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

DAVID J. GARRETT

ON BEHALF OF

ARKANSAS RIVER VALLEY ENERGY CONSUMERS, WAL-MART STORES ARKANSAS, LLC, AND SAM'S WEST, INC.

MARCH 30, 2017

TABLE OF CONTENTS

LIST OF SURREBUTTAL EXHIBITS

DG-1	OG&E Investor Update – March 2017
DG-2	DCF Model Using OG&E's Opinions
DG-3	Final Order (#662059) from Cause No. PUD 201500273 before the Oklahoma Corporation Commission (excluding attachments)
DG-4	Revised Equity Risk Premium Comparison

I. INTRODUCTION

Q. State your name and occupation.

A. My name is David J. Garrett. I am a consultant specializing in public utility regulation. I am the managing member of Resolve Utility Consulting, PLLC. I focus my practice on the primary capital recovery mechanisms for public utility companies: cost of capital and depreciation.

Q. Did you previously file Direct Testimony in this matter?

A. Yes. I filed Parts I and II of my Direct Testimony on January 31, 2017, regarding cost of capital and depreciation respectively.

Q. On whose behalf are you testifying in this proceeding?

A. I am testifying on behalf of Arkansas River Valley Energy Consumers as well as Wal-Mart Stores Arkansas, LLC and Sam's West, Inc. Throughout this testimony, I will refer to these entities collectively as "ARVEC."

Q. What is the purpose of your surrebuttal testimony?

A. My surrebuttal testimony responds to the rebuttal testimonies of three witness testifying on behalf of Oklahoma Gas and Electric Company ("OG&E" or the "Company"), namely, Mr. John J. Spanos, Mr. Robert B. Hevert, and Mr. Donald Rowlett, filed February 28, 2017 in this matter. I will also briefly respond to the rebuttal testimonies of two Arkansas Public Service Commission ("Staff") witnesses, namely, Ms. Gerrilynn Wolfe and Mr. Regis Powell. My surrebuttal testimony is organized by issue, then by witness. I will also address new information prepared by the Company which reflects OG&E's long-term growth rate which I apply to derive OG&E's cost of equity.

A. New Information Regarding OG&E's Long-Term Growth Rate

Q. Since filing your direct testimony, has new information become available showing that OG&E has admitted that its long-term growth rate is 3% - 5%.

A. Yes. In a recent presentation to its investors, OG&E revealed that its long-term growth rate is only 3% - 5%.[1] This means that according to OG&E, its projected, average long-term growth is exactly the same growth rate I used in my DCF Model: 4%.

Q. In light of this new information, did you prepare a revised DCF Model using the Company's estimates for the stock price, dividends, and growth rate?

A. Yes. I have prepared a new DCF Model using Mr. Hevert's proxy group, Mr. Hevert's dividends, Mr. Hevert's stock prices, and OG&E's own opinion regarding its long-term growth rate. This means that the following DCF Model is comprised entirely of the Company's own estimates.[2]

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[1] *See* Surrebuttal Exhibit DG-1 - Investor Update – March 2017, also found at OG&E's website at http://phx.corporate-ir.net/phoenix.zhtml?c=106374&p=irol-presentations.

[2] *See* Surrebuttal Exhibit DG-2.

Figure 1:
DCF Model Using Only OG&E's Opinions

Hevert's Proxy Group	Ticker	Hevert's Dividend	Hevert's Stock Price	OG&E's Admitted Growth Range (low)	OG&E's Admitted Growth Range (high)	OG&E's DCF Results Low	OG&E's DCF Results High	OG&E's DCF Results Average
ALLETE, Inc.	ALE	2.08	62.26	3.0%	5.0%	6.4%	8.4%	7.4%
Alliant Energy Corporation	LNT	1.18	39.38	3.0%	5.0%	6.0%	8.1%	7.1%
Ameren Corporation	AEE	1.70	51.80	3.0%	5.0%	6.3%	8.4%	7.3%
American Electric Power Company, Inc.	AEP	2.24	68.11	3.0%	5.0%	6.3%	8.4%	7.4%
Avista Corporation	AVA	1.37	43.03	3.0%	5.0%	6.2%	8.3%	7.2%
CMS Energy Corporation	CMS	1.24	44.28	3.0%	5.0%	5.8%	7.9%	6.9%
DTE Energy Company	DTE	3.08	95.92	3.0%	5.0%	6.3%	8.3%	7.3%
IDACORP, Inc.	IDA	2.04	77.51	3.0%	5.0%	5.7%	7.7%	6.7%
NorthWestern Corporation	NWE	2.00	61.25	3.0%	5.0%	6.3%	8.3%	7.3%
Otter Tail Corporation	OTTR	1.25	32.42	3.0%	5.0%	6.9%	9.0%	7.9%
Pinnacle West Capital Corporation	PNW	2.50	78.53	3.0%	5.0%	6.2%	8.3%	7.2%
PNM Resources, Inc.	PNM	0.88	34.39	3.0%	5.0%	5.6%	7.6%	6.6%
Portland General Electric Company	POR	1.28	43.04	3.0%	5.0%	6.0%	8.0%	7.0%
SCANA Corporation	SCG	2.30	72.88	3.0%	5.0%	6.2%	8.2%	7.2%
Xcel Energy Inc.	XEL	1.36	43.38	3.0%	5.0%	6.2%	8.2%	7.2%
Average						**6.2%**	**8.2%**	**7.2%**

Using the Company's proxy group, stock prices, dividends, and growth rate shows that OG&E's cost of equity range is 6.2% - 8.2%, with an average cost of equity estimate of 7.2%, which is similar to the estimate I presented in my direct testimony.

II. DEPRECIATION SURREBUTTAL

Q. Summarize your surrebuttal testimony regarding depreciation issues.

A. In this section of my testimony I will briefly respond to some of the new issues raised in the rebuttal testimony of Company witness Mr. Spanos and Staff witness Gerrilynn Wolfe. Since filing my direct testimony, the Oklahoma Corporation Commission has entered an order regarding the Company's proposed depreciation rates and my recommendations in response to the same.

Q. What did the Oklahoma Commission authorize with regard to the Company's proposed depreciation rates in its recently-concluded Oklahoma rate proceeding?

A. After reviewing the same depreciation study before this Commission, the Oklahoma Commission found that the Company's depreciation proposal was "lacking in sufficient detail."[3] The Oklahoma Commission ultimately adopted depreciation rates for OG&E's production accounts that did not include any decommissioning costs, which is consistent with my recommendation in this case. The Oklahoma Commission also found my "proposed depreciation rates to be reasonable."[4] The Oklahoma Commission also adopted longer service lives for many of the Company's transmission and distribution accounts, which is consistent with my testimony in this case. While the Oklahoma Commission's order is not binding on this Commission, this Commission should consider this order when deciding the depreciation issues presented in this case, which are essentially the same issues that were presented to the Oklahoma Commission.

B. <u>Mr. John J. Spanos</u>

Q. Summarize your response to Mr. Spanos's rebuttal testimony.

A. Generally, I disagree with Mr. Spanos's opinions regarding my approach to depreciation analysis and my ultimate recommendations in this case. In my opinion, Mr. Spanos places too much weight on "informed judgement" and discussions with Company personnel in making his recommendations, and not enough emphasis on objective, mathematical

[3] *See* Surrebuttal Exhibit DG-3 – Order No. 662059 at p. 8, entered 3-20-17 in Cause No. PUD 201500273 before the Oklahoma Corporation Commission.

[4] *Id.*

techniques involving actuarial analysis and Iowa curve fitting. I have categorized my specific responses to Mr. Spanos by several issues.

1. Intergenerational Inequity

Q. Discuss your response to Mr. Spanos's rebuttal testimony regarding the issue of intergenerational inequity.

A. According to Mr. Spanos, my opinion that it would be better to overestimate service lives rather than underestimate service lives, dismisses the "entire concept of intergenerational equity." I strongly disagree. While I will not reiterate all of the points made on this subject in my direct testimony, I would note that the most obvious and extreme examples of intergeneration inequity have occurred as a direct result of utilities grossly underestimating the service lives of their production plants for many decades. As discussed in my direct testimony, the original estimated lives of coal and nuclear plants were about half as long as what was ultimately observed. Therefore, while Mr. Spanos and I might have differing opinions of the future with regard to intergenerational inequity, past experience is not up for debate. Another point that the Commission should understand is that regulated utilities have a natural financial incentive to accelerate depreciation rates and replace retired assets regardless of whether they have reached the end of their economic service lives in order to increase revenues and earnings, which will be discussed in greater detail later in this testimony. Regardless, I would hope the Commission would not be persuaded by any narrative offered by the Company suggesting that it possesses a deeply held concern for the equity of future ratepayers. If that were the case, the Company would not be asking for an awarded return on equity that is more than 250 basis points above its true cost of equity for the sole benefit of its shareholders.

2. <u>Decommissioning Costs</u>

Q. Discuss your response to Mr. Spanos's rebuttal testimony regarding the issue of terminal net salvage.

A. While I will not reiterate in detail all of the points made about this issue in my direct testimony, I want to remind the Commission what OG&E is requesting here: The Company is asking this Commission to approve over $770 million of future costs, some of which may never occur, on the basis of a one-page sheet with no supporting source documents.[5] The Supreme Court is clear that "the company has the burden of making a convincing showing" that its proposed depreciation rates are not excessive.[6] The Company has clearly not met this burden regarding its proposed decommissioning costs, and the fact that decommissioning studies were "not available at this time" does not relieve the Company of its burden.[7] I would note that this issue is not as much a direct criticism of Mr. Spanos, as it is of OG&E. The burden of proof is the Company's burden to meet, and for the second consecutive rate case, OG&E is requesting that regulators award the Company with over $770 million of future costs – some of which may not even be incurred – without the support of a site-specific decommissioning study. This is likely one of the reasons the Oklahoma Commission found OG&E's proposal to be "lacking in sufficient detail."[8]

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[5] *See* response to Data Request ARVEC 3.06.

[6] *Lindheimer v. Illinois Bell Tel. Co.*, 292 U.S. 151, 167 (1934).

[7] Rebuttal Testimony of John J. Spanos, p. 4:1-2.

[8] *See* Surrebuttal Exhibit DG-3 – Order No. 662059 at p. 8, entered 3-20-17 in Cause No. PUD 201500273 before the Oklahoma Corporation Commission.

Q. Mr. Spanos states that your recommendation in this case to disallow decommissioning costs is contrary to your recommendation in OG&E's Oklahoma rate case. Do you agree?

A. No. Mr. Spanos claims that my recommendations in this case regarding the Company's proposal to recover future decommissioning costs is contradicted by my recommendation in OG&E's Oklahoma rate case.[9] I disagree. In fact, my recommendation in this case is consistent with my recommendation in OG&E's Oklahoma rate case. In the Oklahoma case, I said that the Company failed to meet its burden of proof by not providing any decommissioning studies,[10] as I have said in this case.[11] Also, in the Oklahoma case I said that OG&E should file a decommissioning study in its "next rate case."[12] This case is OG&E's "next" rate case, and since the Company has once again failed to meet its burden of proof regarding this issue, I am recommending that the Arkansas Commission disallow decommissioning costs. Therefore, my recommendations in both cases are consistent. Mr. Spanos claims that "it makes no sense" that I would recommend that OG&E be allowed to recover half of its proposed terminal net salvage in the Oklahoma rate case, but recommend to completely disallow these costs in this case.[13] As discussed above, my recommendation in this case makes perfect sense because this is OG&E's "next rate case," and the Company still has not met its burden of proof regarding its proposed decommissioning costs.

[9] Rebuttal Testimony of John J. Spanos, p. 4:11-14.

[10] Responsive testimony of David J. Garrett at p. 18:8-17, filed March 21, 2016 in Cause No. PUD 201500273.

[11] Direct Testimony of David J. Garrett, p. 16:10-11.

[12] Responsive Testimony of David J. Garrett at p. 19:15-16, filed March 21, 2016 in Cause No. PUD 201500273.

[13] *See* Rebuttal Testimony of John J. Spanos, p. 25:5-7.

Q. Does the Oklahoma Commission agree with your position regarding OG&E's proposed decommissioning costs?

A. Yes. On March 20, 2017, the Oklahoma Commission entered an order in OG&E's Oklahoma rate case finding that the Company's proposed decommissioning expense was "lacking in sufficient detail and support."[14] The Oklahoma Commission adopted the recommendations of witness Jacob Pous regarding OG&E's production accounts, which expressly removed terminal net salvage.[15] In his surrebuttal testimony, Mr. Spanos stated that "the [Arkansas] Commission should allow the same recovery as Mr. Garrett testified to and the Oklahoma Commission adopted for OG&E in Oklahoma." First, this statement is incorrect in that the Oklahoma Commission never adopted OG&E's terminal net salvage. Presumably, Mr. Spanos is referring to the Administrative Law Judge's ("ALJ") Report in Oklahoma, which adopted the Oklahoma Staff's recommendation to allow half of OG&E's proposed decommissioning costs.[16] Regardless, since the time Mr. Spanos filed his rebuttal testimony, the Oklahoma Commission rejected the ALJ's recommendation, and instead adopted the position I am recommending in this case, which is to disallow OG&E's proposed decommissioning costs.

