BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF OKLAHOMA GAS AND ELECTRIC COMPANY FOR APPROVAL OF A GENERAL CHANGE IN RATES, CHARGES AND TARIFFS	))))	DOCKET NO. 16-052-U

DIRECT TESTIMONY

OF

JEFF HILTON
DIRECTOR OF REVENUE REQUIREMENTS

ON BEHALF OF THE GENERAL STAFF
OF THE ARKANSAS PUBLIC SERVICE COMMISSION

JANUARY 31, 2017

INTRODUCTION

Q. Please state your name and business address.

A. My name is Jeff Hilton. My business address is Arkansas Public Service Commission, 1000 Center Street, Little Rock, Arkansas 72201.

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

A. I am the Director of Revenue Requirements for the General Staff (Staff) of the Arkansas Public Service Commission (Commission). My responsibilities include directing and overseeing audits conducted by Staff, directing and overseeing the development of revenue requirements by Staff, analyzing rate case applications and other utility company filings, developing positions on accounting-related issues, and presenting those positions when necessary in written and oral testimony before the Commission.

Q. Please describe your qualifications and background.

A. I joined the Staff in October 1998, as a Public Utility Auditor. In December 2000, I was promoted to the Manager of the Audits section, and effective July 1, 2009, I assumed the duties of Director of Revenue Requirements. Prior to joining Staff, I held progressively more responsible accounting, management, and faculty positions in the fields of public accounting and higher education.

My educational qualifications include a Bachelor of Science in Accounting from Henderson State University. I am a Certified Public Accountant licensed to practice in the State of Arkansas. In the maintenance of this certification, I have completed numerous additional continuing professional education hours and seminars. Since joining Staff, I have attended conferences and seminars pertaining to utility-related issues, including the Annual Regulatory Studies Program sponsored by the National Association of Regulatory Utility Commissioners (NARUC). I am currently serving on the NARUC Subcommittee on Accounts. I have previously presented testimony and exhibits as an expert witness before this Commission in several proceedings addressing electric, gas, and water utility rate issues; have assisted in the development of Staff's positions in many more cases; and have served as project manager for Staff in a number of rate applications, accounting, and other dockets filed with the Commission.

PURPOSE OF TESTIMONY

Q. What is the purpose of your Direct Testimony in this docket?

A. The purpose of my Direct Testimony is to present the results of Staff's examination of the Application of Oklahoma Gas and Electric Company (OG&E or Company) for Approval of a General Change in Rates, Charges, and Tariffs (Application) filed on August 25, 2016, as revised on September 2, 2016. I present the development of Staff's recommended revenue requirement and contrast it with the revenue requirement proposed in the Company's Application. I will also discuss Staff's Revenue Conversion Factor (RCF) and treatment of revenues from expiring Riders, OG&E's Storm Damage Recovery Rider (SDR), and the Formula Rate Plan (FRP) Rider. In so doing, I will address the Direct

Testimonies of Company witnesses Donald R. Rowlett and Gwin Cash. In addition, I provide a list of Staff witnesses and the issues each witness addresses.

STAFF WITNESS LIST

Q. Please identify the issues in this case, and the respective Staff witnesses who will address those issues in testimony.

A. A list of Staff witnesses who are filing Direct Testimony in this docket and the respective issue(s) being addressed by each follows:

Witness	Issues Addressed
Joy Brooks	Removal of Rider Revenues and Expenses
	Entertainment, Gifts and Other Expenses
	Other Revenues
Clark D. Cotten	Installation of Environmental Controls to meet Mercury and Air Toxics Standards
	Blackwell Wind Energy Purchase Agreement
	Section 304, Voltage Verification in OG&E's Terms and Conditions of Service tariff
Troy Eggleton	Advertising, Dues, Donations, and Lobbying
	Insurance Expense
	Air Quality Control Systems Expense
	Regulatory Expense
	Uncollectible Accounts Expense
	SPP Expense
	Vegetation Management
	Storm Costs
	Regulatory Asset Amortization
	Enable Reimbursements

