

BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE FORMULA)	
RATE PLAN FILINGS OF OKLAHOMA GAS)	
GAS AND ELECTRIC COMPANY)	DOCKET NO. 18-046-FR
PURSUANT TO APSC DOCKET)	
NO. 16-052-U)	

Direct Testimony

of

Jason Bailey

on behalf of

Oklahoma Gas and Electric Company

1 Q. **Please state your name, position, by whom you are employed, and your business**
2 **address.**

3 A. My name is Jason Bailey. I am the Director of Revenue Requirements for Oklahoma Gas
4 and Electric Company (“OG&E”). My business address is 321 N. Harvey, Oklahoma City,
5 Oklahoma, 73102.
6

7 Q. **Please state your educational qualifications and employment history.**

8 A. I received a Bachelor of Science in Chemical Engineering and a Master of Business
9 Administration (Finance), both from the University of Oklahoma. I have been employed by
10 either OGE Energy Corp. or OG&E since 2002. I have held various positions with increasing
11 responsibility, most recently including Director of Risk Coordination, Director of Corporate
12 Finance, and currently as the Director of Revenue Requirements.

13 As the Director of Revenue Requirements my responsibilities include directing the
14 work of our Regulatory Accounting group, whose responsibilities include preparing
15 accounting MFRs and testimony for various regulatory proceedings in both Oklahoma and
16 Arkansas. I also direct a team of Regulatory Coordinators, whose responsibilities include
17 managing the execution of various regulatory proceedings.
18

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

20 A. Yes. I have previously testified before the Arkansas Public Service Commission (“APSC”
21 or “Commission”) in Docket No. 18-006-U. I also submitted testimony in 18-049-TF that
22 described OG&E’s Tax Adjustment (“TA”) Rider, which implements the benefits of the
23 Tax Cuts and Jobs Act (“TCJA”), as ordered in Docket No. 18-006-U.
24

25 Q. **What is the purpose of your direct testimony?**

26 A. The purpose of my direct testimony is to provide an overview of OG&E’s first formula
27 rate plan filing, present the results of the Formula Rate Plan (“FRP”) 2018 Evaluation
28 Report, describe the significant drivers of the proposed FRP revenue change, including
29 customer impacts, and the calculation of the changes in rates resulting from this
30 proceeding. I also introduce the other Company witnesses filing direct testimony, who
31 further explain the rate adjustments to the historical year books are necessary in order to

1 design rates which reflect revenue, expense and investment levels the utility expects to
2 experience prospectively in the projected year. These Rate Adjustments comply with the
3 requirements of the FRP, are reasonable and necessary, and will be effective April 1, 2019.
4 Last, I discuss changes the Company is proposing to the current FRP Tariff.
5

6 **Q. When was OG&E's FRP Rider approved?**

7 A. OG&E provided notice of its intent to implement a Formula Rate Plan Rider mechanism
8 utilizing a projected test year in its last general rate case in Docket No. 16-052-U, as
9 required by Act 725. In Order No. 8 of that docket, issued on May 18, 2017, the
10 Commission approved OG&E's FRP Rider. OG&E will file its FRP annually, on or about
11 October 1st of each year, during the term of the FRP.
12

13 **Q. Was the impact of lower federal corporate income tax rates associated with the TJCA**
14 **incorporated into OG&E's FRP Rider?**

15 A. Yes. In Docket No. 18-049-TF OG&E received approval of its proposed TA Rider in
16 Order No. 2, issued on September 24, 2018. The TA Rider was developed to comply with
17 Order No. 6 in Docket 18-006-U. Two components of the TA Rider will be reflected in
18 the FRP, and no longer the TA Rider, when the new FRP rates become effective on April
19 1, 2019. The first component to move from the TA Rider to the FRP is the reduction of
20 income tax expense to account for the reduction in the federal corporate income tax rate
21 from 35% to 21%. The second component to move from the TA Rider to the FRP is the
22 amortization of protected excess deferred accumulated income taxes. The FRP Rider,
23 Attachment A-1, was amended to include the TA Rider as an "Excluded Schedule". The
24 TA Rider will now only include the amortization of unprotected excess deferred taxes.
25

