

**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	)	

Settlement Testimony

of

Donald Rowlett

on behalf of

Oklahoma Gas and Electric Company

Donald Rowlett  
*Settlement Testimony*

1 Q. **Please state your name and business address.**

2 A. My name is Donald Rowlett. My business address is 321 North Harvey Avenue,  
3 Oklahoma City, Oklahoma 73101.  
4

5 Q. **Are you the same Donald Rowlett who filed Direct, Rebuttal and Sur-surrebuttal  
6 Testimony in this Docket?**

7 A. Yes.  
8

9 Q. **What is the purpose of your Settlement testimony?**

10 A. The purpose of my Settlement testimony is to support the negotiated settlement reached  
11 among the General Staff of the Arkansas Public Service Commission ("Staff"),  
12 Oklahoma Gas and Electric Company ("OG&E"), the Office of the Arkansas Attorney  
13 General Leslie Rutledge ("AG"), the intervenor, Arkansas River Valley Energy  
14 Consumers ("ARVEC"), and the intervenors Wal-Mart Stores Arkansas, LLC and Sam's  
15 West Inc. ("Wal-Mart"), (collectively, the "Settling Parties") that addressed all issues in  
16 this proceeding. Though Sierra Club is a party to this Docket, it is not a Settling Party,  
17 and takes no position on this Agreement. The Settling Parties have prepared and executed  
18 a Settlement Agreement ("Agreement") evidencing the negotiated settlement, which is  
19 attached as Joint Exhibit 1 to the Joint Motion to Approve the Settlement Agreement and  
20 For the Excusal of Witnesses (Joint Motion), which has been filed with the Commission.  
21

22 Q. **Please summarize OG&E's application.**

23 A. On August 25, 2016, OG&E filed for a general change in rates and tariffs, including an  
24 increase in overall electric revenues of \$16.5 million and requested to be regulated under  
25 a Formula Rate Plan.  
26

27 Q. **Why did OG&E seek a rate increase?**

28 A. OG&E sought a rate increase to cover the cost of infrastructure investment and higher  
29 operating expenses not currently reflected in rates. OG&E had last adjusted its rates in

1 Arkansas in July 2011 utilizing a December 31, 2009 test year and a December 31, 2010  
2 *pro forma* test year.

3  
4  
5 Q. **Please describe the events that led to entering into the Agreement.**

6 A. On August 25, 2016 OG&E filed its application and direct testimony supporting the  
7 requested increase to electric revenues. On January 31, 2017 Staff, the AG, and the  
8 intervenors filed direct testimony. On February 28, 2017 OG&E filed rebuttal testimony  
9 and updated MFRs. On March 30, 2017 Staff, the AG, and the intervenors filed their  
10 surrebuttal testimony. On April 6, 2017 OG&E filed its sur-surrebuttal testimony and  
11 updated MFRs. Throughout the case, Staff and the intervenors had the opportunity to  
12 conduct discovery, through the issuing of data requests.

13 On April 10<sup>th</sup>, OG&E submitted to Staff, the AG, and the intervenors a proposal  
14 for settlement. On April 11 and April 12, 2017 OG&E, Staff, the AG, ARVEC, and Wal-  
15 Mart met at the office of the Arkansas Public Service Commission to discuss OG&E's  
16 proposal for settlement and held settlement discussions. After a negotiation between the  
17 Settling Parties a Settlement Agreement was reached, and is attached to the Joint Motion  
18 as a Joint Exhibit.

19  
20 Q. **Please describe the major provisions of the Agreement.**

21 A. The Settling Parties agreed to a revenue deficiency and revenue requirement based on  
22 Staff's March 30, 2017 surrebuttal position adjusted by the list below:

23  
24 1. OG&E's advertising adjustment IS-13 is changed from a decrease of  
25 \$3,296,900 to a decrease of \$957,693. This results in an increase to the  
26 revenue requirement of \$162,772;

27  
28 2. The Revenue Conversion Factor ("RCF") is increased by 0.0247. This  
29 changes is the result of removing the Domestic Productions Activities  
30 Deduction ("DPAD") from the RCF, thereby increasing the revenue  
31 requirement by \$247,009;



1 3. The Wind Jurisdictional Allocator is changed from an Energy Allocator  
2 of 10.29% to a Demand Allocator of 8.49%, resulting in a decrease to the  
3 revenue requirement of \$2,102,493;

4  
5 4. The Company's adjustment IS-32 reflects a reduction in Storm damage  
6 expense from \$636,625 to \$420,401, which decreases the revenue  
7 requirement by \$429,693; and

8  
9 5. Capital Structure is revised from a debt to equity ratio of 52/48 to a debt  
10 to equity ratio of 50/50, including a short-term debt percentage of 2.9%.  
11 This increases the revenue requirement by \$782,400. The return on  
12 common equity is 9.50%, unchanged from Staff's Surrebuttal position.

