

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)
RATES, CHARGES, AND TARIFFS FOR RETAIL)
ELECTRIC SERVICE IN OKLAHOMA)

CAUSE NO. PUD 200800398

FILED

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CORPORATION COMMISSION
OF OKLAHOMA

RESPONSIVE TESTIMONY

OF

ROYA Z. SOLTANI

ON BEHALF OF

OKLAHOMA ATTORNEY GENERAL

June 22, 2009

**Responsive Testimony of Roya Z. Soltani
Cause No. PUD 200800398**

Revenue Requirement Issues

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1 I. **WITNESS IDENTIFICATION AND PURPOSE OF TESTIMONY**

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

3 A: My name is Roya Z. Soltani. My business address is 313 N.E. 21st Street,
4 Oklahoma City, Oklahoma 73105.

5

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

7 A: I am employed by the Public Utility Unit of the Oklahoma Office of Attorney
8 General ("AG") as a CPA/Auditor.

9

10 Q: **Please briefly state your educational and professional qualifications.**

11 A: I am a Certified Public Accountant with a Bachelor of Business
12 Administration degree in Accounting and a Bachelor of Arts in Journalism
13 from the University of Oklahoma. I hold the professional designation of
14 Certified Rate of Return Analyst as conferred by the Society of Utility and
15 Regulatory Financial Analysts. This designation is awarded based upon
16 experience and successful completion of a written examination. I began
17 my employment with the Office of Attorney General on December 2005
18 and have worked for a number of governmental entities in various
19 positions including auditing, accounting, budgeting and financial analysis. I
20 have also served in the Energy Group of the Public Utility Division ("PUD")
21 of the Oklahoma Corporation Commission (the "Commission") or ("OCC").

1 **Q: Have you previously testified before this Commission and have your**
2 **credentials been accepted?**

3 A: Yes, I have testified before this Commission and my credentials have been
4 accepted.

5

6 **Q: What is the purpose of your testimony in this proceeding?**

7 A: The purpose of my testimony is to sponsor the AG's accounting Exhibits where I
8 present and support the AG's recommended Adjustments to the rate base as
9 presented in Section B, Schedule 2, and Adjustments to the operating income
10 statement in Section H, Schedule 2. I am also presenting the results of my cost
11 of capital analyses and recommendations for the appropriate capital structure
12 and rate of return on common equity ("ROE") for establishing the rates of
13 Oklahoma Gas and Electric Company ("OG&E" or the "Company") in this
14 proceeding. I have limited my proposed levels of investment, revenue and
15 expense to those levels that occurred and could be verified during the test year
16 and the six-month post-test year.

17

18 **Q: Please explain why you have cut-off levels of investment, revenue and**
19 **expense.**

20 A: I have cut-off my proposed levels of investment, revenue, and expense to those
21 levels that occurred during the test year and the information available during the
22 six-month post-test year period pursuant to 17 O.S. Section 284 of the Oklahoma

1 Statutes. The language of Section 284 states that in its review and examination
2 of an application by a utility to change its rates and charges pursuant to Sections
3 137, 152, or 158.27 of Title 17 of the Oklahoma Statutes, and in any order
4 resulting therefrom, the Corporation Commission shall give effect to known and
5 measurable changes occurring or reasonably certain to occur within six (6)
6 months of the end of the test period upon which the rate review is based. I
7 believe that basing rates on changes further out than the post test year six-month
8 period would cause synchronization problems within the rate filing. To the extent
9 that the components of the rate filing are not properly synchronized, a utility may
10 not have the opportunity to earn its authorized return or may have the opportunity
11 to earn in excess of the return authorized.

12
13 **Q: What are known and measurable changes?**

14 **A:** Known and measurable changes are quantifiable changes that occurred either
15 during the test year or the six months post test year.

16
17 **Q: Please identify the six-month post-test year cut-off that pertains to the**
18 **current OG&E Cause.**

19 **A:** Based upon the test year-end of September 30, 2008, the applicable six-month
20 post-test year period would be October 2008 through March 2009.

