

**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 201700496**

**RESPONSIVE TESTIMONY AND EXHIBITS**

**OF**

**MARK E. GARRETT**

**REVENUE REQUIREMENT ISSUES**

**ON BEHALF OF**

**OKLAHOMA INDUSTRIAL ENERGY CONSUMERS (“OIEC”)**

**AND**

**OKLAHOMA ENERGY RESULTS, LLC (“OER”)**

**May 2, 2018**

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

1 **Q: PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A: My name is Mark E. Garrett. My business address is 50 Penn Place, 1900 N.W.  
3 Expressway, Suite 410, Oklahoma City, Oklahoma 73118.

4  
5 **Q: WHAT IS YOUR PRESENT OCCUPATION?**

6 A: I am the President of Garrett Group, LLC, a firm specializing in public utility regulation,  
7 litigation and consulting services.

8  
9 **Q: WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND  
10 AND YOUR PROFESSIONAL EXPERIENCE RELATED TO UTILITY  
11 REGULATION?**

12 A: I received my bachelor's degree from The University of Oklahoma and completed post  
13 graduate hours at Stephen F. Austin State University and the University of Texas at  
14 Arlington and Pan American. I received my juris doctorate degree from Oklahoma City  
15 University Law School and was admitted to the Oklahoma Bar in 1997. I am a Certified  
16 Public Accountant licensed in the States of Texas and Oklahoma with a background in  
17 public accounting, private industry, and utility regulation. In public accounting, as a  
18 staff auditor for a firm in Dallas, I primarily audited financial institutions in the State of  
19 Texas. In private industry, as controller for a mid-sized corporation in Dallas, I managed  
20 the company's accounting function, including general ledger, accounts payable, financial  
21 reporting, audits, tax returns, budgets, projections, and supervision of accounting

1 personnel. In utility regulation, I served as an auditor in the Public Utility Division of  
2 the Oklahoma Corporation Commission (“Commission”) from 1991 to 1995. In that  
3 position, I managed the audits of major gas and electric utility companies in Oklahoma.  
4 Since leaving the Commission, I have testified in numerous rate cases and other  
5 regulatory proceedings on behalf of various customer interveners.

6 Since leaving the Commission, I have worked on numerous rate cases and other  
7 regulatory proceedings on behalf of various consumers, consumer groups, public utility  
8 commission staffs and attorney general’s offices. I have provided both written and live  
9 oral testimony before public utility commissions in the states of Alaska, Arizona,  
10 Arkansas, Colorado, Massachusetts, Nevada, Oklahoma, Texas and Utah, and written  
11 testimony in the state of Florida. My qualifications were accepted in each of those  
12 states. My clients primarily include industrial customers, hospitals and hospital groups,  
13 universities, municipalities, and large commercial customers. I have also testified on  
14 behalf of the commission staff in Utah and the offices of attorneys general in Oklahoma,  
15 Washington and Florida. I have also served as a presenter at the NARUC subcommittee  
16 on Accounting and Finance on the issue of incentive compensation, and as a regular  
17 instructor at the New Mexico State University’s Center for Public Utilities course on  
18 basic utility regulation.

19  
20 **Q: HAVE YOUR QUALIFICATIONS BEEN ACCEPTED BY THIS COMMISSION**  
21 **IN PROCEEDINGS DEALING WITH REVENUE REQUIREMENT ISSUES?**

22 A: Yes, they have. A more complete description of my qualifications and a list of the

1 proceedings in which I have been involved are attached to this testimony as Exhibit MG-  
2 3.

3  
4 **Q: ON WHOSE BEHALF ARE YOU APPEARING IN THESE PROCEEDINGS?**

5 A: I am appearing on behalf of Oklahoma Industrial Energy Consumers (“OIEC”) and  
6 Oklahoma Energy Results, LLC (“OER”).

7  
8 **Q: WHAT IS OIEC?**

9 A: OIEC is an unincorporated association, consisting of a diverse group of large consumers  
10 of energy in Oklahoma, which is involved in regulatory and legislative matters primarily  
11 involving the supply of natural gas and electric power to large consumers of energy.

12  
13 **Q: WHAT IS OIEC’S INTEREST IN THIS PROCEEDING?**

14 A: OIEC members purchase substantial quantities of electric power which are necessary to  
15 their operations. Electric power can constitute a significant percentage of industrial and  
16 other large consumers’ operating costs. Electric power supplies are generally purchased  
17 from utilities pursuant to standard tariffs filed at the Commission. Industries and other  
18 large consumers served by OG&E often operate in highly competitive business  
19 environments and, thus, are interested in the Commission determining electric rates for  
20 OG&E that result in the delivery of reliable power at the lowest and most reasonable cost  
21 possible under the circumstances.

1 **Q: WHAT IS OER?**

2 A: Oklahoma Energy Results, LLC is an entity comprised of large industrial and  
3 independent power producer members. OER's interest in this proceeding is that fair, just  
4 and reasonable rates are established and that rates arise from prudent utility actions.

5

6 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

7 A: The purpose of my testimony is to address various revenue requirement issues identified  
8 in Oklahoma Gas & Electric Company's ("OG&E or Company") rate case application  
9 and to provide the Commission with recommendations for the resolution of these issues.  
10 I also sponsor *Exhibit MG 2* included with this testimony, in which the overall impact of  
11 OIEC's and OER's revenue requirement recommendations is set forth. In total, OIEC's  
12 and OER's recommendations result in an overall rate decrease for OG&E of  
13 \$120,400,501 as outlined in the following section of testimony.

## II. SUMMARY OF RECOMMENDATIONS

**OG&E'S Proposed Rate Increase** \$ 1,860,515

### OIEC/OER Proposed Adjustments:

#### Rate Base Adjustments

Adjust Plant Investment to 6-Month Level	\$ 593,715
Adjust Accumulated Depreciation to 6-Month Level	(982,103)
Adjust ADFIT to 6-Month Level	(1,455,947)
Adjust Plant Held for Future Use	(116,944)
Adjust Regulatory Assets to 6-Month Level	3,039,350
Adjust Regulatory Liabilities to 6-Month Level	(2,962,678)
Adjust Net Pension Asset Balance to 6-Month Level	(692,823)

#### Cost of Capital

Apply OIEC/OER Return on Equity	\$ (22,036,684)
Apply OIEC/OER Capital Structure	(10,788,458)

#### Revenue and Expense Adjustments

Reverse OG&E Payroll Adjustment	\$ (965,424)
Adjust Payroll Taxes for Proposed Payroll Adjustments	(77,477)
Remove 50% of Annual Incentive Plan	(5,786,550)
Remove 50% of Payroll Tax on Annual Incentive Plan	(498,740)
Remove Supplemental Executive Retirement Plan	(661,401)
Adjust ADIT Amortization	(7,701,625)
Adjust Vegetation Management to Test Year Level	(7,714,274)

#### Depreciation and Amortization Expense Adjustments

Adjust Expense for OIEC/OER Depreciation Rates	\$(52,557,066)
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#### Mustang Disallowance

\$(10,165,080)

#### **Total of OIEC/OER Adjustments**

\$ (122,261,016)

**OIEC/OER Proposed Rate Decrease**

**\$ (120,400,501)**

**III. RATE BASE ADJUSTMENTS**

**III. A. RATE BASE UPDATED TO 6-MONTH POST TEST YEAR BALANCES**

1 **Q: ARE YOU PROPOSING AN ADJUSTMENT TO THE COMPANY'S PRO**  
2 **FORMA RATE BASE?**

3 A: Yes. In Oklahoma, the Commission is required by law (Title 17 § 284) to give effect to  
4 known and measurable changes that occur within six months of test year end. In this  
5 application, the test year end is September 30, 2017 and the 6-month cut-off for post-test  
6 year adjustments is March 31, 2018. My adjustments update Plant, Accumulated  
7 Depreciation, Accumulated Deferred Income Taxes, Regulatory Assets, Regulatory  
8 Liabilities and the Net Pension Asset through the 6-month cutoff date.

9  
10 **Q: HOW IS YOUR ADJUSTMENT CALCULATED TO REFLECT ACTUAL**  
11 **INVESTMENT LEVELS AT MARCH 31, 2018?**

12 A: In general, the adjustment is calculated by comparing the Company's requested level for  
13 these rate base accounts in its Application in this Cause to the actual account balance at  
14 March 31, 2018. The Company's requested levels include actual balances at test year  
15 end plus an estimated amount for the 6-month period after test year. My adjustment  
16 reflects the *actual* balances at March 31, 2018.

17  
18 **Q: IS YOUR ADJUSTMENT MADE TO REFLECT ACTUAL BALANCES AT THE**  
19 **6-MONTH CUT OFF THE GENERALLY ACCEPTED APPROACH?**

20 A: Yes. Title 17 §284 was enacted to address known and measurable changes occurring



1 within 6 months of test year. The first litigated case in which this approach was adopted  
2 was in ONG's 2004 rate case, Cause No. PUD 200400610, in which the ALJ adopted the  
3 approach, no party appealed the recommendation, and the Commission accepted and  
4 approved the ALJ's recommendation. In that proceeding, after a hearing on the merits,  
5 the ALJ updated ONG's Plant in Service and Accumulated Depreciation balances  
6 through the 6-month period following test year end. Projects still in the Construction  
7 Work in Progress ("CWIP") accounts at that time were specifically excluded. In  
8 OG&E's 2005 rate case, Cause No. PUD 200500151, the Commission again updated the  
9 Plant and Accumulated Depreciation balances to six months after test year end and  
10 appropriately excluded CWIP on the books at that time. Also, in PSO Cause Nos. PUD  
11 200600285, PUD 200800144, and PUD 201700151 the Commission also followed this  
12 approach. OG&E's 2011 rate case, Cause No. PUD 201100087, was a settled case;  
13 however, the ALJ recommended this approach in her Report prior to the Parties'  
14 settlement of the case. In OG&E's 2015 rate case, Cause No. PUD 2015273, the  
15 Commission again followed this approach in the Final Order issued in that Cause.

16  
17 **Q: WHY IS AN ADJUSTMENT TO THE COMPANY'S REQUESTED LEVEL**  
18 **REQUIRED?**

19 A: The actual updated balances for the 6-month cut off are not available when the Company  
20 files its Application. As a result, the amounts the Company used in its Application  
21 include *estimated* projected balances as of the 6-month cutoff date. In response to data  
22 requests, the Company has provided the actual account balances. The adjustments I

1 propose are required to reflect actual account balances, rather than the Company's  
2 estimated balances as of the 6-month cutoff date.

3  
4 **Q: IS YOUR PROPOSED TREATMENT – THAT WAS ACCEPTED IN PREVIOUS**  
5 **ONG, OG&E AND PSO RATE CASES – CONSISTENT WITH BOTH**  
6 **OKLAHOMA LAW AND SOUND RATEMAKING PRINCIPLES?**

7 A: Yes. The proposed treatment satisfies the statutory requirement to give effect to known  
8 and measurable changes occurring within six months of test year end because both the  
9 rate base balances are updated to the end of the 6-month post test year period. The  
10 adjustments to reflect the March 31, 2018 balances are set forth below. The detailed  
11 calculations are shown at *Exhibit MG 2.1* attached to this testimony.

Description	OG&E's Requested Balance	Actual Balance (at 3-31-2018)	OIEC/OER Adj Increase (Decrease)	Oklahoma Jurisdictional Amount
Plant in Service	\$10,590,863,620	\$10,597,760,540	\$6,896,920	\$6,199,91
Accumulated Depreciation	\$(3,977,182,717)	\$(3,988,602,431)	\$(11,419,714)	\$(10,254,330)
ADIT	\$(625,177,372)	\$(642,015,118)	\$(16,837,746)	\$(15,201,830)
Regulatory Assets	\$135,371,741	\$171,321,284	\$35,949,543	\$31,734,448
Regulatory Liabilities	\$(1,081,264,751)	\$(1,115,557,733)	\$(34,292,982)	\$(30,933,908)
Net Pension Asset	\$63,487,043	\$55,593,504	\$(7,903,539)	\$(7,233,904)

1 **III. B. PLANT HELD FOR FUTURE USE**

2 **Q: PLEASE DESCRIBE THE ISSUE RELATED TO THE COMPANY'S PLANT**  
3 **HELD FOR FUTURE USE ACCOUNT.**

4 A: This account contains costs of land purchases and land rights that the Company is  
5 presumably holding for future development and expansion. Because the assets in this  
6 account are not used and useful at this time, the entire balance should be removed from  
7 rate base.

8  
9 **Q: DOES IT MATTER THAT THE COMPANY MAY USE THE PROPERTY AT**  
10 **SOME DATE IN THE FUTURE TO PROVIDE SERVICE?**

11 A: No. In Oklahoma, only plant that is actually providing service to ratepayers can be  
12 included in rates. Here, the Company provided **no** testimony to support the inclusion of  
13 the PHFU and has made **no** showing that it has any definite plan to utilize the land and  
14 land rights in the PHFU accounts at any time in the near future. Plant Held for Future  
15 Use included in OG&E's pro forma rate base is \$1,358,484, as shown on Schedule B-2.  
16 The necessary adjustment is set forth below and detailed calculations are shown at  
17 *Exhibit MG 2.1* attached to this testimony.

Description	OG&E's Requested Balance	Actual Balance Used and Useful	OIEC/OER Adj Increase (Decrease)	Oklahoma Jurisdictional Amount
Plant Held for Future Use	\$1,358,484	\$0	\$(1,358,484)	\$(1,221,033)

#### **IV. OPERATING EXPENSE ADJUSTMENTS**

##### **IV. A. 6-MONTH UPDATE TO PAYROLL EXPENSE**

1 **Q: PLEASE DESCRIBE OG&E'S PROPOSED PAYROLL ADJUSTMENT.**

2 A: OG&E's proposed payroll adjustment is a three-part adjustment. The first part  
3 annualizes payroll expense at test year end by multiplying the costs of the final pay  
4 periods in the test year by the total number of pay periods in the year to arrive at an  
5 annualized payroll level. The second part of the adjustment then increases that amount  
6 for pay raises OG&E will award in 2017. The third part adjusts for new hires expected  
7 to be in place by March 31, 2018. These adjustments increase test year payroll expense  
8 by \$4,348,660. Payroll taxes add another \$348,989.<sup>1</sup>

9

10 **Q: DO YOU AGREE WITH THE COMPANY'S APPROACH?**

11 A: No, not entirely. The Company's adjustments are attempting to quantify known and  
12 measurable changes during the 6-month period after test year end. At the time it made  
13 these adjustments the Company did not have the actual payroll numbers through the 6-  
14 month period. Now it does. Rather than estimate the impacts of pay raises and new  
15 hires on the payroll cost levels, the Company can and should use the actual payroll  
16 numbers to quantify these impacts. A payroll annualization at March 31, 2018 will  
17 include the actual impacts of pay raises and the actual impacts of new hires on the  
18 payroll levels. The Company provided the results of a March 31, 2018 payroll  
19 annualization in its supplemental response to AG 12-3. This annualization shows a

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<sup>1</sup> See Direct Testimony of Jason Thenmadathil at page 9, lines 8-24. Also see *Exhibit MG 2.2*.

1 slightly lower payroll cost level than the level predicted with the Company's payroll  
2 adjustments. In my opinion, the March 31, 2018 annualization more accurately  
3 quantifies the known and measurable changes to the payroll levels that occurred in the 6-  
4 month post test year period.

5  
6 **Q: IS A PAYROLL ANNUALIZATION AT THE END OF THE 6-MONTH POST**  
7 **TEST YEAR PERIOD THE ONLY WAY TO ADJUST TEST YEAR EXPENSE**  
8 **FOR KNOWN AND MEASURABLE CHANGES IN THE POST TEST YEAR**  
9 **PERIOD?**

10 A: No. A payroll annualization six months after test year end is effectively projecting  
11 payroll costs for the next 12-month period, which is well beyond the test year. In my  
12 opinion, taking the actual payroll costs for the 12-month period ending six months after  
13 test year end is the better approach. However, the Commission has accepted the payroll  
14 annualization approach in the past, so I am reflecting the results of that approach in my  
15 revenue requirement calculation.

16  
17 **Q: WHAT IS THE IMPACT OF OIEC/OER'S PAYROLL ADJUSTMENT?**

18 A: This adjustment decreases OG&E's proposed increase in payroll expense to the  
19 annualized level at March 31, 2018. The calculations can be seen at *Exhibit MG 2.2*.

Description of Adjustment	OIEC/OER Adjustment	Oklahoma Jurisdictional Amount
Adjust OG&E Proposed Payroll Expense Increase	\$(1,056,494)	\$(965,424)
Adjust OG&E's Proposed Payroll Taxes Increase	(84,768)	(77,477)
Total	\$1,141,280	\$(1,042,902)

**IV. B. ANNUAL INCENTIVE COMPENSATION EXPENSE ADJUSTMENT**

1 **Q. PLEASE PROVIDE A BRIEF DESCRIPTION OF OG&E'S ANNUAL**  
2 **INCENTIVE COMPENSATION PLAN.**

3 A. OG&E provides an annual cash incentive compensation plan to all employees called the  
4 TeamShare plan. The Company seeks to include \$15,427,914 in rates for annual  
5 incentive plan costs.