13  
14 The resulting Arkansas revenue deficiency agreed to by all Parties is \$7,116,038.  
15 Including existing riders rolling into base rates of \$9,741,043 results in a total revenue  
16 deficiency of \$16,857,081.

17  
18 Q. **Does the Agreement reflect changes in rate design?**

19 A. Yes. Fundamentally, OG&E's rate design, detailed in the direct, rebuttal and sur-  
20 surrebuttal testimonies of Scott and Wai and agreed to by Staff witnesses Klucher and  
21 Swaim, has been adopted by the Settling Parties. In addition, the Settling Parties have  
22 agreed that OG&E may offer optional Residential and General Service tariffs,  
23 incorporating a demand charge.

24  
25 Q. **What is the individual average customer impact?**

26 A. For the average customer, after consideration of all riders, the total bill impact by class is  
27 9.1% for Residential, 8.4% for General Service, 1% for Power & Light, and Power &  
28 Light Time of Use. The increases for Residential and General Service may look larger  
29 than anticipated, however it is important to remember that OG&E's Arkansas rates are  
30 still some of the lowest in the country. For Residential and Commercial rates, as ranked

by Edison Electric Institute (“EEI”)<sup>1</sup>, OG&E Arkansas is the lowest, ranking 168 out of 168 utilities. For Industrial rates, OG&E Arkansas ranks 148 out of 162 utilities. In practical terms, this results in the average Residential customer increase of approximately \$5.89 for a customer utilizing 1,000 kWh per month and an increase of approximately \$9.65 for the average Commercial customer utilizing 1,800 kWh per month.

**Q. Describe the residential and general service demand charge and best bill provision.**

A. The optional Residential tariff with a demand charge (“R-kW”) is \$1.00 per kW per month. A typical Residential customer has a maximum monthly demand of 8.4 kW. The inclusion of a demand charge eliminates the need for block energy pricing in the Residential tariff. Customers who subscribe to the R-kW tariff will receive best bill protection for their initial year of service under the R-kW tariff. The same applies to the General Service, which now includes a GS-kW optional rate.

**Q. Are there additional components to the settlement you wish to discuss?**

A. Yes. Pursuant to section Ark. Code Ann. § 23-4-1205(a)(1)<sup>2</sup>, OG&E provided notice to the Commission of its election to have its rates regulated under a formula rate review mechanism. The Settling Parties have agreed with OG&E’s proposed Formula Rate Plan Rider, attached to the Settlement Agreement as Settlement Attachment No. 4.

**Q. Does OG&E support the settlement agreement?**

A. Yes. OG&E believes the Agreement is a reasonable compromise of the positions of the various parties and stakeholders. It produces an equitable balance of customer and shareholder interest. The provisions of the Agreement lie within the bounds of the filed positions by the various parties and the end result is just and reasonable.

**Q. Is the Agreement in the public interest?**

A. Yes. The Agreement provides benefits to all classes of customers and is in the public interest. The result of the Agreement reached by the parties is within the range of likely

<sup>1</sup> Edison Electric Institute Typical Bills and Average Rates Report, Summer 2016.

<sup>2</sup> ARK. CODE ANN. § 23-4-1205.

1 outcomes if the issues in the proceeding were litigated. The Agreement is a carefully  
2 crafted compromise that produces rates that are just and reasonable and are in the public  
3 interest, without the need for additional expenditure of time or money by any party in the  
4 litigation process. OG&E believes the result reached in the Agreement fairly balances  
5 the needs of all stakeholders.  
6

7 Q. **Does the Agreement provide OG&E with everything it requested in its Application?**

8 A. No. As with any good compromise, the end product does not result in the attainment of  
9 all the results sought by any one party. OG&E supports the Agreement as a reasonable  
10 compromise that is in the overall public interest and it is committed to adhere to the  
11 obligations pursuant to the Agreement.  
12

13 Q. **Does this conclude your Settlement testimony?**

14 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 20th day of April, 2017.

/s/ Lawrence E. Chisenhall  
Lawrence E. Chisenhall, Jr.