1 **Q: Do you provide calculation detail supporting each of your adjustments?**

2 A: Yes. Exhibits RZS 1 to RZS 14 attached to my testimony show the quantification
3 of the AG's adjustments. Adjustments contained within the AG's Responsive
4 Testimony Exhibits are at the total Company level. Oklahoma jurisdictional
5 positions will be contained within the AG's Revenue Requirement Exhibit. Since
6 all information relied upon in developing these adjustments was supplied by
7 OG&E in response to written discovery, the adjustment Exhibits will refer to the
8 relevant data sources, already in the Company's possession, that represent the
9 primary support for my adjustments affecting overall revenue requirement.

10

11 **Q: Please describe the AG's approach to quantifying revenue requirement in
12 this proceeding.**

13 A: The AG's accounting schedules use OG&E's "Pro Forma" amounts for rate base,
14 revenues and expenses as a starting point. The Company's proposed amounts
15 were then adjusted to reflect the impact of the various modifications
16 recommended by the AG witness.

17

18 **Q: Please describe how the remainder of your testimony is organized.**

19 A: The remainder of my testimony is arranged by topical section, following the table
20 index presented previously. This index identifies the specific areas I address in
21 testimony and references the testimony pages.

1 Q: Please summarize the results presented in the AG's Revenue Requirement
2 Exhibit.

3 A: The following table summarizes the results presented in the AG's Revenue
4 Requirement Exhibit:

Description	Schedule Reference	Total AG Pro Forma
Rate Base	B-1	\$ 2,780,223,565
Rate of Return	F-1	8.426 %
Operating Income Requirement		234,261,638
Pro Forma Operating Income	H-1	215,756,543
Operating Income Deficiency		18,505,095
Federal and State Income Tax		11,729,769
Revenue Deficiency		30,234,864

5

6

7 **II. RATE BASE**

8

Plant in Service

9 Q: Please explain the AG Adjustment B-1 to plant in service.

10 A: Adjustment No. B-1 increases Plant in Service to reflect the plant balance at
11 March 31, 2009. The AG is proposing the level of plant currently in service which
12 is the known and measurable data at the end of the six months post test year.
13 The result of this adjustment is to reflect that portion of CWIP at test year end
14 that is closed to plant in service by March 31, 2009.

1 **Q: Have you made any other adjustment to plant?**

2 A: Yes. AG Adjustment No. B-2 removes part of Plant Held for Future Use from the
3 Plant in Service. The Company has not demonstrated that Plant Held for Future
4 Use eliminated by the AG will be used and useful within a short period of time; or
5 provided a definite plan for use in the foreseeable future which will result in
6 benefits to ratepayers.¹ Current OG&E customers should not fund costs that may
7 or may not benefit them in the future; only plant presently used and useful in
8 providing electric service should be allowed in the rate base.

9

10 **Q: Please explain the AG's adjustment No. B-3 to accumulated depreciation.**

11 A: The AG's Adjustment No. B-3 increases accumulated depreciation and provision
12 for amortization to reflect six months post test year balance to synchronize the
13 additional growth in the depreciation reserve with plant in service additions
14 through March 31, 2009.

15

16 **Q: Why is this adjustment necessary?**

17 A: This adjustment is necessary to reflect the growth in the accumulated
18 depreciation consistent with the pro forma recognition of completed CWIP that is
19 in service by the end of March 2009.

¹ Company's response to AG data requests 9-4 and AG 12-11

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Cash Working Capital

Q: Do you have an adjustment to the Company's cash working capital calculation?

A: Yes, I do. OG&E included noncash items in its lead-lag calculation which caused overall cash working capital to be overstated. AG Adjustment No. B-4 removes noncash cost of service items and return on common equity from the Company's calculation. This adjustment is consistent with the Commission's final Order in Cause No. PUD 910001190. Noncash items are excluded because a lead-lag study measures the timing differences in collections and disbursements of cash. There is no current cash requirements associated with depreciation expense. The return on common equity is already incorporated in the cost of equity analysis to set the allowed return on equity. The final Order in Cause No. PUD 910001190 states that return on common equity should not be included in cash working capital calculation since the inclusion would compound stockholders' equity return and overstate needed cash working capital.

Materials and Supplies

Q: Please explain AG Adjustment B- 5 to the rate base.