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[14] *See* Surrebuttal Exhibit DG-3 – Order No. 662059 at p. 8, entered 3-20-17 in Cause No. PUD 201500273 before the Oklahoma Corporation Commission.

[15] *See id*. at pp. 8-10. *See also* Responsive Testimony of Jacob Pous at pp. 19-29, filed March 21,2016 in Cause No. PUD 201500273 before the Oklahoma Corporation Commission. Mr. Pous testified on behalf of Oklahoma Industrial Energy Consumers and Oklahoma Energy Results, LLC. Note that the Oklahoma Commission did not adopt Mr. Pous's recommendation regarding extending the life of OG&E's wind facilities, but otherwise adopted Mr. Pous's recommendations regarding OG&E's production accounts.

[16] *See* Surrebuttal Exhibit DG-3 – Order No. 662059 at p. 8, entered 3-20-17 in Cause No. PUD 201500273 before the Oklahoma Corporation Commission (The Report of the Administrative Law Judge is included in Attachment 2 after the Final Order).

3. <u>Reasonableness of Recommendations</u>

Q. Mr. Spanos claims that your recommendations regarding depreciation rates in this case are unreasonable. Do you agree?

A. No. In his rebuttal testimony, Mr. Spanos states multiple times that my recommendations are "unreasonable" and even "unrealistic."[17]

Q. Does the Oklahoma Commission agree with Mr. Spanos that your recommendations are unreasonable?

A. No. As stated in the final order of OG&E's Oklahoma rate case: "The Commission adopts the depreciation rates proposed by OIEC/OER witness Jacob Pous and PUD witness David Garrett, and <u>finds their proposed depreciation rates to be reasonable</u>.[18] My recommendations in this case are essentially the same as the recommendations I made in OG&E's Oklahoma case. So while what is considered "reasonable" is a matter of opinion, the Oklahoma Commission does not share Mr. Spanos's opinion about the reasonableness of my proposed depreciation rates for OG&E in this case.

4. <u>Life Spans for Wind Units</u>

Q. Do you agree with Mr. Spanos's rebuttal testimony regarding the life spans of wind units?

A. No. As discussed in more detail later in this testimony, OG&E, like all regulated utilities, has a natural financial incentive to recover the cost of its capital investments quickly through high depreciation rates. Once an asset is fully depreciated and is no longer in rate

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[17] *See e.g.* Rebuttal Testimony of John J. Spanos at p. 5:21-22.

[18] *See* Surrebuttal Exhibit DG-3 – Order No. 662059 at p. 8, entered 3-20-17 in Cause No. PUD 201500273 before the Oklahoma Corporation Commission.

base, the utility has a natural financial incentive to replace the asset in order to increase revenues and earnings. This premise is based on indisputable aspects of the rate base rate of return model and organizational behavior. To reject this premise, one would have to believe that the Company's shareholders do not desire to maximize their profits, which would be naïve. This does not mean that the Commission should adopt unreasonably long service lives for OG&E's assets; rather, it means that it is the Commissions duty as the surrogate for competition to counter the utilities natural financial incentive to increase rate base through the premature retirement of fully depreciated assets, which would result in economic waste. As shown in my direct testimony, utilities severely underestimated the service lives of coal and nuclear plants when they were first installed. I am simply requesting that the Commission adopt a more reasonable service life estimate for OG&E's wind farms today, rather than 10 or 15 years from now. Again, this issue is not about the service life of any single wind turbine, or any individual component of a wind turbine, as the service lives of those assets are contemplated in the interim survivor curves estimated for each production facility. Rather, this issue is about how long we expect OG&E to maintain the "life span" of its three wind farms: Centennial, OU Spirit, and Crossroads. To be clear, if the Commission adopts Mr. Spanos's position on this issue, it must assume the following is likely to occur: OG&E will completely shut down, dismantle, or repower all of its turbines (more than 200) at Centennial, OU Spirit, and Crossroads after only 25 years of service (2031, 2034, and 2037 respectively), regardless of the useful remaining service lives of any individual turbines at the time of dismantlement. In my opinion, this is not a reasonable assumption.

C. Ms. Gerrilynn Wolfe

Q. Generally discuss your response to Staff's depreciation testimony.

A. While Staff witness Gerrilynn Wolfe and I take the same position regarding the Company's proposal regarding decommissioning costs, our recommendations regarding the depreciation rates for the Company's production accounts are very different. Specifically, I recommend a depreciation expense of about $95 million for the production accounts,[19] while Staff recommends a depreciation expense of about $115 million for the production accounts, which is significantly closer to the Company's proposed expense for the production accounts.[20] In other words, while both Staff and ARVEC propose to remove terminal net salvage from the Company's production rates, Staff's proposed depreciation expense is $20 million greater than ARVEC's proposal on the production accounts.

Q. Why is Staff's recommendation so much higher than ARVEC's recommendation even though both parties propose the removal of terminal net salvage?

A. Even though Staff proposes the removal of terminal net salvage, some of its proposed net salvage rates are actually <u>higher</u> than OG&E's proposed net salvage rates. As a result, Staff's proposed depreciation accruals for some accounts are actually higher than the accruals proposed by OG&E. The following chart compares the proposed net salvage rates and expense for Account 311 at the Sooner 1 location.[21]

[19] Direct Exhibit DG 2-2.

[20] 16-052-U Gerrilynn Wolfe WP GW-1 Depreciation Rate Calculation.

[21] OG&E's net salvage and expense from Direct Exhibit JJS-2 (Depreciation Study), Table 1; Staff net salvage and expense from 16-052-U Gerrilynn Wolfe WP GW-1 Depreciation Rate Calculation; ARVEC net salvage and expense from Direct Exhibit DG 2-5.

Figure 2:
Net Salvage and Expense Comparison

	OG&E	Staff	ARVEC
Net Salvage	-9	-20%	-3
Expense	$1.2 million	$1.4 million	$1 million

All else held constant, higher negative net salvage rates will result in higher depreciation expense. Thus, it is not surprising that Staff's higher negative net salvage rates result in higher depreciation expense. ARVEC's weighted net salvage was calculated using the same method used by OG&E for calculating weighted net salvage, except that terminal net salvage was removed – consistent with the findings of the Oklahoma Commission. If Staff had removed terminal net salvage as indicated in Ms. Wolfe's testimony, then Staff's proposed negative net salvage rates and depreciation expense should be less than OG&E's, not greater.

III. COST OF CAPITAL SURREBUTTAL

Q. Summarize your surrebuttal testimony regarding cost of capital issues.

A. In this section of my testimony I will briefly respond to some of the new issues raised in the rebuttal testimonies of OG&E witnesses, Mr. Hevert and Mr. Rowlett, and Staff. Through the testimonies of Mr. Hevert and Mr. Rowlett, it is clear that the primary objective of this Company, like any publicly-traded company, is to maximize the wealth of its shareholders. The Company should be seeking the lowest reasonable capital costs for Arkansas ratepayers, but has instead put forth a case that seeks to maximize the financial interests of the Company's shareholders. To give any credit to OG&E's unrealistically high "estimates" of its own cost of equity would be to ignore the most basic concepts in finance and valuation. The Company's "estimates" of the two most important figures in cost of capital, the long-term growth rate and the equity risk premium, are based on the premise that the long-term growth of a regulated utility with a defined service territory will outpace the long-term growth of the entire U.S. economy. No amount of regression analyses, risk premium analyses, or "forward-looking" estimates can overcome the fact that the Company's position is based on an impossible premise. This is likely one of the reasons why the Oklahoma Commission correctly found that OG&E's position on the awarded ROE issue was "excessive" and "biased upward, resulting in a significantly inflated recommendation."[22]

The Oklahoma Commission's description of OG&E's proposed 10.25% ROE as "excessive" is not only accurate, but also highlights the crux of this issue. To be clear, the awarded rate of return issue is not about the provision of safe and reliable electric service. Other issues in the case involve the Company's ability to recover necessary and prudent expenses in order to provide safe and reliable service. Rather, this issue is simply about how many dollars will be exported from Arkansas to OG&E's out-of-state shareholders. Under the law, the Commission is required only to award the Company's shareholder with a return on equity that is reflective (i.e., very close to) the Company's actual cost of equity (about 7.5%). Any dollars awarded beyond that are "excessive," and to be sure: Arkansas customers will receive no marginal benefit in return.

[22] *See* Surrebuttal Exhibit DG-3 – Order No. 662059 at p. 5, entered 3-20-17 in Cause No. PUD 201500273 before the Oklahoma Corporation Commission (The Report of the Administrative Law Judge is included in Attachment 2 after the Final Order).

A. Mr. Robert B. Hevert

Q. Summarize your response to Mr. Hevert's rebuttal testimony.

A. Generally, I disagree with all of Mr. Hevert's rebuttal testimony. While I will not reiterate all of the points made in my direct testimony, I will respond to a few new issues raised by Mr. Hevert.

1. The Proxy Group

Q. What is your response to Mr. Hevert's rebuttal testimony regarding the proxy group?

A. After spending several pages criticizing my proxy group selection, Mr. Hevert made what is perhaps the only statement of his that I agree with: ". . .the differences in our conclusions are driven more by the application of models than by the selection of proxy companies."[23] In my direct testimony, I mathematically demonstrated that the proxy group composition is essentially irrelevant in this case. Specifically, when I conducted the DCF and CAPM on Mr. Hevert's proxy group, the models produced results nearly identical to mine when using appropriate estimates for the long-term growth rate and the equity risk premium.[24] Moreover, using a DCF Model comprised entirely of OG&E's estimates and opinions (as shown above), including the proxy group composition, we see a cost of equity estimate very similar to the one presented in my direct testimony (about 7.5%). Therefore, my view that the proxy group composition is essentially irrelevant in this case is more of a fact than an opinion.

[23] Rebuttal testimony of Robert Hevert, p. 83:2-3.

[24] *See* Direct Exhibits DG 1-20 and DG 1-21.

2. DCF Model

Q. What is your response to Mr. Hevert's rebuttal testimony regarding the DCF Model?

A. Obviously, Mr. Hevert and I have very different opinions regarding the long-term growth rate for a utility company. Specifically, Mr. Hevert believes that over the long-term, the growth for OG&E will outpace the projected growth of the entire U.S. economy, and I disagree for the reasons thoroughly discussed in my direct testimony. Perhaps this is one of the reasons that the Oklahoma Commission found Mr. Hevert's recommendation on this issue to be "excessive in that each of his methods and the inputs he used appear to have been biased upward, resulting in a significantly inflated recommendation."[25] What makes Mr. Hevert's rebuttal testimony questionable is that OG&E has represented to its investors that its long-term growth rate will be about 4% - the exact growth rate I used in my DCF Model.[26] According to Mr. Hevert, "it is unlikely that an investor would be willing to take on equity risk" in exchange for 4% growth,[27] yet that is the exact growth rate that OG&E management represented to its investors in a recent presentation.[28] Mr. Hevert also testified that "Mr. Garrett's 4.00 percent growth rate is not based on any measure of the Company's growth. . . ." This statement is especially hard to understand considering that my estimated growth rate for OG&E is exactly equal to the average long-term growth

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[25] *See* Surrebuttal Exhibit DG-3 – Order No. 662059 at p. 5, entered 3-20-17 in Cause No. PUD 201500273 before the Oklahoma Corporation Commission (The Report of the Administrative Law Judge is included in Attachment 2 after the Final Order).

[26] *See* Surrebuttal Exhibit DG-1 - Investor Update – March 2017, also found at OG&E's website at http://phx.corporate-ir.net/phoenix.zhtml?c=106374&p=irol-presentations.

[27] Rebuttal testimony of Robert Hevert, p. 84:2-4.

[28] *See* Surrebuttal Exhibit DG-1, p. 3 (OG&E represents a long-term growth rate range of 3% - 5%, and 4% is the midpoint of that range).

estimated by OG&E itself and presented to its investors. Perhaps Mr. Hevert and OG&E management simply disagree about the Company's long-term growth projection. As discussed above, when we use DCF inputs derived entirely from the Company's own estimates and opinions, we see that the Company's cost of equity is about 7.2%.

