

BEFORE THE CORPORATION COMMISSION OF THE
STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF
OKLAHOMA GAS AND ELECTRIC
COMPANY FOR AN ORDER OF THE
COMMISSION AUTHORIZING APPLICANT
TO MODIFY ITS RATES, CHARGES, AND
TARIFFS FOR RETAIL ELECTRIC SERVICE
IN OKLAHOMA

Cause No. PUD 200900398

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CORPORATION COMMISSION
OF OKLAHOMA



RESPONSIVE TESTIMONY

OF

KIRAN PATEL

JUNE 22, 2009

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INTRODUCTION

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Q: Please state your name and business address.

A: My name is Kiran Patel. My business address is Oklahoma Corporation Commission (OCC or Commission), Public Utility Division (PUD), 580 Jim Thorpe Office Building, 2101 N. Lincoln Blvd, Oklahoma City, Oklahoma 73152-2000.

Q: By whom are you employed and in what position?

A: I am employed by the Commission's Public Utility Division as a public regulatory analyst. In this position, I am under the direct supervision of Bob Thompson, manager of accounting/certified public accountant (CPA), and Brandy Wreath, chief of energy and water.

Q: What is your educational background and professional experience?

A: See my curriculum vitae, attached as Exhibit KP-1

Q: Have you previously testified before this Commission, and has this Commission accepted your qualifications?

A: Yes. I have previously testified before this Commission and my credentials have been accepted.

1 **Q: What are your present duties?**

2 A: I am responsible for conducting audits of electric and gas utilities during their
3 requests for rate changes. I also am responsible for reviewing the fuel procurement
4 and generating practices of electric and gas utilities, and I assist with processing
5 tariff change applications of electric and gas utilities.

6

7

PURPOSE OF TESTIMONY

8

9 **Q: What areas were you assigned to review in the current Cause?**

10 A: I was assigned to the following areas in the current cause:

- 11 • Dues, Memberships, Donations and Contributions
- 12 • Customer Advances
- 13 • Customer Deposits and Interest on Customer Deposits
- 14 • Miscellaneous Taxes
- 15 • Bad Debts Expenses
- 16 • Advertising and Marketing Expenses
- 17 • Outside Services/ Attorney Fees

18

19 **Q: What is the purpose of your testimony in this Cause?**

20 A: The purpose of my testimony is to sponsor the following Staff adjustments:

21 1. Adjustment Number RB-4 to increase customer deposits by \$2,438,247.

22 This will reduce rate base by \$2,438,247;

- 1 2. Adjustment Number H-6 to reduce interest on customer deposits by
- 2 \$ 828,291;
- 3 3. Adjustment Number H-3 to remove \$1,124,977 from dues, donations,
- 4 contributions, and memberships;
- 5 4. Adjustment Number H-5 to reduce the level of bad debt expense-
- 6 \$1,036,430; and
- 7 5. Adjustment Number H-1 to remove \$ 3,884,474 from advertising and
- 8 marketing.

EXECUTIVE SUMMARY

12 **Customer Deposits:** Staff proposes adjustment No. RB-4, an increase in the
13 amount of \$2,438,247 to the Company's customer deposit level in rate base. The
14 increase to customer deposits reduces the level of rate base on which a return is
15 calculated as deposits are removed from rate base dollar for dollar.

17 **Interest on Customer Deposits:** Staff proposed an adjustment to No. H-6, a
18 reduction in the amount of \$828,291

20 **Dues, Donations, Contributions and Membership expenses:** Staff proposes
21 adjustment No. H-3 in the amount of \$ 1,124,977 to reduce the expenses included

1 in OG&E's cost of service related to dues, donations, contributions, and
2 membership expenses.

3
4 **Bad Debts Expenses:** Staff proposes adjustment No. H- 5 in the amount of
5 \$1,036,430 to reduce the bad debt expense level.

6
7 **Advertising and Marketing expenses:** Staff proposes adjustment H-1 for a
8 \$3,884,474 reduction to advertising expense.