6  
7 **Q. WHAT ADJUSTMENT ARE YOU PROPOSING WITH RESPECT TO THE**  
8 **COMPANY'S ANNUAL TEAMSHARE INCENTIVE PLAN?**

9 A. I am proposing to exclude 50% of the annual incentive plan expense. This is consistent  
10 with the longstanding treatment of annual incentive compensation plans by this  
11 Commission. This recommended sharing of Teamshare costs between the Company  
12 and its customers reflects the fact that a major purpose of the Teamshare payments is to  
13 increase the financial performance of the Company. As a general rule, regulatory  
14 commissions exclude incentive compensation associated with financial performance.<sup>2</sup>

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<sup>2</sup> See ALJ's Proposal for Decision in Texas PUC Docket No. 28840, Footnote 284, in reference to the CCR Initial Brief at 25, in which the following list of cases showing that incentives are disallowed in many states as a matter of policy is found. See, *U.S. West Communications, Inc. v. Public Service Comm'n*, 901 P.2d 270, 276-77 (Utah

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**Q: WHAT IS THE GENERAL RATIONALE FOR EXCLUDING INCENTIVE COMPENSATION TIED TO FINANCIAL PERFORMANCE?**

A: In most jurisdictions, the cost of incentive plans which are tied to financial performance measures are excluded for ratemaking purposes. When the costs associated with these plans are excluded, the rationale used by the regulators is generally based on one or more of the following reasons:

- (1) **Payment is uncertain.** Often, payment of incentive compensation is conditioned upon meeting some predetermined financial goal such as achieving a certain increase in earnings, reaching a targeted stock price or meeting budget objectives. If the predetermined goals are not met, the incentive payment is not made, or payment is made at some lesser amount. Therefore, one cannot know from year to year what the level of the payment may be or whether the payment will be made at all. It is generally considered inappropriate to set rates to recover a tentative level of expense.<sup>3</sup>
  
- (2) **Many of the factors that significantly impact earnings are outside the control of most company employees and have limited value to customers.** For example, an unusually hot summer can easily trigger an incentive payment based on company earnings for an electric utility, as a cold winter can for a gas utility. Obviously, weather conditions are outside the control of utility employees and customers receive no benefit from the higher utility bills that result from an unusually hot or cold weather. Similarly, company earnings may increase, thus triggering incentive payments, as a result of customer growth, which commonly

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1995); *Central Illinois Public Service Company Proposed General Increase In Natural Gas Rates*, Docket No. 02-0798 (Cons.), 2003 Ill. PUC LEXIS 824, p. 115 (Illinois Commerce Comm'n 2003); *Application of Wisconsin Power and Light Company as an Electric, Natural Gas and Water Utility for Authority to Change Electric, Natural Gas, and Water Rates*, Docket No. 6680-UR-113, 2003 Wisc. PUC LEXIS 822, pp. 40-41 (Wisconsin Public Service Comm'n 2003); *Petition of Northern States Power Company's Gas Utility for Authority to Change its Schedule of Gas Rates for Retail Customers Within the State of Minnesota*, 146 P.U.R.4th 1, pp. 40-43 (Minnesota Public Util. Comm'n 1993); *Application of Minnegasco, a Division of NorAm Energy Corp., for Authority to Increase its Natural Gas Rates in Minnesota*, 170 P.U.R.4th 193, pp. 69-77 (Minnesota Public Util. Comm'n 1996). Also, see the results of the Incentive Survey conducted by the Garrett Group which are provided in this testimony.

<sup>3</sup> PSO's experience with its 2008 rate case proceeding, PUD 08-144, is a good example of this problem. In 2009, AEP's below target EPS reduced the funding available for incentive compensation payments by 76.9%. Although in the Company's 2008 rate case, the Commission had included more than \$4 million in rates for incentives, the Company chose not to use all of that money to pay incentives but instead retained some of those funds for its shareholders to help bolster the Company's lower earnings that year.

1 occurs without significant influence from company personnel. In fairness, since  
2 shareholders enjoy the benefits of customer growth between rate cases,  
3 shareholders should also bear the cost of any incentive payments such growth  
4 may trigger. Finally, utility earnings may increase substantially if the utility is  
5 able to successfully argue for a higher ROE in a rate case proceeding. Utility  
6 efforts to maximize ROE in a rate proceeding, however, have little to do with  
7 improving overall employee performance across the company. If utility  
8 employees gear their efforts toward securing an *unreasonably* high ROE in a rate  
9 proceeding, the incentive mechanism actually would work to the detriment of the  
10 utility customers.

11 **(3) Earnings-based incentive plans can discourage conservation.** When incentive  
12 payments are based on earnings, employees may not support conservation  
13 programs designed to reduce usage if they perceive these programs could  
14 adversely impact incentive payment levels. To the extent that earnings-based  
15 incentive plans discourage conservation and demand-side management programs,  
16 these plans do not serve the public interest. The growing focus on energy  
17 efficiency at both the national and state level renders this point especially  
18 important.

19 **(4) The utility and its stockholders assume none of the financial risks associated**  
20 **with incentive payments.** Ratepayers assume the risk that the utility will instead  
21 retain the amounts collected through rates for incentive payments whenever  
22 targeted increases are not reached. Employees assume the risk that the incentive  
23 payments will not be made in a given year. The utility and its stockholders,  
24 however, assume no risk associated with these payments. Instead, the company's  
25 only responsibility is to decide who gets the money, the stockholders or the  
26 employees.<sup>4</sup>

27 **(5) Incentive payments based on financial performance measures should be**  
28 **made out of increased earnings.** Whatever the targets or goals may be that  
29 trigger an incentive payment, when the plan is based in whole or in part on  
30 financial performance measures the company always obtains a financial benefit  
31 from achieving these objectives. This financial benefit should provide ample  
32 funds from which to make the payment. If not, the incentive plan was poorly  
33 conceived in the first place. As such, employees should be compensated out of  
34 the increased earnings, and not through rates.

35 **(6) Incentive payments embedded in rates shelter the utility against the risk of**  
36 **earnings erosion through attrition.** When utilities are allowed to embed  
37 amounts for incentive payments in rates, that money is available to the utility not  
38 only to pay the incentive payment when financial performance goals are met but

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<sup>4</sup> This occurred in PSO's 2008 rate case. In 2009, when AEP's EPS fell below targeted levels, the Company simply retained for its stockholders the funds that had been provided in rates for incentive plans.



1 also to supplement earnings in those years when the company does not perform  
2 well. In those years when financial performance measures are met, the increased  
3 earnings of the company provide ample additional funds from which to make the  
4 incentive payments to employees, and the incentive payment amount embedded  
5 in rates is not needed. In those years when financial performance measures are  
6 not met and the incentive payments are not made, the amount embedded in rates  
7 for incentive payments acts as a financial hedge to shelter the poor financial  
8 performance of the company.

9 **Q: HOW DO OTHER JURISDICTIONS TREAT INCENTIVE COMPENSATION?**

10 A: The results of an Incentive Compensation Survey of the 24 Western States taken by the  
11 Garrett Group in 2007, and updated in 2009, 2011, and 2015 attached hereto as Exhibit  
12 MG-3, shows that a clear majority of the states follow the financial-performance rule, in  
13 which incentive payments associated with financial performance are excluded from  
14 rates. While some states disallow incentive pay using other criteria, none of the  
15 jurisdictions surveyed allow full recovery of incentive compensation through rates as a  
16 general rule. The results of the survey are set forth at *Exhibit MG-3*. The table below  
17 provides a summary of the survey results:

<b><u>24 Western State Incentive Survey Results</u></b>			
<b>Incentives Not Allowed in Rates</b>	<b>Financial Performance Rule Followed</b>	<b>Some Other Approach Used</b>	<b>Incentives Not at Issue</b>
Hawaii			
	Arizona		
	Arkansas		
	California		
	Idaho		
	Kansas		
	Louisiana		
	Minnesota		
	Missouri		
	Montana		
	Nebraska		
	Nevada		
	New Mexico		
	North Dakota		
	Oklahoma		
	Oregon		
	South Dakota		
	Texas		
	Utah		
	Washington		
	Wyoming		
		Colorado <sup>5</sup>	
			Alaska
			Iowa

1 **Q: IN YOUR EXPERIENCE, WHEN REGULATORS EXCLUDE THE PORTION**  
2 **OF A UTILITY’S INCENTIVE PLAN TIED TO FINANCIAL PERFORMANCE**

<sup>5</sup> Colorado followed the financial performance rule in the past. In one recent case, however, the Commission approved another approach, which may turn out to be an anomaly. See Exhibit MG-3.

1           **MEASURES, DOES THE UTILITY STOP OFFERING INCENTIVE**  
2           **COMPENSATION TO HELP ACHIEVE ITS FINANCIAL GOALS?**

3           No. Even though regulators generally disallow incentive compensation tied to financial  
4           performance for ratemaking purposes, utilities continue to include financial performance  
5           as a key component of their plans. In my opinion, utilities continue to tie incentive  
6           payments to financial performance because by doing so they achieve the primary  
7           objective of the incentive plans: to increase corporate earnings and, thereby, earnings per  
8           share (EPS). However, since the utility retains the increased earnings these plans help  
9           achieve, payments for these plans should be made from a portion of these increased  
10          earnings and these plans should not be subsidized by ratepayers.

11  
12   **Q: PLEASE IDENTIFY SOME OF THE WESTERN STATES THAT USE A SHARING**  
13   **APPROACH FOR ANNUAL INCENTIVE PLANS SIMILAR TO THE 50/50**  
14   **APPROACH YOU SUGGEST?**

15   A: A number of states use a sharing approach to allocate the benefits derived from incentives  
16   plans between shareholders and ratepayers when incentive plans contain both financial and  
17   operational measures such as:

18           **Arizona:** The commission follows the general rule that costs associated with  
19   financial performance are excluded. In practice, this means that the costs of long-term plans  
20   are excluded altogether and the costs of the short term annual cash plans are shared 50/50  
21   between shareholders and ratepayers.<sup>6</sup>

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<sup>6</sup> See for example, APS 2008 rate case, Decision 70360, Southwest Gas 2008 rate case, Decision 70665 and UNS Gas 2008 rate case, Decision 70011.

1           **Arkansas:** In the 2013 Entergy Arkansas rate case, the Arkansas commission  
2 disallowed 50% of the Company’s annul incentive plan because the plan had a funding  
3 mechanism similar to the funding mechanism used by OG&E in that amount paid for  
4 incentives each year depends on how much money the utility makes that year.<sup>7</sup> In Entergy’s  
5 2015 Entergy rate case, the parties settled the case, but the Arkansas Commission rejected  
6 the stipulation because it would have allowed more than 50% of the Company’s incentive  
7 costs in rates.

8           **Kansas:** Plans based solely on financial goals are not allowed. For executive  
9 incentive programs, the Commission also disallows 100% of plans based on financial  
10 measures and 50% for plans using a balance of financial and operational measures.

11           **Oklahoma:** In Oklahoma the Commission has consistently excluded 50% of the  
12 annual incentive plans, of Oklahoma’s investor owned electric utilities.<sup>8</sup>

13           **Oregon:** Customer-based plans involving reliability, response speed, *etc.* are called  
14 “merit” (operational) plans. Company-based plans which track increases to the bottom line,  
15 ROE, *etc.* are called “performance” (financial) plans. 50% of the cost of merit plans is  
16 disallowed and 75% of the performance plans cost is disallowed.

17           **Texas:** In the last SPS rate case, Docket No. 43695, the Texas PUC disallowed  
18 100% of short-term incentives directly tied to financial performance measures and 50%  
19 of the remaining incentives because they were indirectly tied to financial performance  
20 through an earnings-per-share funding mechanism.<sup>9</sup> The Commission then reaffirmed  
21 this treatment in the recent SWEPCO rate case, Docket No. 46449, where the

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<sup>7</sup> Docket No. 13-028-U.

<sup>8</sup> *See e.g.*, AEP-PSO Cause Nos. PUD 06-285 and PUD 08-144; OG&E Cause No. PUD 05-151; and ONG Cause No. PUD 04-610.

1 Commission adopted Staff's recommendation, which followed the precedent established  
2 in the SPS case and applied it to SWEPCO's incentives.

3  
4 **Q: WHY IS THE DISTINCTION BETWEEN FINANCIAL PERFORMANCE**  
5 **MEASURES AND OPERATIONAL MEASURES AN IMPORTANT**  
6 **DISTINCTION FOR INCENTIVE COMPENSATION ANALYSIS?**

7 A: When incentive compensation payments are based on financial performance measures,  
8 the compensation agreement between shareholders and employees could be loosely  
9 stated in this manner: "if you will help increase shareholder earnings, we will pay you a  
10 bonus." The intended beneficiaries to this agreement are the shareholders and the  
11 employees. Ratepayers have no stake in this agreement; therefore, they should bear none  
12 of the costs that result from such an agreement. If, instead, the agreement was stated in  
13 this manner: "if you will help increase reliability and quality of service to the customers,  
14 we will pay you a bonus," then, ratepayers would have a stake in the agreement, and  
15 could share in a portion of the costs. However, so long as some portion of the incentive  
16 plan is designed to increase earnings, that portion of the plan should be funded out of the  
17 increased earnings the plan helps produce.

18  
19 **Q: ARE OG&E's INCENTIVE PAYMENTS BASED ON FINANCIAL**  
20 **PERFORMANCE MEASURES?**

21 A: Yes. The Company's response to OIEC 3-13a breaks the TeamShare payments into two  
22 categories defined by OG&E as *Financial Measures* and *Business Group Measures*.

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9 See Docket No. 43695, Order on Rehearing at 5-6.

	<u>Financial Measures</u>	<u>Payout % 2016</u>
1		
2	• Earnings per Share	41%
3	• Operating Expenses	36%
4	<u>Business Group Measures</u>	
5	• Customer Satisfaction	4%
6	• Incident Rate (Health and Safety)	19%

7 In the Company's response to OIEC 3-13a\_Attd, the breakdown between these categories  
8 shows that only 4% of the payout is related to *Customer Satisfaction* measures and 77%  
9 is related to *Financial Performance* measures. The other 19% is made up of *Incident*  
10 *Rate* measures.

11

12 **Q: PLEASE ADDRESS OG&E'S ASSERTIONS THAT INCENTIVE PLANS**  
13 **SHOULD BE INCLUDED IN RATES BECAUSE THEY ARE PART OF A**  
14 **TOTAL COMPENSATION PACKAGE THAT IS COMPARABLE WITH THE**  
15 **COMPENSATION PAID BY OTHER UTILITIES AND ARE NEEDED TO**  
16 **ATTRACT AND RETAIN QUALIFIED PERSONNEL?**

17 A: OG&E's rationale for including incentive pay in rates is the same as it has always been:  
18 incentive pay should be included in rates because it is needed to attract and retain  
19 qualified personnel.<sup>10</sup> In my experience, this is the argument typically raised by utilities  
20 seeking to justify inclusion of incentive pay in rates. However, the argument is  
21 problematic. First, it misses the point. The question for regulators is not about what the  
22 company should pay; the question for regulators is what ratepayers should pay. The  
23 utility is free to offer whatever compensation package it wants to offer, but most

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<sup>10</sup> See Ruden Direct Testimony at page 3, lines 7-8; Ruden Direct Testimony at page 3, lines 20-22; Ruden Direct Testimony at page 3, lines 23-30; Ruden Direct Testimony at page 4, lines 1-2; and Ruden Direct Testimony at page 7, lines 11-12.

1 commissions agree that ratepayers should not pay the costs of plans designed to increase  
2 corporate earnings. Also, as stated above, because incentive pay related to financial  
3 performance is generally disallowed, most of the utilities that OG&E competes with for  
4 talent generally do not recover all of their incentive compensation in rates. Therefore,  
5 OG&E is not put at a competitive disadvantage when its incentive pay is similarly  
6 adjusted.

7 The other common problem with the Company's "total compensation package"  
8 argument is that when an incentive payment is based on achieving financial performance  
9 goals there should be a financial benefit to the company that comes from achieving these  
10 goals. This financial benefit should provide ample additional funds from which to make  
11 the incentive payments. If not, the plan was poorly conceived. Thus, a utility is not  
12 placed at a competitive disadvantage when incentive payments tied to financial  
13 performance are not collected through rates, because the funding for these payments  
14 should come out of the additional earnings the incentive plans help achieve.

15  
16 **Q: DOES OG&E PROVIDE ANY OTHER RATIONALE TO SUPPORT ITS**  
17 **INCENTIVE PAY?**

18 A: Yes. OG&E's witness, Patricia Ruden, asserts that OG&E has an aging workforce and  
19 needs to offer attractive compensation packages to replace retiring employees with 25 to  
20 40 years of experience.<sup>11</sup> Ms. Ruden asserts that "OGE has had approximately 11% of  
21 its experienced workforce retire in the past 3 years."<sup>12</sup> The first problem with this

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<sup>11</sup> See Ruden Direct Testimony at page 4, lines 18-23.

<sup>12</sup> Id.

1 argument is that it does not raise anything new or unusual. Retiring employees with 25  
2 to 40 years of experience are generally replaced with current employees with 24 to 39  
3 years of experience. Also, an 11% retirement in 3 years equates to an average retirement  
4 rate 3.67% per year (11 divided by 3) which is an overall turnover rate of 27 years (1  
5 divided by 3.67%).

6 The other problem with this argument is that it does nothing to explain why  
7 incentive pay should be included in rates. Virtually all utilities face the same problem of  
8 replacing experienced employees when they retire, but these other utilities are not  
9 recovering incentive pay in rates, when that incentive pay is tied to the financial  
10 performance of the utility.

11  
12 **Q: HAS OG&E RAISED ANY NEW ARGUMENTS IN THIS CASE THAT WOULD**  
13 **SUPPORT INCLUDING FINANCIAL-BASED INCENTIVE COMPENSATION**  
14 **IN RATES?**

15 A: No. The Company has raised nothing new in this case that would change the  
16 Commission's prior precedent on this issue.

