

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR AN ORDER OF THE COMMISSION)
AUTHORIZING APPLICANT TO MODIFY ITS)
RATES, CHARGES, AND TARIFFS FOR RETAIL)
ELECTRIC SERVICE IN OKLAHOMA)

CAUSE NO. PUD 201700496

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CORPORATION COMMISSION
OF OKLAHOMA

RATE DESIGN TESTIMONY

OF

EDWIN C. FARRAR

ON BEHALF OF

MIKE HUNTER,

OKLAHOMA ATTORNEY GENERAL

May 16, 2018

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME.

A. My name is Edwin C. Farrar.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR BUSINESS ADDRESS?

A. I am employed as a Certified Public Accountant by the Oklahoma Office of the Attorney General ("Attorney General"). My business address is 313 NE 21st Street, Oklahoma City, Oklahoma 73105.

Q. DID YOU PRE-FILE RESPONSIVE TESTIMONY IN THIS CAUSE?

A. Yes. I pre-filed responsive testimony on revenue requirement issues with the Oklahoma Corporation Commission ("Commission") on May 2, 2018.

Q. WHAT IS THE PURPOSE OF YOUR RATE DESIGN RESPONSIVE TESTIMONY IN THIS CAUSE?

A. I am providing testimony to discuss the Attorney General's recommendation for distributing the \$99 million rate decrease the Attorney General recommends for Oklahoma Gas and Electric Company ("OGE"). In addition, I am providing testimony to discuss OGE's proposal to implement the Federal Tax Change and Production Tax Credit Rider, which would 1) address the refund of excess federal corporate income tax expenses since January 1, 2018; 2) provide a true-up for the amortization of excess Accumulated Deferred Income Taxes ("ADIT"); and 3) pass through Production Tax Credits ("PTCs").

II. CLASS DISTRIBUTION OF OGE'S RATE DECREASE

Q. PLEASE DESCRIBE OGE'S RECOMMENDATION FOR THE CLASS DISTRIBUTION OF THE PROPOSED RATE CHANGE.

A. OGE recommended a rate increase of \$1,860,515 in its initial application.¹ Although OGE supports moving all classes to recover their respective full revenue requirement, OGE proposed limiting the rate increase in this case to the lighting class.²

Q. WHAT IS YOUR RECOMMENDATION FOR THE DISTRIBUTION OF THE \$99 MILLION RATE DECREASE THE ATTORNEY GENERAL RECOMMENDS IN THIS CASE?

A. I recommend that all customer classes share in the decrease in base rates equally. In my revenue requirement testimony, I recommended a decrease in rates for OGE of \$98,932,351.³ An equal sharing in that base rate reduction will result in a decrease in base rates for all customers of 8.47 percent. The following table, Table 1, provides my recommended reduction by customer class:

¹ OGE Application Package, Minimum Filing Requirements, Schedule B-1 (Jan. 16, 2018).

² See Direct Testimony of Bryan J. Scott on behalf of Oklahoma Gas and Electric Co. 6:1–7: 4 (Jan. 16, 2018).

³ Responsive Test. of Edwin C. Farrar on Behalf of Mike Hunter, Oklahoma Attorney General 17:10–18:9 (May 2, 2018) [hereinafter “Farrar Rev. Req.”].

Table 1

Line No.	Customer Rate Class	Current Base Revenue	Fuel Clause, Rider & Other Revenue	Combined Base Fuel, Rider, & Other Revenue	Base Rate Change	Percent Change in Base Rates	Percent Change in Total Rates
1	Residential	\$ 582,816,861	\$ 327,117,143	\$ 909,934,004	\$ (49,385,747)	-8.47%	-5.43%
2	General Service	125,272,061	46,421,931	171,693,992	(10,615,092)	-8.47%	-6.18%
3	Oil & Gas Production	10,551,200	8,530,548	19,081,748	(894,070)	-8.47%	-4.69%
4	Public Schools	18,933,150	12,792,507	31,725,657	(1,604,325)	-8.47%	-5.06%
5	Power & Light	267,620,130	210,325,497	477,945,627	(22,677,141)	-8.47%	-4.74%
6	Large Power & Light	128,174,973	155,011,500	283,186,473	(10,861,074)	-8.47%	-3.84%
7	Municipal Pumping	4,139,742	4,081,590	8,221,332	(350,786)	-8.47%	-4.27%
8	Municipal Lighting	13,654,311	1,583,835	15,238,146	(1,157,016)	-8.47%	-7.59%
9	Security Lighting	16,369,618	3,242,669	19,612,287	(1,387,101)	-8.47%	-7.07%
10	Totals	\$ 1,167,532,046	\$ 769,107,221	\$ 1,936,639,267	\$ (98,932,351)	-8.47%	-5.11%

The equal distribution of the rate decrease the Attorney General recommends maintains the class distribution ordered by the Commission just one year ago.