A: This adjustment is necessary to reflect the final known and measurable amount of materials and supplies. The balances for materials and supplies vary from month to month and are volatile. AG Adjustment No. B-5 updates materials and supplies inventory amounts to the actual thirteen-month average balance at

1 March 30, 2009.

2

3

Fuel Inventories

4 **Q: What is included in the Company's Schedule B-2 as fuel inventories?**

5 A: The Fuel Inventories included in the Company's Schedule B-2 consists of
6 Coal and Oil.

7

8 **Q: What is the main purpose of fuel inventories?**

9 A: Fuel inventories represent insurance against the shortage costs associated with
10 running out of coal and having to burn more expensive fuels to meet system
11 loads. The principal goal of fuel inventory management is to balance the cost of
12 building and maintaining fuel reserves against the risk of running out of fuel and
13 experiencing shortage costs.

14

15 **Q: Please explain the Company's fuel inventories pro forma adjustment.**

16 A: OG&E is proposing to utilize 60 days of coal inventory valued at estimated
17 replacement cost and adjust oil inventory to average levels valued at a
18 forecasted price.

19

20 **Q: Do you agree with the Company's fuel inventories pro forma**

1 **adjustment?**

2 A: I agree with utilizing 60 days of coal inventory which was approved by the
3 Commission in the Company's last rate case², and the average level of oil
4 inventory proposed by the Company appears reasonable. However, I propose to
5 use the **actual** weighted average cost of coal per ton and oil per gallon by the
6 end of March 2009.

7

8 **Q: Please explain AG Adjustment B- 6 to the rate base.**

9 A: AG Adjustment No. B-6 replaces estimated weighted average costs utilized by
10 the Company in calculation of its fuel inventories with the actual weighted
11 average costs at six months post test year.

12

13 **Accumulated Deferred Income Taxes**

14 **Q: Please explain the overall level of the accumulated deferred income taxes.**

15 A: The balance of accumulated deferred income taxes for March 2009 has been
16 deducted from the rate base to reflect a comprehensive inter-period tax
17 allocation. The level of income tax expense paid by ratepayers, as a component
18 of the cost of service, does not recognize any reduction in income tax expenses
19 due to timing differences.

² Company's response to OIEC 4-28

1 **Q: How does the Company's ADIT computation differ from the AG's**
2 **recommendation?**

3 A: AG Adjustment B-7 updates the Company's test year ADIT to the
4 Company's actual ADIT at March 31, 2009. This adjustment is necessary
5 to reflect the final known and measurable amount of ADIT in the rate base.

6

7

Customer Deposits

8 **Q: Have you proposed any adjustments to the Company's requested level of**
9 **customer deposits?**

10 A: Yes, I have. OG&E has included customer deposits test year end balance
11 in the rate base. I agree to utilize the year-end balance, as the balance of
12 customer deposits appears to be on an upward trend during the test year
13 and the six-month post test year. AG Adjustment B-8 updates the
14 Company's requested level of customer deposits to the actual end of the
15 month balance at March 31, 2009. This adjustment is necessary to reflect
16 the final known and measurable amount of customer deposits in the rate
17 base.

18

19 **III. OPERATING EXPENSE**

20

Payroll Expense and Payroll Taxes

21 **Q: Please describe the Company's proposed payroll expense adjustments.**

22 A: The Company's payroll pro forma adjustment increases cost of service for

1 OG&E's annualized payroll expense based on employees on the payroll at the
2 last pay period in the test year and then adjusted for year-end salary increases
3 for 2009.

4
5 **Q: Please explain your proposed payroll adjustments.**

6 A: These adjustments are necessary to reflect the final known and measurable
7 amount of payroll expense. The AG's Adjustment H-1 increases the Company's
8 proposed payroll pro forma adjustment to reflect OG& E's annualized payroll
9 based on the Company's last payroll in March 2009. This adjustment contains
10 two parts; Company's annualized payroll is compared to the Company's
11 requested pro forma amount and the related payroll taxes are compared to the
12 Company's pro forma payroll tax expense.

