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	)	DOCKET NO. 16-052-U
RATES, CHARGES AND TARIFFS	)	

SURREBUTTAL TESTIMONY

OF

WILLIAM L. MATTHEWS
SENIOR PUBLIC UTILITY AUDITOR
AUDITS SECTION

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

MARCH 30, 2017

INTRODUCTION

Q. Please state your name.

A. My name is William L. Matthews.

Q. Are you the same William L. Matthews who previously filed testimony on January 31, 2017 on behalf of the General Staff (Staff) of the Arkansas Public Service Commission (Commission)?

A. Yes.

PURPOSE OF TESTIMONY

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

A. The purpose of my testimony is to discuss my updates to gross plant-in-service (GPIS) and related accumulated depreciation (AD). I also discuss my adjustments to depreciation and amortization expense as well as *ad valorem* tax. In so doing, I address the relevant Rebuttal Testimony of Oklahoma Gas and Electric Company (OG&E or Company) witnesses Malini Gandhi and Jason Thenmadathil.

Specifically, I will address my adjustments where totals or methodologies have changed since Direct Testimony or that reflect a difference from the Company. Unless otherwise noted, all adjustments are stated on a total company basis. The rate base and expense adjustments that reflect a difference from OG&E are shown in Tables 1 and 2, respectively, and uncontested adjustments are shown in Table 3. In each table, my adjustments are compared to the Company's Rebuttal amounts, if applicable.

Table 1
Summary of Rate Base Adjustments

Staff Adj. No.	OG&E Adj. No.	Description	Staff Adj. Amount	OG&E Adj. Amount	Difference
GROSS PLANT-IN-SERVICE					
RB-1	RB-1	Remove Non-Utility Holding Company Assets	($21,999,807)	($21,624,229)	($375,578)
RB-3	RB-2 & 3	Net *Pro Forma* Additions and Retirements	$291,493,106	$316,328,185	(24,835,079)
RB-4	RB-4	Windspeed Reduction	($73,277,168)	($72,185,182)	($1,091,986)
RB-12	RB-12	Removal of Plant Held for Future Use	($2,749,679)	($1,196,667)	($1,553,012)
RB-13	RB-13	Removal of ARO	($53,309,326)	$0	($53,309,326)
RB-14	N/A	Removal of AFUDC related to ACT 310 Filing	($355,690)	($0)	($355,690)
RB-15	RB-15	Removal of Acquisition Adjustment	($8,321,646)	$0	($8,321,646)
ACCUMULATED DEPRECIATION					
RB-1	RB-1	Remove Non-Utility Holding Company Assets from GPIS	($19,658,308)	($19,322,704)	$(335,604)
RB-4	RB-4	Windspeed Reduction	($10,123,731)	($9,653,016)	($470,715)
RB-5	RB-5	Adjust for AR vs OK Depr Rate Differential (1986-2006)	$66,927,191	$66,927,096	$95
RB-7	RB-7	Adjust for AR vs OK Depr Rate Differential (2011 to 2017)	($91,274,775)	($87,067,532)	($4,207,243)
RB-8	RB-8	Adjust for Pro-Forma Year Depreciation	$219,202,091	$238,241,595	($19,039,504)
RB-13	RB-13	Removal of ARO	$21,895,302	$0	$21,895,302

Table 2
Summary of Expense Adjustments

Staff Adj. No.	OG&E Adj. No.	Description	Staff Adj. Amount	OG&E Adj. Amount	Difference
IS-26	IS-26	Adjust Depreciation and Amortization Expense	($4,269,753)	$22,788,930	($27,058,683)
IS-29	IS-29	Adjust Ad Valorem Tax	$510,680	$514,367	($3,687)
IS-30	IS-30	Adjust Acquisition Adjustment Amortization	$5,492,663	$5,567,337	($74,674)

Table 3
Summary of Uncontested Adjustments

Staff Adj. No.	OG&E Adj. No.	Description	Adj. Amount
GROSS PLANT-IN-SERVICE			
RB-6	RB-6	Reduction for Transmission LSE	($886,125,226)
RB-9	RB-9	Removal of CWIP	($319,442,382)
RB-11	RB-11	Removal of Non-Utility Property	($5,164,841)
ACCUMULATED DEPRECIATION			
RB-6	RB-6	Reduction for Transmission LSE	($42,879,613)
RB-11	RB-11	Removal of Non-Utility Property	($2,167,571)
Expense Adjustments			
N/A	IS-40	Amortization of Depreciation Differential	$0

PLANT-IN-SERVICE

Q. Please summarize and contrast your recommended amounts of GPIS and AD with the Company's.

A. I am recommending total *pro forma* GPIS of $9,773,423,395 and AD of $3,888,033,928 compared to the Company's GPIS of $9,853,391,054 and AD of $3,890,191,598. My total recommended amounts for GPIS and AD differ from the Company's Rebuttal amounts by $79,967,659 and $2,157,670, respectively. My recommended GPIS is $46,409,108 more than my Direct Testimony amount of $9,727,014,287, and my recommended AD is $15,081,597 less than my Direct Testimony amount of $3,903,115,525. I will discuss the reasons for these differences below.