Elana Foley	Smart Grid Rider Large Capital Additions Rider
Jeff Hilton	Revenue Requirement Expiring Rider Revenues Revenue Conversion Factor Storm Damage Recovery Rider Formula Rate Plan Rider
Matthew S. Klucher	Cost of Service Study Revenue Requirement Used in Designing Rates
Judy Kay Lindholm	Charges Related to Customer Activity Energy Cost Recovery Rider
William L. Matthews	Plant-In-Service Depreciation Expense *Ad Valorem* Tax
Regis Powell	Cost of Capital
Claude Robertson	Payroll and Related Taxes Pensions and Pension Settlement Costs Other Fringe Benefits
Robert H. Swaim	Billing Determinants Rate Schedule Revenues Rate Design
Bill Taylor	Working Capital Assets Current, Accrued and Other Liabilities Accumulated Deferred Income Tax
Holly Tubbs	Residential Consumer Prepay Bill Provision (PayGo)

TEST YEAR

Q. What test year and *pro forma* year did OG&E use?

A. OG&E's test year was the twelve months ended June 30, 2016. The Company's Application was based on a partially-projected test year with adjustments to reflect known and measurable changes through June 30, 2017. Staff's case is based on the test year comprised of twelve months of actual data.

REVENUE REQUIREMENT

Q. What are the results of Staff's analysis?

A. Staff's Arkansas retail non-fuel Revenue Requirement calculation is shown on my Direct Exhibit JH-1, Summary of Operations. Staff's recommendations result in an Arkansas retail Revenue Requirement of $102,051,586 and a Revenue Deficiency of $16,565,238. In contrast, OG&E proposes an Arkansas retail Revenue Requirement of $108,856,409 resulting in a Revenue Deficiency of $16,513,653, a difference of $6,804,823 and $51,585, respectively. The disparity in the differences between the Revenue Requirement and Revenue Deficiency is due to the treatment of certain rider revenues that are expiring and will be included in base rates as a result of this case. The Rider Revenue involved is $6,730,281 based on Staff's case. I will address this in greater detail in subsequent testimony.

Q. Please describe the derivation of Staff's recommended Revenue Requirement.

A. The development of Staff's case is shown on Direct Exhibits JH-2 through JH-7. Staff's recommended adjustments to Rate Base are shown on Direct Exhibit JH-3 and are summarized on Direct Exhibit JH-2. Staff's recommended adjustments to Revenues and Expense are shown on Direct Exhibit JH-5 and are summarized on Direct Exhibit JH-4. Direct Exhibit JH-6 illustrates the determination of Arkansas jurisdictional income taxes and Direct Exhibit JH-7 shows the derivation of the Revenue Conversion Factor. Staff made all adjustments listed on a total company basis.

RECONCILIATION

Q. What items differentiate Staff's recommended Arkansas retail non-fuel Revenue Requirement from the Company's requested Revenue Requirement?

A. Direct Exhibit JH-8 summarizes and reconciles the differences between Staff's and the Company's Arkansas retail Revenue Requirements. It begins with the Company's requested Arkansas retail Revenue Requirement, as filed in its Application, and makes adjustments to arrive at Staff's recommended Arkansas non-fuel Revenue Requirement. It delineates the four areas affecting revenue requirement: Rate Base, Rate of Return, Income Taxes / Revenue Conversion Factor, and Operating Expenses. The underlying reasons for the differences are discussed in the Direct Testimony of the respective sponsoring Staff witness. I discuss the noteworthy differences between OG&E's and Staff's recommended Revenue Requirement below.

Staff's Required Rate of Return is 5.31% compared to the Company's Required Rate of Return of 6.01%. The difference of 70 basis points, along with the associated change in Weighted Cost of Debt, results in a Revenue

Requirement difference of $5.9 million based upon Staff's case. Please note that the $3.6 million Rate of Return impact in my Reconciliation excludes the effect of grossing up the $3.6 million for income taxes. The primary reason for this difference is the Required Return on Equity of 9.5% recommended by Staff and 10.25% requested by OG&E, as discussed in the Direct Testimony of Staff witness Regis Powell. In addition, Staff's Arkansas Rate Base differs from OG&E's by $26.5 million, with the primary difference being *pro forma* plant additions. Staff witness William L. Matthews discusses the differences in plant.