17  
18 **Q: WHAT ARE YOU RECOMMENDING WITH RESPECT TO THE COMPANY'S**  
19 **TEAMSHARE INCENTIVE EXPENSE?**

20 A: Consistent with numerous prior Commission orders involving Oklahoma's investor-  
21 owned electric utilities, I am recommending a 50/50 sharing of these costs between  
22 shareholders and ratepayers. This recommendation is based on the recognition that more



1 than 50% of the Company's incentive compensation plan goals are related to financial  
2 performance measures, while a smaller percentage relates to customer satisfaction and  
3 reliability. Because ratepayers receive at least some benefit from these customer-related  
4 goals, some portion of the plan costs can be included in rates.

5  
6 **Q: HAS THIS COMMISSION ADDRESSED RECOVERY OF INCENTIVE**  
7 **COMPENSATION PAYMENTS IN PAST ORDERS?**

8 A: Yes. The Oklahoma Commission has consistently disallowed financial-based incentive  
9 pay for more than 25 years. In its order in PUD 91-1190, at page 145, this Commission  
10 addressed ONG's Gainshare Plan and the Executive Stock Performance Plan and  
11 disallowed the entire cost of both plans, finding that the incentive plans were designed to  
12 increase corporate earnings. In PUD 04-610, the ALJ recommended, and the  
13 Commission ordered, the disallowance of the entire cost of ONG's incentive  
14 compensation payments. The ALJ made the following recommendation:

15 The ALJ finds that incentive compensation should be disallowed from  
16 inclusion in the rates paid by Oklahoma Natural's ratepayers. Incentive  
17 compensation is typically tied to the attainment of certain financial goals,  
18 efficiencies in operations or similar criteria, which create additional  
19 income to the company, cost savings or other financial benefit. The ALJ  
20 concurs with the argument of the Staff and AG that a well-designed  
21 incentive compensation plan will generate resources from which to pay  
22 the incentives to the employees. Therefore, the ALJ recommends  
23 adoption of the Staff's recommended disallowance in the amount of  
24 \$2,671,985.  
25

1 In PSO's 2006 rate case, PUD 200600285, the Commission disallowed 50% of  
2 AEP/PSO's annual incentive expense.<sup>13</sup>

3 The Commission finds that 50% of PSO's incentive costs should be excluded  
4 for ratemaking purposes, as recommended by OIEC. The amount of those  
5 incentive costs is \$3,454,217 as referenced in HE-17 at page 16 of 24, OIEC  
6 Adjustment No. H-4.  
7

8 In PSO's 2008 rate case, PUD 200800144, the Commission again disallowed 50% of  
9 AEP/PSO's annual incentive plan.<sup>14</sup>

10 The Commission finds that although there is no evidence to conclude  
11 PSO's and AEPSC's overall salary levels are excessive, that the  
12 recommendation of the AG and Staff to disallow 50% of PSO's and  
13 AEPSC's incentive compensation should be adopted. Incentive  
14 compensation benefits both shareholders and ratepayers equally, by  
15 encouraging the attainment of goals that provide good customer service  
16 and increase the earnings of the shareholders.  
17

18 In PSO's 2015 rate case, Cause No. PUD 201500208, the Commission's final order  
19 states the following with respect to incentive compensation:

20 The ALJ adopts Staff and AG's recommendation that an adjustment be  
21 made to remove the portion of the Annual Incentive Program costs related  
22 to financial performance measures. In many jurisdictions, including  
23 Oklahoma, the cost of incentive plans tied to financial performance  
24 measures generally are excluded for ratemaking purposes for several  
25 reasons. (See Garrett Responsive Testimony, pp. 23-33). The evidence in  
26 this case established that the Company's incentive compensation is funded  
27 primarily based on the Company's financial performance (75% earnings  
28 per share). (See Garrett Responsive Testimony. p. 17).

29 . . . .

30 The result of the above disallowances reduces the recoverable expenses of  
31 PSO by . . . \$4,369,947 for short term incentive expense, which is 50% of  
32 the \$8,739,895 requested by PSO. (See Garrett Responsive Testimony.  
33 Ex. MG-2).  
34

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<sup>13</sup> See Final Order in Cause No. PUD 200600285.

<sup>14</sup> See Final Order in Cause No. PUD 200800144.

1 In PSO's 2017 rate case, the Commission again disallowed 50% of PSO's short-  
2 term incentive plan. At page 24 of the final order, the Commission states:

3  
4 82. THE COMMISSION FURTHER FINDS that the annual incentive  
5 plan expenses be reduced by \$4,863,954 to exclude 50 percent of the  
6 target level of this expense from the revenue requirement.

7 In OG&E's 2005 rate case, PUD 200500151, the Commission's final order disallowed  
8 60% of OG&E's TeamShare expense.

9 **Incentive Compensation.** OG&E presents \$9,308,619 in expense  
10 for incentive compensation under the "TeamShare" plan. The  
11 Referee does not accept the full amount as proposed by the  
12 company but reduces the expense by \$5,582,192.

13 In OG&E's 2015 rate case, PUD 201500151, the requested amounts were again reduced  
14 by 50%.

15  
16 **Q: HOW IS THE OIEC/OER ADJUSTMENT CALCULATED?**

17 **A:** OIEC/OER's adjustment is set forth below and can be seen at *Exhibit MG 2.5*.

18 Annual Incentive Plan Payments in Pro Forma Expense	\$12,664,806
19 Incentive Sharing Percentage	50%
20 Oklahoma Jurisdictional Percentage	<u>91.38 %</u>
21 <b>OIEC/OER Adjustment to Annual Incentive Plans</b>	<b><u>\$ 5,786,550</u></b>
22 Payroll Tax Expense Percentage	8.02%
23 <b>OIEC/OER Adjustment Incentive Plan --Payroll Taxes</b>	<b><u>\$ 464,383</u></b>

24 **IV. C. NON-QUALIFIED SUPPLEMENTAL EMPLOYEE RETIREMENT PLANS**

25 **Q: PLEASE DESCRIBE THE SUPPLEMENTAL EMPLOYEE PENSION PLAN.**

26 **A:** The Company provides supplemental retirement plan benefits to certain highly-  
compensated individuals at the Company. These supplemental retirement plans for highly

1 compensated individuals are provided because benefits under the general retirement plans  
2 are subject to limitations under the Internal Revenue Code. Benefits payable under these  
3 supplemental plans are typically equivalent to the amounts that would have been paid but  
4 for the limitations imposed by the Code. In general, the limitations imposed by the Code  
5 allow for the computation of benefits on annual compensation levels of up to \$260,000 for  
6 2014, \$265,000 for 2015, \$270,000 for 2016 and \$275,000 for 2017. Retirement benefits  
7 on compensation levels in excess of annual compensation limits are paid through  
8 supplemental plans. Thus, supplemental retirement plans for highly compensated  
9 employees are designed to provide benefits in addition to the benefits provided under the  
10 general pension plans of the company. These plans are referred to as *non-qualified* plans  
11 because they do not qualify as a deductible tax expense under the code.

12  
13 **Q: WHAT AMOUNTS WERE INCLUDED IN PRO FORMA OPERATING EXPENSE**  
14 **FOR THE SUPPLEMENTAL EMPLOYEE RETIREMENT PLANS?**

15 A: In the test year, the Company paid \$1,060,000 for non-qualified plans. Of this amount,  
16 \$661,401 was included in operating expense for ratemaking purposes in the Company's  
17 application.<sup>15</sup>

18  
19 **Q: WHAT DO YOU RECOMMEND WITH RESPECT TO SUPPLEMENTAL NON-**  
20 **QUALIFYING COSTS FOR HIGHLY COMPENSATED EMPLOYEES?**

21 A: I recommend that supplemental costs be disallowed as a matter of principle. If these  
22 supplemental costs are disallowed, ratepayers will pay for all of the executive benefits

1 included in the Company's regular pension plans, and shareholders will pay for the  
2 additional executive benefits included in the supplemental plan. For ratemaking  
3 purposes, shareholders should bear the additional costs associated with supplemental  
4 benefits to highly compensated executives, since these costs are not necessary for the  
5 provision of utility service but are instead discretionary costs of the shareholders  
6 designed to attract, retain and reward highly compensated employees. Further, because  
7 officers of any corporation have a duty of loyalty and duty of care to the corporation,  
8 these individuals are required to put the interest of the company first. This creates a  
9 situation where not every cost associated with executive compensation is presumed to be  
10 a cost appropriately passed on to ratepayers. Many regulators are inclined to exclude  
11 executive bonuses, incentive compensation and supplemental benefits from utility rates,  
12 understanding that these costs would be better borne by the utility shareholders.

13 **Q: HOW HAS SUPPLEMENTAL RETIREMENT PAY BEEN TREATED BY THIS**  
14 **COMMISSION IN THE PAST?**

15 **A:** In Oklahoma, The Commission has consistently disallowed supplemental retirement pay.  
16 The Commission disallowed 100% of AEP/PSO's SERP expense in PSO's 2006 rate  
17 case, Cause No. PUD 200600285. Specifically, the Commission stated:

18 q. **Employee Benefits-Supplemental Executive Retirement**  
19 **Plan ("SERP").**  
20

21 PSO included \$596,081 as Supplemental Executive Retirement  
22 Plan ("SERP") in its cost-of-service. The Commission adopts  
23 OIEC's proposal to remove the SERP Expense from the revenue  
24 requirement in this proceeding. The Commission adopts OIEC's  
25 recommendation that ratepayers pay for all of the executive  
26 benefits included in PSO's regular pension plans and that

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<sup>15</sup> See response to OIEC 3-2\_Att.

1 shareholders pay for the additional executive benefits included in  
2 the supplemental plan.

3 Again, in PSO's 2008 rate case, Cause No. PUD 200800144, the Commission disallowed  
4 100% of the company's SERP expense.

5 **11. Supplemental Executive Retirement Plan ("SERP").**  
6

7 The AG and OIEC recommend reductions to reflect the  
8 elimination of SERP expense from PSO's cost of service. Staff  
9 proposed no adjustment to PSO's recommendation. SERP is  
10 AEP's non-qualified defined benefit retirement plan that PSO  
11 argued allows AEP the flexibility to attract and retain key  
12 employees and provides benefits that cannot be provided under  
13 AEP's qualified defined benefit plans. PSO stated that the  
14 combined plans, of which SERP is a part, allow employees to  
15 accumulate an appropriate level of replacement income upon  
16 retirement. According to PSO, SERP plans and other benefits are  
17 part of a market competitive benefits program for the utility  
18 industry and large employers in general. The Commission finds  
19 that the SERP expenses do not provide a benefit to the ratepayers  
20 of PSO and therefore adopts the recommendation of the AG and  
21 OIEC to deny recovery of these costs from PSO's ratepayers.

22 Again, in PSO's 2015 rate case, Cause No. PUD 201500208, the Commission disallowed  
23 100% of the company's SERP expense.

24 The ALJ finds that it has consistently disallowed PSO's SERP  
25 costs in the past. The Commission disallowed 100% of PSO's  
26 SERP expense in PSO's 2006 rate case, Cause No. PUD  
27 200600285, and in PSO's 2008 rate case, Cause No. PUD  
28 200800144, the Commission again disallowed 100% of the  
29 Company's SERP expense.

30 The ALJ finds that SERP expenses are disallowed in other  
31 jurisdictions. (*See* Garrett Responsive Testimony, pp. 43-44). The  
32 Commission further finds that for rate-making purposes, utility  
33 shareholders should bear the additional costs associated with  
34 supplemental benefits to compensated executives. Therefore, the  
35 ALJ finds that the SERP expenses in the amount of \$468,192,  
36 which is \$156,433 of SERP costs at PSO and \$311,759 of SERP  
37 costs at AEPSC, do not provide a benefit to PSO ratepayers, and

1           therefore, PSO should be denied recovery of these costs in  
2           accordance with the recommendations of the AG and OIEC. (See  
3           Hearing Ex. 62).

4           Also, in PSO's 2017 rate case, Cause No. PUD 201700151, the Commission disallowed  
5           PSO's supplemental retirement plan costs.

6           **Supplemental Executive Retirement Plan ("SERF")**

7           79. THE COMMISSION FURTHER FINDS that it has  
8           consistently disallowed recovery of SERP costs in previous rate cases  
9           involving PSO. (Cause No. PUD 200600285, Cause No. PUD  
10          200800144, and Cause No. PUD 201500208.) SERP expenses are  
11          consistently disallowed in other jurisdictions. (Exhibit 66, p. 45.) As  
12          stated in Order No. 658529 in Cause No. PUD 201500208, the  
13          Commission finds that for rate-making purposes, utility shareholders  
14          should bear the additional costs associated with supplemental benefits to  
15          executives.

16          80. THE COMMISSION FURTHER FINDS and disallows SERP  
17          costs in this Cause based on the premise that ratepayers should pay for all  
18          of the executive benefits included in the Company's regular pension plans  
19          while shareholders should pay for the additional benefits included in the  
20          supplemental plan. Mr. Farrar and Mr. Garrett both recommended that  
21          PSO's requested non-qualified pension expense be borne by the  
22          shareholders. (Farrar Rev. Req. Resp. Test. at 23:12-18; Rev. Req. Resp.  
23          Test. at 46:3-6.) The employees that receive this benefit are highly  
24          compensated to align their interests with shareholders. (Garrett Rev. Req.  
25          Resp. Test. At 46:6-14) Therefore, the Commission finds that SERP  
26          expense in the amount of \$96,780.00 for PSO and \$253,082.00 for  
27          AEPSC are excluded from PSO's rates.

28          In OG&E's 2015 rate case, the Company voluntarily removed supplemental  
29          executive retirement costs from its filing. At page 45 of the Report of the ALJ, the report  
30          states:

31          **10. Non-Qualified Pension Benefits**

32          OG&E's adjustment H 2-18, included recovery of the costs for OG&E's  
33          Supplemental Executive Retirement Plan ("SERP"). PUD, the AG and  
34          OIEC/OER recommended a reduction of \$1,860,147 to expenses to  
35          remove this non-qualified pension benefit. (Garrett Responsive, Exhibit

1 MG 2.6.) Through Trial Exhibit No. 50, OG&E agreed to remove the  
2 SERP. The ALJ adopts the removal of the SERP and reduces expenses by  
3 \$1,860,147.

4 **Q: HOW IS SUPPLEMENTAL RETIREMENT EXPENSE TREATED IN OTHER**  
5 **JURISDICTIONS WHERE YOU HAVE TESTIFIED ON THIS ISSUE?**

6 A: In my experience, supplemental non-qualifying retirement expense is consistently  
7 disallowed. For example, in Nevada, the Commission has disallowed SERP expense in  
8 Docket Nos. 01-10001, 03-10001, 06-11022, 08-12002, and 11-06006. In Arkansas, in  
9 Entergy Arkansas, Inc's last litigated rate case (Docket No. 13-028-U), the Arkansas  
10 Public Service Commission agreed with my testimony in that Docket (on behalf of the  
11 Hospital and Higher Education Group), that the shareholders, not ratepayers, should pay  
12 for the cost of Entergy Arkansas' Supplemental Executive Retirement Plans. In the  
13 Commission's Order No. 21 entered in this Docket, the Arkansas Commission  
14 determined that SERP expenses are not necessary to provide utility service, but rather  
15 are discretionary costs implemented by Entergy Arkansas and therefore should be  
16 disallowed. In Texas, in Entergy's rate case, Docket No. 39896, the Texas PUC  
17 disallowed all of the Company's SERP costs.

18 140. ETI provides non-qualified supplemental executive  
19 retirement plans for highly compensated individuals such as key  
20 managerial employees and executives that, because of limitations  
21 imposed under the Internal Revenue Code, would otherwise not  
22 receive retirement benefits on their annual compensation over  
23 \$245,000 per year.

24 141. ETI's non-qualified supplemental executive retirement  
25 plans are discretionary costs designed to attract, retain, and reward  
26 highly compensated employees whose interests are more closely  
27 aligned with those of the shareholders than the customers.



1 142. ETI's non-qualified executive retirement benefits in the  
2 amount of \$2,114,931 are not reasonable or necessary to provide  
3 utility service to the public, not in the public interest, and should  
4 not be included in ETI's cost of service.

5 **Q: ARE YOU AWARE OF OTHER JURISDICTIONS IN WHICH SERP EXPENSE**  
6 **IS DISALLOWED?**

7 A: I have not conducted a comprehensive study of SERP treatment in other states, but I do  
8 know that SERP is disallowed in the states of Oregon,<sup>16</sup> Idaho,<sup>17</sup> and Arizona.<sup>18</sup>

9  
10 **Q: WHAT ADJUSTMENT ARE YOU RECOMMENDING?**

11 A: The impact of this adjustment is set forth below and is shown at *Exhibit MG 2.4*.

12	<b>Adjustment to Remove Supplemental Retirement Plan Expense</b>	<b>(\$723,792)</b>
13	<b>Oklahoma Jurisdictional Allocation Percentage</b>	<b>91.38%</b>
14	<b>Oklahoma Jurisdictional Adjustment</b>	<b><u>(\$661,401)</u></b>

#### **IV.D 6-MONTH UPDATE FOR ADIT AMORTIZATION**

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<sup>16</sup> See Oregon Public Utilities Commission, Order No. 01-787, September 7, 2001, page 44.

The Commission has not allowed recovery of SERP expenses in other utility rate cases. PacifiCorp has not persuaded us that it is necessary to pay SERP to hire and retain executive officers. The SERP costs are not allowed."