9
10 **REVIEW PROCESS**

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12 **Q: Please explain the review process employed in the current cause for the**
13 **above assigned areas.**

14 **A:** Staff reviewed the Company's filed application package, including the pre-filed
15 testimonies. Staff issued data requests and reviewed the Company's responses to
16 those data requests and reviewed the Company's books, including the ledger
17 detail, invoices, and other supporting documentation. Staff communicated with
18 OG&E via telephone and e-mail and attended meetings, regarding OG&E's
19 responses to data requests requiring on-site visits. Staff also reviewed the data
20 requests issued by the various interveners in this cause and OG&E's responses to
21 those data requests, as well as the testimony and Final Order 516261 for Cause
22 No. PUD 200500151, OG&E's last rate case.

Customer Deposits

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Q: What are customer deposits and how should they be treated?

A: Customer deposits are a form of non-investor supplied capital. The balance should be deducted from rate base and the Company should not be able to earn a return on these deposits. Rate base is reduced by the level of customer deposits as these deposits are customer supplied working capital. It would be inappropriate for the Company to receive a return on dollars it did not invest. The total amount of customer deposits increased with Staff's adjustment, which requires a larger deduction to the rate base as shown on schedule B-2.

Q: What are some of the elements in Staff's review of the customer deposits?

A: The Company's pro forma level for customer deposits is based on test year ending balances as of March 2009 and is in the amount of \$ 55,228,264. Customer deposits reduce rate base dollar for dollar.

Q: How did Staff determine the appropriate level of customer deposits?

A: Staff used the company-filed schedule detailing the 13-month balances for customer deposits. Staff performed an analysis of the trend of monthly activity in customer deposits. Staff determined through a review of the account balances that a 6 months post test year balance should be used as the appropriate level.

1 **Q: What is the total adjustment you are making to customer deposits?**

2 A: Staff's adjustment is as follow:

3	Company's pro forma level on schedule B-2	\$ 55,228,264
4	Staff's March 31, 2009 six months post test year level	<u>\$57,666,512</u>
5	Staff adjustment No. RB-4 to increase customer deposits	\$ 2,438,248

6

7 **Interest on Customer Deposits**

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9 **Q: Please explain interest on customer deposits.**

10 A: OAC 165:35-19-10 governs the rate of interest on customer deposits. Interest on
11 customer deposits is computed from annualized interest cost, using total customer
12 deposits reflected in the cost of service multiplied by the approved interest rate.
13 Staff's position is that 100% of the customer deposit balance should be excluded
14 from rate case. Since Staff does not approve of the company earning a return on
15 the deposits, it is appropriate that the interest expense paid to ratepayers be
16 included in the cost of service. Therefore, the related interest costs must be
17 adjusted, based upon proposed rate base levels for customer deposits, and shown
18 as an above-the-line expense to be recovered by the Company through rates.

19

20 **Q: What is the Company's and Staff's approach in calculating interest on the**
21 **customer deposits?**

22 A: The Company used a balance of \$55,228,264 for September 2008 for customer
23 deposits. The Company calculated \$2,394,584 for total interest paid based upon

1 their pro forma deposit levels. Staff used WP-B-6-2 and OG&E responses to data
2 requests for its recommendation of an appropriate amount of adjustment. Staff
3 reviewed monthly interest for the short and long term beyond the test year. Using
4 the 13-month balance ending March 2009 post test year, Staff calculated the
5 appropriate amount of customer deposits to be \$57,666,512 and interest on
6 customer deposits to be \$1,566,293. Staff's adjustment was calculated as follows:

7	Company pro forma interest expense	\$2,394,584
8	Staff's pro forma interest expense	<u>\$ 1,566,293</u>
9	Staff's Adjustment No. H-6 to reduce interest expense	\$ 828,291

10

11

Customer Advances

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13 **Q: Please address customer advances.**

14 **A:** Staff reviewed WP-B-6 which reflects the level of customer advances, advances for
15 construction, and customer deposits included in cost of service. Staff verified these
16 items were completed accurately and in agreement with the Company's books. Staff
17 further verified that the items were recognized as reductions to the rate base.
18 Advances for construction are another source of interest-free capital and are
19 therefore reduced from the rate base.