REVENUE CONVERSION FACTOR

Q. What purpose does the revenue conversion factor serve?

A. The *pro forma* level of income taxes and uncollectible accounts expense are included in Operating Income. However, once the Operating Income Deficiency is determined, it must be "grossed up" in order to recognize the additional taxes and uncollectible accounts expense associated with the increase in Operating Revenues resulting from the increase in rates. This is accomplished by applying the RCF to the Operating Income Deficiency for each rate class, resulting in the Revenue Deficiency, i.e., the additional revenues that are required in order to afford the Company the opportunity to recover its cost of service.

Q. How are the rate class uncollectible accounts ratios calculated?

A. The uncollectible accounts ratio is determined for each rate class using a historical average of direct write-offs of accounts receivables and total revenues, as shown on OG&E's Minimum Filing Requirements (MFR) Schedule C-4. Although forfeited discounts revenues are also typically shown on Schedule C-4 and included in the determination of the RCF, OG&E does not charge Arkansas customers a late fee so the RCF should include no forfeited discounts revenues. Therefore, Staff's RCF only reflects the Company's Schedule C-4 rate class uncollectible accounts ratios, based on updated test year actual data.

Q. What level of taxes should be included in the RCF?

A. The composite tax rate includes the level of additional state and federal income taxes that the Company is expected to pay. This is typically 39.23%, which includes the state income tax rate of 6.5% and the 32.73% federal income tax rate, net of the deduction for the state tax rate. In addition, if the Company is expected to receive an additional tax deduction, which is generally proportional to the additional revenues, some recognition should be given to that amount as well. One such tax deduction is provided by Internal Revenue Code §199, Domestic Production Activities Deduction (DPAD), which has also been referred to in previous dockets as the manufacturers' tax deduction (MTD). However, certain limitations apply to the allowance of this deduction, the most notable being the requirement that the Company have taxable income. In addition, the DPAD is limited to the lesser of 50% of wages or the income from qualifying production activities, reduced by the allocable cost of goods sold and other deductions and losses. In 2016, OG&E is not expected to have taxable income, but is estimating that it will have taxable income in 2017. Therefore, I have included the DPAD in my calculation of the RCF.

TREATMENT OF EXPIRING RIDERS INCLUDED IN BASE RATES

Q. Did the Company include expenses and revenues from riders that will expire coincident with the implementation of base rates resulting from this case?

A. Yes. OG&E included both expenses and revenues from its Environmental Compliance Plan Rider (ECP), Smart Grid Recovery Rider (SGR), the Lost Contribution to Fixed Charges component of the Energy Efficiency Cost Rider (EECR), and the Crossroads Wind Farm amount recovered in the Energy Cost Recovery Rider (ECR). Company witness Cash addressed this issue and referred to his *pro forma* adjustment of $6,682,042 to include these revenues. The costs are already being included in test year expense and rate base amounts.

Q. Did Staff include the revenues and expenses related to the riders in its base rate revenues and expenses?

A. Staff included the expenses in its base rate calculation, but excluded the Rider Revenues. Staff treated these items in this manner to reflect the change in base rates only, as reflected in the Revenue Deficiency. Therefore, Staff did not include its comparable amount of Rider Revenues of $6,730,281, and Staff's Adjustment IS-11 is therefore zero. However, because the revenues are currently being recovered through riders, these Rider Revenues will cause no effect on total revenues, nor will the customers see an increase in their total bills as a result of recovering these revenues through base rates rather than the riders. Staff witness Matthew S. Klucher addresses the total revenues resulting from Staff's recommendations. I am including Table 1, below, which shows the effect of including the Rider Revenues in Staff's calculations, and Table 2, below, which compares Staff's Revenue Requirement components with those in the Company's Application. Note that regardless of how the Rider revenues are treated, the Revenue Requirement is not affected.