<sup>17</sup> See Idaho Public Utilities Commission Order No. 32196 issued February 28, 2011 in Rocky Mountain Power's rate case, Case No. Pac-E-10-07:

The Commission finds Staff's argument persuasive and finds it reasonable to disallow Company recovery of SERP costs of \$2.6 million (total Company) in this case. The Company has not demonstrated that the costs are related to providing services to southeast Idaho. The responsibility for generous severance benefits for executives, we find, is the responsibility of the Company and its shareholders, not Idaho customers.

<sup>18</sup> The Arizona Corporation Commission has issued several decisions in which it denied rate recovery for SERP expenses. See 258 PUR 4th 353 (2007) *Re Arizona Public Service Company*, 247 PUR 4th 243 (2006); *In Re Southwest Gas Corp.*, 2008 WL 2332953 (Arizona Corp Comm'n. Decision 70360, May 27, 2008); *In the Matter of the Application of UNS Electric*, 2007 WL 4731250 (Arizona Corp Comm'n Decision 70011, November 27, 2007).

1 **Q: WHAT IS THE ISSUE WITH RESPECT TO THE UNFUNDED ACUMULATED**  
2 **DEFERRED INCOME TAXES (“ADIT”) ADIT AMORTIZATION?**

3 A: OG&E included an amortization of ADIT in its original filing.<sup>19</sup> OG&E also provided  
4 an update to this amortization at the six-month cutoff date, March 31, 2018, in its  
5 supplemental response to AG 12-3\_Attachment 4. The updated amortization is  
6 substantially more than the amount included in the original application. The calculations  
7 for this adjustment to expense are set forth at *Exhibit MG 2.5*. The amount of the  
8 adjustment is a reduction of \$7,701,625 to the Oklahoma jurisdictional pro forma  
9 revenue requirement.

**V. E. VEGETATION MANAGEMENT COST INCREASE**

10 **Q: WHAT IS OG&E PROPOSING WITH RESPECT TO ITS VEGETATION**  
11 **MANAGEMENT COSTS?**

12 A: OG&E is proposing a significant increase for vegetation management costs over test  
13 year levels. In fact, OG&E is proposing increases to test year levels for distribution  
14 vegetation management by \$6.458 million and transmission vegetation management by  
15 \$1.255 million; but the Company provides **no** testimony as to why the levels actually  
16 spent in the test year were not adequate to maintain safe and reliable service. Instead,  
17 the Company seeks to raise the test year levels to the amount authorized in its prior rate  
18 case, without providing an explanation as to why it was not spending the authorized level  
19 for vegetation management if, in fact, the authorized level was the level needed to  
20 provide safe and reliable service. In other words, the Company has not explained why

1 the level authorized in the prior case is still the level needed to provide safe and reliable  
2 service, especially when it was not spending at that level in the test year. Obviously, if  
3 the level authorized in the prior case was the level actually needed to provide safe and  
4 reliable service, the Company would have been spending at that level during the test  
5 year.

6  
7 **Q: WHY DO YOU BELIEVE THAT THE TEST YEAR LEVEL IS THE CORRECT**  
8 **LEVEL TO SET IN RATES?**

9 A: The test year level is approximately equal to the average 6-year spend level for  
10 vegetation management at OG&E.

11  
12 **Q WHAT WERE THE AMOUNTS SPENT EACH YEAR FOR VEGETATION**  
13 **MANAGEMENT AT OG&E?**

14 A: The actual amounts spent on vegetation management for the past 6-year period at set  
15 forth in the table below, along with the amount spent in the test year.

<b>6-Year Average Vegetation Management Spend</b>		
Year	Distribution	Transmission
2012	\$21,452,531	\$3,141,960
2013	20,324,863	3,983,305
2014	16,858,229	2,908,903
2015	15,528,280	3,228,552
2016	16,604,268	3,139,199
2017	<u>27,057,311</u>	<u>4,175,934</u>
6-Year Avg	\$19,637,600	3,429,642

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<sup>19</sup> See Schedule J-1 and J-2.

Test Year	\$19,331,986	\$3,279,297
Requested	\$25,790,903	\$4,534,654
Adjustment	\$6,458,917	\$1,255,357

1 **Q: WHAT ARE THE ADJUSTMENTS?**

2 A: The adjustments for distribution and transmission vegetation management costs are set  
3 forth below and can be seen in more detail at *Exhibit MG 2.5*.

<b>OIEC/OER Adjustments to Vegetation Management Expense</b>	
Description	Okla Juris Amt
Adjust Distribution Expense to the Test Year Level	\$(6,458,917)
Adjust Transmission Expense to the Test-Year Level	\$(1,255,357)
<b>OIEC/OER Adjustment for Vegetation Management Expense</b>	<b>\$(7,714,274)</b>

V. **MUSTANG PLANT ADJUSTMENT**

4 **Q: PLEASE ADDRESS THE MUSTANG PLANT INVESTMENT AND THE**  
5 **COMPANY'S REQUEST TO INCLUDE THE MUSTANG INVESTMENT IN**  
6 **THE COMPANY'S RATE BASE**

7 A: OIEC/OER witness Mr. Scott Norwood addresses the Mustang plant prudence issues.  
8 He recommends that the Mustang plant not receive a full rate base return at this time, but  
9 instead be provided a cost of money return represented by the Company's cost of long-  
10 term debt. This recommendation has the effect of providing the debt holders with a full  
11 return on their investment but providing the stockholders with a lower return on their  
12 equity investment in the Mustang plan which was not a prudent investment at this time.

13

1 **Q: WHAT IS THE IMPACT OF THIS ADJUSTMENT?**

2 A: The adjustment to provide a cost of money return to the shareholders equivalent to a  
3 long-term debt return grossed up for taxes is \$10,165,080. The calculations for this  
4 adjustment are set forth at *Exhibit MG 2-8*.

**VI. ADJUSTMENTS PROPOSED BY OTHER OIEC/OER WITNESSES**

5 **Q: PLEASE PROVIDE A LIST OF THE ISSUES SPONSORED BY THE OTHER**  
6 **OIEC/OER WITNESSES.**

7 A: The recommendations of the other OIEC/OER witnesses are set forth below:

8 **Recommendations of Mr. David Parcell**

9 Mr. Parcell addresses cost of capital issues. Specifically, he recommends a  
10 Return on Equity (“ROE”) of 9.20% and capital structure of 50% equity and 50% debt.  
11 The impacts of his recommendations are set forth at Exhibit MG-2.

12 **Recommendations of Mr. David Garrett**

13 Mr. David Garrett addresses the Company’s depreciation study and recommends  
14 numerous adjustments to the Company’s proposed depreciation rates. The impacts of his  
15 recommendations on the overall revenue requirement can be seen in his testimony and  
16 are set forth at Exhibit MG-2.

1           **Recommendations of Mr. Scott Norwood**

2           Mr. Norwood addresses the prudence of the Company's addition of the new units  
3           at the Mustang plant, and the Company's request for inclusion of this plant in the  
4           Company's rate base. The impacts of his recommendations are set forth at *Exhibit MG-*  
5           2.

6           **VII. CONCLUSION**

7           **Q: DO YOU HAVE ANY FURTHER COMMENTS?**

8           A: Yes. My testimony does not address every potential issue. The fact that I do not express  
9           an opinion on a particular issue is not to be interpreted as agreement with the Company's  
10           position on that issue. Further, regarding the issue of officer retirements and related  
11           compensation and the impacts of such on the Company's revenue requirement, I reserve  
12           the right to supplement my testimony following my receipt and review of OG&E's  
13           responses to OIEC's 17<sup>th</sup> Set of Data Requests, which were not timely submitted by the  
14           Company to OIEC

15           **Q: DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

16           A: Yes, it does.

17           3526680.1:620435:02636

**MARK E. GARRETT**

**CONTACT INFORMATION:**

4028 Oakdale Farm Circle  
Edmond, OK 73013  
(405) 239-2226

**EDUCATION:**

Juris Doctor Degree, With Honors, Oklahoma City University Law School, 1997  
Post Graduate Hours in Accounting, Finance and Economics, 1984-85:  
University of Texas at Arlington; University of Texas at Pan American;  
Stephen F. Austin State University  
Bachelor of Arts Degree, University of Oklahoma, 1978

**CREDENTIALS:**

Member Oklahoma Bar Association, 1997, License No. 017629  
Certified Public Accountant in Oklahoma, 1992, Certificate No. 11707-R  
Certified Public Accountant in Texas, 1986, Certificate No. 48514

**WORK HISTORY:**

**GARRETT GROUP, LLC – Regulatory Consulting Practice (1996 - Present)** Participates as a consultant and expert witness in electric utility, natural gas distribution company, and natural gas pipeline matters before regulatory agencies making recommendations related to cost-based rates. Reviews management decisions of regulated utility companies for reasonableness from a ratemaking perspective especially regarding the reasonableness of prices paid for natural gas supplies and transportation, coal supplies and transportation, purchased power and renewable energy projects. Participates in gas gathering, gas transportation, gas contract and royalty valuation disputes to determine pricing and damage calculations and to make recommendations concerning the reasonableness of charges to royalty and working interest owners and other interested parties. Participates in regulatory proceedings to restructure the electric and natural gas utility industries. Participates as an Instructor at NMSU Center for Public Utilities and as a Speaker at NARUC Staff Subcommittee on Accounting and Finance.

**OKLAHOMA CORPORATION COMMISSION - Coordinator of Accounting and Financial Analysis (1991 - 1994)** Planned and supervised the audits of major public utility companies doing business Oklahoma for the purpose of determining revenue requirements. Presented both oral and written testimony as an expert witness for Staff in defense of numerous accounting and financial recommendations related to cost-of-service based rates. Audit work and testimony covered all areas of rate base and operating expense. Supervised, trained and reviewed the audit work of numerous Staff CPAs and auditors. Promoted from Supervisor of Audits to Coordinator in 1992.

**FREEDOM FINANCIAL CORPORATION - Controller (1987 - 1990)** Responsible for all financial reporting including monthly and annual financial statements, cash flow statements, budget reports, long-term financial planning, tax planning and personnel development. Managed the General Ledger and Accounts Payable departments and supervised a staff of seven CPAs and accountants. Reviewed all subsidiary state and federal tax returns and facilitated the annual independent financial audit and all state or federal tax audits. Received promotion from Assistant Controller in September 1988.

**SHELBY, RUCKSDASHEL & JONES, CPAs - Auditor (1986 - 1987)** Audited the financial statements of businesses in the state of Texas, with an emphasis in financial institutions.

## Previous Experience Related to Cost-of-Service, Rate Design, Pricing and Energy-Related Issues

1. **Empire District Electric Company (Oklahoma), 2018 (Cause No. PUD 201700471)** – Participating as an expert witness on behalf of Oklahoma Industrial Energy Consumers (“OIEC”) before the Oklahoma Corporation Commission in Empire’s application to add 800MW of wind. Sponsoring testimony to address the various ratemaking and tax issues.
2. **Oklahoma Gas and Electric Company, (Oklahoma), 2018 (Cause No. PUD 201700496)** – Participating as an expert witness on behalf of Oklahoma Industrial Energy Consumers (“OIEC”) before the Oklahoma Corporation Commission in OG&E’s General Rate Case application. Sponsoring testimony to address the utility’s overall revenue requirement and rate design proposals.
3. **Public Service Company of Oklahoma (“PSO”) (Oklahoma), 2017 (Cause No. PUD 201700276)** – Participated as an expert witness on behalf of OIEC before the OCC in AEP/PSO’s Wind Catcher case to provide testimony on various ratemaking and tax issues.
4. **Southwestern Public Service Co. (“SPS”) (Texas), 2017 (PUCT Docket No. 47527)** – Participating as an expert witness on behalf of the Alliance of Xcel Municipalities (“AXM”) in the SPS general rate case application to provide testimony before the Texas Public Utility Commission regarding rate base and operating expense issues and sponsor the AXM Accounting Exhibits.
5. **Southwestern Electric Power Company, (“SWEPCO”) (Texas), 2017 (PUC Docket No. 47461)** – Participated as an expert witness on behalf of Cities Advocating Reasonable Deregulation (“CARD Cities”) before the Texas Public Utility Commission in SWEPCO’s Wind Catcher case proceeding to provide testimony on various ratemaking and tax issues issues.
6. **Atmos MidTex (Texas), 2017 (Docket No. 10640)** – Participating as an expert witness on behalf of the City of Dallas before the Texas Railroad Commission in Atmos’s Dallas Annual Rate Review (“DARR”) proceeding. Sponsoring testimony on various revenue requirement issues.
7. **Avista Utilities (Washington), 2017 (Docket Nos. UE-170485/UG-170486)** – Participating as an expert witness on behalf of Public Counsel in Avista’s general rate case proceeding. Sponsoring testimony to address various revenue requirement issues and Avista’s requested attrition adjustments.
8. **Nevada Power Company (Nevada), 2017 (Docket No. 17-06003)** – Participating as an expert witness on behalf of the Southern Nevada Hotel Group before the Nevada PUC in NPC’s general rate case proceeding. Sponsoring testimony on various revenue requirement, depreciation, and rate design issues.
9. **Anchorage Municipal Light and Power (Alaska), 2017 (Docket No. U-17-008)** – Participating as an expert witness before the Regulatory Commission of Alaska on behalf of Providence Health and Services to provide testimony in ML&P’s General Rate Case on various revenue requirement and rate design issues.
10. **Public Service Company of Oklahoma (Oklahoma), 2017 (Cause No. PUD 201700151)** – Participated as an expert witness on behalf of OIEC before the OCC in AEP/PSO’s general rate case application to provide testimony on various revenue requirement and rate design issues.
11. **Oncor Electric Delivery Company (Texas), 2017 (PUC Docket No. 46957)** – Participated as an expert witness on behalf of the Steering Committee of Cities before the Texas Public Utility Commission in Oncor’s General Rate Case proceeding to provide testimony on various revenue requirement issues.



12. **EverSource (Massachusetts), 2017 (DPU Docket No. 17-05)** – Participated as an expert witness before the Massachusetts Department of Public Utilities EverSource’s General Rate Case application on behalf of Energy Freedom Coalition of America to provide testimony to address various revenue requirement issues.
13. **El Paso Electric Company (Texas), 2017 (PUC Docket No. 46831)** – Participated as an expert witness on behalf of the City of El Paso before the Texas Public Utility Commission in El Paso’s General Rate Case proceeding to provide testimony on various revenue requirement issues.
14. **Atmos Pipeline Texas (Texas), 2017 (Docket No. 10580)** – Participated as an expert witness on behalf of the City of Dallas before the Texas Railroad Commission in APT’s General Rate Case application, sponsoring testimony to address various revenue requirement proposals.
15. **Empire District Electric Company (Oklahoma), 2017 (Cause No. PUD 201600468)** – Participated as an expert witness on behalf of Oklahoma Industrial Energy Consumers (“OIEC”)<sup>1</sup> before the Oklahoma Corporation Commission in Empire’s General Rate Case application. Sponsoring testimony to address the utility’s overall revenue requirement and rate design proposals.
16. **Caesars Enterprise Service, LLC (Nevada), 2016 (704B Exit Application)** – Participated as an expert witness on behalf of Caesars before the Nevada PUC. Sponsoring written and oral testimony in Caesar’s application to purchase energy and capacity from a provider other than Nevada Power.
17. **Southwestern Electric Power Company (Texas), 2016 (PUC Docket No. 46449)** – Participated as an expert witness on behalf of Cities Advocating Reasonable Deregulation (“CARD Cities”) before the Texas Public Utility Commission in SWEPCO’s general rate case proceeding to provide testimony on various revenue requirement issues.
18. **CenterPoint Texas, 2016 (Docket No. 10567)** – Participated as an expert witness on behalf of City of Houston before the Texas Railroad Commission in CenterPoint’s general rate case application, sponsoring testimony to address the utility’s overall revenue requirement and various rate design proposals.
19. **Entergy Texas, Inc., 2016 (Docket No. 46357)** – Participated as an expert witness on behalf Cities Served by Applicant before the Texas PUC in ETI’s application to amend its Transmission Cost Recovery Factor.
20. **Anchorage Municipal Light and Power, 2016 (Docket No. U-16-060)** – Participated as an expert witness before the Regulatory Commission of Alaska on behalf of Providence Health and Services to provide testimony on the ratemaking treatment of ML&P’s acquired interest in the Beluga River Unit gas field with ratepayer funds.
21. **Arizona Public Service Company, 2016 (Docket No. E-01345A-16-0036)** – Participated as an expert witness before the Arizona Corporation Commission in APS’s General Rate Case application on behalf of Energy Freedom Coalition of America to provide written and oral testimony to address various revenue requirement issues.
22. **Oklahoma Gas & Electric Co. (Arkansas), 2016 (Docket No. 16-052-U)** – Participated as an expert witness on behalf of the Arkansas River Valley Energy Consumers (“ARVEC”)<sup>2</sup> before the Arkansas

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<sup>1</sup> OIEC is an association of approximately 25 large commercial and industrial customers in Oklahoma.

<sup>2</sup> ARVEC is an association of industrial manufacturing facilities in northwest Arkansas.

Public Service Commission in OG&E's general rate case application to provide testimony on various revenue requirement, cost of service and rate design issues.