III. FEDERAL TAX CHANGE AND PRODUCTION TAX CREDIT RIDER

Q. WHAT IS THE FEDERAL TAX CHANGE AND PRODUCTION TAX CREDIT RIDER PROPOSED BY OGE IN THE PRESENT RATE CASE?

A. The Federal Tax Change and Production Tax Credit Rider proposed by OGE would serve as a true-up mechanism for three different components embedded in base rates. The proposed components include the following:⁴

- Federal Tax Change Factor: A true-up of the difference between actual income tax expense under the current federal corporate income tax rate of 21 percent, and the prior federal corporate income tax rate of 35 percent, between the period of January 1, 2018, and the date that new rates associated with a final order in this case, Cause No. PUD 201700496, become effective. This Federal Tax Change Factor would serve to capture the new federal corporate income tax rate established with the passage of the Tax Cuts and Jobs Act of 2017, as required by Order No. 671,982 in

⁴ Direct Test. of Gwin Cash on behalf of Oklahoma Gas and Electric Co. 12:2–26 (Jan. 16, 2018) [hereinafter “Cash Direct”].

1 the *Application of Mike Hunter, the Attorney General of Oklahoma, to Lower the*
2 *Rates and Charges for Electric Service and Provide for any Refund Due to the*
3 *Customers of Oklahoma Gas and Electric Company Resulting From the Tax Cuts*
4 *and Jobs Act of 2017*, Cause No. PUD 201700569.⁵

- 5 • Accumulated Regulatory Liability Factor: A true-up of the amortization of the
6 regulatory liability, established to record the re-measurement of ADIT associated
7 with the federal corporate income tax change of the Tax Cuts and Jobs Act of 2017,
8 as required by Order No. 671,982 in the *Application of Mike Hunter, the Attorney*
9 *General of Oklahoma, to Lower the Rates and Charges for Electric Service and*
10 *Provide for any Refund Due to the Customers of Oklahoma Gas and Electric*
11 *Company Resulting From the Tax Cuts and Jobs Act of 2017*, Cause No. PUD
12 201700569.
- 13 • Production Tax Credit Factor: A true-up of the value of PTCs from the OU Spirit
14 and Crossroads wind farms included in base rates, versus the actual value of PTCs
15 realized by the Company.

16 My testimony will address each component of the rider below.

17 **IV. FEDERAL TAX EXPENSE REFUND**

18 **Q. PLEASE DISCUSS THE RIDER PROVISION RELATED TO THE REFUND OF**
19 **THE EXCESS FEDERAL CORPORATE INCOME TAX EXPENSE COLLECTED**
20 **BEFORE THE IMPLEMENTATION OF NEW RATES IN THIS CAUSE.**

⁵ OGE's proposed tariff for the Federal Tax Change and Production Tax Credit Rider, along with the testimony of Gwin Cash, refer to Order No. 671,982 as a final order. However, that order is not a final order.

1 A. OGE proposes to refund the total excess federal corporate income tax expense to ratepayers
2 in the form of a one-time bill credit in the first month following the issuance of a final order
3 in this Cause.⁶

4 **Q. DO YOU AGREE WITH OGE’S RECOMMENDATION TO REFUND THE**
5 **EXCESS FEDERAL CORPORATE INCOME TAX EXPENSE TO RATEPAYERS**
6 **THROUGH THE PROPOSED RIDER?**

7 A. Yes, so long as the amortization of the excess ADIT occurring up to the effective date of
8 the new rates in this Cause, and the interest accrued on those balances, is also included in
9 this refund. I estimate that the total refund should be \$59,554,522, assuming new rates
10 become effective on October 1, 2018, as set forth in my pre-filed responsive testimony.⁷ I
11 further recommend the Oklahoma Corporation Commission (“Commission”) require that
12 total refund of the excess federal income tax expense be identified as a distinct line item
13 on customer bills.

14 **V. EXCESS ADIT AMORTIZATION**

15 **Q. WHAT IS THE PURPOSE OF THE RIDER ADJUSTMENT FOR THE EXCESS**
16 **ADIT AMORTIZATION?**

17 A. The Tax Cuts and Jobs Act includes a provision that prohibits the majority of the excess
18 ADIT from being amortized more quickly than would be the case under the Average Rate
19 Assumption Method (“ARAM”).

⁶ See Cash Direct 13:1–2.

⁷ Farrar Rev. Req. 17:10–18:9.

1 **Q. PLEASE EXPLAIN THE ARAM AND WHY A RIDER ADJUSTMENT IS**
2 **APPROPRIATE TO CREDIT OR SURCHARGE CUSTOMERS FOR ANNUAL**
3 **CHANGES IN THE AMORTIZATION.**

4 **A.** A simplified explanation of the ARAM is that the excess ADIT related to accelerated tax
5 depreciation cannot be credited to ratepayers any faster than the taxes would have been
6 paid to the federal government had tax reform not passed. The ARAM amortization for a
7 given tax item will not begin until the tax depreciation deduction is reduced below the
8 financial accounting depreciation amount, and the ARAM amortization will then continue
9 proportional to the amount that book depreciation expense exceeds tax depreciation
10 expense, until the related plant item is fully depreciated or written off on the utility's books.
11 The reverse is true for excess ADIT assets, which are a smaller component of the net excess
12 ADIT balance. Because tax depreciation generally expires at different rates for different
13 assets and for different vintages of assets, the amortization of the excess ADIT will vary
14 each year. Because the tax benefit of accelerated tax depreciation must be exhausted before
15 the amortization related to specific plant items begin, the full benefit of the excess ADIT
16 amortization will not be realized for several years. In the meantime, the ARAM
17 amortization will continue to increase each year.