TABLE 1
COMPARISON OF THE EFFECT OF RIDER REVENUES ON STAFF'S REVENUE REQUIREMENT

Revenue Requirement Component	Excluding Rider Revenues	Including Rider Revenues	Difference
Operating Revenues	$85,486,348	$92,216,629	$6,730,281
Revenue Deficiency	$16,565,238	$9,834,957	$(6,730,281)
Revenue Requirement	$102,051,586	$102,051,586	$0

TABLE 2
COMPARISON OF STAFF'S AND OG&E'S REVENUE REQUIREMENT

Revenue Requirement Component	Staff	OG&E Application	Difference
Excluding Rider Revenues (Staff's Case Only):			
Operating Revenues	$85,486,348	$92,342,756	$(6,856,408)
Revenue Deficiency	$16,565,238	$16,513,653	$51,585
Revenue Requirement	$102,051,586	$108,856,409	$(6,804,823)
Including Rider Revenues:			
Operating Revenues	$92,216,629	$92,342,756	$(126,127)
Revenue Deficiency	$9,834,957	$16,513,653	$(6,678,696)
Revenue Requirement	$102,051,586	$108,856,409	$(6,804,823)

STORM DAMAGE RECOVERY RIDER

Q. Is OG&E proposing to resume usage of its SDR?

A. Yes. OG&E witness Cash discusses the Company's proposal to make certain modifications to the SDR in order to resume its use on an ongoing basis, subject to Commission approval, to capture incremental storm costs over two years.

Q. Do you agree that the Commission should approve the SDR, as modified?

A. No. As I will discuss later in my testimony, Staff recommends approval of the FRP Rider and, because it is specifically designed to capture these types of costs on a timely basis, the SDR is unnecessary. Further, deferring recovery of some portion of the storm costs over two years potentially conflicts with the FRP Rider Attachment C provision to not record a regulatory asset that may circumvent the 4% cap on revenue increases. Therefore, I recommend that the

SDR be reserved for use when storm costs are atypical and that both the need for and the terms of recovery via the SDR be addressed on a case-by-case basis.

FORMULA RATE PLAN

Q. Did OG&E request to be regulated under a Formula Rate Plan?

A. Yes. OG&E witness Rowlett requests to have the Company's rates regulated under a FRP in accordance with Act 725 for 2015 (Act 725)[1] and provides the reasons why it will be beneficial to OG&E and its customers[2]. OG&E witness Cash, in his Direct Testimony, discussed the major provisions of the Company's proposed FRP Rider.[3]

Mr. Cash made note of one item in particular: the Company's recommendation that the Cost of Service Study (COSS) from this docket be used to determine the revenue and rate base allocators utilized in Attachments B-1 and D-1, which calculate the Arkansas Retail Earned Rate of Return on Common Equity (ERR). Mr. Cash further discussed the need to utilize the COSS due to the jurisdictional levels of revenues and rate base fluctuating from year-to-year.[4]

Q. What is your position regarding OG&E's proposed FRP Rider?

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[1] Codified at Ark. Code Ann. § 23-4-1201, *et seq.*
[2] Direct Testimony of Donald R. Rowlett, pp. 6-7.
[3] Direct Testimony of Gwin Cash, pp. 24-28.
[4] *Id.*, at pp. 27-28.

