

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR AN ORDER OF THE COMMISSION) CAUSE NO. PUD 201100087
AUTHORIZING APPLICANT TO MODIFY ITS)
RATES, CHARGES, AND TARIFFS FOR RETAIL)
ELECTRIC SERVICE IN OKLAHOMA)

Direct Testimony

Of

Malini R. Gandhi, CPA

On behalf of

Oklahoma Gas and Electric Company

July 28, 2011

Malini Gandhi
Direct Testimony

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

2 A. My name is Malini R. Gandhi. My business address is 321 North Harvey, Oklahoma
3 City, Oklahoma 73102.

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

6 A. I am employed by Oklahoma Gas and Electric Company (“OG&E” or “Company”) as
7 Manager of Regulatory Accounting.

8
9 Q. **Would you please summarize your education and professional background?**

10 A. I received a Bachelor of Science degree in Business Administration, with a major in
11 Business Finance from the University of Central Oklahoma. I also received a Bachelor’s
12 degree with a major in Accounting from the University of Bombay. I am a Certified Public
13 Accountant licensed by the Oklahoma Accountancy Board, with over twenty years of
14 experience in both public and private accounting. In 1993, I was employed by the Public
15 Utility Division (“PUD”) of the Oklahoma Corporation Commission (“OCC” or the
16 “Commission”) and have participated in utility cases involving electric, gas, telephone, and
17 water utility companies. I also administered the Oklahoma Universal Service Fund from
18 1998 to 2006 as a Manager at PUD. From June 2006 to April 2009, I was employed as
19 Deputy Director of auditing for the Office of Regulatory Staff of South Carolina, managing
20 the audit department of Gas, Electric, Water and Telecom regulatory filings. In May 2009,
21 I joined OG&E as a Manager of Regulatory Accounting.

1 Q. **Have you testified previously before this Commission?**

2 A. Yes, and my credentials have been accepted by this Commission.

3

4 Q. **What is the purpose of your testimony?**

5 A. The purpose of my testimony is to sponsor the *pro forma* adjustments to remove rider
6 costs from the test year. The *pro forma* adjustment numbers are B 3-14, H 2-26, H 2-29,
7 H 2-34, H 2-41, H 2-44, and H 2-51. I will first explain the rider recovery process in
8 general, and then discuss the adjustments listed above. Finally, I will discuss the
9 Company's request that certain riders be extended beyond their current expiration date.

10

11 Q. **Why are riders necessary?**

12 A. The purpose of a rider is to provide interim rate relief and to protect both customers and
13 investors from the volatility of the expense levels recovered. State Commissions have
14 traditionally approved rider costs that are, under extraordinary circumstances, caused by
15 circumstances largely outside the control of a utility, and/or if the costs are substantial
16 and recurring. Commission approved rider recovery provides relief to the utility to
17 finance the capital improvements needed to provide reliability and quality of service to its
18 customers. Additionally, riders are instrumental in providing appropriate incentives to
19 technologies that can adapt successfully to the environmental mandates in furtherance of
20 the policy of the state and federal governments.

1 Q. **Please describe the process for requesting approval of a rider.**

2 A. When a utility is in a situation as described above, the utility may file an application
3 seeking approval of a specific rider. As part of the application, the Company would
4 provide costs requested for recovery, the basis for recovery and the anticipated customer
5 impact. The rider allows a utility to recover the actual costs from customers for a
6 specified function on a periodic basis outside of a rate case. If such costs are approved by
7 the Commission, they will be recovered from the utility's customers through a rider based
8 on the projected annual billing units and will be subject to review, reporting and an
9 annual true-up.

10

11 Q. **How is the revenue requirement calculated in each rider?**

12 A. The revenue requirement is determined in the same manner as a general rate review. The
13 Company includes an overall return (debt and equity) on the capital investment for the
14 Commission approved projects included in the rider. In calculating the overall return, the
15 return on debt and equity approved by the Commission in OG&E's last general rate
16 review prior to the approval of the rider is utilized. Depreciation, O&M expense, ad
17 valorem tax and federal/state income taxes are also included in the revenue requirement
18 when appropriate.