20 **Q: Does Staff support the Company level for customer advances?**

21 **A:** Yes. The company used a balance of \$0.00 in WP-B-6. The books of OG&E show a
22 balance of \$ 0.00 since December 2007. The Company's explanation of having

1 \$0.00 balances for customer advances has been reviewed and audited by Staff.
2 Staff has no adjustment to the Company's zero balances.

3

4

Miscellaneous Taxes

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6 **Q: Please explain Staff's adjustment for miscellaneous taxes.**

7 A: Staff reviewed WP H-18, taxes other than income tax. Staff verified these items
8 and reviewed the applicable statutes under which they were assessed.

9

10 **Q: Does Staff propose any changes to the Company's tax levels?**

11 A: No. Staff does not propose any adjustment. Staff has reviewed data request and all
12 supporting documents. The corporate franchise tax is imposed on all domestic and
13 foreign corporations doing business in Oklahoma. It is based on the Company's
14 capital or equity plus long-term indebtedness at the rate of \$1.25 per thousand
15 dollars invested or employed in Oklahoma. The franchise tax is a minimum of
16 \$10.00 and a maximum of \$20,000.00.

17

18 **Dues, Donations, Contributions and Membership expenses**

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20 **Q: Please explain Staff's rate base adjustment No. H- 3.**

21 A: Staff proposes a reduction for OG&E's expense levels relating to dues, donations,
22 contributions, and memberships. The total amount included in the cost of service is

1 \$1,722,153. Staff proposes an adjustment to remove \$1,124,977 of these expenses
2 since they are not shown to be necessary in providing electric service and provide
3 uncertain benefit to the rate payers. Staff is of the opinion that some costs are
4 beneficial to the ratepayer as well as the stockholder and should therefore be
5 shared between the parties.

6
7 **Q: What process did Staff use in computing its total of \$1,124,977 for this**
8 **adjustment?**

9 A: In OG&E's WP-H-16, Staff confirmed the expenses had been recognized as above-
10 the-line expenses. During the discovery period, Staff issued data requests to OG&E
11 to verify total relevant expense information related to these expenses. OG&E
12 provided the requested information, which disclosed that all the holding company's
13 sponsorships and donations are recorded above the line and therefore allocations
14 are made to the utility. Therefore it would be reasonable to remove these
15 allocations from the cost of service.

16
17 **Q: What was the level of expenses allocated from the parent company?**

18 A: The total amount allocated to OG&E from its parent company, OGE Energy
19 Corporation was \$787,721. OG&E's directly expenses amount was \$ 934,432. The
20 total amount included in the cost of service was \$1,722,153.

21
22

1 **Q: How did Staff determine the reasonableness of the expense levels?**

2 A: Staff reviewed the data request responses provided by OG&E to evaluate the
3 benefits to Oklahoma ratepayers that would be associated with these expenditures.
4 Ultimately, Staff only allowed inclusion of half the membership expenses, employee
5 expenses, employee recruiting, training conferences, and insurance expenses, for a
6 total combined amount of \$601,697, to be allowed in the cost of service. In addition,
7 Staff is of the opinion that Edison Electric Institute's costs and membership
8 expenses are beneficial to the ratepayer as well as the stockholder and were
9 therefore shared between the parties in Staff's calculation.

10
11 **Q: Please explain why certain expenses should not be included in OG&E's cost**
12 **of service.**

13 A: Staff believes that if OG&E were to include such costs, ratepayers would be forced
14 to involuntarily contribute to advertising, service activity associations, community
15 service, and organizations for which they have no knowledge, choice, or direct
16 benefit. OG&E's stockholders, not Oklahoma ratepayers, receive the resulting
17 public goodwill and benefits of any such generosity.