A. I agree generally with OG&E's proposed FRP Rider, because it is based on Entergy Arkansas, Inc.'s (EAI) FRP Rider[5] and includes differences due to OG&E's specific circumstances. In addition, there have been several discussions concerning the FRP Rider with OG&E, resulting in Staff's incorporation of several refinements to its FRP Rider included in Direct Exhibit JH-9. The FRP Rider I support is consistent with the provisions of the FRP Riders approved for both EAI and CenterPoint Energy Arkansas.[6]

Q. Do you agree with OG&E's proposal to determine the jurisdictional amounts each year?

A. Yes. Because OG&E's cost of service depends on the allocation of its total company expenses and rate base to determine the Arkansas jurisdictional revenue requirement, it is imperative that a jurisdictional COSS be updated each year. In order to meet the limited purpose of determining Arkansas jurisdictional amounts, developing a jurisdictional COSS is needed. However, the jurisdictional COSS should not include Arkansas rate class specific allocations.

Q. Do you agree with OG&E's proposal to file its Application pursuant to the FRP Rider in July, 2018?

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[5] See, *In the Matter of the Application of Entergy Arkansas, Inc. for Approval of Changes in Rates for Retail Electric Service*, Docket No. 15-015-U.
[6] See, *In the matter of the Application of CenterPoint Energy, Arkansas Gas for Approval of Changes in Rates for Retail Natural Gas Service*, Docket No. 15-098-U.

A. No. OG&E proposes to file its Evaluation Report on July 1, 2018, in order to implement its rate adjustment in the first billing cycle of January, 2019. However, this proposed schedule would coincide with EAI's FRP schedule and may result in scheduling and workload conflicts for all parties involved. Although a projected year based on a calendar year has certain advantages, because of a regulated utility's quarterly filings, the financial data supporting an alternate date would also be readily available. Given the anticipated final Commission order date in this docket of June 26, 2017, and the statutory provision that would preclude the initial FRP Rider filing within 180 days of the final order, I recommend that the Company file its initial Evaluation Report on October 1, 2018, with an effective date of the first billing cycle in April, 2019.

Q. Can you provide a brief overview of the Projected and Historical Years?

A. Yes. The Company's financial information from the year ended March 2018 will serve as the basis for the development of the Projected Year ending March 2020. In October, 2020, the Company's third FRP filing will include a review of the then Historical Year ended March 2020 in comparison to the Projected Year as filed in October 2018. If a sufficient difference warrants a rate adjustment, the net change will be included in the required FRP Rider revenues. The 2020 filing will also include the Projected Year ending March 2022. As defined in the FRP Rider, section 80.3 Definitions, the 3 years that are referenced in the tariff are the Projected Year, which is the 12 months beginning with the effective date of the

FRP Rider rates; the Filing Year, which is the 12 months immediately preceding the Projected Year and includes the filing of the Evaluation Report; and the Historical Year, which is the 12 months immediately preceding the Filing Year—regardless of whether it is part of a netting determination or not, i.e., for the first two filings, no comparison of a previously filed Projected Year to the same year, once it has become historical, will be made; however, the term Historical Year is still used in discussing the 12 months prior to the Filing Year.

FRP RIDER TARIFF

Q. What are the components of FRP Rider tariff sheets 1 through 4[7]?

A. The FRP Rider tariff specifies the purpose and regulatory authority of the FRP Rider and defines its key elements, including an index of all Attachments. The operation of the FRP Rider is discussed, with Sections devoted to the Annual Filing and Review, the Annual Determination of the Rate Adjustment, and the Term. Additional administrative requirements are addressed in the Formula Rate Protocols.

Q. What are the provisions in the FRP Rider for the Annual Filing and Review?

A. As discussed in Section 80.4 of the FRP Rider, OG&E will file an Evaluation Report and proposed Rate Adjustment on or about October 1 of each year, along with supporting schedules and descriptive testimony. Contemporaneously, the Company will provide workpapers and other supporting information as described

[7] Direct Exhibit JH-9, pp. 12-15.

in Attachment E Filing Requirements[8] and in accordance with Attachment F Formula Rate Protocols[9].

The Parties to the docket will file a statement of errors and objections along with supporting testimony at least 90 days before the Rate Adjustment becomes effective. Within 15 days, OG&E will either file a corrected Attachment A-1, which specifies the Formula Rate Plan Adjustment, or Rebuttal Testimony.