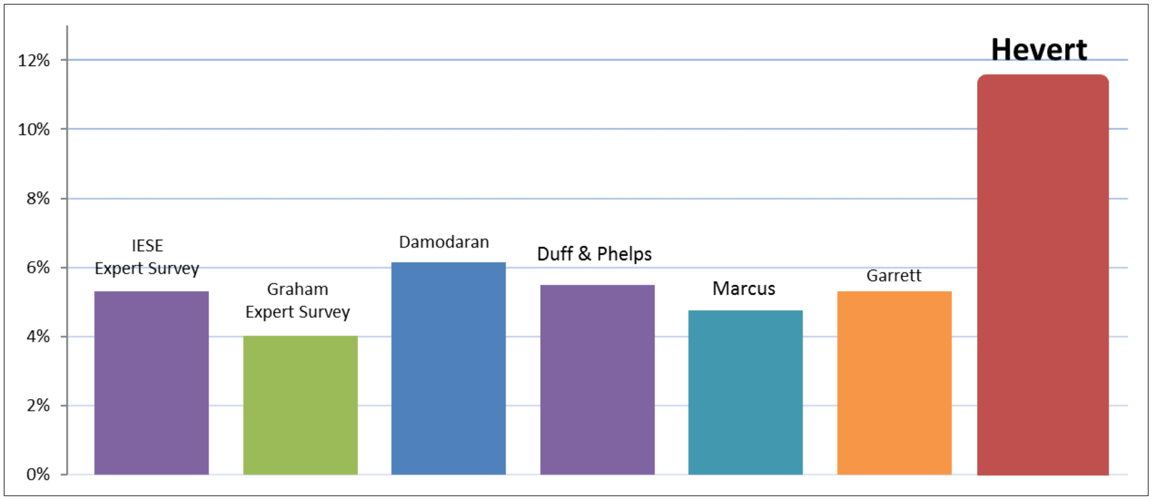
3. <u>CAPM Analysis</u>

Q. What is your response to Mr. Hevert's rebuttal testimony regarding the CAPM?

A. The main input driving this issue is the equity risk premium. In conducting my equity risk premium estimate, I conducted my own analysis in addition to consulting various other expert surveys and analyses. Ultimately, I used the highest reasonable estimate for the equity risk premium I could find. Through all of his rebuttal testimony, Mr. Hevert did not provide a good explanation of why his estimate for the equity risk premium is so far outside of what other, objective sources believe, as illustrated in the following chart.[29]

[29] *See also* Surrebuttal Exhibit DG-4.

Figure 3:
Equity Risk Premium Comparison



A similar chart was included in my direct testimony, and the chart above includes the estimate provided by AG Witness Mr. William P. Marcus.[30] In his direct testimony, Mr. Marcus provided a thorough and objective review of the equity risk premium, and as a result, his conclusions are very reasonable. To be clear, however, the equity risk premium I used in my CAPM analysis is the highest estimate shown in the chart above. The estimate of 6.1% published by Dr. Damodaran was the highest of three estimates he published over the same period. In other words, I used the highest reasonable equity risk premium I could find or calculate, which means the result of my CAPM is toward the higher end of the reasonable range. Regardless, it is clear that no amount of creative analyses offered by Mr. Hevert can change the fact that his equity risk premium is far out of touch with industry norms and the opinions of numerous other experts. Perhaps this is yet another reason why

[30] *See* Direct Testimony of William Perea Marcus, p. 53, Table 7 (Mr. Marcus cites 4.75% as a "mid-point" risk premium in addition to slightly lower and higher risk premiums).

the Oklahoma Commission found Mr. Hevert's recommendation on this issue to be "excessive" and "biased upward."[31]

4. <u>Capital Structure</u>

Q. What is your response to Mr. Hevert's rebuttal testimony regarding capital?

A. While I will not reiterate the points on this issue that were thoroughly discussed in my direct testimony, I would note that OG&E's failure to operate with higher amounts of debt must be a decision that is designed to directly benefit its shareholders. The Company has a duty to operate with the lowest reasonable weighted average cost of capital. By issuing lower-cost debt to replace higher-cost equity, the Company could lower its capital costs which would lower its rates charged to Arkansas customers. Even if by issuing more debt the Company's cost of debt increased, it would not matter to customers if the Company's overall weighted average cost of capital decreased. In essence, the Company's actions in this regard are exactly what we would expect from a competitive, publicly-traded firm; that is, the Company is simply trying to maximize the wealth of its shareholders. A Commission standing in the place of competition should strive to ensure that OG&E operates how competitive firms do: with minimal capital costs.

[31] *See* Surrebuttal Exhibit DG-3 – Order No. 662059 at p. 5, entered 3-20-17 in Cause No. PUD 201500273 before the Oklahoma Corporation Commission (The Report of the Administrative Law Judge is included in Attachment 2 after the Final Order).

B. Mr. Donald Rowlett

Q. Summarize your response to Mr. Rowlett's testimony.

A. Mr. Rowlett's testimony reflects and supports the recommendations of Mr. Hevert, which the Oklahoma Commission found to be "excessive."[32] Mr. Rowlett's testimony focuses almost entirely on the awarded returns from other jurisdictions, and complete ignores the Supreme Court's standards and the fact that the awarded return should be based on the Company's actual cost of equity (note that "based on" does not mean "equal to"). If objective inputs are used for the cost of equity models (DCF and CAPM), we see an indication that OG&E's cost of equity is about 7.5%. This must be why Mr. Rowlett does not want the Commission to consider actual cost, but rather the outdated awarded returns for other utility companies, some of which may have been based on settlements and other non-market-based factors. The most puzzling aspect of Mr. Rowlett's testimony is that he supports Mr. Hevert's recommendations despite the fact that when applying a DCF Model comprised entirely of OG&E's own estimates and opinions, it shows that the Company's cost of equity is about 7.2%. Mr. Rowlett's testimony is inconsistent with his own Company's representation to its shareholders regarding the Company's long-term growth rate.

[32] *Id.*

C. Mr. Regis Powell

Q. Summarize your response to Staff Witness Mr. Powell's testimony.

A. While there are aspects of Mr. Powell's approach to cost of capital analysis that I agree with, there are other parts that I find to be problematic – particularly Mr. Powell's estimate of OG&E's long-term growth rate. In his testimony, Mr. Powell correctly acknowledges that the growth term in the DCF Model "represents long-term sustainable growth. . . ."[33] However, Mr. Powell used growth rate inputs as high as 14.5% in consideration of his long-term growth rate estimate,[34] which is over three times greater than the projected growth rate of the entire U.S. economy. Even Mr. Powell acknowledges that the growth rate estimate of 14.5% was short-term estimated growth rate from Value Line (5 years).[35] Even if a utility could achieve a growth rate that high over five years (i.e., the short-term), it would be effectively impossible to maintain over the long-term, which is the period of time contemplated by the DCF Model. Moreover, we have been provided with new information in which OG&E represents that its own long-term growth rate is in the range of 3% - 5%. Perhaps in light of this new information, Mr. Powell will reconsider his opinion about the Company's long-term growth rate. Other problems with Mr. Hevert's and Mr. Powell's reliance on short-term analysts' growth rates will be further discussed below.

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[33] Direct Testimony of Regis Powell, p. 28:9-13.

[34] *See* Direct Exhibit RP-25.

[35] *Id.*

IV. DEPRECIATION / COST OF CAPITAL OVERLAP

Q. Summarize this section of your testimony.

A. There are arguably several areas of overlap between the issues of cost of capital and depreciation. In response to several of the rebuttal testimonies discussed herein, I think it is important for the Commission to understand the relationship between cost of capital and depreciation in regard to the areas of intergenerational inequity and the Company's quantitative growth rate. As discussed above, I have some serious concerns with the growth rate estimates assumed by Mr. Hevert and Mr. Powell. Again, both witnesses used the short-term, quantitative growth rates published by other analysts for the long-term growth rate input in the DCF Model. This has resulted in both witnesses assuming that OG&E will grow at a greater rate than the entire U.S. economy, which is simply an unrealistic assumption. The assumption is particularly unrealistic given the fact that OG&E's growth is essentially limited to the very modest customer growth and load growth within its defined service territory. For this reason alone, it is clearly not advisable to use the short-term growth rates published by various analysts such as Value Line for the long-term growth input.

However, there are several other reasons why it is inappropriate to use analysts' short term growth rates in the DCF model. These reasons relate to the utility's incentive to accelerate depreciation, increase rate base, and ultimately create the perception of growth through quantitative increases in earnings. When analysts at various research firms such as Value Line are estimating the growth in earnings for a regulated utility, they are strictly considering quantitative metrics. This is not necessarily an inappropriate approach on part of the analysts, but it is inappropriate for regulators to adopt these quantitative growth rates without considering the qualitative aspects of utility growth.

The problem with analysts' growth rates also involves cost recovery through depreciation and the concept intergenerational inequity. Mr. Spanos claims that I dismiss the entire concept of intergenerational equity (or inequity).[36] I strongly disagree. In this section I will discuss in detail how the concept of intergenerational inequity also relates to the problem with analysts' growth rates.

A. Qualitative vs. Quantitative Growth

Q. Describe the differences between "quantitative" and "qualitative" growth determinants.

A. Both Mr. Hevert and Mr. Powell relied on the short-term projected growth rates from various analysts as indicators of long-term growth. As discussed above, it is not appropriate to use short-term growth estimates for the long-term growth input in the DCF Model. In addition, this practice is not appropriate because analysts' growth estimates are based primarily on quantitative metrics. Assessing "quantitative" growth simply involves mathematically calculating a historic metric for growth (such as revenues or earnings), or calculating various fundamental growth determinants using figures from a firm's financial statements (such as ROE and the retention ratio). In making their short-term growth projections, professional analysts might also consider planned increases to rate base or anticipated awarded ROEs. All of these factors could affect a utility's quantitative earnings growth. However, any thorough assessment of company growth should be based upon a

[36] Rebuttal Testimony of John J. Spanos, p. 10:1.

"qualitative" analysis. Such an analysis would consider the question of what specific strategies that company management will implement in order to achieve a sustainable growth in earnings. Therefore, it is important to begin the analysis of OG&E's growth rate with this simple, qualitative question: How is this regulated utility going to achieve a sustained growth in earnings? If this question were asked of a competitive firm, there could be a number of answers depending on the type of business model, such as launching a new product line, franchising, rebranding to target a new demographic, or expanding into a developing market. Regulated utilities, however, cannot engage in these potential growth opportunities. This is why it is not surprising to see very low load growth, customer growth, and related projections in utilities' integrated resource plans. Specifically, OG&E's projected load growth is only about 1%.[37]

Q. Why is it especially important to emphasize real, qualitative growth determinants when analyzing the growth rates of regulated utilities?

A. While qualitative growth analysis is important regardless of the entity being analyzed, it is especially important in the context of utility ratemaking. This is because the rate base rate of return model inherently possesses two factors that can contribute to distorted views of utility growth when considered exclusively from a quantitative perspective. These two factors are (1) rate base and (2) the awarded ROE. I will discuss each factor further below. It is important to keep in mind that the ultimate objective of all of this analysis is to provide a foundation upon which to base the fair rate of return for the utility. Thus, we should strive to ensure that each individual component of the financial models used to estimate

[37] OG&E 2015 IRP, Appendix A.

the cost of equity are also "fair." If we consider only quantitative growth determinants, it will lead to projected growth rates that are overstated and ultimately unfair, because they result in inflated cost of equity estimates.