26 **Q. Can you provide an overview of the time periods used in OG&E's 2018 Evaluation**
27 **Report?**

28 A. Yes. There are three general time periods that OG&E used in completing its 2018
29 Evaluation Report. The Historical Year ("HY") in this filing is the 12 month period ending
30 March 31, 2018. The Filing Year ("FY") in this filing is the 12 month period ending March
31 31, 2019. This time period includes the filing date of on or about October 1 in which the

1 Company will file its Evaluation Report and all associated filing requirements in its
2 respective year. The Projected Year (“PY”) in this case is the 12 month period ending
3 March 31, 2020. The Projected Year is the time period that is evaluated and for which the
4 rate adjustment applies.

5
6 **Q. Can you explain the criteria in the FRP that determines if and how much of a rate
7 adjustment is necessary?**

8 **A.** Yes. There are two criteria that determine whether a rate adjustment is necessary. The first
9 criteria is whether OG&E’s earned rate of return falls outside of a plus or minus 50 basis
10 point bandwidth from its target rate of return. The Commission approved a return on equity
11 of 9.5% in OG&E’s last general rate case, Docket No. 16-052-U. If a rate adjustment is
12 necessary, then the second criteria limits the amount of the adjustment to plus or minus
13 four percent of each rate class’ total Filing Year revenues. These criterion are customer
14 protections that were established in Act 725.

15
16 **Q. Can you explain how the Projected Year is created?**

17 **A.** OG&E’s methodology, which was approved in Docket No. 16-052-U, builds the Projected
18 Year using the Historical Year and only making adjustments that were reasonably known
19 and measurable.¹ In other words, the Company’s Projected Year equals its Historical Year
20 plus certain reasonably known and measurable changes. While other Companies that
21 utilize a FRP in Arkansas may use a fully projected year with a forecast that has been
22 approved by their Board of Directors, OG&E chose to utilize historical book information
23 as the starting point to build the Projected Year. OG&E then has added only select items
24 that are known and measurable to develop the Projected Year. Any differences between
25 what was included in OG&E’s first Projected Year and the actual results will be considered
26 in the Netting of Historical Year Differences Adjustment when OG&E makes its third FRP
27 filing in October 2020. For a detailed explanation on the development of the Projected
28 Year and to see a list of the adjustments made in the 2018 Evaluation Report, please see
29 the Direct Testimony of OG&E witness Cochran.

¹ Tariff Sheet No. 80, FRP, Attachment C, I.(D).

1 Q. **Is OG&E seeking a rate adjustment under its Formula Rate Plan Tariff in this Case?**

2 A. Yes. The 2018 Evaluation Report shows that the Company's Earned Rate of Return
3 ("ERR") for its Projected Year will be 7.41%, which is less than the allowed Return on
4 Equity ("ROE") in Docket No. 16-052-U or the Target Rate of Return ("TRR") of 9.5%.
5 The Company needs to increase revenues by \$6.5 million in the Projected Year in order to
6 earn the TRR.