Unless waived by OG&E and the Parties, the Commission will hold a hearing at least 50 days before the Rate Adjustment becomes effective. At least 20 days before Rate Adjustment becomes effective, the Commission will issue its final order, resolving any issues in dispute. Section 80.4.C also discusses the timing of the compliance filing, if required.

Q. How does the proposed FRP Rider address the Annual Determination of the Rate Adjustment?

A. As discussed in Section 80.5, Attachment A, B, and D schedules include the development of the Rate Adjustment. Any change in rate is determined based on a comparison of the ERR for the Test Period with the Target Rate of Return (TRR). If the difference is above or below 0.5% of the TRR (Bandwidth), OG&E will implement a rate adjustment, subject to certain restrictions.

[8] *Id*. at 33.
[9] *Id*. at 36.

Once the Test Period has become historical, the Company's Annual Evaluation Report will contain Attachment D schedules in support of the Historical Year, and the Company will present a comparison of the resulting Rate Change in FRP Rider Revenue to the previously Projected Year FRP Rider Revenue. This comparison or netting may result in a Rate Change.

Section 80.5.4 specifies that the change in the formula rate revenue shall be allocated to each applicable rate class based on an equal percentage of the base rate revenues resulting from this rate case. The tariff also specifies the statutory restriction that no class will be increased or decreased by more than 4% of the total class's revenue in the Filing Year.

Q. What is the Term of the FRP Rider?

A. As stated in Section 80.6, the initial term will not exceed 5 years from the date of the Commission's final order in this docket. OG&E has an opportunity to extend the term by no more than five years beyond the initial term. The Formula Rate Protocols discuss the requirements for requesting the extension.

FRP RIDER ATTACHMENTS

Q. What is the purpose of Attachment A-1?

A. Attachment A-1[10] is a summary schedule that presents the FRP Rider rate adjustment by rate class and lists the Rate Schedules that are excluded from the FRP Rider rate adjustment.

Q. What is the purpose of Staff's proposed Attachment A-2?

A. Attachment A-2[11] calculates the cumulative FRP Rider rate change to base rate revenues for the projected year. Attachment A-2 includes upper and lower boundary constraints associated with the four percent (4%) change in total revenue limit pursuant to Act 725. The rate class allocation percentages from this docket required for calculating the net change in FRP Rider revenue by class will be incorporated into the Compliance Tariffs.

Q. What are the purposes of the Attachment B and D Schedules?

A. The two sets of schedules are very similar in content, but serve two different purposes. The Attachment B Schedules[12] support the development of the Company's Projected Year Rate of Return on Common Equity, while the Attachment D Schedules[13] support the Historical Year. Both Attachments result in the level of Rate Base, Income, Taxes, and Benchmark Rate of Return on Rate Base (BRORB) that will be used in the determination of the Revenue Requirement, but the Attachment D schedules will only be used to determine

[10] *Id.* at 16.
[11] *Id.* at 17.
[12] See, Attachments B-1 thru B-6, Direct Exhibit JH-9, pp. 18 – 23.
[13] See, Attachments D-1 thru D-6, *Id.* at pp. 27 – 32.

whether the previously filed Projected Year will need to be netted against the Historical Year to reflect any changes in the appropriate level of recovery. For this reason the Attachment D Schedules will not be required in OG&E's initial two annual filings, but may be included as support for the Attachment B Schedules. However, the Attachment D Schedules are essential when netting is being considered in subsequent filings.

After determination of the appropriate amounts of Rate Base, Net Income, and Rate of Return, the total Company Revenue Requirement is determined on Attachments B-1 and D-1. In determining the Revenue Deficiency, the Revenue Conversion Factor (RCF) will be applied to the Operating Income Deficiency. The ERR is then determined.

Attachments B-6 and D-6 include the FRP Rider Revenue Redetermination Formula calculations supporting the total Rate Change in FRP Rider Revenue. These schedules utilize the ERR determined on Attachment B-1 and D-1, and in turn support Attachment A-2.