19

20 Q. **Please explain *pro forma* adjustments B 3-14, H 2-41 and H 2-51.**

21 A. Adjustment B 3-14 for (\$22,204,104) removes the investment, and H 2-41 for
22 (\$5,002,044) removes the expenses recovered through the Smart Grid Rider ("SGR")
23 during the test year. Since the SGR recoveries are approved through December 31, 2013,

1 they are removed from the rate case. Additionally, there are certain quantifiable
2 operational benefits associated with implementation of the Smart Grid Program. These
3 benefits include quantifiable savings attributable to the elimination of meter reading,
4 reductions in call center and field service representative costs and improvements in
5 outage management and response. In Cause No. PUD 201000029, OG&E guaranteed
6 certain operational savings to the customers as a credit to the SGR for the amount of
7 \$3,583,566 during the calendar year 2011. The *pro forma* adjustment H 2-51 removes
8 such O&M reduction guaranteed in 2011.

9
10 **Q. Are there any guaranteed savings for the test year ending December 2010 that were**
11 **passed through the rider?**

12 A. Yes, the Smart Grid Program O&M reduction, or guaranteed savings, that passed through
13 the rider to the customers during the test year ending December 2010 was for \$171,396.

14
15 **Q. Why is the Company proposing the adjustment for the year 2011 guaranteed**
16 **savings?**

17 A. Since the new rates established in this proceeding likely will not begin until early
18 calendar year 2012, the Company is proposing to make this adjustment for the guaranteed
19 savings in 2011 because the savings will be already realized and passed through the rider
20 before the time when the new rates are effective and reflective of such savings. As a
21 result, such removal of guaranteed savings will avoid double counting of guaranteed
22 savings in the base rates and in the rider at the same time.

1 Q. **Can you explain the pro forma adjustments H 2-26, H 2-29, H 2-34, and H 2-44?**

2 A. Yes. Since the recovery for these riders continues after the rate case, the costs are
3 removed from the test year. The continuation of the riders is based on the approval by
4 Commission Order. Adjustment H 2-26 removes (\$14,530,541) for the Demand Side
5 Management, Adjustment H 2-29 removes (\$6,503,779) for Storm Cost Recovery,
6 adjustment H 2-34 removes (\$11,682,186) for System Hardening, and H 2-44 removes
7 (\$750,000) for Wind Power Education.

8

9 Q. **How long are these riders in effect?**

10 A. Per the Commission Order No. 573419, Demand Program Rider (“DPR”) is effective
11 until further Commission order; per the Commission Order No. 558445, the Storm Cost
12 Recovery Rider (“SCRR”) is effective through August 2013; per the Commission Order
13 No. 567670, the System Hardening Program Rider (“SHPR”) remains in effect until all
14 costs described in the order are recovered or until the SHPR tariff is modified, reviewed
15 or replaced by the OCC Order, whichever comes first; and per the Commission Order No.
16 559353, Wind Power Education rider has no termination date.

17

18 Q. **Are the revenues collected for these riders also addressed in pro forma
19 adjustments?**

20 A. Yes. The revenue for each of these riders is also removed from the test year. OG&E
21 witness Adam Bigknife addresses those pro forma adjustments in his Direct Testimony.

1 Q. **Are there any current riders for which OG&E is requesting an extension?**

2 A. Yes. OG&E is requesting an extension for two riders that are set to expire relatively soon.
3 First, the Company is requesting continuation of the Security Rider which would
4 otherwise expire with the implementation of new rates in 2012. In the near future, OG&E
5 intends to file a Security Phase IV that will include a request for approval of the new
6 security projects identified in the Security Plan Update Report filed with the Commission
7 on March 1, 2011. The Company is requesting that the Security Rider remain in effect
8 until the Commission issues a ruling on OG&E's Phase IV request. Secondly, the
9 Company is requesting a continuation of the Storm Cost Recovery Rider. This rider
10 mechanism protects the Company and its customers from over or under collection of
11 storm costs and was originally approved to include storm costs through June, 2010 and to
12 remain in effect through a 5-year recovery period. In OG&E's last rate case, the OCC
13 approved extending the rider so as to include costs incurred in the remainder of 2010 and
14 2011. OG&E requests another extension of the rider through calendar year 2014 for costs
15 incurred through 2013, subject to a requirement that the Company file testimony in its
16 next rate case regarding the rider.

17

18 Q. **Is the Company also requesting a modification to an element of the System
19 Hardening Program Rider?**

20 A. Yes. As described in the testimony of OG&E witness Tammy Turnipseed, the Company
21 believes continuation of expenditures for aggressive vegetation management and
22 increased circuit hardening efforts beyond the current June 30, 2012 final date is in the
23 best interests of our customers.

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

2 A. Yes.