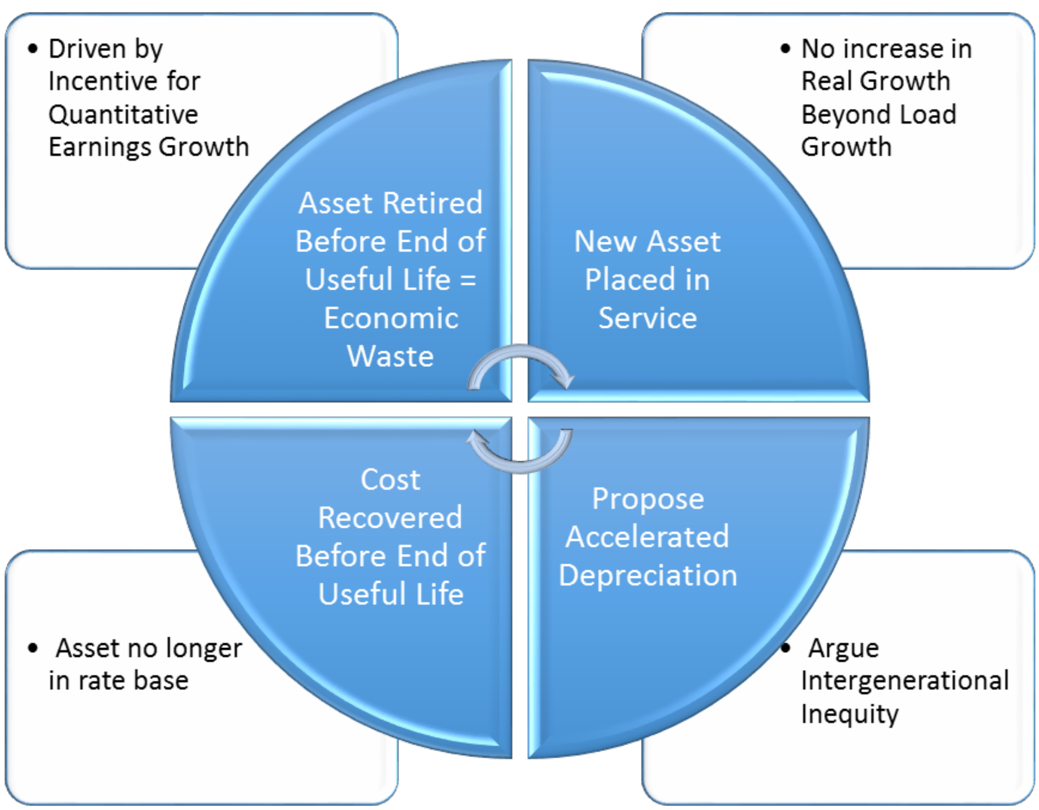
B. The Incentive to Accelerate Depreciation Rates and Increase Rate Base

Q. How does rate base relate to quantitative growth determinants for utilities?

A. Under the rate base rate of return model, a utility's rate base is multiplied by its awarded rate of return to produce the required level of operating income. Therefore, increases to ratebase generally result in increased earnings. Thus, utilities have a natural financial incentive to increase rate base, regardless of whether such increases are driven by corresponding increases in demand. We saw recent examples of this in the early retirement of old, but otherwise functional coal plants in response to environmental regulations. Under these circumstances, utilities were able to increase rate base by a far greater extent than what any concurrent increase in demand would have required. In other words, utilities were able to "grow" their earnings by simply retiring old assets and replacing them with new assets. If a competitive, unregulated firm announced plans to close production plants and replace them with new plants, however, it would not be considered a factor that would increase growth unless this decision allowed the firm to increase its market share and earnings. In the case of utilities, the decision to replace old plant with new plant did not increase market share or attract new customers, and earnings were quantitatively increased primarily because of the structure of the rate base rate of return model. Therefore, mere increases to rate base should not be viewed as drivers of qualitative growth. Instead, regulators should focus on inflation and load growth as qualitative growth determinants, and should limit long-term growth inputs in the DCF Model to projected nominal GDP growth (about 4%).

Utilities have a natural financial incentive to accelerate depreciation rates, which is driven by the need to increase rate base and quantitative earnings growth. Once the utility recovers the cost of an asset, it no longer earns a return in rate base; thus, the utility is incentivized to retire and replace the asset in order to increase its rate base and "grow" its earnings. This incentive highlights one of the primary areas of overlap between cost of capital and depreciation. The following diagram illustrates the relationship between accelerated depreciation rates and cost recovery, economic waste, and qualitative earnings growth.

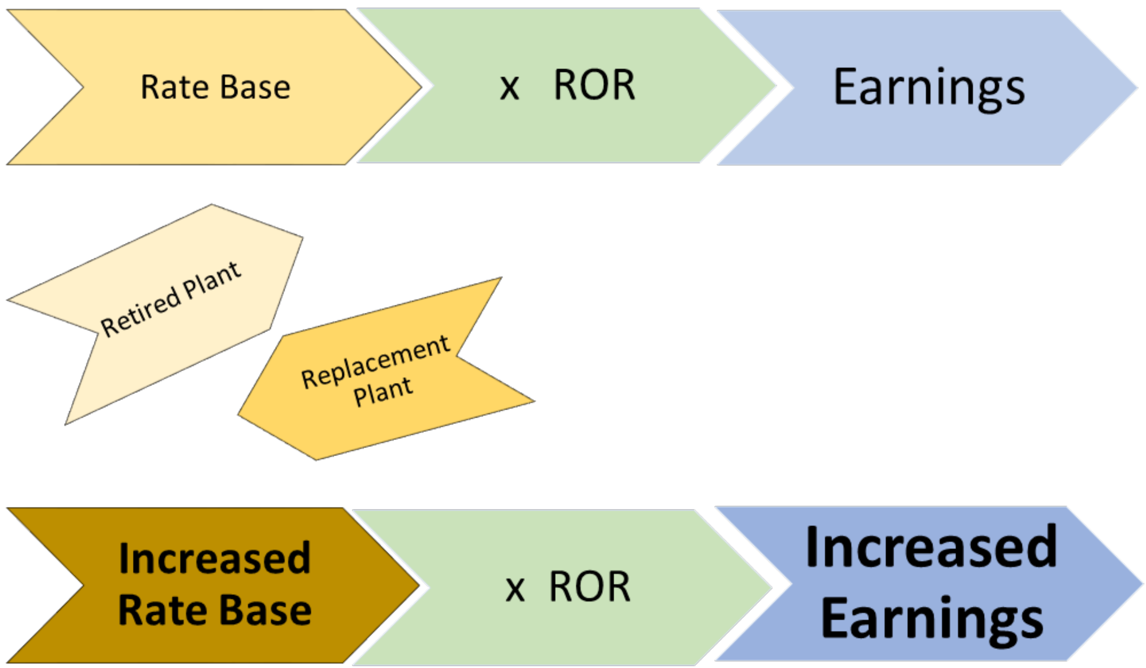
Figure 4:
The Financial Incentive to Accelerate Depreciation Rates



As illustrated in this diagram, the intergenerational inequity narrative is driven by utilities' financial incentive to increase revenue and earnings growth, not by a deeply held concern for the equity of future customers, as suggested by Mr. Spanos. This diagram also highlights the risk that accelerated depreciation rates will result in economic waste.

As indicated in the diagram, when the utility simply retires and replaces assets, it will result in a quantitative increase in revenues and earnings, but does not result in a "fair" indication of real, qualitative growth. If the tail of a flatworm is removed and regenerated, it does not mean the flatworm actually grew. Likewise, if a competitive, unregulated firm announced plans to close production plants and replace them with new plants, it would not be considered a real determinant of growth unless analysts believed this decision would directly result in increased market share for the company. In the case of utilities, the mere replacement of old plant with new plant does not increase market share, attract new customers, create franchising opportunities, or allow utilities to penetrate developing markets, but will simply result in short-term, quantitative earnings growth. However, this "flatworm growth" in earnings was merely the quantitative byproduct of the rate base rate of return model, and not an indication of real, fair, or qualitative growth. The following diagram illustrates this concept.

Figure 5:
The "Flatworm Growth" Problem

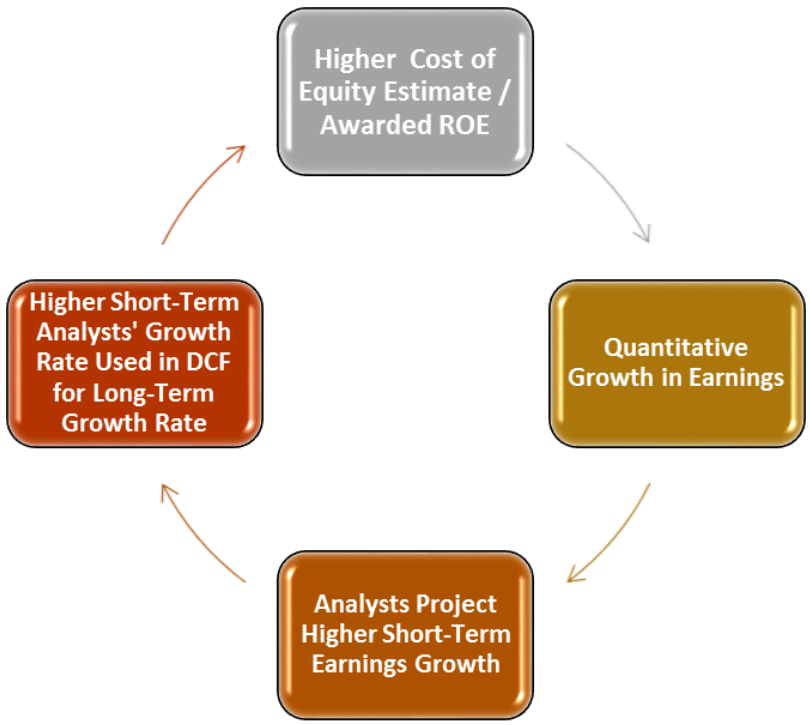


Of course, utilities must sometimes add new plant to meet the slow growth in customer demand. However, as the foregoing discussion demonstrates, it would be more appropriate to consider load growth, rather than quantitative increases to rate base or earnings, in order to assess real, qualitative growth.

Q. Please discuss the other way in which analysts' earnings growth projections do not provide indications of fair, qualitative growth for regulated utilities.

A. If we give undue weight to analysts' projections for utilities' earnings growth, it will not provide an accurate reflection of real, qualitative growth because a utility's earnings are heavily influenced by the ultimate figure that all of this analysis is supposed to help us estimate: the awarded return on equity. This creates a circular reference problem. In other words, if a regulator awards an ROE that is above market-based cost of capital (which is the case here), this could lead to higher growth rate projections from analysts. If these same inflated growth estimates are used in the DCF Model (and they often are by utility witnesses), it could lead to a higher awarded ROEs; and the cycle continues, as illustrated in the following figure:

Figure 6:
The "Circular Reference" Problem



Therefore, it is not advisable to simply consider a quantitative historical or projected growth rate in utility earnings, as this practice will not provide a reliable or accurate indication of real utility growth. Accordingly, the DCF results proposed by Mr. Hevert and Mr. Powell should be viewed with caution. Not only do such results assume that regulated utilities can grow at a greater rate than the entire U.S. economy, but by relying on analysts' short-term growth rates, the results also do not consider the qualitative aspects of growth discussed above.

Q. Does this conclude your testimony?

A. Yes, including any exhibits, appendices, and other items attached hereto. I reserve the right to supplement this testimony as needed with any additional information that has been requested from the Company but not yet provided. To the extent I did not specifically address any opinion stated by the Company, it does not constitute an agreement with such opinion.

Respectfully Submitted,

David J. Garrett
Resolve Utility Consulting, PLLC
1900 NW Expressway, Suite 410
Oklahoma City, OK 73118
dgarrett@resolveuc.com
405.249.1050

CERTIFICATE OF SERVICE

I, Thomas P. Schroedter, do hereby certify that a copy of the foregoing has been served upon all parties of record by forwarding the same by electronic mail this 30th day of March 2017.

Thomas P. Schroedter

Investor Update

March 2017

Safe Harbor

Some of the matters discussed in this news release may contain forward-looking statements that are subject to certain risks, uncertainties and assumptions. Such forward-looking statements are intended to be identified in this document by the words "anticipate", "believe", "estimate", "expect", "intend", "objective", "plan", "possible", "potential", "project" and similar expressions. Actual results may vary materially. Factors that could cause actual results to differ materially include, but are not limited to: general economic conditions, including the availability of credit, access to existing lines of credit, access to the commercial paper markets, actions of rating agencies and their impact on capital expenditures; the ability of the Company and its subsidiaries to access the capital markets and obtain financing on favorable terms as well as inflation rates and monetary fluctuations; the ability to obtain timely and sufficient rate relief to allow for recovery of items such as capital expenditures, fuel costs, operating costs, transmission costs and deferred expenditures; prices and availability of electricity, coal, natural gas and NGLs; the timing and extent of changes in commodity prices, particularly natural gas and NGLs, the competitive effects of the available pipeline capacity in the regions Enable serves, and the effects of geographic and seasonal commodity price differentials, including the effects of these circumstances on re-contracting available capacity on Enable's interstate pipelines; the timing and extent of changes in the supply of natural gas, particularly supplies available for gathering by Enable's gathering and processing business and transporting by Enable's interstate pipelines, including the impact of natural gas and NGLs prices on the level of drilling and production activities in the regions Enable serves; business conditions in the energy and natural gas midstream industries, including the demand for natural gas, NGLs, crude oil and midstream services; competitive factors including the extent and timing of the entry of additional competition in the markets served by the Company; the impact on demand for our services resulting from cost-competitive advances in technology, such as distributed electricity generation and customer energy efficiency programs; technological developments, changing markets and other factors that result in competitive disadvantages and create the potential for impairment of existing assets; factors affecting utility operations such as unusual weather conditions; catastrophic weather-related damage; unscheduled generation outages, unusual maintenance or repairs; unanticipated changes to fossil fuel, natural gas or coal supply costs or availability due to higher demand, shortages, transportation problems or other developments; environmental incidents; or electric transmission or gas pipeline system constraints; availability and prices of raw materials for current and future construction projects; the effect of retroactive pricing of transactions in the SPP markets or adjustments in market pricing mechanisms by the SPP; Federal or state legislation and regulatory decisions and initiatives that affect cost and investment recovery, have an impact on rate structures or affect the speed and degree to which competition enters the Company's markets; environmental laws, safety laws or other regulations that may impact the cost of operations or restrict or change the way the Company operates its facilities; changes in accounting standards, rules or guidelines; the discontinuance of accounting principles for certain types of rate-regulated activities; the cost of protecting assets against, or damage due to, terrorism or cyberattacks and other catastrophic events; creditworthiness of suppliers, customers and other contractual parties; social attitudes regarding the utility, natural gas and power industries; identification of suitable investment opportunities to enhance shareholder returns and achieve long-term financial objectives through business acquisitions and divestitures; increased pension and healthcare costs; costs and other effects of legal and administrative proceedings, settlements, investigations, claims and matters, including, but not limited to, those described in this Form 10-K; difficulty in making accurate assumptions and projections regarding future revenues and costs associated with the Company's equity investment in Enable that the Company does not control; and other risk factors listed in the reports filed by the Company with the Securities and Exchange Commission including those listed in Risk Factors in the Company's Form 10-K for the year ended December 31, 2016.