Q. What information will be required on the Attachment B and D Schedules and what adjustments will be included?

A. Attachments D-2, D-3, D-4, and D-5 will be the set of schedules that will reflect the actual historical information with adjustments to arrive at the Adjusted Historical Year. The adjustments are described in Attachment C and will consist of the removal of rider revenue and expense amounts, adjustments consistent with the rate case, adjustments to remove out-of-period items, reclassification adjustments, and other adjustments as needed or appropriate. In addition, the Rate Base amounts on Attachments B-2 and D-2 will reflect averages, i.e., working capital assets will reflect a 13-month average, and the plant and other Rate Base items will reflect the average of the beginning and end-of-year balances. Attachments B-3 and D-3 will include the actual or projected expense and will not be annualized for any changes that will occur at the end of the year. For example, if there was a pay rate increase that occurred on March 1, it would not be annualized, but instead payroll expense would include 11 months at the previous salary and one month at the increased level. Attachments B-4 and D-4 will show the calculation of current income tax. Because taxes are normalized, the amount of tax will be calculated rather than reflecting actual booked tax amounts. Attachments B-5 and D-5 determine the BRORB which is used in Attachment B-1 and Attachment D-1 of the FRP Rider to calculate the Company's required Operating Income for the Projected Year and the Historical Year, respectively. Staff's proposed Attachments B-5 and D-5 include a detailed list of capital components used to calculate the BRORB to more closely reflect the detail required to be provided in a general rate case. The Attachments also include notes to clarify and explain the inputs to the BRORB calculation.

Because OG&E does not prepare a budget until the 4th quarter of the year preceding the budgeted year, the development of the Projected Year will be based on the Company's Historical Year, adjusted for known and measurable changes in circumstances, and will also include other adjustments as described in Attachment C. The Company's adjustment will be fully supported by OG&E in either testimony or workpapers. I have also included additional discussion on the development of the expense and rate base amounts below.

Q. What is your recommendation of how expenses and rate base will be determined for the Projected Year?

A. For expenses, the Attachment E Filing Requirements include 5 years of data ending with the Historical Year by account, excluding rider and other amounts consistent with this rate case, and excluding payroll and related taxes and benefits. Each account, other than pensions and benefits, depreciation, income tax, or other taxes, should reflect either a normal level or comprehend a trend, based on the account balances exclusive of labor and rider-related costs. In addition, payroll, benefits, and payroll taxes should reflect anticipated changes in personnel, annual pay increases, and updated actuarial reports. Also, property taxes and depreciation expense should reflect changes in the average level of Projected Year plant additions and retirements for depreciation, and Filing Year end for taxes. Finally, income taxes will be calculated in accordance with Attachment B-4 and comprehend both current and deferred taxes.

Regarding rate base amounts to be included in Attachment B-2, working capital assets (WCA) will simply be the 13-month average of the Historical Year, including any adjustments needed to reflect a more representative balance, similar to the treatment in a traditional, general rate case. Also, any accounts that are excluded in the current rate case will also be excluded in the Company's FRP Rider. This will make for a more streamlined process. Plant will be based on the Company's Historical Year, adjusted to exclude amounts consistent with this rate case and include known and measurable additions supported by construction project data, e.g., projects OG&E has been asked to construct by Southwest Power Pool (SPP), or amounts based on historical averages or trends (for both the Filing Year and the Projected Year). Any differences between the Historical Year end and the Projected Year end will be fully supported by a complete description of the anticipated projects or proposed increases based on normal levels. A 10-year average of plant additions, by plant account and also by individual plants for production, e.g., Muskogee, will be provided with the Filing Requirements and will provide support for the reasonableness of the level of additions projected. In addition, a 10-year average of retirements, cost of removal, and salvage by plant account and plant will be provided and the percentage of retirements in relation to plant additions will be applied to the Company's projected plant additions to develop a reasonable level of retirements that will reduce both plant and accumulated depreciation. An average percentage of cost of removal and salvage to retirements will be applied to the projected retirements to determine those costs. An average of related depreciation, for both accumulated depreciation and depreciation expense, should be included as well, calculated using the plant balances (account and individual plant) at the beginning and end of the Projected Year at the Commission-approved depreciation rates. If a rate isn't available, the Company may request an interim rate with its filing, or for projects requiring Commission approval, a rate should be requested in that docket. Any adjustment needed to those amounts may be proposed. As recognized in Attachment C, for both the Historical and Projected Years, all plant, accumulated depreciation, and other rate base amounts other than WCA should reflect the average of the beginning and ending year balances.

