BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE FORMULA RATE PLAN FILINGS OF OKLAHOMA GAS AND ELECTRIC COMPANY PURSUANT TO APSC DOCKET NO. 16-052-U	)))))	DOCKET NO. 18-046-FR

Direct Testimony

of

Zachary Quintero

on behalf of

Oklahoma Gas and Electric Company

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

A. My name is Zachary Quintero. My business address is 321 N. Harvey Ave., Oklahoma City, Oklahoma 73102.

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

A. I am employed by Oklahoma Gas and Electric Company ("OG&E" or the "Company") as a Lead Regulatory Coordinator.

Q. **Would you please summarize your education and professional background?**

A. I hold a Bachelor's degree in Economics from the University of Science and Arts of Oklahoma and a Master's degree in Energy Management from Oklahoma City University. I joined OG&E in my current position in July 2021. Prior to joining OG&E, I was employed as a Senior Analyst, Rates and Regulatory Affairs for Liberty, a subsidiary of Algonquin Power and Utilities Corporation. During my time with Liberty, I supported the company's customer initiatives through the development of state and federal regulatory filings for Liberty's Central Region utilities, including The Empire District Electric Company. Prior to joining Liberty, I was employed as a Senior Public Utility Regulatory Analyst by the Oklahoma Corporation Commission. In that position, I performed analysis of regulatory issues in over 30 electric, gas, and water utility cases in order to make fair and reasonable recommendations. I have also attended utility ratemaking trainings provided by New Mexico State University and Electric Utility Consultants, Inc.

Q. **Have you testified in prior utility rate proceedings in Arkansas?**

A. No, I have not previously testified in Arkansas. However, I have testified before the Missouri Public Service Commission and the Oklahoma Corporation Commission.

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

A. The purpose of my direct testimony is to:

- Discuss the impact of prior settlement agreements in the 2020 Evaluation Report on the 2021 Evaluation Report;
- Provide an overview of OG&E's 2021 Evaluation Report;

- Describe drivers of the proposed FRP net revenue change between the settlement agreement results of the 2019 Evaluation Report and the 2021 Evaluation Report; and
- Describe the Attachments required by the FRP Rider, including the adjustments to Rate Base, Expenses, and the Benchmark Return on Rate Base.

I. SETTLEMENTS AND THE 2021 EVALUATION REPORT

Q. **What Non-Revenue Related Settlement Agreement terms impacted the Company's 2021 Evaluation Report?**

A. In Order No. 10 in this Docket, the Commission approved a settlement agreement that included, among other items, an agreement by the settling parties that OG&E would not project Plant, Expenses, Capital Amounts, or Rates in the Benchmark Rate of Return on Rate Base ("BRORB") for the remaining evaluation report filings during the term of its current FRP (and any 5 year extension of the current FRP). For the remaining years of OG&E's FRP filings, there will be no revenue change in the FRP based on projected costs.[1] This settlement agreement also ordered the Company to file a revised FRP tariff to eliminate any projected year schedules, adjustments, or filing requirements,[2] which the Company did in Docket No. 19-017-TF. The Company received an order approving the revised FRP tariff, in the aforementioned Docket, on April 28, 2020.[3]

In Order No. 15 in this Docket, the Commission approved a settlement agreement that required OG&E to, among other items, request any possible extension of the FRP concurrently with the 4th Evaluation Report.[4] In compliance with this provision, the Company filed its Application to extend its FRP in Docket No. 21-087-U. Additional settlement agreement terms are also discussed in the Direct Testimony of Company witnesses Gwin Cash and Kandace Smith.

[1] Docket No. 18-046-FR Order No. 10 pg. 10.
[2] *Id*.
[3] Docket No. 19-017-TF Order No. 3.
[4] Docket No. 18-046-FR Order No. 15 pg. 14.

II. OG&E FRP AND THE 2021 EVALUATION REPORT

Q. **Please describe OG&E's FRP Rider.**

A. The FRP Rider is a process by which the Company makes an annual filing in the form of an Application and Evaluation Report which is reviewed by the Arkansas Public Service Commission ("Commission") to determine if a rate adjustment is necessary, pursuant to the FRP Rider.

Q. **What is the time period used by OG&E for the purposes of the 2021 Evaluation Report contained in this filing?**

A. As described earlier in testimony, OG&E is no longer projecting costs, therefore the time period being evaluated in this Evaluation Report is only the Historical Year[5] ("HY"), which is netted against the same time period that was projected in OG&E's 2019 Evaluation Report, the Company's second FRP filing.

Q. **Please describe the constraints in the FRP that determine if and how much of a rate adjustment is necessary.**

A. The two constraints applied to the FRP that determine whether a rate adjustment is necessary are the following:

1. A rate adjustment is necessary if OG&E's earned rate of return falls outside of a plus or minus 50 basis point bandwidth from its Target Rate of Return ("TRR"), which is the Commission approved Return on Equity ("ROE") of 9.5% from OG&E's last general rate case, Docket No. 16-052-U.
2. If a rate adjustment is necessary, then the amount of the adjustment is limited to plus or minus four percent of each rate class' total Filing Year[6] ("FY") revenues.