OGE has a clear and achievable set of financial objectives centered around investment grade credit ratings, long-term EPS and dividend growth

OGE Energy Corp

(NYSE: OGE)

OG&E

ENABLE MIDSTREAM PARTNERS

- **Well positioned regulated utility with growing service territory**
- **Over $1 billion of environmental compliance and plant modernization projects to be completed by January 2019**
- **Utility long-term growth rate of 3% – 5%**
- **Dividend growth rate targeted at 10% per year through 2019**

- **OGE holds a 25.7% limited partner interest and a 50% general partner interest of Enable Midstream Partners, LP**
- **Enhanced scale, with approximately $11 billion of combined assets**
- **Doing exactly what we planned - provide a source of cash to OGE, become a larger stronger entity and fund itself**

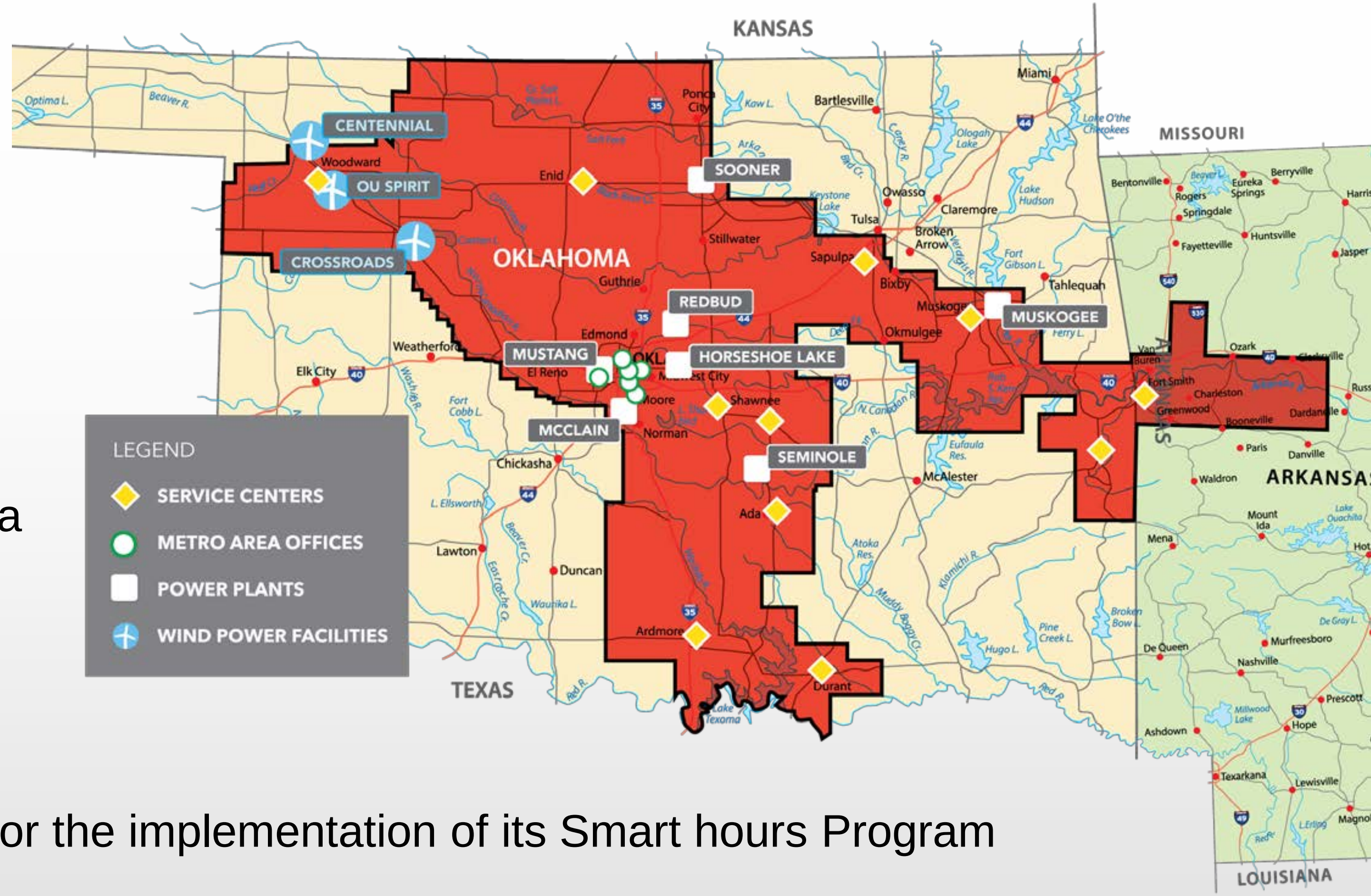
OG&E Facts

Regulated electric utility: 834,000 customers

Generating capacity: 6,771 megawatts, 7 power plants, 3 wind farms

Service territory: 30,000 square miles in Oklahoma and western Arkansas

2,453 Full-time (non-union) Employees



2013 EEI Edison Award for the implementation of its Smart hours Program

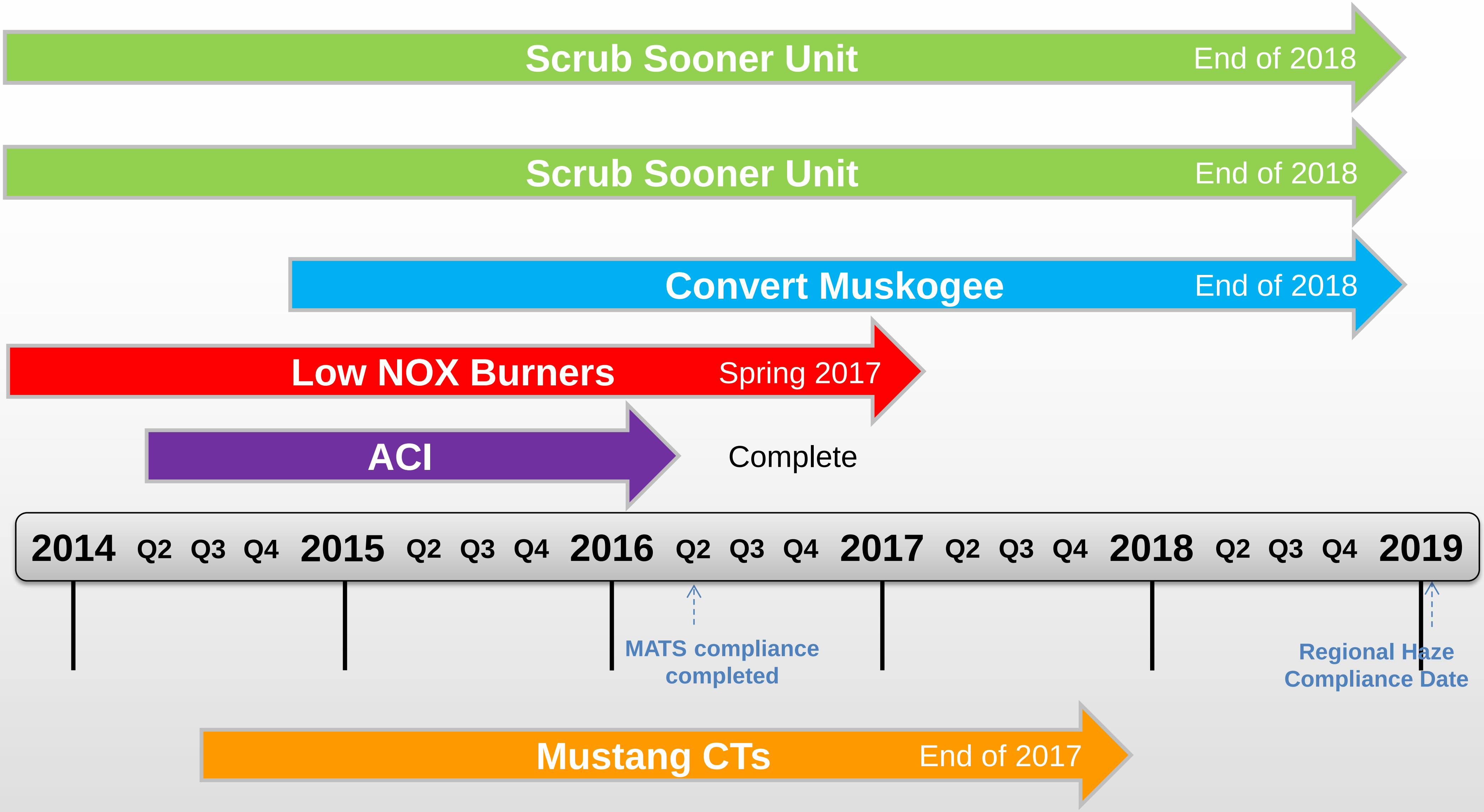
EEI's Emergency Recovery Award 12 times since 1999

J.D. Power and Associates' 2013, 2014, & 2015 Electric Utility Residential Customer Satisfaction Award

Focus for OG&E

- Execute compliance strategy for environmental regulations specifically, Regional Haze
- Complete the Mustang Modernization plan by the end of 2017
- Execute Oklahoma and Arkansas regulatory plan
- Continue to develop energy management solutions for OG&E’s customers through the Smart Grid platform
- Investing for the future

Project Completion Schedule



Regional Haze compliance date is set 55 months from US Supreme Court decision. Clock restarted 5/29/2014 + 55 months = 1/4/2019.

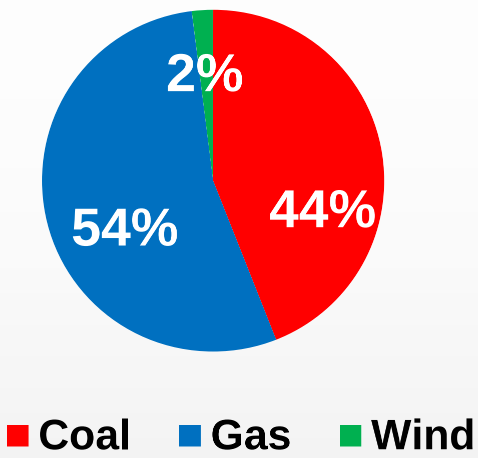
The scrubbers at Sooner are on time and on budget