18 **Q. HOW MUCH DOES THE ARAM AMORTIZATION VARY OVER THE NEXT**
19 **SEVERAL YEARS?**

20 **A.** OGE provided a workpaper supporting OGE witness Mr. Donald R. Rowlett's testimony,
21 which shows the amortization over the next 25 years. The Company has updated this
22 amortization, but Mr. Rowlett's workpaper continues to illustrate the differences in the

1 annual amortization over the next few years. The ARAM amortization for the first four
2 years, according to Mr. Rowlett's original workpaper, would be the following:

3	2018	(\$6,191,170)
4	2019	(\$11,820,558)
5	2020	(\$18,820,558)
6	2021	(\$24,050,140)

7 This level of variation for excess ADIT amortization demonstrates that a rider to credit
8 ratepayers for the annual variation in the ARAM amortization is appropriate.

9 **Q. WHAT DO YOU RECOMMEND THE COMMISSION FIND REGARDING THE**
10 **INCLUSION OF CHANGES IN THE EXCESS ADIT AMORTIZATION IN THE**
11 **PROPOSED RIDER?**

12 A. I recommend that the Commission accept OGE's proposal to include the changes in the
13 amortization of the excess ADIT in the Federal Tax Change and Production Tax Credit
14 Rider.

15 **VI. PRODUCTION TAX CREDITS**

16 **Q. PLEASE DISCUSS OGE'S PROPOSAL TO INCLUDE CHANGES IN THE**
17 **PRODUCTION TAX CREDITS IN ITS FEDERAL TAX CHANGE AND**
18 **PRODUCTION TAX CREDIT RIDER.**

19 A. OGE's proposed Federal Tax Change and Production Tax Credit Rider includes crediting
20 or surcharging customers for changes in the value of PTCs realized from the OU Spirit and
21 Crossroads facilities. OGE witness Rowlett noted in his pre-filed direct testimony that the

1 PTCs for OGE's OU Spirit wind farm will expire in December 2019, and the last of the
2 PTCs for its Crossroads wind farm will expire in March 2022.⁸

3 **Q. WILL THE PTCS EXPIRE BEFORE THE COMPLETION OF OGE'S NEXT**
4 **RATE CASE?**

5 A. No. OGE plans to file its next rate case by the end of 2018,⁹ while the PTCs for OGE's OU
6 Spirit and Crossroads facilities do not expire until 2019 and 2022, respectively.

7 **Q. DO YOU RECOMMEND THAT THE PTCS BE INCLUDED IN THE PROPOSED**
8 **RIDER IN THE PRESENT RATE CASE?**

9 A: No. There is no need for the Commission to address this issue in this Cause because OGE
10 will file another rate case later this year, for which a final order should be in place before
11 the first of these PTCs expires in December 2019.

12 **VII. CONCLUSION**

13 **Q. DOES YOUR TESTIMONY ADDRESS ALL ISSUES IN THIS RATE CASE?**

14 A. No, it does not. I will review issues raised by other parties to this Cause and reserve the
15 right to address those issues in rebuttal testimony.

16 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

17 A. Yes, it does.

⁸ Direct Test. of Donald R. Rowlett on behalf of Oklahoma Gas and Electric Co. 22:15–16 (Jan. 16, 2018).

⁹ Oklahoma Gas and Electric Company, "OGE Investor Update" 19 (Mar. 8, 2018), attached as Ex. TFB-3 to the Responsive Test. of Todd F. Bohrmann on Behalf of Mike Hunter, Oklahoma Attorney General.

AFFIDAVIT OF EDWIN C. FARRAR

STATE OF OKLAHOMA)
) ss
COUNTY OF OKLAHOMA)

I, Edwin C. Farrar, do hereby swear/affirm that the foregoing testimony is true and correct to the best of my knowledge and belief.



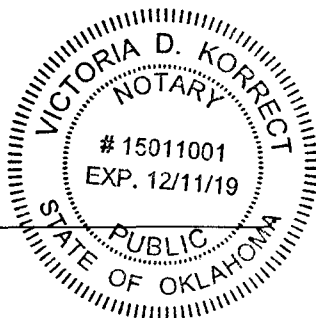
Edwin C. Farrar

Subscribed and sworn to/affirmed before me this 16th day of May, 2018.



Notary Public

My Commission expires on _____



CERTIFICATE OF SERVICE

On this 16th day of May, 2018, a true and correct copy of the above and foregoing *Rate Design Testimony of Edwin C. Farrar on Behalf of Mike Hunter, Oklahoma Attorney General*, along with attached exhibits, was sent via electronic mail to the following interested parties:

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