23. **Sierra Pacific Power Company (Nevada), 2016 (Docket No. 16-06006)** – Participated as an expert witness on behalf of the Northern Nevada Utility Customers<sup>3</sup> before the Nevada PUC in SPPC's general rate case proceeding. Sponsored testimony on various revenue requirement, depreciation, and rate design issues.
24. **Tucson Electric Power, 2016 (Docket No. E-01933A-15-0322)** – Participated as an expert witness before the Arizona Corporation Commission in TEP's General Rate Case application, on behalf of Energy Freedom Coalition of America providing written and oral testimony to address the utility's cost of service study and rate design proposals.
25. **Texas Gas Service, 2016 (Docket No. 10506)** – Participated as an expert witness on behalf of El Paso before the Texas Railroad Commission in TGS's General Rate Case application, sponsoring testimony to address the utility's overall revenue requirement and various rate design proposals.
26. **Texas Gas Service, 2016 (Docket No. 10488)** – Participated as an expert witness on behalf of South Jefferson County Service Area ("SJCSA") before the Texas Railroad Commission in TGS's General Rate Case application, sponsoring testimony to address the utility's overall revenue requirement and various rate design proposals.
27. **Oklahoma Gas and Electric Company, 2016 (Cause No. PUD 201500273)** – Participated as an expert witness on behalf of Oklahoma Industrial Energy Consumers ("OIEC") before the Oklahoma Corporation Commission in OG&E's General Rate Case application. Sponsoring testimony to address the utility's overall revenue requirement and rate design proposals.
28. **Oklahoma Gas & Electric Company, 2016 (Cause No. PUD 201500273)** – Participated as an expert witness on behalf of The Alliance for Solar Choice ("TASC") before the Oklahoma Corporation Commission to address OG&E's proposed Distributed Generation ("DG") rates for solar DG customers.
29. **Anchorage Municipal Light and Power, 2016 (Docket No. U-13-097)** – Participated as an expert witness before the Regulatory Commission of Alaska on behalf of Providence Health and Services to provide testimony on rates and tariffs proposed for customer-owned combined heat and power plant generation.
30. **Oklahoma Natural Gas Company, 2015 (Cause No. PUD 201500213)** – Participated as an expert witness on behalf of the OIEC before the Oklahoma Corporation Commission in ONG's General Rate Case application. Sponsored testimony to address the utility's overall revenue requirement and rate design proposals.
31. **Oklahoma Gas & Electric Company, 2015 (Cause No. PUD 201500274)** – Participated as an expert witness on behalf of The Alliance for Solar Choice ("TASC") before the Oklahoma Corporation Commission to address OG&E's proposed Distributed Generation ("DG") rates for solar DG customers.
32. **Nevada Power Company, 2015 (Docket No. 15-07004)** – Participated as an expert witness on behalf

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<sup>3</sup> The Northern Nevada Utility Consumers is a group of large commercial and industrial customers in the SPPC service territory.

of the Southern Nevada Hotel Group (“SNHG”)<sup>4</sup> before the Nevada PUC. Sponsoring written and oral testimony in NPC’s 2015 Integrated Resource Plan to provide analysis of the On Line transmission line allocation, the Siverhawk plant acquisition, and the Griffith contract termination.

33. **Oklahoma Gas & Electric Company, 2015 (Docket No. 15-034-U)** – Participated as an expert witness on behalf of the Arkansas River Valley Energy Consumers (“ARVEC”) before the Arkansas Public Service Commission in OG&E’s Act 310 application to implement a rider to recover environmental compliance costs.
34. **MGM Resorts, LLC, 2015 (Docket No. 15-05017)** – Participated as an expert witness on behalf of the MGM Resorts, LLC before the Nevada PUC. Sponsoring written and oral testimony in MGM’s application to purchase energy and capacity from a provider other than Nevada Power.
35. **Entergy Arkansas, 2015 (Docket No. 15-015-U)** – Participated as an expert witness on behalf of the Hospital and Higher Education Group (“HHEG”) an intervener group that includes the University of Arkansas and several hospitals before the Arkansas PSC in Entergy’s general rate case to provide testimony on various revenue requirement issues.
36. **Public Service Company of Oklahoma, 2015 (Cause No. PUD 201500208)** – Participated as an expert witness on behalf of OIEC before the OCC in AEP/PSO’s general rate case application to provide testimony on various cost-of-service issues and on the utility’s overall revenue requirement and rate design proposals.
37. **Nevada Power Company, 2014 (Docket No. 14-05003)** – Participated as an expert witness on behalf of the Southern Nevada Hotel Group (“SNHG”) before the Nevada PUC. Sponsored written and oral testimony in NPC environmental compliance case, called the Emissions Reduction and Capacity Replacement case. The main focus of our testimony was our recommendation to eliminate the \$438M Moapa solar project from the compliance plan.
38. **Nevada Power Company, 2014 (Docket No. 14-05004)** – Participated as an expert witness on behalf of the Southern Nevada Hotel Group before the Nevada PUC to sponsor written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
39. **Oklahoma Gas and Electric Co., 2014 (Cause No. PUD 201400229)** – Participated as an expert witness on behalf of Oklahoma Industrial Energy Consumers (“OIEC”) in OG&E’s Environmental Compliance and Mustang Modernization Plan before the Oklahoma Corporation Commission to provide testimony addressing the economics and rate impacts of the plan.
40. **Sourcegas Arkansas, Inc., 2014 (Docket No. 13-079-U)** Participated as an expert witness on behalf of the Hospital and Higher Education Group (“HHEG”), an intervener group that includes the University of Arkansas and several hospitals before the Arkansas PSC in SGA’s general rate case to provide testimony on various revenue requirement issues.
41. **Anchorage Municipal Light and Power, 2014 (Docket No. U-13-184)** – Participated as an expert witness before the Alaska Regulatory Utility Commission on behalf of Providence Health and Services to provide testimony on various revenue requirement and cost of service issues.
42. **Public Service Company of Oklahoma, 2014 (Cause No. PUD 201300217)** – Participated as an

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<sup>4</sup> The Southern Nevada Hotel Group is comprised of Boyd Gaming, Caesars Entertainment, MGM Resorts, Station Casinos, Venetian Casino Resort, and Wynn Las Vegas.

expert witness on behalf of OIEC before the OCC in AEP/PSO's general rate case application to provide testimony on various cost-of-service issues and on the utility's overall revenue requirement and rate design proposals.

43. **Entergy Texas Inc., 2013 (PUC Docket No. 41791)** – Participated as an expert witness on behalf of the Cities<sup>5</sup> in ETI's general rate case to provide testimony on various cost of service issues and on the utility's overall revenue requirement.
44. **MidAmerican/NV Energy Merger, 2013 (Docket No. 13-07021)** – Participated as an expert witness on behalf of the Southern Nevada Hotel Group ("SNHG") before the Nevada PUC. Sponsored testimony to address various issues raised in the proposed acquisition of NV Energy by MidAmerican Energy Holdings Company, including capital structure and acquisition premium recovery issues.
45. **Entergy Arkansas, 2013 (Docket No. 13-028-U)** – Participated as an expert witness on behalf of the Hospital and Higher Education Group ("HHEG") an intervener group that includes the University of Arkansas and several hospitals before the Arkansas PSC in Entergy's general rate case to provide testimony on various revenue requirement issues.
46. **Sierra Pacific Power Company, 2013 (Docket No. 13-06002)** – Participated as an expert witness on behalf of the Northern Nevada Utility Customers<sup>6</sup> before the Nevada PUC in SPPC's general rate case proceeding to provide testimony on various cost of service and revenue requirement issues. Sponsored written and oral testimony in the depreciation phase, the revenue requirement phase and the rate design phase of these proceedings.
47. **Gulf Power Company, 2013 (Docket No. 130140-EI)** – Participated as an expert witness on behalf of the Office of Public Counsel before the Florida Commission in Gulf Power's general rate case proceeding to provide testimony on various revenue requirement issues.
48. **Public Service Company of Oklahoma, 2013 (Cause No. PUD 201200054)** – Participated as an expert witness on behalf of the OIEC before the Oklahoma Corporation Commission ("OCC") to provide testimony in PSO's application seeking Commission approval of its settlement agreement with EPA.
49. **Southwestern Electric Power Company, 2012 (PUC Docket No. 40443)** – Participated as an expert witness on behalf of Cities Advocating Reasonable Deregulation ("CARD Cities") before the Texas Public Utility Commission in SWEPSCO's general rate case proceeding to provide testimony on various cost of service issues and on the utility's overall revenue requirement.
50. **Doyon Utilities, 2012 Alaska Rate Case (Docket No. TA7-717)** – Participated as an expert witness consultant on behalf of the Department of Defense to provide expert testimony in twelve rate case reviews for the utility systems of Fort Wainwright, Fort Greely and Joint Base Elmendorf-Richardson before the Regulatory Commission of Alaska.
51. **University of Oklahoma, 2012** – Participated as an expert witness on behalf of the University of Oklahoma to provide expert testimony on various revenue requirement issues in the University's general rate case with the Corix Group, which provides utility services to the University.

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<sup>5</sup> The Cities include Beaumont, Conroe, Groves, Houston, Huntsville, Orange, Navasota, Nederland, Pine Forest, Pinehurst, Port Arthur, Port Neches, Rose City, Shenandoah, Silsbee, Sour Lake, Vidor, and West Orange.

<sup>6</sup> The Northern Nevada Utility Consumers is a group of large commercial and industrial customers in the SPPC service territory.

52. **Public Service Company of Oklahoma, 2012 (Cause No. PUD 201200079)** – Participated as an expert witness on behalf of the OIEC before the Oklahoma Corporation Commission to provide expert testimony addressing the utility’s request to earn additional compensation on a 510MW purchased power agreement with Exelon
53. **Centerpoint Energy Texas Gas, 2012 (Docket No. GUD 10182)** – Participated as an expert witness on behalf of the Steering Committee of Cities before the Texas Railroad Commission to provide expert testimony on various revenue requirement issues.
54. **Entergy Texas Inc., 2012 (PUC Docket No. 39896)** – Participated as an expert witness on behalf of the Cities in ETI’s general rate case to provide testimony on various cost of service issues and on the utility’s overall revenue requirement.
55. **Oklahoma Natural Gas Company, 2012 (Cause No. PUD 2012-029)** – Participated as an expert witness on behalf of the OIEC before the OCC in ONG’s Performance Based Rate (“PBR”) application seeking Commission approval of a requested rate increase based upon formula results for 2011.
56. **University of Oklahoma, 2012** – Assisted the University of Oklahoma with an audit of the costs associated with its six utility operations and its contract with the Corix Group to provide utility services to the university.
57. **Oklahoma Gas and Electric Company, 2012 (Cause No. PUD 2011-186)** – Participated as an expert witness on behalf of the OIEC before the OCC in OG&E’s application seeking Commission approval of a special contract with Oklahoma State University and a wind energy purchase agreement in connection therewith.
58. **Empire Electric Company, 2011, (Cause No. PUD 11-082)** – Participated as an expert witness on behalf of Enbridge before the OCC in Empire’s rate case to provided testimony in both the revenue requirement and rate design phases of the proceedings to establish prospective cost-of-service based rates for the power company.
59. **Nevada Power Company, 2011, (Docket No. 11-04010)** - Participated as an expert witness on behalf of the Southern Nevada Hotel Group (“SNHG”) before the Nevada PUC. Sponsored written and oral testimony to address proposed changes to the Company’s customer deposit rules.
60. **Nevada Power Company, 2011, (Docket No. 11-06006)** - Participated as an expert witness on behalf of the Southern Nevada Hotel Group before the Nevada PUC. Sponsored written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
61. **Public Service Company of Oklahoma, 2011 (Cause No. PUD 2011-106)** – Participated as an expert witness on behalf of the OIEC before the OCC in PSO’s application seeking rider recovery of third party SPP transmission costs and fees.
62. **Oklahoma Gas and Electric Company, 2011 (Cause No. PUD 2011-087)** – Participated as an expert witness on behalf of OIEC before the OCC in OG&E’s rate case to provided testimony in both the revenue requirement and rate design phases of the proceedings to establish prospective cost-of-service based rates for the power company.
63. **Oklahoma Gas & Electric Company, 2011 (Docket No. 10-109-U)** – Participated as an expert witness on behalf of Gerdau Macsteel before the Arkansas Public Service Commission in OG&E’s

application to recover Smart Grid costs to make recommendations regarding the allocation of the Smart Grid costs.

64. **Oklahoma Gas & Electric Company, 2011 (Cause No. PUD 2011-027)** – Participated as an expert witness on behalf of the OIEC before the OCC in OG&E’s application seeking to include retiree medical expense in the Company’s pension tracker mechanism.
65. **Public Service Company of Oklahoma, 2011 (Cause No. PUD 2010-50)** – Participated as an expert witness on behalf of OIEC before the Oklahoma Corporation Commission in AEP/PSO’s application to recover ice storm O&M expenses through a regulatory asset/rider mechanism to address tax impact and return issues in the proposed rider.
66. **Public Service Company of Colorado, 2011 (Docket No. 10AL-908E)** – Participated as an expert witness on behalf of the Colorado Retail Council (“CRC”) before the Colorado Public Utilities Commission providing written and live testimony to address PSCo’s proposed Environmental Tariff.
67. **Oklahoma Gas & Electric Company, 2011 (Docket No. 10-067-U)** – Participated as an expert witness on behalf of the Northwest Arkansas Industrial Energy Consumers (“NWIEC”)<sup>7</sup> before the Arkansas Public Service Commission in OG&E’s general rate case application to provide testimony on various revenue requirement, cost of service and rate design issues.
68. **Oklahoma Gas & Electric Company, 2010 (Cause No. PUD 2010-146)** – Participated as an expert witness on behalf of the OIEC before the OCC in OG&E’s application seeking rider recovery of third party SPP transmission costs and SPP administration fees.
69. **Massachusetts Electric Co. & Nantucket Electric Co. d/b/a National Grid, 2010 (Docket No. DPU 10-54)** – Participated as an expert witness providing both written and live testimony before the Massachusetts Department of Public Utilities on behalf of the Associated Industries of Massachusetts (“AIM”) to address the Company’s proposed participation in the 438MW Cape Wind project in Nantucket Sound.
70. **Public Service Company of Oklahoma, 2010 (Cause No. PUD 2010-50)** – Participated as an expert witness on behalf of the OIEC before the OCC in AEP/PSO’s general rate case application to provide testimony on various cost-of-service issues and on the utility’s overall revenue requirement and rate design proposals.
71. **Texas-New Mexico Power Co., 2010 (Docket 38480)** – Participated as an expert witness on behalf of the Alliance of Texas Municipalities (“ATM”) before the Texas PUC in TMNP’s general rate case application to address various revenue requirement and rate design issues to establish prospective cost-of-service based rates.
72. **Southwestern Public Service Co., 2010 (PUCT Docket No. 38147)** – Participated as an expert witness on behalf of the Alliance of Xcel Municipalities (“AXM”) in the SPS general rate case application to provide testimony before the Texas Public Utility Commission regarding rate base and operating expense issues and sponsor the AXM Accounting Exhibits.
73. **Oklahoma Gas & Electric Company, 2010 (Cause No. PUD 2010-37)** – Participated as an expert witness on behalf of OIEC before the OCC to address the preapproval and ratemaking treatment of OG&E’s 220MW self-build wind project.

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<sup>7</sup> NWIEC is an association of industrial manufacturing facilities in northwest Arkansas.

74. **Oklahoma Gas & Electric Company, 2010 (Cause No. PUD 2010-29)** – Participated as an expert witness on behalf of the OIEC before the OCC in OG&E’s application seeking pre-approval of deployment of smart-grid technology and rider-recovery of the associated costs. Sponsored written testimony to address smart-grid deployment and time-differentiated fuel rates.
75. **Public Service Company of Oklahoma, 2010 (Cause No. PUD 2010-01)** – Participated as an expert witness on behalf of the OIEC before the OCC in the Company’s proposed Green Energy Choice Tariff. Sponsored testimony to address the pricing and ratemaking treatment of the Company’s proposed wind subscription tariff.
76. **Nevada Power Company, 2010 (Docket No. 10-02009)** – Participated as an expert witness on behalf of the Southern Nevada Hotel Group (“SNHG”) before the Nevada PUC to provide testimony in NPC’s Internal Resource Plan to address the ratemaking treatment of the proposed ON Line transmission line.
77. **Entergy Texas Inc., 2010 (PUC Docket No. 37744)** – Participated as an expert witness on behalf of the Cities in ETI’s general rate case to provide testimony on various cost of service issues and on the utility’s overall revenue requirement.
78. **El Paso Electric Company, 2010 (PUC Docket No. 37690)** – Participated as an expert witness on behalf of the City of El Paso in the EPI general rate case to provide testimony on various cost of service issues and on the utility’s overall revenue requirement.
79. **Public Service Company of Oklahoma, 2009 (Cause No. 09-196)** – Participated as an expert witness on behalf of the OIEC before the OCC in PSO’s application for approval of DSM programs and cost recovery. Sponsored testimony to address program costs, lost revenue recovery, cost allocations and incentives.
80. **Oklahoma Gas and Electric Company, 2009 (Cause No. PUD 09-230 and 09-231)** – Participated as an expert witness on behalf of OIEC before the OCC in OG&E’s application to add wind resources from two purchased power contracts. Sponsored written testimony to address the proper ratemaking treatment of the contract costs and the renewable energy certificates.
81. **Oklahoma Gas and Electric Company, 2009 (Cause No. PUD 08-398)** – Participated as an expert witness on behalf of OIEC before the OCC in OG&E’s rate case. Provided testimony in both the revenue requirement and rate design phases of the proceedings to establish prospective cost-of-service based rates for the power company.
82. **Nevada Power Company, 2009, (Docket No. 08-12002)** - Participated as an expert witness on behalf of the Southern Nevada Hotel Group before the Nevada PUC. Sponsored written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
83. **Public Service Company of Oklahoma, 2009 (Cause No. 09-031)** – Participated as an expert witness on behalf of OIEC before the OCC in PSO’s application to add wind resources from two purchased power contracts. Sponsored written testimony to address the proper ratemaking treatment of the contract costs and the renewable energy certificates.
84. **Oklahoma Natural Gas Co., 2009 (Cause No. PUD 08-348)** – Participated as an expert witness on witness on behalf of the OIEC before the OCC in ONG’s application to establish a Performance Based Rate tariff. Sponsored both written and oral testimony to address the merits of the utility’s proposed PBR.



