

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

SURREBUTTAL TESTIMONY

OF

CLAUDE ROBERTSON
PUBLIC UTILITY AUDITOR
AUDITS SECTION

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

March 30, 2017

OKLAHOMA GAS AND ELECTRIC COMPANY
DOCKET NO. 16-052-U
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INTRODUCTION

Q. What is your name?

A. My name is Claude Robertson.

Q. Are you the same Claude Robertson who filed Direct Testimony in this Docket on January 31, 2017, on behalf of the General Staff (Staff) of the Arkansas Public Service Commission (Commission)?

A. Yes, I am.

PURPOSE OF SURREBUTTAL TESTIMONY

Q. What is the purpose of your Surrebuttal Testimony in this Docket?

A. The purpose of my Surrebuttal Testimony is to discuss my updated adjustment to Payroll Expense and related taxes; Short-Term Incentive Compensation (Teamshare or STIC) and Long-Term Incentive Compensation (LTIC); Severance Expense; Contract Labor; and Relocation Expense. In my Testimony, I will address the Rebuttal Testimony of Company witnesses Jason Thenmadathil and Patricia Ruden. I sponsor the adjustments in Tables 1 and 2 below. I list the adjustments in Table 1 where the Company and I are in agreement. My testimony will address the adjustments listed in Table 2, where the Company and I differ in methodology, or where additional explanation is required. In my discussion, I contrast my adjustments with the Company's Rebuttal adjustment amounts reflected in Table 2.

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Table 1
Summary of Uncontested Adjustments

Staff Adj. No.	Co. Adj. No.	Description	Staff Adj. Amount*	Co. Adj. Amount*	Difference
IS-12	IS-12	Adjust Pension Expense less settlement cost per FAS 88	(\$6116)	(\$6116)	\$0
IS-20	IS-20	Amortization of 2015 Pension Settlement Cost	\$175,494	\$175,494	\$0
IS-27	IS-27	Amortization of 2013 Pension Settlement Cost	\$1,746,210	\$1,746,210	\$0

*The Company and Staff Adjustment amounts are shown before income taxes

Table 2
Summary of Contested Adjustments

Staff Adj. No.	Co. Adj. No.	Description	Staff Adj. Amount*	Co. Adj. Amount*	Difference
IS-16	IS-16	Increase Payroll Expense	\$2,040,577	\$4,317,943	(\$2,277,366)
IS-17	IS-17	Adjust Payroll Tax related to increase in payroll costs	\$150,391	\$318,232	(\$167,842)
IS-37	IS-37	Adjust Teamshare (STIC): Incentive Compensation	(\$564,138)	\$4,267,586	(\$4,831,724)
		Payroll Taxes	<u>(\$41,577)</u>	<u>\$314,521</u>	<u>(\$356,098)</u>
		Total Adjustment	(\$605,715)	\$4,582,107	(\$5,187,822)
IS-38	IS-38	Adjust LT Incentive Comp	(\$4,914,167)	\$472,167	(\$5,386,334)
		Adjust LT Payroll Taxes	<u>(\$362,174)</u>	<u>\$34,799</u>	<u>(\$396,973)</u>
		Total Adjustment	(\$5,276,341)	\$506,966	(\$5,783,307)
N/A	IS-42	Adjust Contract Labor Security	\$1,928,125	\$1,984,371	(\$56,246)
N/A	IS-43	Adjust Relocation Expense	(\$9,815)	(\$26,645)	\$16,830
N/A	IS-44	Adjust Severance Expense	(\$296,112)	(\$248,859)	(\$47,253)

*The Company and Staff Adjustment amounts are shown before income taxes

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PAYROLL EXPENSE AND RELATED TAXES

Q. Have you received updated payroll information since your Direct Testimony?

A. Yes. The Company provided updated payroll information as of February 26, 2017, which I annualized, then adjusted for the partnership interests in the McClain and Redbud Plants. The update comprehends the annual cost of living adjustment, as well as any changes in personnel that have occurred since the last payroll update on December 9, 2016, upon which I based my Direct Testimony. OG&E's Rebuttal Testimony payroll amount was based on its Application, differing only due to updating to actual test year expense. My updated payroll increases test year expense by \$2,040,577 and is \$2,277,366 less than the Company's Rebuttal Testimony amount of \$4,317,943. The difference between my updated payroll compared to the Company's Rebuttal Testimony request is due to approximately thirty-one retirements which took place at the end of 2016, with these positions remaining vacant at this time. This reduction is also reflected in my payroll recommendation in comparison to my Direct Testimony, which was based on the December 9, 2016, payroll, a decrease of \$3,573,348.

My Adjustment IS-17 for related payroll taxes similarly decreased by \$263,355 since Direct Testimony to my current recommendation of \$150,391, which is \$167,842 less than OG&E's Rebuttal Testimony.

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INCENTIVE COMPENSATION

Q. What reason did OG&E witness Patricia Ruden provide in Rebuttal Testimony for the inclusion of 100% of Teamshare in base rates?