Gross Plant-In-Service

Q. Did you revise your Adjustment RB-1 to remove non-utility Holding Company assets?

A. No. The Company and I followed the same methodology in applying an allocation ratio to the Holding Company assets to develop our Adjustment RB-1. My Adjustment RB-1 is unchanged since Direct Testimony. The Company updated its adjustment to reflect the actual test year amounts, as shown in its Rebuttal Minimum Filing Requirements (MFRs) Schedule B-2 of $21,624,229. However, the Company continued to use a ratio developed from partially-projected test year amounts. This difference in methodology regarding the ratio used resulted in my adjustment being $375,578 more than the Company. The Company did not address this adjustment in its Rebuttal Testimony.

Q. Why did your Adjustment RB-3 for Net Additions to GPIS increase by $49,428,156?

A. The two main reasons for the increase are the additional three months of actual data provided by the Company and a refinement in my methodology for projecting additions for the remainder of the *pro forma* year. In my Direct Testimony, I used 4 months of actual data and 8 months of projections. I am now using seven months of actual data, July 2016 through January 2017, and five months of projections. The addition of three months' actual additions to GPIS resulted in an increase of $58,259,143 more than was projected for the time period in my Direct Testimony.

The other reason for the increase is a change in my projection process for the remaining five months of the *pro forma* year. There are two reasons for the change. First, I used the monthly averages for ten years for blanket project closings. Second, I applied the historical completion average of 87% for five-twelfths of the calendar year 2017 capital budget, other than blanket projects.

In my Direct Testimony, I used a similar methodology which included an estimate based on Construction Work-In-Progress (CWIP) as of October 31, 2016, proposed to be completed by December 31, 2016, and 87% of one-half of the 2017 budget for all projects. However, a detailed listing of the exact projects in CWIP including proposed completion amounts and dates was not available for 2017. Therefore, I excluded the blanket projects and continued to use 87% of the remaining budget. The blanket projects were estimated using the 10-year average. The net effect of these changes mentioned above served to increase my Adjustment RB-3 from $242,064,950 in Direct Testimony to my current recommendation of $291,493,106.

Q. Did OG&E accept your Adjustment RB-4, which reduces Windspeed assets by $73,277,168?

A. No. My adjustment was based on the actual test year-end balances and the 34% rate approved by the Commission in Docket No. 10-067-U. However, the Company continued to base its adjustment on the plant balance from Docket No. 10-067-U and did not address this adjustment in its Rebuttal Testimony. Therefore, my adjustment to GPIS differs from OG&E's by $1,091,986.

Q. What was the Company's reason for not accepting your Adjustment RB-12 Plant Held for Future Use (PHFU) of $2,749,679?

A. In its Adjustment RB-12, OG&E removed $1,037,525 of PHFU and is seeking a return on $1,553,012 of assets purchased in the last ten (10) years. According to OG&E witness Gandhi, the Company "believes that failure to purchase the best locations in advance, particularly in growth areas, creates risk of higher costs to customers".[1] She indicated that this addressed issues such as advanced planning and funding concerns in the future.

Q. Do you agree with the Company's position?

A. No I do not. I removed all PHFU since it is not used and useful in the provision of utility service. The Commission has only allowed the inclusion of PHFU in

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[1] Docket No 16-052-U, Rebuttal Testimony of Malini Gandhi, p. 3, lines 8-9

Rate Base in those instances where a utility had clearly established that the individual property in question would be in service prior to the end of the *pro forma* year. The Company made no such assertion in this docket, instead the Company requested a blanket inclusion of all PHFU purchased in the last ten (10) years. The Company proposed a similar adjustment in Docket No. 10-067-U, and the Commission rejected the proposed adjustment. Accordingly, I have removed it from Rate Base.

Q. Please explain your changes to Adjustment RB-13 which removes Asset Retirement Obligations.

A. I updated my adjustment to reflect the changes which had occurred in plant since my Direct Testimony. This resulted in my adjustment increasing $3,627,622 for a total adjustment amount of $53,309,326. The Company did not make this adjustment, nor was it addressed in its Rebuttal Testimony.

Q. Please explain the reasons for the Company's objection to your Adjustment RB-14 Allowance for Funds Used During Construction (AFUDC) related to Act 310 projects.