Sooner 2016

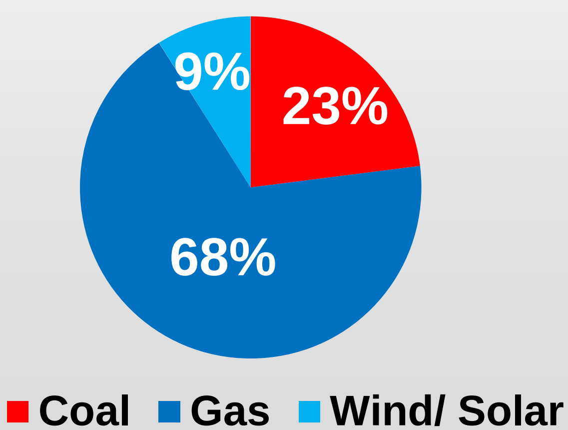
Sooner February 2017

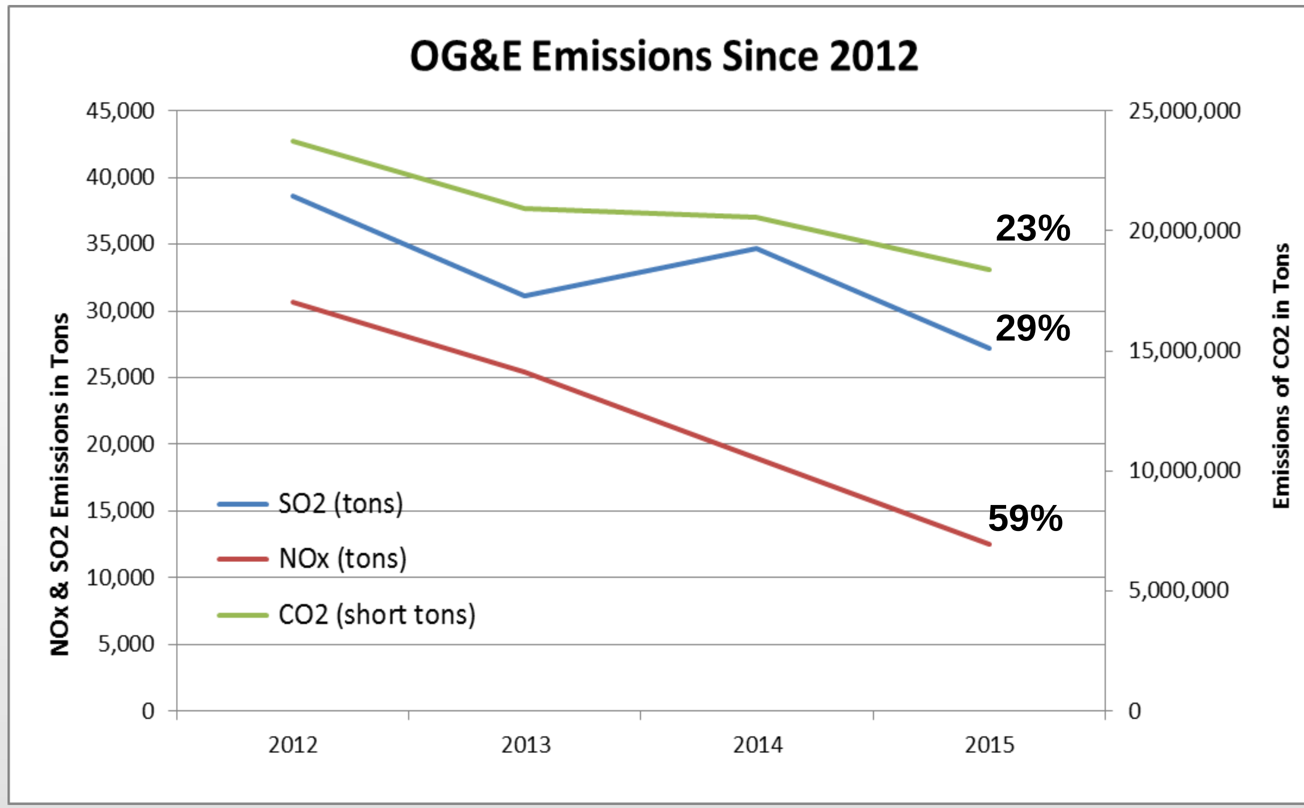
OG&E is gradually shifting generation resources and reducing emissions while maintaining fuel diversity

2007



2020





POSITIVE ENERGY TOGETHER

Regulatory Schedule

Oklahoma

Rate Case filed December 2015

- Test year ending June 2015
- Interim rates were implemented July 2016
- ALJ Report published 12/8/16

Rate Case filed 4th Quarter 2017

- Recovery of the Mustang CTs
- Test year ending June 2017
- Rates implemented Mid-2018

Rate Case filed 4th Quarter 2018

- Recovery of the Scrubbers and Natural Gas Conversion
- Test year ending June 2018
- Rates implemented Mid-2019

Arkansas

Rate Case filed August 25, 2016

- Recovery of expired wholesale contract, retail portion of transmission lines in service, and any other capital additions
- Test year ending June 2016
- Rates implemented by July 2017
  - Filed an application for Formula Rates Tariff
  - Requested a Large Capital Additions Rider which would allow the future recovery of CTs

Formula Rate Plan Filing in Mid-2018

310 Filings – Environmental

- To pick up Scrubbers and NG Conversion

Regulatory: OK Rate Case *(PUD 201500273)*

- Filed December 18, 2015
- OG&E implemented interim, annual rates of approximately $69 million on July 1st, 2016.
  - Interim rates are subject to refund with interest based on the final order
- The Administrative Law Judge issued the report for the OK Rate Case on December 8th, 2016
  - Recommended rate increase of $43.6 million
  - ROE of 9.87%
  - 53% Equity *(actual cap structure)*
  - Every 10 basis point change in the allowed OK ROE equates to a change of approximately $3.6 million in revenue

Regulatory: AR Rate Case *(Docket No. 16-052-U)*

- Filed August 25, 2016
  - Requested rate increase $16.5 million
  - Requested ROE 10.25%
  - 53% Equity
- Staff's Position
  - Recommended rate increase of $9.8 million
  - ROE of 9.5%
  - 48% Equity *(hypothetical cap structure)*
  - Every 25 basis point change in the allowed AR ROE equates to a change of approximately $900,000 in revenue
- Hearing scheduled for May 2, 2017

The Smart Grid is Empowering Customers

New technology has allowed utilities to integrate, interface with and intelligently interact with the wires side of the business

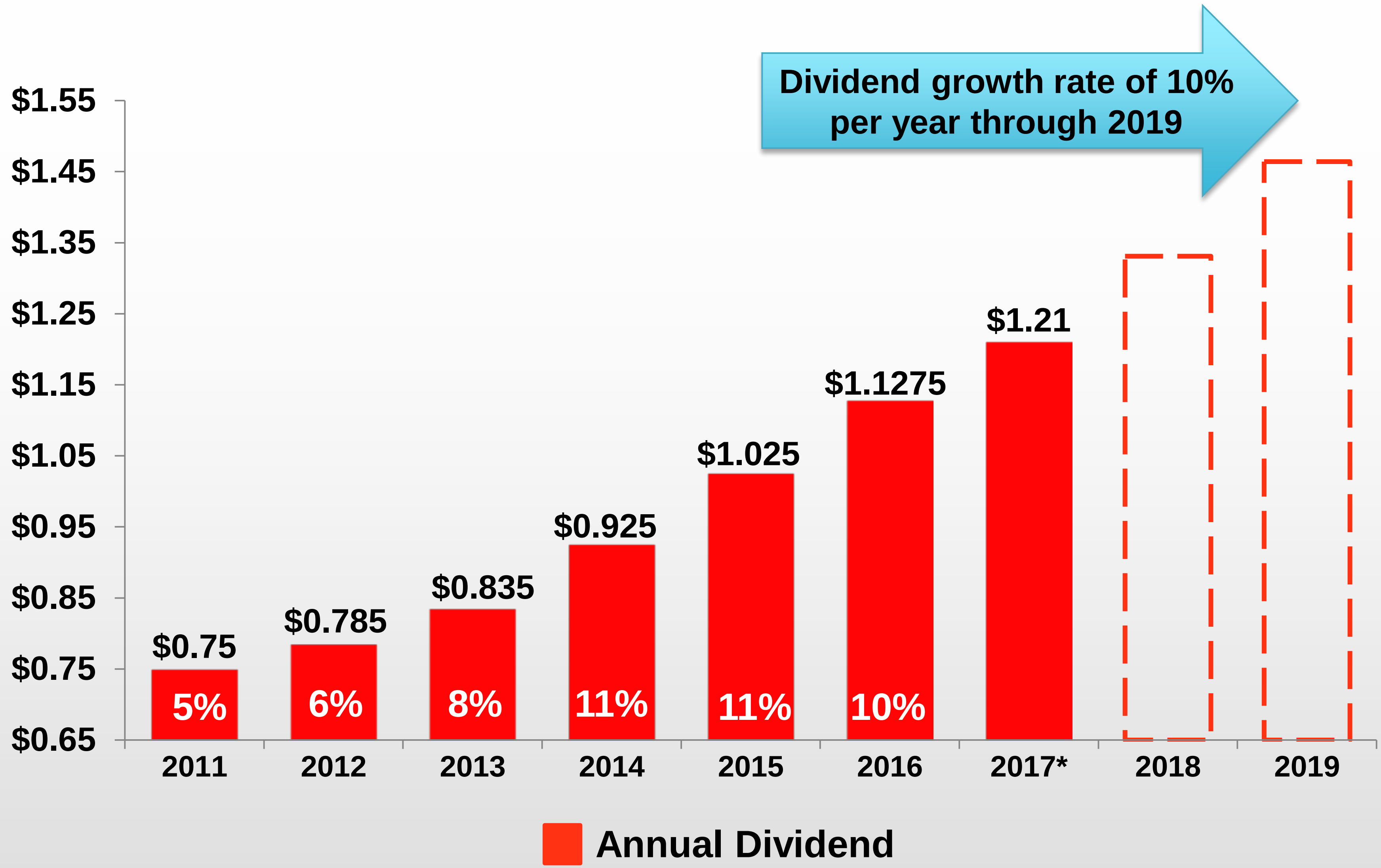
Benefits of this new technology include:

- Ushering is a new era of customer choice such as the OGE Smart Hours Program
- Outage response time improvement and prevention
- Allows the seamless integration of wind and solar
- Can make large scale energy storage a reality for the fist time

Enable Midstream Partners

- Enable is performing well in a difficult commodity price environment
- Three strategic criteria when establishing the partnership
  - Large enough entity to stand on its own
  - Self funding – transformed from user of cash to provider of cash
  - Strong liquidity and balance sheet to weather commodity cycles
- OGE responds to the CNP's second right of first offer (ROFO)
  - CNP had 30 days to respond
  - CNP has 120 days to secure 5% premium to OGE's offer
- We are committed to our investment in Enable

Consistent dividend growth



*Quarterly dividend rate declared by the Board of Directors in September 2016

Proposed Tax Reform

Overall the current proposals would be positive for our customers and OGE

- OGE will benefit from the ownership in the Enable business
- OGE has a strong cash position to handle any customer giveback
- OGE has minimal holding company debt

Reducing the Corporate Tax Rate

Utility: Benefits customers by lowering the provision for income taxes in rates; Creates excess deferred tax position that would benefit customers over time; Utility's rate base would increase

Enable: One time earnings benefit for OGE and on an ongoing basis, earnings from Enable would increase between $0.08 and $0.11 per share if interest is deductible, and between $0.04 and $0.07 per share if it is not, depending on the tax rate

100% Expensing of Capital Investment

- In conjunction with the lower corporate tax rate, if 100% expensing of capital investments was adopted, it would be positive for customers and OGE

Eliminating the Interest Expense Deduction

- In lieu of the 100% expensing of capital investments, we would advocate for the preservation of the interest deductibility as it has a far greater benefit for customers.

Investment Thesis

- Clear line of sight for total return
  - Strong credit ratings
  - Utility growth rate of 3-5 percent
  - Annual dividend growth rate of 10 percent through 2019
  - Strong balance sheet, liquidity and cash flow – no public equity required
- Oklahoma is still growing and poised for a pickup with an increase in commodity prices
- Arkansas regulation is improving
- Management team is focused on growing the regulated business

Projected Capital Expenditures 2017 – 2021

Dollars in millions	2017	2018	2019	2020	2021
OG&E Base Transmission	$ 35	$ 30	$ 30	$ 30	$ 30
OG&E Base Distribution	195	175	175	175	175
OG&E Base Generation	40	75	75	75	75
OG&E Other	35	25	25	25	25
Total OG&E Base T&D, Gen & Other	305	305	305	305	305
OG&E Known and Committed Projects:					
Transmission Projects					
Regionally Allocated Base Projects (1)	50	20	20	20	20
ITP 10-year Projects (2)	155	20	-	-	-
Total Transmission Projects	205	40	20	20	20
Other Projects:					
Solar	20	-	-	-	-
Environmental - Low NOX	15	-	-	-	-
Environmental - Natural Gas Conversion	20	25	25	-	-
Environmental - Scrubbers	160	95	15	-	-
Combustion Turbines - Mustang Modernization	170	35	-	-	-
AFUDC and Ad Valorem	55	40	5	-	-
Total Other Projects	440	195	45	-	-
Total Known and Committed Projects	645	235	65	20	20
Total	950	540	370	325	325

(1) Approximately 30% of revenue requirement allocated to SPP members other than OG&E

(2) Approximately 85% of revenue requirement allocated to SPP members other than OG&E

DCF Model Using OGE's Opinions

Surrebuttal
Exhibit DG-2

		[1]	[2]	[3]	[4]	[5]	[6]	[7]
		Hevert's	Hevert's	OG&E's Estimated Growth Range		OG&E's DCF Results		
Hevert's Proxy Group	Ticker	Dividend	Stock Price	(low)	(high)	Low	High	Average
ALLETE, Inc.	ALE	2.08	62.26	3.0%	5.0%	6.4%	8.4%	7.4%
Alliant Energy Corporation	LNT	1.18	39.38	3.0%	5.0%	6.0%	8.1%	7.1%
Ameren Corporation	AEE	1.70	51.80	3.0%	5.0%	6.3%	8.4%	7.3%
American Electric Power Company, Inc.	AEP	2.24	68.11	3.0%	5.0%	6.3%	8.4%	7.4%
Avista Corporation	AVA	1.37	43.03	3.0%	5.0%	6.2%	8.3%	7.2%
CMS Energy Corporation	CMS	1.24	44.28	3.0%	5.0%	5.8%	7.9%	6.9%
DTE Energy Company	DTE	3.08	95.92	3.0%	5.0%	6.3%	8.3%	7.3%
IDACORP, Inc.	IDA	2.04	77.51	3.0%	5.0%	5.7%	7.7%	6.7%
NorthWestern Corporation	NWE	2.00	61.25	3.0%	5.0%	6.3%	8.3%	7.3%
Otter Tail Corporation	OTTR	1.25	32.42	3.0%	5.0%	6.9%	9.0%	7.9%
Pinnacle West Capital Corporation	PNW	2.50	78.53	3.0%	5.0%	6.2%	8.3%	7.2%
PNM Resources, Inc.	PNM	0.88	34.39	3.0%	5.0%	5.6%	7.6%	6.6%
Portland General Electric Company	POR	1.28	43.04	3.0%	5.0%	6.0%	8.0%	7.0%
SCANA Corporation	SCG	2.30	72.88	3.0%	5.0%	6.2%	8.2%	7.2%
Xcel Energy Inc.	XEL	1.36	43.38	3.0%	5.0%	6.2%	8.2%	7.2%
Average						**6.2%**	**8.2%**	**7.2%**