A. Ms. Ruden asserts that OG&E has met the standard that the Commission set for costs that can be recovered through rates. She explains that the standard set by the Commission is that the cost should be prudently incurred, known and measurable, reasonable, and necessary for the provision of utility service in Arkansas.¹ She discusses the Company's use of annual market reviews and data from independent surveys in the assessment of OG&E's compensation position to compete in its labor market for a skilled workforce. She states that the Company's compensation position is targeted at the median (50th percentile) which is competitive relative to their peers and reasonable.² She states that as a regulated utility, "it's our obligation to be prudent and exercise discretion while providing excellent service to our customers at a reasonable cost."³ She summarizes her testimony by stating that "[s]trong financial performance contributes to a financially-healthy utility which ultimately benefits customers."⁴

¹ Rebuttal Testimony of Patricia Ruden, p. 8, lines 10-13.

² *Id.*, at 4, lines 18-30.

³ *Id.*, at 9, lines 21-23.

⁴ *Id.*, at 13, lines 1-2.

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1 **Q. What is your recommendation regarding STIC?**

2 A. I agree that Ms. Ruden has provided evidence that demonstrates that OG&E's
3 incentive compensation expenditures appear to meet the standards generally
4 applied to expenditures that are included for rate recovery. However, my
5 recommendation in this case recognizes specific Commission orders regarding
6 the recovery of incentive compensation related to financial performance goals
7 expressed in recent decisions including Order No. 18 in Docket No. 15-015-U
8 that states:

9 [T]he Commission has held in previous dockets, the adjustment is
10 not premised on whether the incentive compensation is imprudent
11 or unreasonable, but rather because the incentive compensation is
12 directly dependent upon those financial performance goals which
13 are appropriately shared by ratepayer and shareholder. While
14 incentives tied to operating performance increase efficiency, safety,
15 and reliability and provide direct benefits to ratepayers in the form
16 of better and more reliable service and should be included in rates,
17 incentives tied to financial performance are clearly designed to
18 directly, materially, and measurably increase stockholder value as
19 well as provide ratepayer benefits and should thus be shared with
20 stockholders.⁵

21 Therefore, I recommend that Teamshare and related payroll tax expense be
22 reduced by \$605,715, which I determined using the 5-year average of STIC
23 costs, reduced by 50% for financial-related incentives. In comparison to the
24 Company's requested increase of \$4,582,107, my adjustment is a reduction of

⁵ Docket No. 15-015-U, Order No. 18, p. 19 (citing Docket Nos. 04-176-U, Order No. 6, at 38 and 06-101-U, Order No. 10, at 67-68).

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1 \$5,187,822.

2 **Q. In OG&E witness Ruden's Rebuttal Testimony, what was the Company's**
3 **basis for requesting 100% recovery of Adjustment IS-38 for LTIC?**

4 A. Ms. Ruden states that "LTI is used by most OG&E industry peer companies" and
5 that "[i]t is a very necessary part of attracting and retaining the necessary talent
6 for us to operate the utility in a highly competitive job market."⁶ The Company
7 has normalized costs based upon a five year average, and then compares the
8 normalized costs to the test year which results in an increase of \$506,966,
9 including related taxes. The increased adjustment of \$506,966, in addition to
10 their test year amount of \$5,276,341 results in a *pro forma* year total of
11 \$5,783,307.

12 **Q. What is your recommendation for LTIC?**

13 A. The Commission has routinely disallowed 100% of LTIC when the focus of the
14 incentives is on stock prices and earnings per share, as demonstrated in Entergy
15 Arkansas, Inc. Docket No. 13-028-U, Order No. 21:

[T]he Commission agrees that EAI's long-term incentives do not
provide material ratepayer benefits, or align the interest of
shareholders and ratepayers because the focus of the incentives is
on stock prices and earnings per share rather on the provision of
utility service.⁷

16 My recommended adjustment removes 100% of test year LTIC in the amount of

⁶ Surrebuttal Testimony of Patricia Ruden, p. 9, lines 29-31.

⁷ Docket No. 13-028-U, Order No. 21, pp. 54-55.

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1 \$5,276,341 and is consistent with previous Commission orders, as stated above.

2 **OTHER ADJUSTMENTS**

3 **Q. Did the Company agree with your analysis of Adjustment IS-42 Contract**
4 **Labor Security?**

5 A. Yes, the Company in its Rebuttal Testimony agreed with my Adjustment IS-42
6 Contract Labor Security, however I have updated my adjustment to include
7 additional *pro forma* actual balances through February 2017. These updated
8 monthly *pro forma* costs were then annualized in the amount of \$1,928,125. This
9 is a reduction of \$56,246 compared to my Direct Testimony amount of
10 \$1,984,371.

11 **Q. Did OG&E address your Adjustments IS-43 for Relocation Expense and IS-**
12 **44 for Severance Expense?**

13 A. Yes. Mr. Thenmadathil, in his Rebuttal Testimony, agreed with the use of an
14 average, but updated his adjustments to a 5-year average of costs as of
15 December 2016, which is less than my *pro forma* relocation expense by \$16,830
16 and more than my *pro forma* severance expense by \$47,253. However, as I
17 alluded above, there were several changes in personnel in the past year.
18 Therefore, I recommend continuing to base my adjustments on the 5-year
19 average as of December 2015 that I used in my Direct Testimony, which is
20 reasonable and is more representative of a normal level of expense.

21 **Q. Does this conclude your Surrebuttal Testimony?**

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1 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 mail via the Electronic Filing System on this 30th day of March, 2017.

/s/ Justin A. Hinton
Justin A. Hinton