A. OG&E witness Gandhi disagreed with my adjustment for two reasons. First, the Company contended that the adjustment in question was not required, since the AFUDC reduction had already been made on a total company basis and the appropriate reduction to Arkansas plant was included in the Company's Cost of Service Model. However, since filing its Rebuttal Testimony, OG&E has confirmed the adjustment is necessary, because the reduction was allocated, rather than directly-assigned to Arkansas, as previously believed. Second, the Company disagreed with my adjustment because of a mathematical error. I have corrected the error which decreased my Adjustment RB-14 from $964,264 to $355,690.

Q. Did you make any changes to your Adjustment RB-15 of $8,321,646 for the Removal of Acquisition Adjustments?

A. No, my Adjustment RB-15 is unchanged and the Company did not make this adjustment, nor was it addressed in Rebuttal Testimony.

<u>Accumulated Depreciation</u>

Q. Did your recommendation for Adjustments RB-1 to remove non-utility Holding Company AD and RB-4 for the Windspeed Reduction change from Direct Testimony?

A. As I discussed in regard to the GPIS adjustments above, I have made no change in my recommendations.

Q. Would you please discuss Staff's adjustments to AD in RB-5 and RB-7 and the Company's Adjustments RB-5 and RB-7?

A. My adjustments reflect a net decrease to AD of $24,347,584 in recognition of the depreciation rate differential between Arkansas and Oklahoma. This net decrease has increased $4,207,148 from my Direct Testimony. This was the result of my updating information which will be discussed in the Surrebuttal Testimony of Staff witness Gerrilynn Wolfe. The Company agreed with Staff's adjustment and methodology presented in Ms. Wolfe's Direct Testimony and the remaining differences in amounts are due to my use of updated information.

Q. Why did your Adjustment RB-8 for AD of $219,202,091 decrease by $11,615,585 from your Direct Testimony amount of $230,817,676?

A. The inclusion of three months of actual data increased AD approximately $55,588,867. However, the change from projecting AD over eight months to five months and the application of the half-year convention decreased projected depreciation, retirements, removal, and salvage by $67,204,448 for a net decrease to AD of $11,615,867.

Another factor which played a part in this reduction is a change in the method for calculating projected retirements. In my Direct Testimony, I used a ratio for retirements of 13.92% developed from the average of retirements as a percentage of additions on a total plant basis for the last ten (10) years. The Company used a ratio of 23% based on the results of the Test Year totals. In my Surrebuttal Testimony, I am using a ratio developed in the same manner, but determined by functional area, which results in a composite rate of 15.82%. This change from a single ratio to the use of ratios for each functional area is more representative of actual trends than the application of a single ratio. However, this change is offset by a similar decrease in GPIS and therefore, has no effect on Rate Base.

Q. Were there any other items which contributed to the overall decrease in AD from Direct Testimony?

A. Yes. As mentioned above, the update to Adjustment RB-7 reduces total AD by an additional $4,207,148. Staff's adjustment and reasoning are discussed further in the Surrebuttal Testimony of Staff witness Wolfe.

Q. Did you make any change to Adjustment RB-13 which removes Asset Retirement Obligations?

A. While my recommendation to remove AROs from Rate Base did not change, I updated this adjustment to reflect the changes which had occurred in AD since my Direct Testimony. This increased my adjustment by $741,136 for a total reduction of $21,895,302. The Company did not make this adjustment in either its Application or Rebuttal, nor was it addressed in testimony.

DEPRECIATION AND AMORTIZATION EXPENSE

Q. Would you please discuss your Adjustment IS-26 to depreciation and amortization expense?

A. My recommended decrease in depreciation expense of $4,269,753 is $27,058,683 less than the Company's Rebuttal amount of $22,788,930 and $7,681,108 more than my recommended decrease of $11,950,861 in my Direct Testimony. This difference is due to changes in plant balances and the application of the depreciation rates revised since my Direct Testimony and discussed by Staff witness Wolfe in her Surrebuttal Testimony.

Q. Did the Company disagree with your Adjustment IS-29, *Ad Valorem* Tax?

A. Yes. Company witness Jason Thenmadathil agreed with my methodology, but proposed the use of more current information. I agree with Mr. Thenmadathil and have made the appropriate changes to my tax calculation. However, my adjustment differs from the Company's by $3,687 due to rounding. This resulted in my adjustment increasing from $368,012 in Direct Testimony to $510,680.

Q. Would you please discuss your Adjustment IS-30 for Acquisition Adjustments?

A. This adjustment of $5,492,663 is unchanged from my Direct Testimony. The Company did not change its adjustment amount, nor did it address this adjustment in its Rebuttal Testimony.

Q. Does this conclude your testimony?

A. Yes.

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