Q. **Please describe the results of the 2021 Evaluation Report.**

A. After the calculation of the HY Revenues and Revenue Requirement, the Company used the FRP Attachment Schedules to determine whether a revenue adjustment is necessary, and if so, the amount of that adjustment. For the HY, the Company's Earned Rate of Return

[5] The Historical Year is the twelve-months ending March 31, 2021.
[6] The Filing Year is the twelve-months ending March 31, 2021.

("ERR") on Common Equity is 5.43%, which is less than the Target Return Rate ("TRR") of 9.5%. This ERR falls outside of the plus or minus 50 basis point bandwidth and results in an adjustment of 4.07% in order to reach the TRR. This results in a rate adjustment in required FRP revenue of $14.15 million. This change can also be seen by taking the difference between the HY Revenues, excluding FRP revenues, $101.82 million, and the HY revenue requirement, $115.97 million, to get to the Rate Adjustment of $14.15 million. The $14.15 million for the HY ending in March 2021 is then netted against the $4.87 million in FRP revenues received for the same time period. This netting results in a net rate adjustment of $9.28 million. While the calculated net adjustment is $9.28 million, the 4% cap constraint by individual Rate Class only allows for an adjustment of $6.44 million. These detailed calculations and the rate changes by customer classes can be seen in more detail on Attachments A-1 and A-2.

III. EVALUATION REPORT COMPARISON

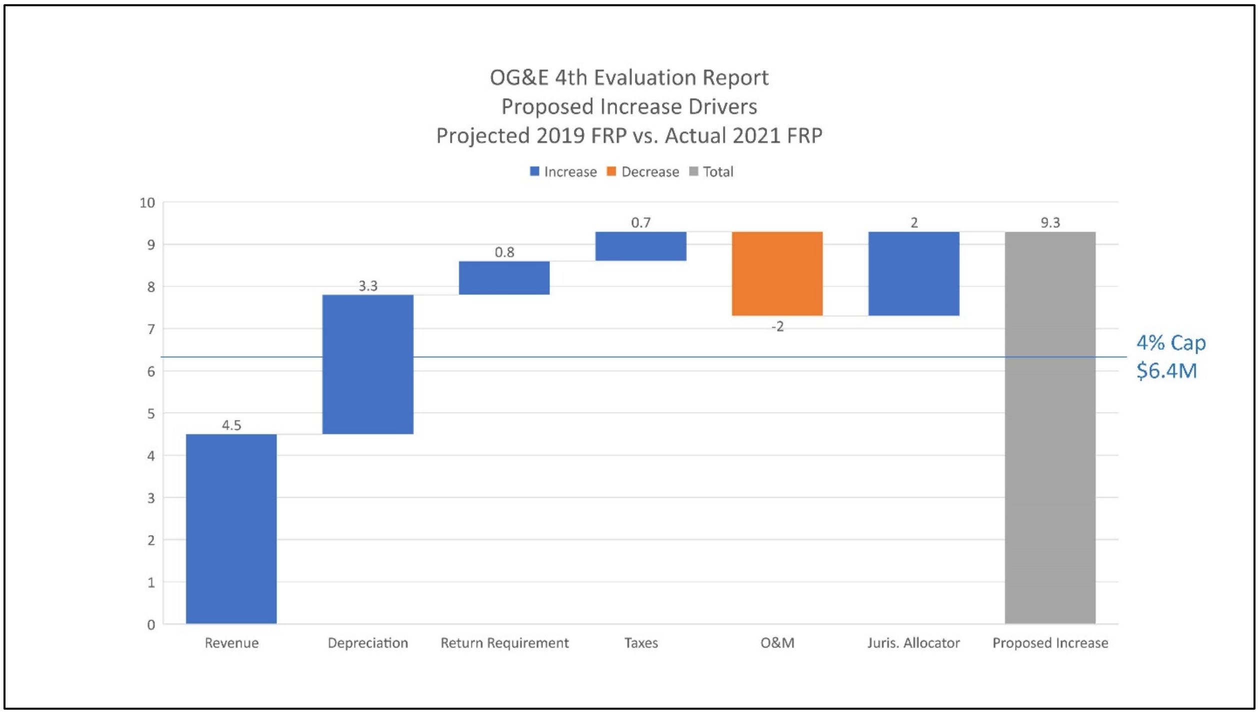
Q. **Please describe the evaluation period and the Results of the Company's 2019 Evaluation Report.**

A. In the 2019 Evaluation Report, the Company developed a projected year for the twelve months ending March 31, 2021 by making adjustments to its Historical Year for reasonably known and measurable changes to rate base, expenses, revenue, and its benchmark return on rate base. After a settlement agreement was reached by all parties regarding the results shown in the 2019 Evaluation Report, the Commission approved a settlement agreement that resulted in a revenue change of $5,190,529 for the projected year, in Order No. 10 in this Docket.

Q. **What are the significant drivers associated with the 2021 FRP Evaluation Report compared to the same time period projected in the 2019 Evaluation Report?**

A. Please see Chart 1 that shows the significant drivers between the Company's projections and actuals for the twelve months ending March 31,2021.