[1] From Mr. Hevert's Direct Exhibit RBH-1
[2] From Mr. Hevert's Direct Exhibit RBH-1
[3] From OG&E's "Investor Update" presentation, March 2017 (OG&E's "Utility long-term growth rate of 3% - 5%)
[4] From OG&E's "Investor Update" presentation, March 2017 (OG&E's "Utility long-term growth rate of 3% - 5%)
[5] = ([1] / [2]) * (1 + 0.5 * [3]) + [3] = Semi-Annual DCF (This is the DCF formula used by Mr. Hevert in Direct Exhibit RBH-1)
[6] = ([1] / [2]) * (1 + 0.5 * [4]) + [4] = Semi-Annual DCF (This is the DCF formula used by Mr. Hevert in Direct Exhibit RBH-1)
[7] = Average ([5] , [6])

BEFORE THE CORPORATION COMMISSION 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 201500273
	)	ORDER NO.	662059

FINAL ORDER

HEARING: February 2, 2017, Hearing before the Commission *en banc* on Exceptions to the Report of the Administrative Law Judge on the Full Evidentiary Hearing and Errata Appendix C Page 285

APPEARANCES: Kimber L. Shoop, Patrick D. Shore, and William L. Humes, Attorneys representing Oklahoma Gas and Electric Company

Natasha M. Scott and Judith L. Johnson, Attorneys representing the Public Utility Division, Oklahoma Corporation Commission

Dara M. Derryberry, Assistant Attorney General, representing the Office of the Attorney General, State of Oklahoma

Thomas P. Schroedter, Attorney representing Oklahoma Industrial Energy Consumers

Ronald E. Stakem and Jack G. Clark, Jr., Attorneys representing OG&E Shareholders Association

Deborah R. Thompson, Attorney representing AARP and Oklahoma Sustainability Network

Rick D. Chamberlain, Attorney representing Wal-Mart Stores East, LP, and Sam's East, Inc.

Cheryl A. Vaught, Attorney representing Oklahoma Energy Results, LLC

Jim A. Roth and Marc Edwards, Attorneys representing The Alliance for Solar Choice, the Oklahoma Hospital Association and the Wind Coalition

Lee W. Paden, Attorney representing Citizen Potawatomi Nation

Thomas A. Jernigan, Attorney representing Federal Executive Agencies

Jacquelyn L. Dill and Casey Roberts, Attorneys representing Sierra Club

BY THE COMMISSION:

The Corporation Commission of the State of Oklahoma ("Commission") being regularly in session and the undersigned Commissioners being present and participating, there comes on for consideration and action the above-styled and numbered cause.

I. PROCEDURAL HISTORY

The procedural history of this cause through the date of the hearing held before the ALJ is found in the Report of the ALJ on the Full Evidentiary Hearing filed December 8, 2016, to which Errata Appendix C page 285 was filed December 16, 2016 (together referred to hereafter as "ALJ Report").

The following events occurred since the filing dates of the ALJ Report:

On January 3, 2017, the Federal Executive Agencies ("FEA") filed Exceptions to the ALJ Report and a Motion for Oral Argument.

On January 4, 2017, Oklahoma Gas and Electric Company ("OG&E") filed Exceptions to the ALJ Report, a Motion for Oral Argument and a Notice of Hearing.

On January 4, 2017, the Public Utility Division ("PUD") filed Exceptions to the ALJ Report, Motion for Oral Argument and Notice of Hearing.

On January 4, 2017, the Attorney General ("AG") filed Exceptions to the ALJ Report , a Motion for Oral Argument and a Notice of Hearing.

On January 4, 2017, Oklahoma Industrial Energy Consumers ("OIEC") filed Exceptions to ALJ Report.

On January 4, 2017, Oklahoma Energy Results, LLC ("OER") filed Exceptions to the ALJ Report and a Motion for Oral Argument.

On January 4, 2017, AARP filed Exceptions to the ALJ Report.

On January 11, 2017, OG&E filed its Response to Exceptions to the ALJ Report.

On January 11, 2017, OIEC filed its Response to OG&E's Exceptions to ALJ Report.

On January 11, 2017, OER filed its Response to OG&E's Exceptions to the ALJ Report.

On January 11, 2017, Citizen Potawatomi Nation (CPN) filed its Response to Exceptions filed by Parties on January 4, 2017.

On January 11, 2017, Wal-Mart Stores East, LP, and Sam's East, Inc. filed their Response to Exceptions to the ALJ Report.

On January 11, 2017, The Oklahoma Hospital Association ("OHA") filed its Response to the Exceptions filed by OG&E to the ALJ Report.

On January 11, 2017, The Alliance for Solar Choice ("ASC") filed its Reply to Exceptions filed by OG&E.

On January 17, 2017, Sierra Club filed its Responses to Exceptions to the ALJ Report.

II. SUMMARY OF EVIDENCE

The summary of evidence is contained in the ALJ Report as Appendix A.

III. FINDINGS OF FACT AND CONCLUSIONS OF LAW

The Commission has jurisdiction over this matter by virtue of Article IX, Section 18, of the Oklahoma Constitution, 17 O.S. §§ 151 *et seq.*, and the rules of the Commission.

Notice of these proceedings was proper and was given as required by law and the orders of the Commission.

In the exercise of its legislative, judicial and executive powers, the Commission is required to reach its own conclusions based upon the evidence before it, and it may adopt, reject, restrict, or expand any or all findings and recommendations of the ALJ. *State ex rel. Cartwright* *v. Oklahoma Natural Gas Co. and Oklahoma Corporation Commission*, 1982 OK 11, ¶8,; *Smith Cogeneration Mgmt., Inc. v. Corp. Comm'n*, 1993 OK 147, ¶14; *Cameron v. Corp. Comm'n*, 1966 OK 75, ¶29.

After review of the ALJ Report, hearing the arguments of counsel, and review and evaluation of the pleadings, exceptions, responses, and evidence contained in the record for this cause, and upon a full and final consideration thereof, the Commission hereby adopts the recommendations set forth in the ALJ Report, except as otherwise stated hereinbelow.

Allowed Return on Equity (P. 21, ALJ Report)

The Commission does not agree with the reasoning utilized by the ALJ in determining his recommended Return on Equity ("ROE"), including his heavy reliance upon the Texas Public Utility Commission's order for Southwest Public Service Company (Hearing Exhibit 61). Rather than the 9.87 percent recommended by the ALJ, the Commission adopts an ROE of 9.50 percent. This ROE is the midpoint of the range of OIEC witness Parcell's comparable earnings analysis (Parcell Responsive, beginning pg. 27), is within the range of AG witness Solomon's discounted cash flow analysis (Solomon Responsive, beginning pg. 34), is within the range of FEA witness Walters' risk premium analysis (Walters Responsive, beginning pg. 32), and is also within the range of his capital asset pricing model (Walters Responsive, beginning pg. 37).

The Commission does not come to this conclusion lightly. It has not given more weight to the cited witnesses' ROEs as opposed to the 10.25 percent recommended by OG&E's witness Mr. Hevert simply because of a three-against-one bias as was suggested could happen by OG&E's counsel during oral argument. The decision on ROE was formed based on a review and weighing of the opinions set forth by all ROE witnesses and the evidence asserted by them that supported their opinions. Specifically, in this Cause, the Commission did not find Mr. Hevert's opinions persuasive. His recommended ROE of 10.25 percent was excessive in that each of his methods and the inputs he used appear to have been biased upward, resulting in a significantly inflated recommendation. The Commission has reviewed all the testimony, including all models utilized by each ROE witness, and has given full consideration to the oral argument in rendering its opinion. The Commission rejected those models that were above and/or below a reasonable range and concludes that the 9.50 percent ROE determined herein is fair, just and reasonable to both ratepayers and OG&E. Further, a 9.50 percent ROE will afford OG&E the opportunity to earn a fair and reasonable rate of return. The Commission has undertaken a concerted effort to balance the interests of both the investor and the consumer and believes that the 9.50 percent ROE will be sufficient to allow OG&E to maintain and support its credit, assure confidence in its financial integrity and allow it to continue to attract capital.

Capital Structure and Cost of Debt (P. 31, ALJ Report)

The Commission accepts the ALJ's recommendation to allow the actual capital structure of OG&E. (ALJ Report, pp. 32 & 33). This would allow the current capital structure of 53.31 percent equity and 46.69 percent debt. Also, the Commission accepts the ALJ's recommended cost of debt at 5.62 percent. (ALJ Report, pp. 31 & 33).

Despite accepting the recommendation of the ALJ, the Commission is concerned with OG&E's current equity to debt ratio, which is not in line with averages of other utilities. OG&E should further evaluate adjusting its equity to debt ratio to maximize the benefits of lower cost debt, similar to that of other utilities, by its next base rate proceeding. The Commission will be closely reviewing OG&E's weighted average cost of capital in a future base rate proceeding and is not opposed to considering utilizing a hypothetical capital structure for OG&E if sufficiently persuaded based upon the evidence presented in that case.

<u>Overall Rate of Return (P. 33, ALJ Report)</u>

Based upon the 9.50 percent ROE as determined above, 5.62 percent cost of debt, and the capital structure of 53.31 percent equity and 46.69 percent debt, OG&E's authorized stated Rate of Return or ROR is 7.688 percent.

<u>Rate Base (P. 33, ALJ Report)</u>

Rate base and its components—including but not limited to Plant in Service, cash working capital, accumulated deferred income tax, accumulated depreciation, and net utility plant— are to be adjusted based on the determinations made throughout this order.

Based upon the ALJ Report and the adjustments made by this Order, the Oklahoma jurisdictional rate base, for the purpose of base rates calculation, shall be $4,202,129,058.

<u>Revenue and Expenses (P. 41, ALJ Report)</u>

Revenue and expenses—including but not limited to taxes, interest synchronization, depreciation, and incentives—are to be adjusted based on the determinations made throughout this order.

<u>TeamShare Expense (P. 43, ALJ Report)</u>

Short-Term Incentive Compensation (P. 43, ALJ Report)

The Commission declines to adopt the recommendation of the ALJ for recovery of one hundred percent of the maximum amount of short-term incentive compensation of $14,209,108. In this cause, sufficient support was not provided by OG&E or PUD to move to allowing full recovery for short-term compensation beyond what has been historically awarded. Instead, based on the record before it, the Commission finds that fifty percent of short-term incentive compensation is appropriate. In future causes, the Commission will again evaluate the manner in which short-term incentive compensation is awarded.

Long-term Incentive Compensation (P.44, ALJ Report)

The Commission declines to adopt the recommendation of the ALJ for recovery of twenty-five percent of long-term incentive compensation. In this cause, the Commission is not persuaded that such compensation provided benefit to ratepayers. Therefore, no recovery is given for long-term incentive compensation.

Vegetation Management (P. 47, ALJ Report)

The Commission does adopt the ALJ's recommendation to deny a vegetation management tracker; however, in lieu of the findings and recommendations set forth on page 49, the Commission finds that OG&E witness Mr. Cassada was the most knowledgeable witness in the area of vegetation management, and therefore adopts OG&E's vegetation management expense request. Moreover, Mr. Rowlett's direct testimony cited at page 47 of the ALJ Report sets forth the increase in distribution assets and growth in transmission underlying OG&E's request for increased vegetation management expenses. This growth combined with the ongoing requirement to provide high quality, reliable electric service supports the request for increased vegetation management expense. The Commission further declines to adopt the ALJ's findings regarding herbicide expense because these findings mischaracterize the testimony of Mr. Cassada as noted in OG&E's January 4, 2017, Exceptions at page 18.