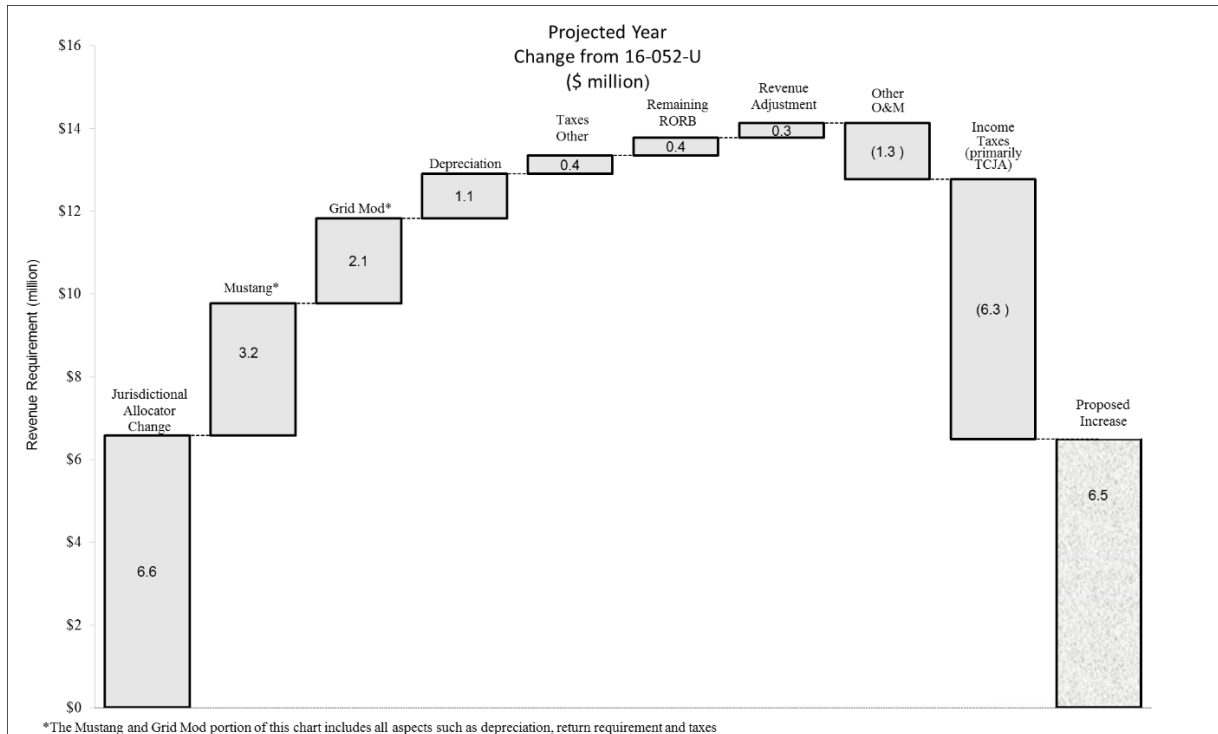
7
8 Q. **Is the Company seeking the increase stated above through its FRP Tariff?**

9 A. No. The FRP Constraint Calculation determines the limit of the FRP revenue increase or
10 decrease per rate class, which shall not exceed plus or minus four percent of Total
11 Unadjusted Annualized Filing Year revenues. For all rate classes, besides the classes
12 "General Service" and "Other", the ROE Bandwidth Rate Adjustment is within the upper
13 and lower Rider FRP Revenue Constraint. The calculation in Attachment A-2 limits the
14 increase to the General Service class to \$744,488 even though the ROE Bandwidth
15 calculates an increase of \$754,187. Similarly, the calculation in Attachment A-2 limits the
16 increase to the Other class to \$156,101 even though the ROE Bandwidth calculates an
17 increase of \$203,718. Limiting the increase to the General Service class and the Other class
18 results in the Company reducing its increase calculated by the Bandwidth Adjustment of
19 \$6.5 million by \$57,316 to a proposed increase of \$6.4 million.

1 Q. What are the significant drivers associated with the 2018 FRP Filing?

2 A. Please see Chart 1.

3 **Chart 1**



4 Q. Please explain the Jurisdictional Allocator Change shown in Chart 1.

5 A. In Docket No. 16-052-U OG&E requested, and was granted, the ability to update its
6 jurisdictional Cost of Service Study in each FRP filing.² Customer usage varies over time
7 and between jurisdictions, OG&E operates in both Arkansas and Oklahoma. By changing
8 the Cost of Service in each FRP filing, the Company can accurately assign costs, by
9 jurisdiction, by updating the coincident system peak load, customer individual peak load,
10 customer counts, and energy data. OG&E did update its jurisdictional allocators in this case
11 resulting in a jurisdictional allocator change, however it did not update the class allocators
12 because they will not change during a FRP filing. As shown in Chart 1, the update to the
13 jurisdictional allocators from the last rate case to the Projected Year caused an increase to
14 proposed revenues of \$6.6 million. For more detail on jurisdictional allocator changes
15 please see the direct testimony of OG&E witness Knight.