Chart 1



Q. **Please explain how Grid Modernization projects impacted the proposed increase in Chart 1.**

A. Grid Enhancement Series III projects were completed and placed into service during the Historic Year. As explained further in the Direct Testimony of Kandace Smith, Series II projects were completed on target, largely aligning with what was projected in the 2019 Evalutation Report. This alignment for Series II investments resulted in no incremental increase between the 2019 projected year and the 2021 actuals. OG&E began its Series III investments in the first quarter of 2021. However, the majority of OG&E's investments will be placed into service during the historic period considered in its next (5th) Evaluation Report, resulting in no significant incremental impact to the 2021 Evaluation Report's proposed increase.

Q. **Please explain how lower revenues during the Historic Year impacted the proposed increase in Chart 1.**

A. As previously noted, the chart depicts the change between the 2019 Projected Year and the 2021 Historic Year actuals. Total actual non-fuel operating revenues received during the Historic Year were lower than what was projected the Company would receive as a result of the 2019 Evaluation Report. This resulted in an approximately $4.5M variance, requiring an increase in revenues to achieve the Company's authorized rate of return.

Q. **Please explain how the Environmental Compliance projects impacted the proposed increase in Chart 1.**

A. The Company originally requested that the Commission approve the recovery of its investments and expenses made to comply with the SO_2 emissions requirements of the FIP through an interim surcharge in accordance with A.C.A. §23-4-501 *et seq.,* as amended, ("Act 310") in Docket No. 15-034-U. However, the Commission found in that Docket, among other things, that OG&E's recovery of the investments and expenses through Act 310 is disapproved because the investments or expenses could otherwise be recovered in a prompt and timely manner, namely, OG&E's FRP Rider.[7] The Commission subsequently found in Order No. 15 of this docket that these investments were prudent and used and useful.[8] Since these investments were not included in the Company's 2019 FRP Projected year, they are incremental to what was shown in the 2019 Evaluation Report. The net, incremental impact of these projects is included in the individual depreciation and return requirement categories shown on Chart 1.

Q. **Please explain how depreciation expense impacted the proposed increase in Chart 1.**

A. Depreciation expense increased due primarily to the inclusion of additional plant and the Environmental Compliance projects. Approximately $1.7M of the increase was due to the inclusion of the ECP, while the remaining $1.6M was due to other plant that was higher than projected in the 2019 FRP.

[7] Docket No. 15-034-U Order No. 17 pg. 68.
[8] Docket No. 16-046-U Order No. 15 pg. 14.

Q. **Please explain how O&M impacted the proposed increase in Chart 1.**

A. When compared to the O&M projected in the 2019 Evaluation Report, which was primarily based on historical data and reasonably known and measurable projections, there were variances in pension and benefits expense, payroll expense, vegetation management expense, storm expense, short-term incentive expense, and other expense items. The netting of these differences results in an decrease to proposed revenues of $2.0 million.

Q. **Please explain how changes to the Arkansas jurisdictional allocator impacted the proposed increase in Chart 1.**

A. As further described in the Direct Testimony of Gwin Cash, there was a reduction in costs allocated to the Arkansas jurisdiction during the Historic Year. The Company is proposing a 4-year average of the actual Arkansas jurisdictional allocator to provide rate stability for its customers. This difference between the 4-year average and the 2019 FRP projected allocator is an increase of $2.0 million.

IV. FRP RIDER SCHEDULES AND ATTACHMENTS

Q. **Has OG&E's Evaluation Report been prepared in accordance with its FRP Rider?**

A. Yes. The Company has prepared all filing requirements including the Attachments, Schedules, and Workpapers in accordance with the FRP Rider. I will address several of the Attachments below.

Q. **Please describe the Attachments filed as part of the Evaluation Report.**

A. The Company's Evaluation Report includes the following Attachments[9]:

- Attachment A-1 – Proposed FRP Rate Adjustment
- Attachment A-2 – Proposed FRP Revenue Change
- Attachment C – FRP Adjustments
- Attachment D-1 – HY Earned Rate of Return Formula on Common Equity

[9]Attachments B-1 through B-6 have been eliminated per Order No. 10 in Docket No. 18-046-FR and reflected in OG&E's FRP tariff approved in Docket No. 19-017-TF Order No. 3.

- Attachment D-2 – HY Rate Base
- Attachment D-3 – HY Operating Income
- Attachment D-4 – HY Income Tax
- Attachment D-5 – HY Benchmark Rate of Return on Rate Base
- Attachment D-6 – HY Revenue Redetermination Formula
- Attachment E – FRP Filing Requirements
- Attachment F – FRP Protocols

Q. **Please describe Attachment A.**

A. Attachment A includes two schedules. The first, Attachment A-1, shows the cumulative FRP Rate Adjustment for each class and lists schedules that are excluded from the FRP. The second, Attachment A-2, shows the FRP rider revenue change amount. This schedule shows the second constraint, as described previously, that limits the amount of the adjustment to plus or minus four percent of each rate class' total FY revenues. Additionally, this schedule shows the Net change in FRP revenue and the percentage change needed to revenues in order to collect or return the amount determined for the Evaluation Period.

Q. **Please describe Attachment C.**

A. Attachment C describes the adjustments that the Company made to develop the adjusted HY. This includes adjustments made during the beginning and ending of the HY, which are used to calculate average rate base. These adjustments are consistent with the adjustments in Order No. 8 in Docket No. 16-052-U. The adjustments to both of these time periods was necessary to fill out the Attachment Schedules and comply with Attachment C per the terms of the FRP Rider.