85. **Rocky Mountain Power, 2009 (Docket No. 08-035-38)** – Participated as an expert witness on behalf of the Division of Public Utilities (Staff) in PacifiCorp’s general rate case to provide testimony on various revenue requirement issues.
86. **Texas-New Mexico Power Co., 2008 (Docket 36025)** – Participated as an expert witness on behalf of the Alliance of Texas Municipalities (“ATM”) before the Texas PUC in TMNP’s general rate case application to address various revenue requirement and rate design issues to establish prospective cost-of-service based rates.
87. **Public Service Company of Oklahoma, 2008 (Cause No. 08-144)** – Participated as an expert witness on behalf of the OIEC before the OCC in PSO’s general rate case application to address revenue requirement and rate design issues to establish prospective cost-of-service based rates.
88. **Public Service Company of Oklahoma, 2008 (Cause No. 08-150)** – Participated as an expert witness on behalf of the OIEC before the OCC to address PSO’s calculation of its Fuel Clause Adjustment for 2008.
89. **Oklahoma Gas and Electric Company, 2008 (Cause No. PUD 08-059)** – Participated as an expert witness on behalf of the OIEC before the OCC in OG&E’s application seeking authorization of its Demand Side Management (“DSM”) programs and the establishment of a DSM Rider to recover program costs, lost revenues and utility incentives.
90. **Entergy Gulf States, 2008 (PUC Docket No. 34800, SOAH Docket No. 473-08-0334)** – Participated as an expert witness on behalf of the Cities in EGSI’s general rate case to provide testimony on various cost of service issues and on the utility’s overall revenue requirement.
91. **Public Service Company of Oklahoma, 2008 (Cause No. 07-465)** – Participated as an expert witness on behalf of the OIEC before the OCC in PSO’s application to recover the pre-construction costs of the cancelled Red Rock coal generation facility.
92. **Oklahoma Gas and Electric Company, 2008 (Cause No. 07-447)** – Participated as an expert witness on behalf of the OIEC before the OCC in OG&E’s application seeking authorization to recover the pre-construction costs of the cancelled Red Rock coal generation facility using proceeds from sales of excess SO<sub>2</sub> allowances.
93. **Rocky Mountain Power, 2008 (Docket No. 07-035-93)** – Participated as an expert witness on behalf of Division of Public Utilities (Staff) in PacifiCorp’s general rate case to provide testimony on various revenue requirement issues.
94. **Public Service Company of Oklahoma, 2008 (Cause No. PUD 07-449)** – Participated as an expert witness on behalf of the OIEC before the OCC in PSO’s application seeking authorization of its Demand Side Management (“DSM”) programs and the establishment of a DSM Rider to recover program costs, lost revenues and utility incentives.
95. **Public Service Company of Oklahoma, 2008 (Cause No. PUD 07-397)** – Participated as an expert witness on behalf of OIEC before the OCC in PSO’s application seeking authorization to defer storm damage costs in a regulatory asset account and to recover the costs using the proceeds from sales of excess SO<sub>2</sub> allowances.
96. **Oklahoma Gas & Electric Co., 2007 (Cause No. PUD 07-012)** – Participated as an expert witness on behalf of OIEC before the OCC in OG&E’s application seeking pre-approval to construct the Red



Rock coal plant to address the Company's proposed rider recovery mechanism.

97. **Oklahoma Natural Gas Co., 2007 (Cause No. PUD 07-335)** – Participated as an expert witness on behalf of the OIEC before the OCC in ONG's application proposing alternative cost recovery for the Company's ongoing capital expenditures through the proposed Capital Investment Mechanism Rider ("CIM Rider"). Sponsored testimony to address ONG's proposal.
98. **Public Service Company of Oklahoma, 2007 (Cause No. PUD 06-030)** – Participated as an expert witness on behalf of the OIEC before the OCC in PSO's application seeking a used and useful determination for its planned addition of the Red Rock coal plant to address the Company's use of debt equivalency in the competitive bidding process for new resources.
99. **Public Service Company of Oklahoma, 2006 (Cause No. PUD 06-285)** – Participated as an expert witness on behalf of the OIEC before the OCC in PSO's general rate case application to address various revenue requirement and rate design issues to establish prospective cost-of-service based rates.
100. **Nevada Power Company, 2007, (Docket No. 07-01022)** - Participated as an expert witness on behalf of the MGM MIRAGE before the Nevada PUC in Nevada Power Company's deferred energy docket to determine the level of prudent company expenditures for fuel and purchased power.
101. **Nevada Power Company, 2006, (Docket No. 06-11022)** - Participated as an expert witness on behalf of the MGM MIRAGE properties before the Nevada PUC. Sponsored written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
102. **Southwestern Public Service Co., 2006 (PUCT Docket No. 37766)** – Participated as an expert witness on behalf of the Alliance of Xcel Municipalities ("AXM") in the SPS general rate case application. Provided testimony before the Texas Public Utility Commission regarding rate base and operating expense issues and sponsored the Accounting Exhibits on behalf of AXM.
103. **Atmos Energy Corp., Mid-Tex Division, 2006 (Texas GUD 9676)** – Participated as an expert witness in the Atmos Mid-Tex general rate case application on behalf of the Atmos Texas Municipalities ("ATM"). Provided written and oral testimony before the Railroad Commission of Texas regarding the revenue requirements of Mid-Tex including various rate base, operating expense, depreciation and tax issues. Sponsored the Accounting Exhibits for ATM.
104. **Nevada Power Company, 2006 (Docket No. 06-06007)** – Participated as an expert witness on behalf of the MGM MIRAGE in the Sinatra Substation Electric Line Extension and Service Contract case. Provided both written and oral testimony before the Nevada Public Utility Commission to provide the Commission with information as to why the application is consistent with the line extension requirements of Rule 9 and why the cost recovery proposals set forth in the application provide a least cost approach to adding necessary new capacity in the Las Vegas strip area.
105. **Public Service Co. of Oklahoma, 2006 (Cause No. PUD 05-00516)** - Participated as an expert witness on behalf of the OIEC to review PSO's application for a "used and useful" determination of its proposed peaking facility.
106. **Oklahoma Gas and Electric Co., 2006 (Cause No. PUD 06-00041)** – Participated as an expert witness on behalf of the OIEC in OG&E's application to propose an incentive sharing mechanism for SO<sub>2</sub> allowance proceeds.

107. **Chermac Energy Corporation, 2006 (Cause No. PUD 05-00059 and 05-00177)** – Participated as an expert witness on behalf of the OIEC in Chermac’s PURPA application. Sponsored written responsive and rebuttal testimony to address various rate design issues arising under the application.
108. **Oklahoma Gas and Electric Co., 2006 (Cause No. PUD 05-00140)** – Participated as an expert witness on behalf of the OIEC in OG&E’s 2003 and 2004 Fuel Clause reviews. Sponsored written testimony to address the purchasing practices of the Company, its transactions with affiliates, and the prices paid for natural gas, coal and purchased power.
109. **Nevada Power Company, 2006, (Docket No. 06-01016)** - Participated as an expert witness on behalf of the MGM MIRAGE properties before the Nevada PUC. Sponsored written testimony in NPC’s deferred energy docket to determine the level of prudent company expenditures for fuel and purchased power.
110. **Oklahoma Gas and Electric Co., 2005 (Cause No. PUD 05-151)** – Participated as an expert witness on behalf of the OIEC in OG&E’s general rate case application. Sponsored both written and oral testimony before the OCC to address various revenue requirement and rate design issues for the purpose of setting prospective cost-of-service based rates.
111. **Oklahoma Natural Gas Co., 2005 (Cause No. PUD 04-610)** – Participated as an expert witness on behalf of the Attorney General of Oklahoma. Sponsored written and oral testimony to address numerous rate base, operating expense and depreciation issues for the purpose of setting prospective cost-of-service based rates.
112. **CenterPoint Energy Arkla, 2004 (Cause No. PUD 04-0187)** – Participated as an expert witness on behalf of the Attorney General of Oklahoma: Sponsored written testimony to provide the OCC with analysis from an accounting and ratemaking perspective of the Co.’s proposed change in depreciation rates from an Average Life Group to an Equal Life Group methodology. Addressed the Co.’s proposed increase in depreciation rates associated with increased negative salvage value calculations.
113. **Public Service Co. of Oklahoma, 2004 (Cause No. PUD 02-0754)** – Participated as an expert witness on behalf of the OIEC. Sponsored written testimony (1) making adjustments to PSO’s requested recovery of an ICR programming error, (2) correcting errors in the allocation of trading margins on off-system sales of electricity from AEP East to West and among the AEP West utilities and (3) recommending an annual rather than a quarterly change in the FAC rates.
114. **PowerSmith Cogeneration Project, 2004 (Cause No. PUD 03-0564)** - Participated as an expert witness on behalf of the OIEC to provide the OCC with direction in setting an avoided cost for the PowerSmith Cogeneration project under PURPA requirements. Provided both written and oral testimony on the provisions of the proposed contract under PURPA:
115. **Electric Utility Rules for Affiliate Transactions, 2004 (Cause No. RM 03-0003)** – Participated as a consultant on behalf of the OIEC to draft comments to assist the OCC in developing rules for affiliate transactions. Assisted in drafting the proposed rules. Successful in having the Lower of Cost or Market rule adopted for affiliate transactions in Oklahoma.
116. **Nevada Power Company, 2003, (Docket No. 03-10001)** - Participated as an expert witness on behalf of the MGM MIRAGE properties before the Nevada PUC. Sponsored written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
117. **Nevada Power Company, 2003, (Docket No. 03-11019)** - Participated as an expert witness on

behalf of the MGM MIRAGE before the Nevada PUC in Nevada Power Company's deferred energy docket to determine the level of prudent company expenditures for fuel and purchased power.

118. **Public Service Company of Oklahoma, 2003 (Cause No. PUD 03-0076)** – Participated as an expert witness on behalf of the OIEC before the OCC in PSO's general rate case application to address various revenue requirement and rate design issues to establish prospective cost-of-service based rates.
119. **Oklahoma Gas & Electric Co., 2003 (Cause No. PUD 03-0226)** – Participated as an expert witness on behalf of the OIEC. Provided both written and oral testimony before the OCC to determine the appropriate level to include in rates for natural gas transportation and storage services acquired from an affiliated company.
120. **Nevada Power Company, 2003 (Docket No. 02-5003-5007)** - Participated as an expert witness on behalf of the MGM Mirage before the Nevada PUC. Sponsored written and oral testimony to calculate the appropriate exit fee in MGM Mirage's 661 Application to leave the system.
121. **McCarthy Family Farms, 2003** – Participated as a consultant to assist McCarthy Family Farms in converting a biomass and biosolids composting process into a renewable energy power producing business in California.
122. **Bice v. Petro Hunt, 2003 (ND, Supreme Court No. 20030306)** - Participated as an expert witness in a class certification proceeding to provide cost-of-service calculations for royalty valuation deductions for natural gas gathering, dehydration, compression, treatment and processing fees in North Dakota.
123. **Nevada Power Company, 2003 (Docket No. 03-11019)** - Participated as a consulting expert on behalf of the MGM Mirage before the Nevada PUC in Nevada Power Company's deferred energy docket to determine the level of prudent company expenditures for fuel and purchased power. Provided written and oral testimony on the reasonableness of the cost allocations to the utility's various customer classes.
124. **Wind River Reservation, 2003 (Fed. Claims Ct. No. 458-79L, 459-79L)** – Participated as a consulting expert on behalf of the Shoshone and Arapaho Tribes to provide cost-of-service calculations for royalty valuation deductions for gathering, dehydration, treatment and compression of natural gas and the reasonableness of deductions for gas transportation.
125. **Oklahoma Gas & Electric Co., 2002 (Cause No. PUD 01-0455)** – Participated as an expert witness on behalf of the OIEC before the OCC. Sponsored written and oral testimony on numerous revenue requirement issues including rate base, operating expense and rate design issues to establish prospective cost-of-service based rates.
126. **Nevada Power Company, 2002 (Docket No. 02-11021)** - Participated as an expert witness on behalf of the MGM Mirage before the Nevada PUC in Nevada Power Company's deferred energy docket to determine the level of prudent company expenditures for fuel and purchased power and to make recommendations with respect to rate design.
127. **Nevada Power Company, 2002 (Docket No. 01-11029)** - Participated as a consulting expert on behalf of the MGM Mirage before the Nevada PUC in Nevada Power Company's deferred energy docket to determine the level of prudent company expenditures for fuel and purchased power included in the Company's \$928 million deferred energy balances.

128. **Nevada Power Company, 2002 (Docket No. 01-10001)** - Participated as an expert witness on behalf of the MGM Mirage before the Nevada PUC. Sponsored written and oral testimony in both the revenue requirement phase and the rate design phase of the proceedings to establish prospective cost-of-service based rates for the power company.
129. **Chesapeake v. Kinder Morgan, 2001 (CIV-00-397L)** - Participated as an expert witness on behalf of Chesapeake Energy in a gas gathering dispute. Sponsored testimony to calculate and support a reasonable rate on the gas gathering system. Performed necessary calculations to determine appropriate levels of operating expense, depreciation and cost of capital to include in a reasonable gathering charge and developed an appropriate rate design to recover these costs.
130. **Southern Union Gas Company, 2001** - Participated as a consultant to the City of El Paso in its review of SUG's gas purchasing practices, gas storage position, and potential use of financial hedging instruments and ratemaking incentives to devise strategies to help shelter customers from the risk of high commodity price spikes during the winter months.
131. **Nevada Power Company, 2001** - Participated as an expert witness on behalf of the MGM-Mirage, Park Place and Mandalay Bay Group before the Nevada Public Utility Commission to review NPC's Comprehensive Energy Plan (CEP) for the State of Nevada and make recommendations regarding the appropriate level of additional costs to include in rates for the Company's prospective power costs associated with natural gas and gas transportation, coal and coal transportation and purchased power.
132. **Bridenstine v. Kaiser-Francis Oil Co. et al., 2001 (CJ-95-54)** - Participated as an expert witness on behalf of royalty owner plaintiffs in a valuation dispute regarding gathering, dehydration, metering, compression, and marketing costs. Provided cost-of-service calculations to determine the reasonableness of the gathering rate charged to the royalty interest. Also provided calculations as to the average price available in the field based upon a study of royalty payments received on other wells in the area.
133. **Klatt v. Hunt et al., 2000 (ND)** - Participated as an expert witness and filed report in United States District Court for the District of North Dakota in a natural gas gathering contract dispute to calculate charges and allocations for processing, sour gas compression, treatment, overhead, depreciation expense, use of residue gas, purchase price allocations, and risk capital.
134. **Oklahoma Gas and Electric Co., 2000 (Cause No. PUD 00-0020)** - Participated as an expert witness on behalf of the OIEC before the OCC. Sponsored testimony on OG&E's proposed Generation Efficiency Performance Rider (GEPR). Provided a list of criteria with which to measure a utility's proposal for alternative ratemaking. Recommended modifications to the Company's proposed GEPR to bring it within the boundaries of an acceptable alternative ratemaking formula.
135. **Oklahoma Gas and Electric Co., 1999** - Participated as an expert witness on behalf of the OIEC before the OCC. Sponsored testimony on OG&E's proposed Performance Based Ratemaking (PBR) proposal including analysis of the Company's regulated return on equity, fluctuations in the capital investment and operating expense accounts of the Company and the impact that various rate base, operating expense and cost of capital adjustments would have on the Company's proposal.
136. **Nevada Power Company, 1999 (Docket No. 99-7035)** - Participated as an expert witness on behalf of the Mirage, Park Place and Mandalay Bay Group before the Nevada PUC. Sponsored written and oral testimony addressing the appropriate ratemaking treatment of the Company's deferred energy balances, prospective power costs for natural gas, coal and purchased power and deferred capacity payments for purchased power.