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1 **Q: What is the total adjustment to dues, donations, contribution and membership**
2 **expenses?**

3 A: Staff's adjustment calculation is as follows:

4	Company's test year amount included the cost of service	\$1,722,153.
5	Staff adjustment H-3	<u>\$ 1,124,977</u>
6	Staff proposed in the cost of service	\$ 601,697

7

8 **Bad Debt Expense**

9

10 **Q: Please explain Staff's Adjustment H-5.**

11 A: Staff proposes to annualize bad debt expense by using a 6 months post test year
12 ending balance. By using this method, the Company's bad debt expense pro-forma
13 request of \$5,289,563 is reduced to \$4,253,133, resulting in Staff adjustment H-5 in
14 the amount of \$1,036,430.

15

16 **Q: Please explain Staff's rationale behind using six months post test year for**
17 **computing bad debt expense.**

18 A: It is Staff's opinion, based on known and measurable data that the level of bad debt
19 expense that is currently included in the cost of service is not indicative of the level
20 of bad debt expense that OG&E will experience on a going forward basis. This level
21 is the most current data available and the best representation of future
22 expectations. Staff considered the potential increase for bad debt considering a

1 revenue increase from this rate case and found any increase would be minor. It
2 would be reasonable to apply the approved bad debt level percentage to the final
3 revenue requirement for a final bad debt level calculation.

4
5 **Q: Please explain how such a calculation might affect the final calculation of bad**
6 **debt.**

7 A: If the Commission grants OG&E a rate increase, then the final revenue dollar
8 increase could be multiplied by the approved percentage of bad debt to increase the
9 final bad debt allowance. If the Company received, for example, an increase of \$10
10 million, and an approved bad debt level of 3%, there would be an addition to the
11 bad debt level recommended above of \$300,000. This ensures the Company is not
12 penalized for an increase to base rates in the area of bad debt allowances.

13
14 **Q: What is the appropriate adjustment to the bad debt expense?**

15 A: Company requested Pro Forma level	\$ 5,289,563
16 Staff proposed level	<u>\$ 4,253,133</u>
17 Staff proposed adjustment H-5	\$ 1,036,430

18

19 **Advertising and Marketing Expenses**

20
21 **Q: What criteria did Staff use in its evaluation of advertising expenses?**

22 A: In conducting its audit, Staff relied upon the Oklahoma Statutes section titled
23 "Advertising Expenses by Public Utilities," codified in 17 O.S. § 180.1, and

1 Commission's rules at OAC § 165:35-7-1 regarding promotional policies and
2 practices. The statute states, "Advertising expenses shall not be included by a
3 public utility in its operating expenses for ratemaking purposes."
4

5 **Q: Please discuss Staff's Adjustment Number H-1.**

6 A: Staff's Adjustment Number H-1 is necessary in order to eliminate certain test-year
7 advertising expenses that are not recoverable through the ratemaking process.
8 Staff's Adjustment reduces OG&E's advertising expense by a total of \$ 3,884,474.
9 In general, Staff's adjustment addresses OG&E's recovery of advertising that is
10 promotional in nature or seeks to position OG&E with a favorable public image.
11 Oklahoma statutes clearly preclude the inclusion of such advertising expenses in
12 operating expenses for ratemaking purposes under 17 O.S. § 180.1. Therefore Staff
13 recommends the disallowance of the expenses related to Community Support
14 Advertising Campaigns entirely.
15

16 **Q: Ms. Patel, which specific OG&E test-year advertising expenses are**
17 **disallowed in the adjustment you propose?**

18 A: Staff's adjustment eliminates advertising costs that (1) promote one form of energy
19 over another and (2) promote OG&E for the purpose of improving its public image.
20 Staff's proposed reduction of \$ 3,884,474 is the total net of three accounts, which
21 relate to "Supervision of Sales Expense," "Demonstrating and Selling Expense," and
22 "Miscellaneous Sales Expense," as numbered, respectively, account numbers
23 991100, 991200, and 991600.