Q. **Please describe Attachment D.**

A. Attachment D contains six schedules which are used to develop the Company's FRP Rider revenue change for the HY. Attachment D-1 is a summary calculation of the Company's revenue requirement and earned rate of return on common equity. Attachment D-2 through D-5 are HY rate base, operating income, income taxes, and the benchmark rate of return on rate base, respectively. The HY data is supported by the Company's trial balance as of

March 31, 2021. Attachment D-6 compares the earned rate of return to the target rate of return and determines whether a return on equity bandwidth adjustment is necessary, and if so, by how much. This is also where the amount collected based on the Company's projections is netted against the amount determined based on the ERR.

Q. **Please describe Attachment E.**

A. Attachment E includes those specific filing requirements per the FRP Rider which support the Company's Evaluation Report and have been included in Volumes 2-5 of the Company's filing package.

V. ADJUSTMENTS

Q. **How are the adjustments discussed above reflected in the 2020 Evaluation Report?**

A. There are two time periods in which the Company made adjustments to be used to complete the FRP Attachment Schedules. Those time periods include:

- Beginning of the Historical Year ending March 31, 2010 ("BHY")
- Historical Year ending March 31, 2021 ("HY")

Within these time periods, the Company made several adjustments. These adjustments were to either remove rider revenues and expenses, to be consistent with Docket No. 16-052-U, or other adjustments. These adjustments were made to rate base, revenues and expenses, current and accrued other liabilities, accumulated deferred income taxes, and other capital components. All of these adjustments were used to determine the HY revenue requirement and to complete the FRP Attachments.

Q. **Please list all the rate base adjustments the Company made.**

A. See Chart 2 for a list of all rate base adjustments.

Chart 2

Adjustment	**Description**
WP B 2-2 BHY	Windspeed Removal of Partial Investment
WP B 2-3 BHY	Removal of Transmission Expenses Recovered from LSE's
WP B 2-4 BHY	AR Depreciation Rate Differential
WP B 2-5 BHY	Capitalized Incentive Adjustment

WP B 2-6 BHY	AFUDC Adjustment
Schedule B-10 BHY	Acquisition Adjustment
WP B 2-2 HY	Windspeed Removal of Partial Investment
WP B 2-3 HY	Removal of Transmission Expenses Recovered from LSE's
WP B 2-4 HY	AR Depreciation Rate Differential
WP B 2-5 HY	Capitalized Incentive Adjustment
WP B 2-6 HY	AFUDC Adjustment
WP B 2-7 HY	Other Regulatory Assets Adjustment
Schedule B-4 HY	Working Capital Adjustments
Schedule B-10 HY	Acquisition Adjustment

Q. **Please generally describe the adjustments the Company made to Rate Base.**

A. Pursuant to FRP Attachment C, the Company used its trial balance for the HY rate base balances. The adjustments made during this time period were either to remove rate base related to riders, adjustments consistent with the Company's last general rate case and Order No. 8 in Docket No. 16-052-U, and other adjustments. Additionally, as described in Attachment C, the plant included in the Evaluation Period shall reflect the average of beginning and ending year balances.

Q. **Please explain WP B 2-2 BHY, the adjustment to partially remove the Company's Windspeed investment.**

A. This adjustment reduces rate base by thirty four percent (34%) of the total Windspeed investment as of March 31, 2020 as recommended by Commission Staff and approved by Commission Order No. 6 in Docket No. 10-067-U. This decreased investment amount reduced the plant balance by $73,349,954 and accumulated depreciation by $17,433,001. This resulted in a net plant reduction of $55,916,953. This adjustment was necessary to calculate a beginning HY adjustment amount for Attachment D-2.

Q. **Please explain WP B 2-3 BHY, the adjustment to remove transmission related investments paid for by third parties.**

A. This adjustment removes a percentage of certain OG&E transmission related items from rate base. The percentage, which is allocated to other load serving entities ("LSEs"), was derived from the FERC Transmission Formula Rate True-Up Adjustment for the 2019 rate year. This adjustment reflects the fact that the investments associated with regionally allocated transmission plant is assigned to other LSEs in the Southwest Power Pool ("SPP"). This allocation of OG&E transmission plant costs is necessary so these costs will not be recovered from both LSEs and from OG&E's Arkansas customers. OG&E has adjusted transmission related plant in service, accumulated depreciation, and other various working capital rate base items to reflect this recovery. The impact to plant in service was a decrease of $1,041,126,070 and a decrease to accumulated depreciation of $143,529,365 resulting in a net plant decrease of $897,596,705. This adjustment was necessary to calculate a beginning HY adjustment amount for Attachment D-2.

Q. **Please explain WP B 2-4 BHY, adjustment to the accumulated depreciation rate differential.**

A. This adjustment is made to adjust accumulated depreciation for the differential between the FERC depreciation rates and Arkansas approved depreciation rates. Depreciation reported to FERC is a blended rate comprised of a combination of the currently approved Oklahoma and Arkansas rates. As a result, accumulated depreciation is increased by $84,598,206, which is a decrease to net plant by the same amount. This adjustment was necessary to calculate a beginning HY adjustment amount for Attachment D-2.