13
14 **Q: What are your other payroll adjustments?**

15 A: AG Adjustment H-2 decreases the Company's Redbud Plant Payroll pro forma
16 adjustment to reflect correct 51% OGE Energy Corp. ("OGE") ownership of the
17 Plant. AG Adjustment H-3 eliminates the Company's pro forma payroll increase
18 for new employees since the AG is proposing the level of payroll which is known
19 and measurable data at the end of the six months post test year. The result of
20 AG Adjustment H-1 is to reflect the actual total pay and headcount as of March
21 31, 2009.

Pension Expense

1

2 **Q: Please describe the Company's proposed pension expense adjustment.**

3 A: The Company has proposed to increase test year pension expenses to reflect
4 the FAS 87 pension cost reported in the Company's 2008 actuarial study. This
5 adjustment includes OG&E's and OGE's allocated pension expense, OG&E and
6 OGE's allocated Restoration of Retirement Income Plan expense, and
7 amortization of pension regulatory asset.

8

9 **Q: Do you agree with the Company's proposed pension adjustment?**

10 A: No, I don't. The Company's proposed adjustment contains Restoration of
11 Retirement Income amounts. The Company's Restoration of Retirement Income
12 Plan provides for the payment of certain pension and pension-related benefits to
13 certain participants in OG&E and OGE whose benefits under the Retirement Plan
14 are restricted by the limitations of Sections 401(a) (17) and 415 of the Internal
15 Revenue Code of 1986.³ The Restoration of Retirement Income Plan intends to
16 provide supplemental benefits to the executives that are limited by ERISA.
17 These costs are not necessary costs to provide electric utility service and should
18 be eliminated from the test year cost of service.

19

20 **Q: Explain your Pension adjustment.**

21 A: AG's Adjustment H-4 eliminates the Company's Restoration of Retirement
22 Income Plan or excess pension benefit amounts limited by ERISA to properly

³ Company's response to AG 12-1

1 reflect the level of pension expense that should be recognized prospectively.

2
3 **Incentive Compensation**

4 **Q: Are you proposing an adjustment to the test year amount of incentive**
5 **compensation expense included in revenue requirement?**

6 A: Yes, I am. AG's Adjustment H-5 decreases Company's proposed operating
7 expenses to remove long term executive incentive and AG's Adjustment H-6
8 eliminates one half of the company's requested annual incentive compensation.

9
10 **Q: What type of incentives does long term incentive provide?**

11 A: The Company's long-term incentive plan provides additional incentive
12 compensation to executives. Long-term incentive plans are designed to tie
13 compensation to the financial performance of the Company and mostly benefits
14 Company's shareholders. The long-term incentive pay compensates executives if
15 the Company performs at a level greater than what it is expected to do. If these
16 incentive efforts generate additional profits above a level set by the Company,
17 these profits are not passed to the ratepayers through reduced rates. Instead,
18 they are passed to the shareholders in the form of dividends and greater stock
19 value. The AG's adjustment proposes non-recovery of the test year long term
20 incentive costs.

1 **Q: Please explain AG's Adjustment H-6.**

2 A: AG Adjustment H-6 removes half of the Company's requested incentive
3 compensation for ratemaking purposes. With respect to incentive compensation
4 performance measures, the financial measures benefit shareholders and do not
5 directly benefit ratepayers; however, the portion of the incentive pay related to
6 operational, safety and service quality measures benefits both shareholders and
7 ratepayers and it is reasonable that the ratepayers share a portion of the costs.

8

9 **Legislative Advocacy and Political Action Committee**

10 **Q: What is proposed by OG&E with respect to its test year costs associated**
11 **with legislative advocacy?**

12 A: OG&E has included legislative advocacy costs above-the-line for recovery from
13 customers. The FERC Uniform System of Accounts requires a below-the-line
14 classification of legislative advocacy costs; when recorded in below-the-line
15 accounts, the costs of legislative advocacy are borne by shareholders rather than
16 ratepayers in rate proceedings.

17

18 **Q: Please explain AG Adjustment H-7 to the operating expenses.**

19 A: This proposed adjustment removes Legislative Advocacy expenses and Political
20 Action Committee ("PAC") from the Applicant's cost of service for the test year.