Q. What information is required in Attachment C Section II. E., regarding the BRORB?

A. FRP Rider Attachment C Section II. E. BRORB provides information regarding the adjustments applicable to Attachments B-5 and D-5. Specifically, as discussed in Attachment C. II. E. 1., the Current, Accrued and Other Liabilities (CAOL) amounts will reflect the 13-month averages from the Historical Year, as adjusted, consistent with the determination of WCA, for both Attachments B-5 and D-5. Attachment C. II. E. 2. requires that Accumulated Deferred Income Taxes (ADIT) be based on the beginning and ending year average, consistent with Plant. Attachment C. II. E. 3. requires that the capital components be determined using mid-year (September 30) balances, which is a proxy for the use of beginning and ending year averages. In Attachment C. II. E. 4., the Company's DTE ratio for its capital accounts will be fixed at 52 / 48, with a Short-Term Debt proportion of 2.9%. The DTE and Short-Term Debt percentage are based upon historical DTE ratios of risk comparable sample companies, as discussed in the Direct Testimony of Staff witness Regis Powell, but will be updated per the Commission's final order in the Compliance Tariffs. As provided for in Attachment C II. E. 5., the return on equity shall be the value determined in this docket.

Q. What information should be included with the Company's filing?

A. Attachment E lists the specific information and support that the Company is required to provide with its Annual Filing. The information includes financial information and supporting schedules which will facilitate Staff's review. Because the review of the FRP Rider is similar in nature to the audit conducted in a rate case, the FRP Rider includes certain MFR Schedules specified in Appendix 8-1 of the Rules of Practice and Procedure. As discussed above, because Staff supports OG&E's request to adjust the jurisdictional level of costs each year, the G Schedules and the supporting cost of service study, reflecting jurisdictional allocators approved in this case, are included. Due to the limited time for review of the Company's filing, it is imperative that sufficient, detailed support is provided at the time of filing, with all formulas and links intact, and full explanations of all adjustments as specified above. Also requested is web-based or electronic access to all general ledger accounting activity and supporting invoices for the Historical Year and Filing Year to date. This should be readily available and any technical issues resolved prior to the filing date.

FORMULA RATE PROTOCOLS

Q. Does Staff propose Formula Rate Protocols (Protocols) as part of the FRP Rider?

A. Yes. Act 725 established specific filing requirements and filing timeframes associated with the annual FRP Rider review process. In order to accommodate these requirements and timeframes, Staff developed proposed administrative requirements in Attachment F – Formula Rate Protocols[14], including the establishment of a new docket designation, "FR", for the purpose of identifying the annual FRP Rider filings and other filing requirements including: Testimony and Exhibits, Workpapers and Supporting Documentation, Filing Deficiencies, Dispute Procedures, and Extension of Term. The Protocols will be applicable to all of OG&E's annual FRP Rider filings.

Q. Is an exemption from the Commission's Rules of Practice and Procedure (RPPs) necessary to implement the proposed Protocols?

A. Yes. The proposed Protocols are necessary to comply with the filing requirements and timeframes in Act 725. Staff is requesting that the Commission

[14] *Id.* at 36.

grant an exemption from the RPPs for the proposed Protocols pursuant to Rule 2.05 of the RPPs.

Q. Does this conclude your testimony?

A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served on all parties of record by electronic means via the Commission's Electronic Filing System this 31st day of January, 2017.

/s/ Justin A. Hinton
Justin A. Hinton