Q. **Please explain WP B 2-5 BHY, adjustment to capitalized incentives.**

A. This adjustment is made to remove a portion of capitalized incentives from rate base. The adjustment is consistent with the settlement agreement from the Company's 2019 Evaluation Report. The adjustment reflects total company amounts and is allocated based on the Cost of Service allocator applied to each respective plant amount. As a result of the adjustment, gross plant decreased by $2,833,140 and net plant decreased by the same amount. This adjustment was necessary to calculate a beginning HY adjustment amount for Attachment D-2.

Q. **Please explain WP B 2-6 BHY, adjustment to AFUDC.**

A. This adjustment is made to jurisdictionalize AFUDC amounts that have been removed from rate base. The adjustment reflects total company amounts and is allocated based on the Cost of Service allocator applied to each respective plant amount. As a result of the adjustment, gross plant decreased by $35,827,674 and accumulated depreciation increased by $5,208,944. This results in a net plant decrease of $30,618,730. This adjustment was necessary to calculate a beginning HY adjustment amount for Attachment D-2.

Q. **Please explain WP B-10 BHY, and the adjustment to net plant acquisition.**

A. Consistent with Order No. 8 in Docket No. 16-052-U, the Company only included the net acquisition adjustment as of March 31, 2020 for its purchase of the Redbud Power Plant. The other net acquisition adjustments included in the trial balance were removed from rate base resulting in a reduction to rate base of $2,455,613. This adjustment was necessary to calculate a beginning HY adjustment amount for Attachment D-2.

Q. **Please explain WP B 2-2 HY, the adjustment to partially remove the Company's Windspeed investment.**

A. This adjustment reduces rate base by thirty four percent (34%) of the total Windspeed investment as of March 31, 2021 as recommended by Commission Staff and approved by Commission Order No. 6 in Docket No. 10-067-U. This decreased investment amount reduced the plant balance by $73,349,954 and accumulated depreciation by $17,433,001. This resulted in a net plant reduction of $55,916,953.

Q. **Please explain WP B 2-3 HY, the adjustment to remove transmission related investments paid for by third parties.**

A. This adjustment removes a percentage of certain OG&E transmission related items from rate base. The percentage allocated to other LSEs was derived from the FERC Transmission Formula Rate True-Up Adjustment for the 2019 rate year. The impact to plant in service was a decrease of $1,041,126,070 and a decrease to accumulated depreciation of $143,529,365 resulting in a net plant decrease of $897,596,705. The working capital asset adjustment was a reduction to rate base of $5,000,099.

Q. **Please explain WP B 2-4 HY, adjustment to accumulated depreciation rate differential.**

A. This adjustment is made to adjust accumulated depreciation for the differential between the FERC depreciation rates and Arkansas approved depreciation rates. Depreciation reported to FERC is a blended rate comprised of a combination of the currently approved Oklahoma and Arkansas rates. As a result, accumulated depreciation increased by $84,598,206, which is a decrease to net plant by the same amount.

Q. **Please explain WP B 2-5 HY, adjustment to capitalized incentives.**

A. This adjustment is made to remove a portion of capitalized incentives from rate base. The adjustment is consistent with the settlement agreement from the Company's 2019 Evaluation Report. The adjustment reflects total company amounts and is allocated based on the Cost of Service allocator applied to each respective plant amount. As a result of the adjustment, gross plant decreased by $2,901,926 and accumulated depreciation decreased by $68,789. Therefore, net plant decreased by $2,833,140.

Q. **Please explain WP B 2-6 BHY, adjustment to AFUDC.**

A. This adjustment is made to jurisdictionalize AFUDC amounts that have been removed from rate base. The adjustment reflects total company amounts and is allocated based on the Cost of Service allocator applied to each respective plant amount. As a result of the adjustment, gross plant decreased by $35,827,674 and accumulated depreciation decreased by $4,286,319. This results in a net plant decrease of $31,541,355.

Q. **Please explain Schedule B-4 HY, adjustment to working capital assets.**

A. A component of OG&E's rate base is working capital assets. Consistent with the FRP Tariff Attachment C requirements, the Company adjusted working capital assets to represent a 13-month average. However, there were account balances where a 13-month average was not representative of a normal account balance, and the adjustment used year-end March 31, 2021 values to more accurately reflect normal account balances. Additionally, some account balances were eliminated, because they were specific to another jurisdiction and not charged to Arkansas customers. The treatment for those account balances was consistent with Order No. 8 in Docket No. 16-052-U. Along with the working capital asset adjustment related to WP B 2-3 HY, working capital assets were adjusted by another $2,149,083,402 for a total decrease to rate base for working capital assets of $2,154,083,501. The adjusted HY working capital asset balance is $446,575,207.

Q. **Please explain WP B 4-7 HY, the adjustment related to Other Regulatory Assets**

A. This adjustment increases the pension regulatory asset for amortization removed in adjustment C 2-25 HY, which removes pension settlement expenses included in the HY that were previously amortized under a prior FRP filing. The Company made an adjustment to remove the additional $103,237 annual amortization from rate base in the HY, as the settlement and amortization were already included in the HY balance as a result of the 2018 FRP filing. This adjustment increases the balance of the pension regulatory asset for the same amount of amortization removed from adjustment C 2-25, and resulted in an increase to rate base of $103,237.