137. **Nevada Power Company, 1999 (Docket No. 99-4005)** - Participated as an expert witness on behalf of the Mirage, Park Place and Mandalay Bay Group before the Nevada PUC. Sponsored written and oral testimony to unbundle the utility services of the NPC and to establish the appropriate cost-of-service allocations and rate design for the utility in Nevada's new competitive electric utility industry.
138. **Nevada Power Company, 1999 (Docket No. 99-4005)** - Participated as an expert witness on behalf of the Mirage, Park Place and Mandalay Bay Group before the Nevada PUC. Sponsored written and oral testimony to establish the cost-of-service revenue requirement of the Company.
139. **Nevada Power/Sierra Pacific Merger, 1998 (Docket No. 98-7023)** - Participated as an expert witness on behalf of the Mirage and MGM Grand before the Nevada PUC. Sponsored written and oral testimony to establish (1) appropriate conditions on the merger (2) the proper sequence of regulatory events to unbundle utility services and deregulate the electric utility industry in Nevada (3) the proper accounting treatment of the acquisition premium and the gain on divestiture of generation assets. The recommendations regarding conditions on the merger, the sequence of regulatory events to unbundle and deregulate, and the accounting treatment of the acquisition premium were specifically adopted in the Commission's final order.
140. **Oklahoma Natural Gas Company, 1998 (Cause No. PUD 98-0177)** - Participated as an expert witness in ONG's unbundling proceedings before the OCC. Sponsored written and oral testimony on behalf of Transok, LLC to establish the cost of ONG's unbundled upstream gas services. Substantially all of the cost-of-service recommendations to unbundle ONG's gas services were adopted in the Commission's interim order.
141. **Public Service Company of Oklahoma, 1997 (Cause No. PUD 96-0214)** - Audited both rate base investment and operating revenue and expense to determine the Company's revenue requirement and cost-of-service. Sponsored written testimony before the OCC on behalf of the OIEC.
142. **Oklahoma Natural Gas /Western Resources Merger, 1997 (Cause No. PUD 97-0106)** - Sponsored testimony on behalf of the OIEC regarding the appropriate accounting treatment of acquisition premiums resulting from the purchase of regulated assets.
143. **Oklahoma Gas and Electric Co., 1996 (Cause No. PUD 96-0116)** - Audited both rate base investment and operating income. Sponsored testimony on behalf of the OIEC for the purpose of determining the Company's revenue requirement and cost-of-service allocations.
144. **Oklahoma Corporation Commission, 1996** - Provided technical assistance to Commissioner Anthony's office in analyzing gas contracts and related legal proceedings involving ONG and certain of its gas supply contracts. Assignment included comparison of pricing terms of subject gas contracts to portfolio of gas contracts and other data obtained through annual fuel audits analyzing ONG's gas purchasing practices.
145. **Tenkiller Water Company, 1996** - Provided technical assistance to the Attorney General of Oklahoma in his review of the Company's regulated cost-of-service for the purpose of setting prospective utility rates.
146. **Arkansas Oklahoma Gas Company, 1995 (Cause No. PUD 95-0134)** - Sponsored written and oral testimony before the OCC on behalf of the Attorney General of Oklahoma regarding the price of natural gas on AOG's system and the impact of AOG's proposed cost of gas allocations and gas transportation rates and tariffs on AOG's various customer classes.
147. **Enogex, Inc., 1995 (FERC 95-10-000)** - Analyzed Enogex's application before the FERC to increase

gas transportation rates for the Oklahoma Independent Petroleum Association and made recommendations regarding revenue requirement, cost-of-service and rate design on behalf of independent producers and shippers.

148. **Oklahoma Natural Gas Company, 1995 (Cause No. PUD 94-0477)** - Analyzed a portfolio of ONG's gas purchase contracts in the Company's Payment-In-Kind (PIC) gas purchase program and made recommendations to the OCC Staff on behalf of Terra Nitrogen, Inc. regarding the inappropriate profits made by ONG on the sale of the gas commodity through the PIC program pricing formula. Also analyzed the price of gas on ONG's system, ONG's cost-of-service based rates, and certain class cross-subsidizations in ONG's existing rate design.
149. **Arkansas Louisiana Gas Company, 1994 (Cause No. PUD 94-0354)** - Planned and supervised the rate case audit for the OCC Staff and reviewed the workpapers and testimony of the other auditors on the case. Sponsored cost-of-service testimony on cash working capital and developed policy recommendations on post test year adjustments.
150. **Empire District Electric Company, 1994 (Cause No. PUD 94-0343)** - Planned and supervised the rate case audit for the OCC Staff and reviewed the workpapers and testimony of other auditors. Sponsored cost-of-service testimony on rate base investment areas including cash working capital.
151. **Oklahoma Natural Gas Company, 1992 through 1993 (Cause No. PUD 92-1190)** - Planned and supervised the rate case audit of ONG for the OCC Staff. Reviewed all workpapers and testimony of the other auditors on the case. Sponsored written and oral testimony on numerous cost-of-service adjustments. Analyzed ONG's gas supply contracts under the Company's PIC program.
152. **Oklahoma Gas and Electric Company, 1991 through 1992 (Cause No. PUD 91-1055)** - Audited the rate base, operating revenue and operating expense accounts of OG&E on behalf of the OCC Staff. Sponsored written and oral testimony on numerous revenue requirement adjustments to establish the appropriate level of costs to include for the purpose of setting prospective rates.

**OKLAHOMA GAS & ELECTRIC COMPANY**  
**OIEC/OER WORKPAPERS - SUMMARY OF PROPOSED ADJUSTMENTS**  
**Test Year Ended 9-30-17**  
**Cause NO. PUD 201700496**

Ln	Descriptions	Witness	Ref.	Rate Base Items	ROR W/Tax (OGE)	Oklahoma Impact
1	<b>OG&amp;E Proposed Rate Increase</b>					<b>\$ 1,860,515</b>
2	<b>Rate Base Adjustments</b>			<b>\$ 4,583,074,714</b>		
3	To Adjust Plant Investment to 6-Month Level	M. Garrett	MG 2.1	6,199,091	9.57745%	593,715
4	To Adjust Accumulated Depreciation to 6-Month Level	M. Garrett	MG 2.1	(10,254,330)	9.57745%	(982,103)
5	To Adjust ADFIT to 6-Month Level	M. Garrett	MG 2.1	(15,201,830)	9.57745%	(1,455,947)
6	To Remove Plant Held for Future Use	M. Garrett	MG 2.1	(1,221,033)	9.57745%	(116,944)
6	To Adjust Regulatory Assets to 6-Month Level	M. Garrett	MG 2.1	31,734,448	9.57745%	3,039,350
7	To Adjust Regulatory Liabilities to 6-Month Level	M. Garrett	MG 2.1	(30,933,908)	9.57745%	(2,962,678)
8	To Adjust Net Pension Asset Balance to 6-Month Level	M. Garrett	MG 2.1	(7,233,904)	9.57745%	(692,823)
9	<b>Total Rate Base Adjustments</b>			<b>\$ (26,911,465)</b>		<b>\$ (2,577,431)</b>
14	<b>Cost of Capital</b>					
15	To Apply OIEC/OER ROE Adjustment	D. Parcell	9.200%	\$ 4,556,163,249	-0.502%	<b>\$ (22,893,666)</b>
16	To Apply OIEC/OER Capital Structure Adjustment	D. Parcell	50/50	4,556,163,249	-0.235%	<b>\$ (10,696,639)</b>
17	<b>Revenue and Expense Adjustments</b>					
18	To Adjust OG&E Payroll to 6-Month Annualization	M. Garrett	MG 2.2			(965,424)
19	To Adjust Payroll Taxes	M. Garrett	MG 2.2			(77,477)
20	To Remove 50% of Annual Incentive Plan	M. Garrett	MG 2.3			(5,786,550)
21	To Adjust Payroll Tax on Annual Incentive Adjustment	M. Garrett	MG 2.3			(464,383)
22	To Remove Supplemental Executive Retirement Plan	M. Garrett	MG 2.4			(661,401)
23	To Adjust Net Unfunded ADIT to 6-Month Update	M. Garrett	MG 2.5			(7,701,625)
24	To Limit Vegetation Management to Actual Test Year Level	M. Garrett	MG 2.6			(7,714,274)
25	<b>Total Operating Revenue &amp; Expense Adjustments</b>					<b>\$ (23,371,134)</b>
26	<b>Depreciation and Amortization Expense Adjustments</b>	D. Garrett		<b>\$ (57,818,554)</b>	90.90% (D. Garrett Adj.) (Okla. Juris)	<b>\$ (52,557,066)</b>
27	<b>Mustang Modernization Adjustments</b>	S. Norwood	MG2.8			<b>(10,165,080)</b>
28	<b>Total of All OIEC/OER Adjustments</b>					<b>\$ (122,261,016)</b>
29	<b>OIEC/OER Proposed Rate Decrease</b>					<b>\$ (120,400,501)</b>

OKLAHOMA GAS & ELECTRIC COMPANY  
 OIEC WORKPAPERS - RATE BASE ADJUSTMENTS  
 Test Year Ended 09-30-17  
 Cause NO. PUD 201700496

Line No.	Description	OG&E Requested Balance	Ref.	Actual Balance at 6-Month Cutoff	Ref.	OIEC Total Co. Adjustments	Juris Factor	OIEC Oklahoma Adjustments
				31-Mar-18			[Sch B-2]	
1	Plant in Service	\$ 10,590,863,620	Sch B-2	\$ 10,597,760,540	AG 12-3 Supp	\$ 6,896,920	89.88%	\$ 6,199,091
2	Accumulated Depreciation	\$ (3,977,182,717)	Sch B-2	\$ (3,988,602,431)	AG 12-3 Supp	\$ (11,419,714)	89.79%	\$ (10,254,330)
3	Plant Held for Future Use - <u>REMOVED</u>	\$ 1,358,484	Sch B-2	\$ -		\$ (1,358,484)	89.88%	\$ (1,221,033)
4	Accumulated Deferred Income Taxes	\$ (625,177,372)	Sch B-2	\$ (642,015,118)	AG 12-3 Supp	\$ (16,837,746)	90.28%	\$ (15,201,830)
4	Regulatory Assets	\$ 135,371,741	Sch B-2	\$ 171,321,284	AG 12-3 Supp	\$ 35,949,543	88.27%	\$ 31,734,448
5	Regulatory Liabilities	\$ (1,081,264,751)	Sch B-2	\$ (1,115,557,733)	AG 12-3 Supp	\$ (34,292,982)	90.20%	\$ (30,933,908)
13	Net Pension Asset	<u>\$ 63,487,043</u>	Sch B-2	<u>\$ 55,583,504</u>	AG 12-3 Supp	<u>\$ (7,903,539)</u>	91.53%	<u>\$ (7,233,904)</u>
14	Total	<u>\$ 5,107,456,048</u>		<u>\$ 5,078,490,046</u>		<u>\$ (28,966,002)</u>		<u>\$ (26,911,465)</u>



OKLAHOMA GAS & ELECTRIC COMPANY  
OIEC WORKPAPERS - ADJUSTMENT TO OG&E'S PRO FORMA PAYROLL EXPENSE  
Test Year Ended 09-30-17  
Cause NO. PUD 201700496

Ln	Description	Ref	Amount	Okla Juris	Okla Amount
				(Sch H-1)	
1	OG&E Payroll Increase filed in Original Case	W/P H-2-22	\$ 4,348,660		
2	OG&E Payroll Increase calculated in AG 12-3 (6-Month Update)	AG 12-3	<u>\$ 3,292,166</u>		0
3	Total OIEC Adjustment to Reverse OG&E's Payroll Adjustments	Calc.	\$ (1,056,494)	91.38%	<u>\$ (965,424)</u>
4	Effective Payroll Tax Rate	W/P H-2-22a			8.03%
5	OIEC Adjustment for Payroll Tax Expense	Calc.	\$ (84,786)		<u>\$ (77,477)</u>
6	<b>TOTALS</b>		\$ (1,141,280)		<u><b>\$(1,042,902)</b></u>

**OKLAHOMA GAS & ELECTRIC COMPANY**  
**OIEC WORKPAPERS - ADJUSTMENT TO INCENTIVES EXPENSE**  
**Test Year Ended 9-30-17**  
**Cause NO. PUD 201700496**

Line No.	(a) Description	(b) Source	(c) OGE Holding Company	(d) OG&E Utility	(e) Total	(f) Amount Excluded	(g) Test Year Incentives Excluded
1	Annual Incentives	W/P H-2-23	\$ 5,957,476	\$ 12,015,752	\$ 17,973,228		
2	Expensed Portion	W/P H-2-23	78.73%	66.37%			
3	Annual Incentives in Pro Forma Expense		\$ 4,690,389	\$ 7,974,417	\$ 12,664,806	-50.00%	\$ (6,332,403)
4	Oklahoma Jurisdictional Allocation	Sch H-1					91.38%
5	OIEC Adjustment to Incentive Expense						<b>\$ (5,786,550)</b>
6	Payroll Tax Percentage	W/P H-2-22a					8.03%
7	Payroll Tax Expense Adjustment						<b>\$ (464,383)</b>

**OKLAHOMA GAS & ELECTRIC COMPANY**  
**OIEC WORKPAPERS - ADJUSTMENT TO NONQUALIFYING EXECUTIVE RETIREMENT PLAN EXPENSE**  
**Test Year Ended 9-30-17**  
**Cause NO. PUD 201700496**

Line No.	Description	OGE Holding Company	OG&E Utility Company	TOTAL
1	Executive Restoration Retirement Plan Costs in Pro Forma Rates	\$ 400,000	\$ 660,000 OIEC 3-2Att	\$ 1,060,000
2	Expense %	75.48%	63.92% OIEC 3-2Att	<u>68.28%</u>
3	Total Company SERP in Cost of Service	\$ 301,920	\$ 421,872	<u>\$ 723,792</u>
4	OIEC Adjustment to Remove SERP Expense			<u>\$ (723,792)</u>
5	Oklahoma Jurisdictional %			91.38%
6	OIEC Adjustment to Remove Oklahoma SERP Expense			<u><u>\$ (661,401)</u></u>

**OKLAHOMA GAS & ELECTRIC CO**  
**OIEC WORKPAPERS - Unfunded Deferred Tax Liability Amortization Update**  
**Test Year Ended 09-30-17**  
**Cause NO. PUD 201700496**

Ln	Description	Source	Total Co	Juris %	Oklahoma
1	Amortization of Unfunded Deferred Tax Liability as Filed	AG12-3_Att4	\$ (5,041,018)	89.75%	\$ (4,524,314)
2	Amortization of Unfunded Deferred Tax Liability as Updated	AG12-3_Att4	\$ (30,021,153)	89.75%	\$ (26,943,985)
3	Adjustment to Correct Filed Amortization Amount		\$ (24,980,135)		\$ (22,419,671)
4	Effective Tax Rate	AG12-3_Att4	25.5687%		25.5687%
5	Adjustment to Impcome Tax Expense in revenue Requirement		\$ (6,387,096)		\$ (5,732,418)
6	Tax Gross Up Factor	AG12-3_Att4	1.343521		1.343521
7	OIEC/OER Adjustment		\$ (8,581,197)		\$ (7,701,625)

**OKLAHOMA GAS AND ELECTRIC COMPANY  
OIEC ADJUSTMENT - VEGETATION MANAGEMENT  
TEST YEAR ENDING 9/30/17  
CAUSE NO. PUD 201700496**

Line No.	Description	Ref	Test Year Expense	OG&E Requested Spend	% Increase	Average 6-Year Spend	OIEC Adjustment
1	Distribution	W/P H2.43	\$ 19,331,986	\$ 25,790,903	33%	\$ 19,637,600	\$ (6,458,917)
2	Transmission	W/P H2.45	\$ 3,279,297	\$ 4,534,654	38%	\$ 3,429,642	<u>\$ (1,255,357)</u>
3	Total						<u><u>\$ (7,714,274)</u></u>

**PURPOSE:**

To limit the increase in Distribution Vegetation Management to the test year level which is consistent with the 6-Year average spend  
To limit the increase in Transmission Vegetation Management to the test year level which is consistent with the 6-Year average spend

## Recap: 6-Year History from OIEC 3-1

	Distribution	Transmission
2012	\$ 21,452,531	\$ 3,141,960
2013	\$ 20,324,983	\$ 3,983,305
2014	\$ 16,858,229	\$ 2,908,903
2015	\$ 15,528,280	\$ 3,228,552
2016	\$ 16,604,268	\$ 3,139,199
2017	\$ 27,057,311	\$ 4,175,934
6-Yr Avg	\$ 19,637,600	\$ 3,429,642

**OKLAHOMA GAS & ELECTRIC CO**  
**OIEC WORKPAPERS - COST OF CAPITAL**  
**Test Year Ended 9-30-17**  
**Cause NO. PUD 201700496**

**OG&E Proposed**

Ln.	Description	Cap Struc	Cost	Wt Avg	Tax	ROR
1	Long Term Debt	46.66%	5.32%	2.482%	1.00000	2.482%
2	Preferred	0.00%	0.00%	0.000%		
3	Common Equity	53.34%	9.90%	5.281%	1.343521	7.095%
4		100.000%		7.763%		9.577%

**OIEC Proposed ROE**

Ln.	Description	Cap Struc	Cost	Wt Avg	Tax	ROR
1	Long Term Debt	46.66%	5.32%	2.482%	1.00000	2.482%
2	Preferred	0.000%	0.00%	0.00%		
3	Common Equity	53.34%	9.200%	4.907%	1.343521	6.593%
4		100.000%		7.39%		9.075% <b>-0.502%</b>

**OIEC Proposed Cost of Capital Structure**

Ln.	Description	Cap Struc	Cost	Wt Avg	Tax	ROR
1	Long Term Debt	50.00%	5.32%	2.66%	1.00000	2.66%
2	Preferred	0.000%	0.00%	0.00%		
3	Common Equity	50.00%	9.200%	4.60%	1.343521	6.18%
4		100.000%		7.26%		8.84% <b>-0.235%</b>

**OIEC Proposed - Debt Return on the Mustang Balance**

Ln.	Description	Cap Struc	Cost	Wt Avg	Tax	ROR
1	Long Term Debt	50.00%	5.32%	2.66%	1.00000	2.66%
2	Preferred	0.000%	0.00%	0.00%		
3	Common Equity	50.00%	5.320%	2.66%	1.343521	3.57%
4		100.000%		5.32%		6.23%