² Settlement Testimony of Jeff Hilton, p. 7, lines 3-7.

1 Q. **Will OG&E apply actual load when it does the Netting Adjustment in its third FRP**
2 **Filing?**

3 A. Yes. OG&E will include the actual load from the Historical Year in its third FRP filing and
4 compare it to the Projected Year load presented in this Case. Any differences between the
5 Projected Year and the Historical Year will be trued-up at that time.
6

7 Q. **Please explain how incremental projects impacted the proposed increase in Chart 1?**

8 A. There are two drivers associated with incremental projects in Chart 1. The first project is
9 the Mustang Combustion Turbines (“CTs”) that were placed into service during the
10 Historical Year. Pursuant to Order No. 3 in Docket No. 17-030-U, the Commission found
11 that the plan to modernize the Mustang Plant was in the public interest and that the costs
12 would be included for recovery in OG&E’s FRP filing. The \$3.2 million increase to
13 proposed revenues related to the CTs, shown in Chart 1, is a total revenue requirement
14 amount including depreciation, return requirement, and taxes. The second driver is Grid
15 Modernization. The \$2.1 million increase to proposed revenue related to Grid
16 Modernization, shown in Chart 1, is also a total revenue requirement amount including
17 depreciation, return requirement, and taxes. For further information on Grid
18 Modernization, please see the Direct Testimony of OG&E witness Gladhill. For further
19 information on the revenue requirement adjustments made for these investments, please
20 see the Direct Testimony of OG&E witness Cochran.
21

22 Q. **What other drivers are included in Chart 1 above?**

23 A. Chart 1 includes changes to Depreciation, Taxes Other, Remaining RORB, Revenue
24 Adjustment, and Other O&M since Docket No. 16-052-U. The sum of these changes result
25 in a proposed revenue increase of \$0.9 million.

1 Q. **Please identify the impact of the 2017 TCJA on the proposed increase shown in**
2 **Chart 1?**

3 A. The Company compared OG&E's projected year revenue requirement with and without
4 the impacts of the TJCA. The impacts of the TCJA on the projected year were
5 approximately a \$6.6 million decrease in revenue requirement. When considering all other
6 changes in income tax impacts since Docket No. 16-052-U, the net result is a decrease of
7 \$6.3 million. Additionally, the Company included the impacts of the TA Rider in the Filing
8 Year revenues, which reduced Filing Year revenues and reduced the FRP revenue
9 constraint calculation. For further detail on the Filing Year revenues please see the Direct
10 Testimony of OG&E witness Schwartz.
11

12 Q. **Is the Company asking for any increase or decrease in revenues related to its**
13 **Historical Year Attachment D Schedules?**

14 A. No. The Company is not asking for an increase or decrease in revenues related to these
15 Attachments. Because the Company utilizes the Historical Year information as the basis
16 for developing the Projected Year, the Company filled out Attachment D Schedules for
17 informational purposes only.
18

19 Q. **Is there a Netting of the Historical Year Difference Adjustment included in this FRP**
20 **Filing?**

21 A. No. The Company's FRP Filing in 2020, its third Evaluation Report, will be the first year
22 the Company will make a Netting Adjustment. This will be a Netting of the differences
23 between the Projected Year in its first FRP filing (year ending March 31, 2020) and the
24 Historical Year in its third FRP Filing (March 31, 2020).

1 Q. **What is the FRP Rate Adjustment, by class, shown on Attachment A-1?**

2 A. Table 1 below shows the FRP Rate Adjustment by Rate Class, which is the adjustment
3 needed to the Projected Year base rate revenues, in order for the Company to earn the
4 allowed ROE from Docket No. 16-052-U.