Q. **Please explain WP B 4-8 HY, Other Regulatory Assets and Amortization.**

A. The Company is requesting to amortize additional Arkansas pension settlements and a regulatory asset associated with a change in the Arkansas tax apportionment factor. Pension settlements totaling $4,901,687 for 2019-2021 were deferred as a regulatory asset, but the associated amortization has not been reflected in the HY true-up. In addition, the amortization associated with a regulatory tax asset of $738,293 related to the Arkansas tax apportionment factor change has not been reflected in the HY. A tax law change occurring during the HY caused the Arkansas apportionment factor to increase, which generated an increase in the regulatory tax asset.

Q. Is the associated amortization of these regulatory assets included in the HY true-up calculation?

A. No. The pension and regulatory tax asset amortizations on WP B 4-8 HY are not included in the HY. The Company is requesting approval to recover the associated amortizations in this docket. Those amortizations would be reflected beginning in the next HY, and recovered in the next FRP docket. The amortization associated with the pension settlements total $518,784 and the amortization associated with the regulatory tax asset totals $147,659 using a 5-year amortization period, for a grand total of $666,442.

Q. **Please explain Schedule B-10 HY, and the adjustment shown to net plant acquisition adjustment.**

A. Consistent with the order in Docket No. 16-052-U, the Company only included the net acquisition adjustment as of March 31, 2020 for its purchase of the Redbud Power Plant.[10] The other net acquisition adjustments included in the trial balance were removed from rate base resulting in a reduction to rate base of $2,455,613.

Q. **Are there other rate base adjustments to the HY that you would like to explain?**

A. Yes, consistent with the FRP Tariff Attachment C requirements, the rate base amounts for construction work in progress ("CWIP"), Non-Utility plant, Plant Held for Future Use, and Asset Retirement Obligations were removed from the rate base for the beginning and end of the HY as reflected in Schedule B-1 and Schedule B-3.

Q. **Please list the Cost of Capital account adjustments the Company made.**

A. Chart 3 below lists all adjustments to Cost of Capital items that determine the Benchmark Rate of Return on Rate Base ("BRORB").

Chart 3

Adjustment	**Description**
Attachment D supporting workpapers	Long-Term Debt
Attachment D supporting workpapers	Common Equity
Schedule C-10	ADIT
Schedule D-6.1	Current and Accrued Other Liabilities
Attachment D supporting workpapers	Post-1970 Investment Tax Credits
Attachment D supporting workpapers	Customer Deposits
Attachment D supporting workpapers	Short-Term Debt
Attachment D supporting workpapers	Other Capital

[10] Docket No. 16-052-U Direct Testimony of William L. Matthews, p. 11, ln 6-9

Q. **Please identify the Cost of Capital adjustments the FRP Tariff describes to calculate a BRORB for the HY.**

A. The FRP Tariff Attachment C and Attachment D-5 identify specific Cost of Capital balances and the type of average to be used for the calculation of a BRORB. According to the FRP Tariff: a 13-month average is used for Current and Accrued Other Liabilities ("CAOL"); a beginning and ending year average is used for Accumulated Deferred Income Taxes ("ADIT") while the Long-Term Debt, Common Equity, Post-1970 Investment Tax Credits, Customer Deposits, Short-Term Debt and Other Capital amounts use a September 30 (mid-year) balance. The Debt to Equity ratio for external capital, including short-term debt of 2.9% is fixed at 50/50, and the return on equity of 9.5% are all based on the last general rate case Docket No. 16-052-U.

Q. **Please generally describe the adjustments the Company made to calculate a BRORB for the HY.**

A. In the Attachment D workpapers, the Company made adjustments to calculate a BRORB. The workpapers start with the trial balance values as of March 31, 2021, then makes adjustments consistent with those listed on FRP Tariff Attachment C, which are detailed above.

Q. **Are there specific HY adjustments that you would like to provide additional detail?**

A. Yes, I would like to further explain the Company's adjustments to CAOL. In Schedule D-6.1 HY, the Company made adjustments to its CAOL account balances to get to a 13-month average. However, there were account balances where a 13-month average was not representative of a normal account balance, and the adjustment used year-end March 31, 2021 values instead. Additionally, some account balances were eliminated, instead of using a 13-month average because they were specific to another jurisdiction or they were treated in a similar manner to the settlement in Docket No. 16-052-U. This is treatment similar to that of the working capital assets.

Q. **Did the Company make any Revenue adjustments in the Evaluation Report?**

A. Yes. Please see the Direct Testimony of OG&E witness Jeremy K. Schwartz for an explanation of the revenue adjustments made in this Evaluation Report.

Q. **Please list the Expense adjustments the Company made.**

A. See Chart 4 for a list of all expense adjustments.

Chart 4

Adjustment	Description
WP C 2-12 HY	Pensions, Medical & Other Employee Costs
WP C 2-13 HY	Advertising
WP C 2-14 HY	Insurance Expense
WP C 2-15 HY	Payroll Adjustment at Year End
WP C 2-16 HY	Payroll Taxes
WP C 2-17 HY	Regulatory Expense
WP C 2-18 HY	Bad Debt Expense
WP C 2-19 HY	Vegetation Management
WP C 2-20 HY	DPR Expense Removal
WP C 2-21 HY	Removal Of Transmission Cost Recovery Rider
WP C 2-22 HY	Fuel Expense Removal
WP C 2-23 HY	Depreciation And Amortization
WP C 2-24 HY	Removal Of Regulatory Asset Amortization
WP C 2-25 HY	Pension and OPEB Amortization
WP C 2-26 HY	Acquisition Adjustment Amortization
WP C 2-27 HY	EECR Expense Removal
WP C 2-28 HY	Storm Cost Recovery
WP C 2-29 HY	Entertainment, Gifts and Other
WP C 2-30 HY	Transmission Expenses Recovered From LSE's
WP C 2-31 HY	Eliminate Revenue & Expense to/from OG&E
WP C 2-32 HY	Other Amortization For Regulatory Assets
WP C 2-33 HY	STI and related taxes
WP C 2-34 HY	LTI and related taxes