1 **Q: Did OG&E make any adjustments to advertising expense in its filing?**

2 A: Yes. OG&E removed a total of \$1,101,909 from the general advertising account
3 numbered 991300. Staff agrees with OG&E's treatment of these promotional
4 advertising expenses.

5
6 **Q: Reviewing all of Staff's adjustments to the advertising expense account,
7 what is the overall impact on OG&E's base rate?**

8 A: The overall impact of Staff's adjustments to the advertising expense account
9 excludes \$ 3,884,474 of advertising expenses from test-year cost of service leaving
10 OG&E approximately \$ 7,386,154 of advertising expense in the operating expenses
11 for ratemaking purposes.

12
13 **Q: Do you have anything further in relation to the advertising expenses?**

14 A: Yes. During the audit Staff requested certain details concerning these accounts;
15 however, those details were not supplied prior to the filing of Staff's testimony.
16 During the exit conference, the Company notified Staff that there may be items
17 included in these accounts that would either be reclassified or acceptable in the cost
18 of service. As of the date of filing testimony, Staff had not received documentation
19 sufficient to change the current recommendation. If further information becomes
20 available, Staff will review the adjustment and supplement testimony if necessary.

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Outside Service/Attorney Fees

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Q: Please explain Staff's adjustment for outside service/attorney fees.

A: Staff reviewed outside services looking for those expenditures that were not necessary costs of providing services to the customers and, therefore, should not be paid by ratepayers. Accordingly, Staff reviewed and verified numerous expenditures and performed detail review. Staff has no adjustment to the test year cost of services.

I state under penalty of perjury under the laws of Oklahoma that the foregoing is true and correct.

Kiran Patel

(Signature)

Oklahoma city, 6/22/09

(Date and Place)



Kiran Patel

Exhibit KP-1

2008 Curriculum Vitae

Contact	<u>k.patel@occemail.com</u> Tel: 405-522-3364 Fax: 405-522-1157	580 Jim Thorpe Building P.O. Box 52000 Oklahoma City, OK 73152
Education	Gujarat University, Gujarat, India	1990 - 1994
	<ul style="list-style-type: none">• Master of Commerce degree in Accountancy and Auditing	
Work Experience	Oklahoma Corporation Commission	2007 - present
	Public Utility Regulatory Analyst II	
	<ul style="list-style-type: none">• Expert Witness for the following PUD Cause : PSO Rate Case 200800144.	
	Public Utility Regulatory Analyst	
	<ul style="list-style-type: none">• Lead case analyst and expert witness on the following PUD Causes: 200600376, 200600339, 200600336, 200800033 and 200700335.• Support Analyst on the PSO Rate Case 200600185.• Assisted in development of the division rate case audit manual,• Assigned analyst for monthly review of Oklahoma Natural Gas and Cimarron Electric fuel report.	
	Allstate Insurance LLC	2004 - 2005
	Annuity Contact Specialist	
	<ul style="list-style-type: none">• Conveyed information relating to different insurance products and annuity information to brokers and customers• Assisted customers with needs, clarifying customer expectations, and resolving issues efficiently.• Maintained client accounts, processed records including system updates and customer notifications.	
	TCF National Bank	2000 - 2004
	Branch Manager (Sales)	
	<ul style="list-style-type: none">• Managed Sales goals and Service goals functions• Implementation of different strategies and customer satisfaction models based upon feedback from customers as well as management.• Recipient of Management Award " 105 Management Club" and " Leader Club"• Managed daily operations• Responsible for branch budget as part of inventory control and purchase monitoring for cost control.• Personnel Management including: recruiting, training and promoting.	
Professional Training	<ul style="list-style-type: none">• OCC Professional Witness Training Program• FERC Utility Accounting Seminar• Onsite training from both Gas & Electric Utilities• Exceptional Customer Service Seminar	

CERTIFICATE OF SERVICE

I, the undersigned, do hereby certify that on the 22nd day of June, 2009, a true and correct copy of the above and foregoing was deposited, with postage prepaid thereon, in the U.S. Mail to:

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