Table 1. FRP Rate Adjustment

Rate Class	FRP Rate (%)
Residential	6.2586%
General Service	6.4370%
Power and Light	6.5166%
Other*	4.8339%

*Other includes Municipal Water Pumping, Municipal Roadway and Area Lighting, Outdoor Security Lighting, Athletic Field Lighting, and the LED lighting rates

5 Q. **What is the customer impact of implementing the proposed FRP Rate Adjustment?**

6 A. Table 2 shows the FRP Rate Adjustment bill impact by Rate Class, including the
7 percentage change in total bill for each Rate Class from the Filing Year revenues. For
8 further discussion on customer impacts, please see the Direct Testimony of OG&E witness
9 Schwartz.

Table 2. FRP Rate Adjustment Bill Impact

	Residential	General Service	Power and Light	Other
Average FRP Change (\$/month)	\$3.67	\$6.33	\$239.64	\$1.61
Percent Change of Total Bill	3.90%	4.00%	3.10%	4.00%

10 Q. **How will OG&E's Arkansas average rate per kWh compare to regional and national**
11 **averages based on the request in this case?**

12 A. Table 3 provides a comparison of OG&E's proposed rates to regional and national average
13 rates, shown as dollar per kWh. These rates come from the Edison Electric Institutes
14 ("EEI") *Typical Bills and Average Rates Report Winter 2018*. OG&E's average rates
15 shown in Table 3 reflect the Company's EEI average rates multiplied by the FRP rate
16 adjustment percentage found in Table 1 to establish a proposed dollar per kWh rate based
17 on the FRP request.

Table 3. Comparison of Average Rates (\$/kWh)

	Residential	General Service	Power and Light
OG&E Proposed	\$0.0921	\$0.0752	\$0.0569
Arkansas Average	\$0.1021	\$0.0819	\$0.0615
West South Central Average	\$0.1014	\$0.0843	\$0.0539
National Average	\$0.1328	\$0.1082	\$0.0700

1 Q. **How will the FRP be reflected on the customer's bill?**

2 A. The FRP, implemented on April 1, 2019, will be reflected as a separate line item on the
3 bill, called "Formula Rate Plan".

4
5 Q. **Please provide a list of other Direct Testimony's filed in this Case.**

6 A. Please see Table 4 for a list of Company witnesses filing in this Case and the subject matter
7 they are supporting.

Table 4

<u>Witness</u>	<u>Title</u>	<u>Purpose of Testimony</u>
Bradley S. Cochran	Lead Regulatory Coordinator	Sponsors the Company's rate base and operating expense adjustments outlined in Attachment C. Also describes proposed FRP tariff changes.
Jeremy K. Schwartz	Senior Pricing Analyst	Sponsors the Company's revenue and sales adjustments outlined in Attachment C, including the Filing Year Revenue calculation used to calculate the 4% cap.
Seth Knight	Senior Cost Analyst	Supports the Company's development of the Jurisdictional cost of service study.
Zachary Gladhill	Director, Distributed Energy Resources	Sponsors the Company's Grid Modernization investment.

1 **Q. Is the Company proposing any changes to the FRP Tariff in this case?**

2 A. Yes. As noted previously, this is OG&E's first FRP filing and the first time completing the
3 filing requirements that were outlined in the FRP Tariff. While OG&E was completing the
4 Attachments and filing requirements in the FRP filing, the Company noticed that some
5 changes could be made that would help to clarify some of these filing requirements as well
6 as provide information in a more meaningful way. The Company did not make any changes
7 that would impact the structure or calculations in the Formula Rate Plan. For further
8 discussion of the proposed changes to the Tariff, please see the direct testimony of OG&E
9 witness Cochran.

10

11 **Q. What is the Company's recommendation to the Commission?**

12 A. The Company respectfully requests the Commission to approve its proposed FRP Rider
13 Rate Adjustment to be effective the first billing cycle of April 2019.

14

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

16 A. Yes.

CERTIFICATE OF SERVICE

I, Lawrence E. Chisenhall, Jr., hereby state that a copy of the foregoing instrument was served on all the parties of record via the APSC Electronic Filing System on this the 1st day of October, 2018.

/s/ Lawrence E. Chisenhall, Jr.

Lawrence E. Chisenhall, Jr.