Q. **Please generally describe the adjustments the Company made to Expenses.**

A. Pursuant to FRP Attachment C, the Company used actuals based on the Company's trial balance for the HY expense balances. The adjustments made during this time period were either to remove expenses related to riders, adjustments consistent with the Company's last general rate case and Order No. 8 in Docket No. 16-052-U, and other adjustments.

Q. **Please identify the workpapers, for the HY, where the Company provided information, but made no adjustments.**

A. OG&E did not make any adjustments to the HY trial balance amounts for adjustments: C 2-12 HY, C 2-15 HY, C 2-16 HY, C 2-19 HY, and C 2-28 HY. These workpapers show the HY account balances but make no adjustments to the HY. This was done for transparency or to show a jurisdictional breakdown of costs for use in the Cost of Service Study.

Q. **Please explain WP C 2-13 HY, the adjustment to remove certain advertising expense.**

A. Arkansas law defines advertising expenses that may be included by a public utility in its operating expenses for ratemaking purposes.[11] OG&E excluded expenses that did not meet the statutory definition. This results in a total djustment to reduce expenses by $3,015,036. This adjustment includes removal $25,803 of wind power education expense that was incurred during the HY. These costs are recovered through another cost recovery mechanism and should therefore be excluded.

Q. **Please explain WP C 2-14 HY, the adjustment to insurance expense.**

A. The Company used the actual HY insurance expense and made an adjustment to remove 50% of the Directors & Officers Liability expense consistent with the Settlement in Docket No. 16-052-U.[12] The adjustment decreases expenses by $582,419.

Q. **Please explain WP C 2-17 HY, the adjustment to regulatory expenses.**

A. For this adjustment, the Company removed regulatory expenses associated directly with the Oklahoma and FERC jurisdictions, and only included actual regulatory expenses in the HY. The Adjustment amounts to a decrease to expenses of $3,290,201.

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[11] ARK. CODE ANN. § 23-4-207 (2015).
[12] Docket No. 16-052-U Direct Testimony of Troy Eggleton, p. 5, ln 5-7

Q. **Please explain WP C 2-18 HY, the adjustment to bad debt expense.**

A. This adjustment removes the Oklahoma jurisdiction portion of bad debt and decreases operating expense by $1,737,574.

Q. **Please explain the adjustment WP C 2-20 HY, Oklahoma Demand Program Rider Expense Removal.**

A. This adjustment removes the HY expenses related to the Oklahoma demand side management programs and energy efficiency expenses recovered through its Energy Efficiency Programs Rider ("EEP"). This adjustment decreases operating expense by $32,641,630.

Q. **Please explain the adjustment WP C 2-21 HY, Removal of Transmission Cost Recovery Rider.**

A. This adjustment removes the HY expenses related to the transmission costs that are recovered through the Transmission Cost Recovery Rider ("TCR"), which is a decrease to operating expenses of $79,058,288. Also, SPP fees directly charged to certain customers were also removed, which amounts to $1,463,557. The total adjustment decreases operating expense by $87,509,161.

Q. **Please explain the adjustment WP C 2-22 HY, Fuel Expense Removal.**

A. This adjustment removes all fuel and purchased power costs from the HY that are associated with the Energy Cost Rider ("ECR"). This adjustment decreases operating expense by $1,783,508,367. The significant increase in the adjustment as compared to the 2020 Evalution Report is primarily due to the removal of the extraordinary costs incurred during the February 2021 winter storm.

Q. **Please explain WP C 2-23 HY, the adjustment to depreciation expense.**

A. This adjustment to depreciation expense accounts for the rate differential determined in adjustment B 2-4 HY. This increased the HY level of depreciation by $18,413,340. Also, the Company has removed depreciation expense of $1,325,424 associated with 34 percent of the Windspeed transmission project that was removed from rate base in adjustment B 2-

2 HY. The Company removed depreciation expense of $52,889 associated with the Capitalized Incentives adjustment B 2-5 HY, and it removed depreciation expense of $922,625 associated with the AFUDC adjustment B 2-6 HY. In total, these adjustments resulted in an increase to operating expenses of $16,113,022.

Q. **Please explain WP C 2-24 HY, the adjustment related to the removal of various regulatory asset amortization amounts.**

A. This adjustment removes amortizations of regulatory assets associated with the Oklahoma jurisdiction and decreases operating expenses by $21,679,900.