Depreciation (P. 55, ALJ Report)

The Commission does not agree with the ALJ's recommendation regarding depreciation expense. The testimony offered by OG&E's depreciation witness, Mr. Spanos, is lacking in sufficient detail and support to justify the increased depreciation levels sought by OG&E. Particular areas include decommissioning expense associated with generating facilities as well as OG&E's request for Holding Company depreciation expense. The Commission adopts the depreciation rates proposed by OIEC/OER witness Jacob Pous and PUD witness David Garrett and finds their proposed depreciation rates to be reasonable.

OG&E had proposed a total depreciation expense of $314,602,372. Mr. Jacob Pous' recommended changes to OG&E's depreciation study resulted in a reduction of $41,014,841 to OG&E's total depreciation expense (3-21-16 Responsive testimony of Mark E. Garrett, P. 61; and Exhibit MG-2.10). However, his analysis only addressed the depreciation rates for transmission, generation and general assets. Mr. David Garrett, on behalf of the PUD, had made a similar recommendation to reduce OG&E's total depreciation expense by $14,387,949 (Transcript, Testimony of David Garrett, 5-18-16 Evening Session, pp. 41-42; and, Hearing Exhibit 75). His analysis addressed the depreciation rates for all distribution assets. Together, those two adjustments (totaling $55,402,790) addressed depreciation for all of OG&E's plant assets.

Based upon the above, OG&E's total depreciation expense allowed in this cause would be $259,199,582. However, that total adjustment to OG&E's requested depreciation expense requires further adjustment.

The OIEC/OER and PUD witnesses both agreed that OG&E's wind farms should be depreciated based on a 30 year life span and their respective recommended reductions were based upon that assertion. The Commission does not accept the 30 year life span for the wind farms and agrees with the ALJ's recommendation to continue to depreciate those wind farm assets on the 25 year life span that is currently being utilized. Therefore, the combined total reduction of $55,402,790 recommended by OIEC/OER and PUD should be adjusted (reduced) by the amount of $6,536,674 (from March 21, 2016, testimony of Jacob Pous, P. 36, ln. 5) which is the depreciation expense that would increase based on that 5 year change in wind farm life span.

Based upon the above, OG&E's total depreciation expense allowed in this cause should be $265,736,256 as shown below.

OG&E proposed depreciation expense	$ 314,602,372
less OIEC/OER adjustment	($ 41,014,841)
less PUD adjustment	($ 14,387,949)
plus wind farm life span adjustment	$ 6,536,674
total depreciation expense	$ 265,736,256

Finally, the Commission finds, as was suggested by Mr. Pous, that OG&E should "provide a detailed narrative explaining, supporting, and justifying each of its life and net salvage proposals in its next depreciation study. The level of transparency and detail expected should be such that the reader can identify what the most significant or meaningful specific items of information relied upon were for each proposal, not generalized references to statistical analyses or discussions with Company personnel. In addition, the presentation should include the underlying documentation and work papers that support the most significant or meaningful specific items of information relied upon, especially those that relate to information pertaining to the outlook or expectations of management." (March 21, 2016, testimony of Jacob Pous, P. 15, ln. 8)

Fuel Adjustment Clause ("FAC") Issues (P. 67, ALJ Report)

Air Quality Control Systems Consumable Costs ("AQCS")

The Commission declines to adopt the recommendation of the ALJ to disallow OG&E's request to recover the AQCS in the FAC. The ALJ based that recommendation upon the Commission's decision in Order No. 647346, issued in OG&E Cause No. 201400229 where the Commission denied a similar request. However, in that order, although the Commission stated there was not a sufficient basis for recovering those costs through the FAC in that case, the Commission also stated that "it would be more appropriate for OG&E to seek, and the Commission to consider, this type of modification of its FAC Tariff in a general rate proceeding." (Order No. 647346, ¶ H, p. 17).

The Commission finds that environmental consumables are used in the generation of electrical energy and their consumption rates are variable and highly correlated to the amount of fuel consumed and electrical generation produced, and that OG&E provided substantial evidence supporting that finding. The Commission further finds that the evidence provided by OG&E supports the need to recover such costs through the FAC and determines that OG&E's request to include such costs in the FAC should be approved.

Production Tax Credits ("PTCs")

The Commission declines to adopt the recommendation of the ALJ that OG&E needs to apply for a rider or a regulatory asset to deal with expiring PTCs. Certain PTC credits are expiring and the impact of their expiration is known and measurable. When these PTCs expire, because they are currently contained in base rates, if they are not moved to the FAC (or some other tracker) their expiration will substantially reduce the revenue that OG&E would otherwise be entitled to receive from approved rates.

The Commission agrees in part with OG&E's assertion that from a practical perspective, as well as a regulatory efficiency perspective, it makes sense to move expiring PTCs from base rates to the FAC, but at this time, only those expiring in 2017. Moving the PTCs expiring in 2017 into the FAC would allow customers to receive the credits associated with PTCs and allow OG&E to adjust the PTC credits as they expire. Evidence showed that the amount of PTCs generated are (i) highly variable and directly tied to the volume of energy produced from the wind farms; (ii) wind power is commonly referred to as "variable renewable energy" in that it is non-dispatchable due to its fluctuating nature; (iii) wind generation output varies by hour, day, month, and season; and, (iv) because PTCs are directly related to production and that production is variable, it is appropriate to include PTC credits in the FAC (Rowlett Rebuttal, p. 14, lns. 14-20). Finally, the Commission recognizes that the PUD undertakes an annual review of OG&E's FAC and, therefore, a review process is in place for timely and thorough reviews. For all these reasons, the Commission agrees that the FAC is an appropriate mechanism for passing through the PTC credits expiring in 2017.

Therefore, the Commission finds that OG&E's request to move its expiring PTCs into the FAC should be approved in part, and hereby limits recovery through the FAC to those PTCs that expire in calendar year 2017 in the amount of $9,098,913 (Rowlett Rebuttal, p. 13, lns. 22-24). However, that amount is the total of PTCs for the entire Company. This amount, adjusted to the Oklahoma jurisdiction at 90.917% is $8,272,450. The treatment of any PTCs expiring subsequent to calendar year 2017 are to be determined in OG&E's next base rate proceeding or another cause OG&E might file to deal with these issues.

Rate Design (P. 74, ALJ Report)

The Commission has reviewed the recommendations of the ALJ regarding the non-unanimous Joint Stipulation and Settlement Agreement as to Certain Rate Design, Cost of Service, and Fuel Adjustment Issues filed herein on May 23, 2016 ("Stipulation") (Appendix B to the ALJ Report). In addition, the Commission has reviewed the Stipulation, OG&E's Response to the Stipulation filed May 25, 2016, as well as the testimony presented in regard to the Stipulation at the hearing. The Commission finds that the Stipulation should be and hereby is adopted by the Commission, *subject* to the changes and modifications set forth below. The Commission further finds that the Stipulation, as modified, is just, reasonable and in the public interest. The Commission also accepts the recommendations of the ALJ in the Rate Design section of the report beginning on page 74, but as stated previously, does not accept any recommendations or statements inconsistent with adopting the Stipulation as modified.

As to paragraph 1.b., on page two of the Stipulation, the Commission agrees with OG&E's suggested terminology change so that this sentence will now read as follows:

1. No New Demand Charges.

> b. Before proposing the introduction of any new demand charges, OG&E will be required to provide a cost of service study of small, medium, and large users within major rate classes not currently containing a demand charge.

As to paragraph 1.c., beginning on page two of the Stipulation, the Commission agrees in part with OG&E's suggested changes so that this paragraph will now read as follows:

1. No New Demand Charges.

c. Before proposing the introduction of any new demand charges for any rate class, not currently subject to a demand charge, OG&E will conduct a study and pilot program on demand charges to evaluate customer acceptance, understanding, and ability to respond to a rate design that includes demand charges and appropriate methods for recovering fixed costs. The results will be evaluated from various perspectives, including, but not limited to, customer satisfaction and acceptance, impact on low income and senior citizens, customer ability to respond to a rate design that includes a demand charge, conservation, ability for accurate cost recovery, economic efficiency, bill stability, and contribution to system peak. OG&E will also be required to provide bill impact analysis for participating small, medium, and large users.

The study will be designed and evaluated by an independent third party with guidance from the Company and PUD staff. The reasonable costs of the pilot, including the design and evaluation thereof, will be recovered through the DPR tariff upon approval of new, introduced demand charges.

As to paragraph 3.d., on page three of the Stipulation, the Commission modifies the language, so that this paragraph will now read as follows:

3. Distributed Generation Customers – Residential and Small Commercial.

d. In the event OG&E proposes, in the future, a demand charge or any other substantive change to a tariff applicable to customers with distributed generation that OG&E deems necessary to comply with 17 O.S. § 156, the Commission will require OG&E to include as part of its case cost effectiveness tests, such as those performed for the company's demand programs, and make available to the parties detailed cost and benefit data.

As to paragraph 6.b.ii., on page six of the Stipulation, the Commission agrees with OG&E's suggested change so that this sentence will now read as follows:

6. PayGo Prepay Billing Option.

ii. Frequency and duration of PayGo disconnections by month, which will include additional explanation of any reconnections taking longer than 15 minutes after payment has been received.

As to paragraph 7.a., on page seven of the Stipulation, the Commission agrees with OG&E's suggested change so that this sentence will now read as follows:

7. Automated Metering (Smart Meter) Opt Out Tariff.

a. Automated Metering (Smart Meter) Opt Out Tariff, as requested in the Application in this Cause, will be implemented.

Interim Rate Refund

The Commission finds that on June 28, 2016, pursuant to 17 O.S. § 152(B)(4), OG&E implemented an interim rate adjustment applicable to the base rate charges of all of OG&E's retail customers. The Commission further finds that OG&E's interim rate adjustment was implemented subject to refund. The Commission finds that a refund to customers of OG&E's interim rate adjustment is appropriate and necessary to the extent it exceeds the rates approved by this Final Order. The Commission orders that the refund shall include reasonable interest at the one-year U.S. Treasury Bill rate consistent with 17 O.S. § 152(B)(5), and shall be credited to OG&E's customers. The refund, with interest as provided by 17 O.S. § 152(B)(5), shall be credited to customer classes using the same allocation method by which the interim rates were collected. The refund shall be given to customer classes through adjusted tariff rates through December 2017 and shall be reflected by a line-item credit on customers' bills as soon as possible, beginning no later than May 1, 2017.

The Commission further finds and orders OG&E to provide refunds to customers who left the OG&E system prior to the credit ordered by the Commission. The refund shall be available to those former customers who paid the interim rates. The refund shall be calculated on an average customer monthly impact by class. The former customers' refund shall be the average monthly impact multiplied by the number of months they paid under interim rates. Only customers who ended service without starting new service on the OG&E system are eligible for a one-time refund. Former customers not in good payment status will first have their accounts credited, then any remaining refund balance will be provided to them. Former customers shall have six months from the date of this Order to request a refund from OG&E. Thereafter, any remaining funds shall be included in the deferred fuel account and credited immediately to OG&E's fuel expense for the benefit of all customers. The Commission further directs OG&E to immediately issue press releases in its service areas to inform former customers of any potential refund.

OG&E shall submit a report monthly to the PUD Director reflecting the refund ordered herein.

The Final Order Accounting Schedule, appended hereto as Attachment 1, reflects the adjusted base rate revenue amount in accordance with the findings set forth above.

ORDER

IT IS THEREFORE THE ORDER OF THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA that the ALJ Report appended hereto as Attachment 2, subject to and as modified or superseded by the exceptions and modifications detailed hereinabove, is hereby adopted and incorporated herein as if fully set forth, as the order of the Commission, and the ALJ's rulings on motions in the Cause are affirmed.

IT IS FURTHER ORDERED that OG&E shall, within two weeks after the date of this Order, submit to the Director of the Public Utility Division tariffs consistent with the findings set forth herein, and that the rates, charges, and tariffs shall be effective with the first regular billing cycle after such tariffs are approved by the Director of the Public Utility Division.

OKLAHOMA CORPORATION COMMISSION

Dana L. Murphy

DANA L. MURPHY, Chairman

Concur in Result,
Concurring Statement to be Filed

J. TODD HIETT, Vice Chairman

Bob Anthony

BOB ANTHONY, Commissioner

DONE AND PERFORMED this 20th day of March, 2017.

BY ORDER OF THE COMMISSION:

Joyce Conner

~~PEGGY MITCHELL, Secretary~~
JOYCE CONNER, Assistant Secretary

Revised Equity Risk Premium Comparison

IESE Business School Survey	5.3%	[1]
Graham & Harvey Survey	4.0%	[2]
Duff & Phelps Report	5.5%	[3]
Damodaran	6.1%	[4]
Marcus	4.8%	[5]
Garrett	5.3%	[6]
Average	**5.2%**	

[1] IESE Business School Survey
[2] Graham and Harvey Survey
[3] Duff & Phelps Client Alert 2016
[4] Highest ERP est., http://pages.stern.nyu.edu/~adamodar/
[5] Mid-point ERP from Direct Testimony of Mr. Marcus
[5] From implied ERP exhibit