable plant accounts that she claims are fully-reserved or over-accrued. Ms. Wolfe states that regarding these accounts, "the accumulated depreciation amount is greater than or equal to the gross plant-in-service amount minus the allowance for interim net salvage."[1] Her position is that "[f]or ratemaking purposes, depreciation expense should not be calculated on any account with a reserve ratio equal to or exceeding 100%, unless the account has a negative salvage value."[2]

Q. **Do you have comments regarding the accounts included in witness Wolfe's "Table 2"?**

A. Yes. With regard to Line 1, Account 310.200, Horseshoe Lake Unit 6, "Plant in Service" is listed as $28,509 with an "Accumulated Depreciation" of $1,131,245, yielding a "Reserve Ratio" of 3968%, I do not believe this information is correct.

Q. **What information should be included in "Table 2" to correctly reflect account 310.200, Horseshoe Lake Unit 6?**

A. The correct amount of Accumulated Depreciation associated with the Horseshoe Lake Unit 6 – Land Rights is $24,779, not $1,131,245.

Q. **What adjustments should be made as a result of this error?**

A. To the extent that OG&E Accumulated Depreciation was overstated by the $1,106,466, ($24,779 minus $1,131,245), the Accumulated Depreciation should be reduced.

IV. RETAIL AFUDC ON TRANSMISSION PROJECTS

Q. **Do you have any comments regarding Staff witness Taylor's Direct Testimony adjustments?**

A. Yes, on line 12 of page 5, of Mr. Taylor's Direct Testimony, he recommended removal of $11,483,165 from the Working Capital Asset related to plant projects that are not in service. Of that amount, $7,531,483 is associated with Retail AFUDC on Transmission Projects.

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[1] Direct Testimony of Gerrilynn Wolfe, pg. 18, lns. 12-14
[2] *Ibid.* pg. 18 ln. 14-pg. 19, ln. 2.

Q. **What is the origin of Retail AFUDC on Transmission Projects?**

A. In 2007, the Southwest Power Pool notified OG&E to construct several new 345 kV transmission lines. In October 2010, OG&E requested the Federal Energy Regulatory Commission ("FERC") to approve recovery of the transmission lines with Construction Work in Progress ("CWIP") in rate base, for eight projects that would add approximately 555 miles of new 345 kV transmission lines to OG&E's system. On April 19, 2011, the FERC granted the recovery of CWIP in rate base for those transmission projects.

Q. **Why did OG&E account for the Retail AFUDC on Transmission Projects as a regulatory asset, and not in construction work in progress/plant in service?**

A. Under the FERC's regulations, an applicant is required to propose accounting procedures that ensure that customers will not be charged both capitalized AFUDC and corresponding amounts of CWIP in rate base. To satisfy that requirement, OG&E agreed with the FERC staff, that it would not accrue AFUDC in Account 107, Construction Work in Progress. OG&E also agreed with the FERC staff, that it would record the AFUDC for its retail jurisdictions on transmission projects that the FERC allowed CWIP recovery in rate base as a regulatory asset, and record such amount in FERC Account 182.3. OG&E also agreed to amortize the regulatory asset over the depreciable life of the transmission projects.[3]

Q. **Are the Transmission Projects associated with the Retail AFUDC on Transmission Projects in service?**

A. Yes, those projects were placed in service at various times between 2012 and 2014.

Q. **Should the Working Capital Asset associated with Retail AFUDC on Transmission Projects be reduced by $7,531,483**?

A. No, those amounts are valid AFUDC on transmission plant, associated with OG&E retail jurisdiction.

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

A. Yes.

[3] 135 FERC ¶ 61,038, Docket No. ER 11-2926-000, pg. 23.