Q. **Please explain WP C 2-25 HY, the adjustment related to pension and OPEB amortization.**

A. This adjustment removes the level of amortization related to 2018 pension settlement expenses included in the HY that had previously been amortized under a prior FRP filing. The HY level of pension amortization was $815,091. This includes pension amortization from prior pension settlements occurring during 2013, 2015, 2018, and 2019. Two of the 2019 pension settlements totaling $982,813 were approved for amortization as a result of the 2018 FRP filing settlement, and the associated annual amortization of $103,237 began in 2019. These settlements were also included as part of the 2019 FRP filing, and were approved during settlement. As a result, annual amortization of $103,237 began again in April 2020 and the full $103,237 annual amortization was included in the current HY. The Company made an adjustment to remove the additional $103,237 annual amortization in the HY, as it was already included in the HY balance as a result of the 2018 FRP filing. This resulted in a decrease in operating expenses of $103,237.

Q. **Please explain WP C 2-26 HY, the adjustment to include acquisition adjustment amortization.**

A. An acquisition adjustment is based on the difference between the purchase price of an asset and its original cost. This adjustment is only related to the acquisition adjustment for the Redbud Power Plant, consistent with the Settlement in Docket No. 16-052-U. This amortization is the equivalent of depreciation expense for the acquisition premium associated with the plant purchase. This adjustment increases operating expenses by $5,492,663.

Q. **Please explain the adjustment WP C 2-27 HY, Arkansas Energy Efficiency Rider Expense Removal.**

A. This adjustment removes the HY expenses related to the Arkansas demand side management programs and energy efficiency expenses recovered through the Energy Efficiency Cost Rider ("EECR"). This adjustment decreases operating expense by $6,952,179.

Q. **Please explain WP C 2-29 HY, the adjustment to remove certain non-recoverable items.**

A. This adjustment removes costs related to entertainment, gifts, dues, and other non-recoverable costs that were included in various FERC accounts during the HY. OG&E proposes a decrease to operating expenses of $793,131.

Q. **Please explain WP C 2-30 HY, the adjustment to remove expenses for transmission related plant paid for by third parties.**

A. The Company is also requesting that the operating expenses associated with the excluded transmission plant in service (WP B 2-3 HY) be removed from its Arkansas jurisdictional cost of service. The transmission plant in service and associated operating expenses to be excluded is that portion constructed as SPP Base Plan upgrades for which OG&E receives revenues from other members of the SPP. This adjustment includes Transmission O&M, Administration & General Expenses, Depreciation Expenses and Taxes Other than Income Taxes, and is a decrease to operating expenses of $44,599,182.

Q. **Please explain WP C 2-31 HY, the adjustment to remove intracompany SPP fees.**

A. An adjustment is necessary to eliminate expenses received by OG&E from the SPP for network transmission service provided by OG&E. The FERC has provided guidance to the industry that while these are intracompany charges and are normally eliminated in accordance with generally accepted accounting principles ("GAAP"), they should be reflected as a gross amount in the FERC Form 1. This adjustment decreases expenses by $118,891,288, and there is a corresponding related revenue adjustment.

Q. **Please explain WP C 2-32 HY, the adjustment for other amortization for regulatory assets.**

A. There was an adjustment made to include the amortization of transmission related allowance for funds used during construction ("AFUDC") in the HY, which increased operating expense by $214,317. This workpaper also shows, for informational purposes, amounts that are direct assigned to Arkansas. Pursuant to Commission Order No. 8 issued in Docket No. 10-109-U, OG&E is allowed to accrue a regulatory asset for costs related to Smart Grid stranded meters as well as customer pricing education costs. The HY ending balance of the regulatory asset associated with both items is $782,033 and $215,000, respectively. The Commission order authorized a six-year amortization of these costs. The amortization of these two regulatory assets are direct assigned to the Arkansas Jurisdiction in the amount of $360,938 for stranded meters and $99,231 for customer pricing education. The only adjustment made was to increase operating expense by $214,317, the rest of the data is for informational purposes only.

Q. **Please explain WP C 2-33 HY, the adjustment to short-term incentive compensation.**

A. The Company used the actual HY amounts for short-term incentive ("STI") compensation and made adjustments consistent with the Settlement in Docket No. 16-052-U. The adjustment allows the Company to include all of the operational STI measures and only allows half of the financial measures.[13] This adjustment decreased operating expenses by $4,434,619 for STI and $333,000 for payroll taxes on STI for a total decrease of $4,767,620.

Q. **Please explain WP C 2-34 HY, the adjustment to long-term incentive compensation.**

A. The Company used the actual HY amounts for long-term incentive ("LTI") compensation and made adjustments consistent with the Settlement in Docket No. 16-052-U. This

[13] Docket No. 16-052-U Direct Testimony of Claude Robertson, p. 9, ln 10-14

adjustment removes all LTI from operating expenses, which decreases operating expenses by $8,874,199 for LTI and $666,373 for payroll taxes on LTI for a total decrease of $9,540,573.

VI. RECOMMENDATION

Q. **What is your overall recommendation to the Commission?**

A. I recommend that the Commission approve the adjustments discussed in this testimony and find that OG&E is in compliance with the requirements of the FRP.

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

A. Yes.

CERTIFICATE OF SERVICE

I, Lawrence E. Chisenhall, Jr., hereby state that a copy of the foregoing instrument was served on all the parties of record via the APSC Electronic Filing System on this the 1st day of October, 2021.

/s/ Lawrence E. Chisenhall, Jr.

Lawrence E. Chisenhall, Jr.