OKLAHOMA GAS & ELECTRIC CO  
OIEC WORKPAPERS - MUSTANG ADJUSTMENT  
Test Year Ended 9-30-17  
Cause NO. PUD 201700496

**OG&E Proposed Cost of Capital**

Ln.	Description	Cap Struc	Cost	Wt Avg	Tax	ROR
1	Long Term Debt	46.66%	5.32%	2.482%	1.00000	2.482%
2	Preferred	0.00%	0.00%	0.000%		
3	Common Equity	53.34%	9.90%	5.281%	1.343521	7.095%
4	Total Rate of Return	100.000%		7.763%		9.577%

**OIEC Proposed ROE**

Ln.	Description	Cap Struc	Cost	Wt Avg	Tax	ROR
5	Long Term Debt	46.66%	5.32%	2.482%	1.00000	2.482%
6	Preferred	0.000%	0.00%	0.00%		
7	Common Equity	53.34%	9.200%	4.907%	1.343521	6.593%
8	Total Rate of Return	100.000%		7.39%		9.075%
9	Difference					-0.502%

**OIEC Proposed Cost of Capital**

Ln.	Description	Cap Struc	Cost	Wt Avg	Tax	ROR
10	Long Term Debt	50.00%	5.32%	2.66%	1.00000	2.66%
11	Preferred	0.000%	0.00%	0.00%		
12	Common Equity	50.00%	9.200%	4.60%	1.343521	6.18%
13	Total Rate of Return	100.000%		7.26%		8.84%
14	Difference					-0.235%

**OIEC Proposed - Debt Return on the Mustang Balance**

Ln.	Description	Cap Struc	Cost	Wt Avg	Tax	ROR
15	Long Term Debt	50.00%	5.32%	2.66%	1.00000	2.66%
16	Preferred	0.000%	0.00%	0.00%		
17	Common Equity	50.00%	5.320%	2.66%	1.343521	3.57%
18	Total Rate of Return	100.000%		5.32%		6.23%
19	Difference					-2.606%
20	<b>Mustang Plant Balance</b>					<b>\$ 390,000,000</b> <sup>1</sup>
21	<b>OIEC/OER Adjustment to Provide Debt Return on Mustang Plant</b>					<b>\$ (10,165,080)</b> (Ln. 20 x Ln. 19)

**GARRETT GROUP INCENTIVE COMPENSATION SURVEY SUMMARY**

**States that follow the Financial-Performance Rule:**

- Arizona** The Commission deals with incentive compensation plans on a case by case basis. Evaluation centers on the criteria of benefit to customers. This treatment tends to make long-term programs harder to justify, but the same criteria are used to evaluate all plans including those for executives.<sup>1</sup> In practice, this means that the costs of long-term plans are generally excluded altogether and the costs of the short term annual cash plans are shared 50/50 between shareholders and ratepayers.<sup>2</sup>
- Arkansas** Generally excludes 100% of the long-term, equity-based plans. Short-term incentive plans are evaluated to determine if they are based on financial or operational measures. Operational-based plans are allowed. 50% of plans containing financial measures are disallowed. Any plans based solely on the discretion of the company are seen as having no direct benefit to ratepayers and are disallowed 100%. Settlements have also followed this treatment.<sup>3</sup> Commission rulings on Incentive Compensation have remained generally consistent, excluding 100% of long-term plans and 50% of the portion of short-term plans that are financially based. In the Entergy rate case (Docket No. 13-028-U), 50% of all short-term incentive compensation was excluded because the plans included a financially-based multiplier.
- California** The Commission has established precedence for evaluating plans based on who benefits from the plans' goals, ratepayer or shareholders. In CPUC Decision 00-02-046, the Commission established that utilities could recover 50% of the regular employee's incentive compensation costs in rates. In the Southern California Edison litigated rate case Decision 09-03-025, the Commission decided that Edison's non-executive plans and 50% of the short-term executive plans would be funded in rates and that 100%

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1 See Epcor Water, Docket No. WS-01303A-14-0010. See also APS 2008 rate case, Decision 70360, Southwest Gas 2008 rate case, Decision 70665 and UNS Gas 2008 rate case, Decision 70011.

2 See e.g., APS 2008 rate case, Decision 70360, Southwest Gas 2008 rate case, Decision 70665 and UNS Gas 2008 rate case, Decision 70011. See also Staff's testimony in the 2016 APS rate case, Docket No. E-1345A-16-0036.

3 Entergy Arkansas, Docket No. 06-101-U, Order No. 10 and Docket No. 13-028-U, Order No. 21.



of the executive long-term stock plans would be disallowed.<sup>4</sup> In cause number A.10-07-007, staff recommended that, "customer funding should be limited to the portion of the incentive plan payments that are aligned with operational objective that provide customer benefits. This means that 70% of AIP be funded by shareholders, and 30% be funded by ratepayers." Pursuant to settlement of the parties, the Commission disallowed 50% of the plan's expense.

**Hawaii** Incentive compensation of all types is excluded from rates. The Commission upholds the position stated in Docket No. 6531 that incentives tied to company income and earnings benefit stockholders, not ratepayers. The Commission further stated, "...we believe that a utility employee, especially at the executive level, should perform at an optimum level without additional compensation. Ratepayers should not be burdened with additional costs for expected levels of service."<sup>5</sup> Utilities in Hawaii no longer petition to have incentive compensation expense included in rates.

**Idaho** The Commission's policy for evaluating incentive compensation plans involves determining who benefits, the customer or the company. This treatment was refined in the Idaho Power rate case, IPC-E-08-10, for plans which benefit the customer but require a financial trigger to be paid. For these plans the Commission reduced the percentage allowed in rates. The Commission does not include executive compensation in rates.<sup>6</sup>

**Kansas** For officer level incentives plans, the financially-based portion is borne by the shareholders and the portion supporting operational goals is allowed in rates. Non-officer incentive compensation plans for workers are allowed in rates.<sup>7</sup> The consumer advocacy branch, Citizens' Utility Ratepayer Board (CURB) has consistently recommended applying the same

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4 Southern California Edison (Application No. 07-11-011; Decision No. 09-03-025).

5 Hawaii's policy is set forth in Docket No. 6531 in the October 17, 1991 Order No. 11317. Prior Dockets in which the Commission disallowed incentive compensation include No. 3216, No. 4215, No. 4588 and No. 5114.

6 The Commission's focus on customer benefit is reflected in the direct testimony of Staff witness Leckie, and in the Final Order in IPC-E-08-10. For earlier examples of the basic policy, see Idaho Power Company Rate Case IPC-E-05-28, Corrected Motion for Approval of Stipulation 3/1/06, 6e, p. 4; Idaho Power Company IPC-05-28, Order No. 30035, p. 4/10.

7 This treatment is based on the 2012 KCPL rate case (12-KCPE-764-RTS) in which the short-term plan was split 50:50, and for the long-term incentives, the Commission excluded 100% of the portion based on stockholder return and 50% of the time-based restricted stock portion of the plan. Time-based plans which vest solely on the passage of time are seen as being neutral and therefore split 50:50 between shareholders and ratepayers.

financial/operational criteria to non-officer plans as well. In the current KCPL rate case the company has voluntarily excluded 100% of the performance-based plans and 50% of the short-term plans with an earnings-per-share qualifier. The Company also removed the earnings-per-share portion of their plan for all employees.

**Louisiana** Traditionally, incentive compensation for upper level management and officers is excluded, while costs for lower level managers and employees are allowed. The criteria used to evaluate plan design consider whether the goals of each plan directly benefit ratepayers or shareholders. Stock based compensation plans at all levels are excluded.

**Minnesota** Minnesota continues to distinguish between incentive plans tied to financial triggers (such as a threshold ROE) and plans tied to criteria benefitting the ratepayer. Plans based on goals which benefit ratepayers are generally allowed in rates, but their costs are frequently capped at a percentage of base salaries such as 15% or 25%.<sup>8</sup> Utilities are usually required to return to ratepayers any portion of incentive pay that was allowed into rates and is not subsequently paid out to employees. Executive and long-term IC measures are frequently more closely aligned with shareholder interests and thus are not usually allowed in rates.<sup>9</sup>

**Missouri** Plans are analyzed to determine who benefits. Plans that can show a direct benefit to customers and that are found to be prudent are allowed in rates. Plans that benefit shareholders are excluded. The Commission also allows only the amounts actually paid, not those accrued. The same criteria are used for executive plans and few are allowed.<sup>10</sup>

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8 This general policy is demonstrated in the Minnesota Power and Ottetail rate cases: E002/GR-09-1151 and E002/GR-10-239 respectively.

9 Minnesota's general policy is demonstrated in CenterPoint Energy rate case G-008/GR-13-316 and the Minnesota Power and Ottetail rate cases: E002/GR-09-1151 and E002/GR-10-239 respectively. *See also* Minnesota Power General Rate Case E002/GR/05/1428.

10 *See e.g.*, in the Missouri American rate case (WR-2010-0131), not only were plans based on financial goals disallowed, but incentive payments based on customer satisfaction were disallowed due to the unreasonably small sample size used to establish a positive rating (a phone survey of 927 of roughly 450,000 customers). The Commission also removed incentive payments tied to lobbying and charitable activity. In the subsequent Ameren UE rate case, the company did not seek even short-term incentive compensation tied to earnings, providing further indication that staff's practice of disallowing financial performance based incentives is accepted by the companies. All incentive compensation adjustments were made not only to expense charges, but to construction

- Montana** Due to the low volume of litigated cases in the past 10 to 15 years in Montana, incentive compensation has not been an important issue before the Commission. However, the Commission tends to become more concerned by incentive plans that are tilted toward financial performance instead of operational goals.
- Nebraska** Nebraska does not have rules regarding incentive compensation and considers the issue on a case by case basis. In a 2007 rate case, NG-0041, the Commission disallowed 50%, directing that cost should follow benefit and stating, "However, the Commission further finds that the nature of the objectives appear to benefit both ratepayers and shareholders and it would be improper for the ratepayers to bear the full cost of this benefit." The Commission also allowed in rates only the actual amounts paid. In NG-0060 the Commission disallowed the entire amount requested by SourceGas for cash incentives.
- Nevada** The Commission excludes 100% of the long-term plans and all short-term plan costs directly related to financial performance.<sup>11</sup> Utilities in Nevada generally do not seek to include long-term incentives in rates.
- New Mexico** Incentive programs tied to measures that benefit ratepayers (such as operation and safety) are allowed in rates. Programs tied to the financial performance of the utility (e.g. stock price or ROE) are not allowed in rates. This standard is applied to all levels of utility employees and tends to eliminate the greater portion of executive plans.<sup>12</sup> Executive incentive plans receive more scrutiny as they are more likely to have financial measures. They can also be challenged if the overall percentage is out of line. One major utility in New Mexico no longer includes the compensation of its top 5 executives in rate applications.
- N. Dakota** In North Dakota, the general policy is the portion that relates to earnings of the shareholders is disallowed and the rest is included. In the past, the Commission has limited incentives to 15% of salary. The general approach is to determine if incentive compensation is reasonable and fair based on

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charges as well. *See also* Kansas City Power and Light and Empire Electric District orders on the Commission's website.

11 *See e.g.*, PUCN's final order in Docket 11-06006.

12 *See* Docket 07-00077-UT.

market analysis. Historically, executive incentive compensation is not allowed in rates, and is typically not sought by the company.

**Oklahoma** The Commission excludes incentive payments tied to financial performance. From a practical perspective this means that all long-term plans are excluded and some portion of the annual short-term cash plan are excluded. The Commission does not determine the precise portion of the annual plans tied to financial measures but instead excludes 50% of the annual plans. On occasion, the OCC has excluded 100% of the utility's short-term plan when the plan had a financial trigger.<sup>13</sup> 100% of the long-term executive stock-based plans are excluded.<sup>14</sup> In some instances, the Commission allows gas utilities with formula rates plans that share excess earnings with customers to include incentives in rates.

**Oregon** The Commission's general policy is based on the idea that customers should not have to pay for incentive compensation based on financial goals such as rate of return. For short-term plans, the portion based on financial measures is excluded from rates. The only long-term plans are for officers, and 100% of officer incentives are excluded from rates.

**S. Dakota** South Dakota considers incentive compensation on a case by case basis. Their general policy is to evaluate each plan and disallow the portion based on financial performance indicators. This treatment is set forth in EL14-026 in which the order specifically excluded the amount "tied to the Company's financial results."<sup>15</sup> Current treatment also includes disallowing both executive and non-executive management incentive compensation. Several utilities have whole incentive programs that hinge on whether or not the company earns a certain return. These financial prerequisites cause the whole plans to be excluded from rates.

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13 See Cause Nos. 91-1190 and 200400610.

14 See e.g., AEP-PSO Cause Nos. PUD 06-285, PUD 08-144, and PUD 15-208; OG&E Cause Nos. PUD 05-151 and PUD 15-273; and ONG Cause No. PUD 04-610.

15 In Docket No. EL 08-030 the settlement excluded bonuses related to "stockholder-benefitting financial goals." The settlement in Xcel rate case Docket No. EL09-009 removed payments based on financial performance indicators. In the settlement agreement signed July 7, 2010 in the Black Hills Power rate case Docket No. EL09-018 the *Staff Memorandum* states, "The settlement removes financial based incentive payments that were included in the capitalized labor costs for plant. Shareholders are the overwhelming beneficiaries of incentive plans that promote the financial performance of the Company and therefore should be responsible for the cost of such compensation."

**Texas**

The well-established precedent in Texas is that incentive payments designed to improve financial performance are excluded.<sup>16</sup> In the recent Southwestern Public Service Company (“SPS”) rate case, Docket No. 43695, the Texas Public Utility Commission disallowed 100% of the short-term incentives directly tied to financial performance measures and 50% of the remaining incentives because they were indirectly tied to financial performance through an earnings-per-share funding mechanism.<sup>17</sup> The Commission also followed this approach in the recent SWEPCO case, Docket No. 46449. Long-term stock incentives are excluded.<sup>18</sup> At the Rail Road Commission, financial incentives are generally excluded and customer-related incentives are allowed. Examples include: Atmos (GUD No. 9670 Order and Order on Rehearing), Texas Gas Service Company (“TGS”) (GUD No. 9988 Final Order), Centerpoint (GUD No. 9902 Final Order) and Centerpoint (GUD No. 10106 Final Order). In GUD No. 9670, both the executive and employee plans for Atmos Mid-Tex were found not to be just and reasonable because they, “advanced the interest of shareholders, and [are] driven by Company earnings.” None of the costs of these programs were allowed in rates. In TGS GUD No. 9988, the RRC found 100% of long-term and 90% of short-term incentives expense was “unreasonable” because it was related to the financial performance of ONEOK Inc. 10% of the short-term plan was allowed in rates because it was based on safety metrics.

**Utah**

The Commission’s general policy is to allow in rates the parts of a plan that are tied to ratepayer benefit and disallow the parts tied to financial goals. Equity-based incentive compensation is excluded from rates.<sup>19</sup>

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16 See *Application of AEP Texas Central Company for Authority to Change Rates*, Docket No. 28840, Proposal for Decision at 92-97, Findings of Fact Nos. 164-170, Order at 35 (Aug. 15, 2005); *Application of AEP Texas Central Company for Authority to Change Rates*, Docket No. 33309, Proposal for Decision at 116-121, Finding of Fact No. 82, Order on Rehearing at 12 (March 4, 2008); *Application of Oncor Electric Delivery Company, LLC, for Authority to Change Rates*, Docket No. 35717, Proposal for Decision at 96-100, Finding of Fact No. 93, Order on Rehearing at 22 (Nov. 30, 2009); and *Application of CenterPoint Electric Delivery Company, LLC, for Authority to Change Rates*, Docket No. 38339, Proposal for Decision at 66-67, Findings of Fact Nos. 81-83, Order on Rehearing at 22 (June 23, 2011).

17 See Docket No. 43695, Order on Rehearing at 5-6.

18 See Docket No. 39896 where the PUC disallowed \$730,734 in Entergy’s rate case expense for including Long-Term incentives in its rate application.

19 The final order in Docket 09-035-23 follows this general policy as does the order in Docket 07-35-93. See also Missouri Corp. Rate Case Docket 97-035-01, pp. 10-12; US West Communications Rate Case Docket 95-049-05.

**Washington** Incentive plans are evaluated on a case by case basis. Incentives tied to operational efficiency or other measures which benefit ratepayers are allowed in rates and incentives based on return on earnings or other measures that benefit the shareholders are disallowed.<sup>20</sup>

**Wyoming** Historically, employee incentive compensation plans are evaluated on a case by case basis, distinguishing between employee programs that benefit the ratepayer or the stockholders and requiring the benefitting party to pay. Executive incentive compensation plans are generally excluded from rates.

**States that use another approach:**

**Alaska** Incentive compensation is not an issue in rate cases in Alaska. There is no relevant regulation or policy.

**Colorado** Executive incentives are excluded from rates and typically no longer sought in company filings. With respect to annual incentive pay (AIP), Colorado used to evaluate incentive plans based on which stakeholder group benefited from the goals of a plan. In Public Service Company of Colorado, however, staff recommended that the Commission, "limit reimbursement of incentive pay to no more than 15 percent of employee base salary." In this proceeding, No. 14AL-0660E / Order C15-0292, the Settlement Agreement included the statement, "the Settling Parties agree AIP incentive payment recovery in the 2017 Rate Case will be capped at 15% of an employee's salary."

**Iowa** Incentive Compensation has not been an issue in Iowa. There are no specific treatments in place and the Commission will review the merits and prudence of a proposed plan on a case-by-case basis.

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<sup>20</sup> See the Order in Pacific Power and Light Docket 061546.