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BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF OKLAHOMA GAS AND ELECTRIC COMPANY FOR APPROVAL OF A GENERAL CHANGE IN RATES, CHARGES AND TARIFFS	)))))	DOCKET NO. 16-052-U

SURREBUTTAL TESTIMONY

OF

TROY EGGLETON
PUBLIC UTILITY AUDITOR
AUDITS SECTION

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

March 30, 2017

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INTRODUCTION

Q. Please state your name.

A. My name is Troy Eggleton.

Q. Are you the same Troy Eggleton who filed Direct Testimony on January 31, 2017 in this Docket on behalf of the General Staff (Staff) of the Arkansas Public Service Commission (Commission)?

A. Yes.

PURPOSE OF TESTIMONY

Q. What is the purpose of your Surrebuttal Testimony?

A. I support the various expense adjustments listed in Tables 1 and 2 below and discuss those adjustments where my recommendation differs from Oklahoma Gas & Electric Company (OG&E or Company). Table 1 lists those adjustments that are uncontested and Table 2 lists those adjustments that remain contested. In so doing, I address the Rebuttal Testimony of OG&E witnesses Jason Thenmadathil, Scott Forbes, and Donald Rowlett. In addition, I will also discuss certain expense adjustments discussed in the Direct Testimony of both the Office of the Arkansas Attorney General Leslie Rutledge (AG) witness William Perea Marcus and Arkansas River Valley Energy Consumers (ARVEC) witness Mark E. Garrett.

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Table 1
Summary of Uncontested Adjustments

Staff Adj. No.	Co. Adj. No.	Description	Adjustment Amount
IS-15	IS-15	Air Quality Control Systems	$3,566,102
IS-22	IS-22	Vegetation Management Expense	$874,927
IS-28	IS-28	Removal of Oklahoma Regulatory Asset Amortization	($4,681,867)
IS-32	IS-32	Storm Cost Recovery	$636,625
IS-36	IS-36	Smart Grid and Customer Pricing Education Amortization	$460,169

Table 2
Summary of Contested Adjustments

Staff Adj. No.	Co. Adj. No.	Description	Staff Adjustment Amount	OG&E Adjustment Amount	Difference
IS-13	IS-13	Advertising Expense	($3,296,900)	($862,079)	($2,434,821)
IS-14	IS-14	Insurance Expense	($200,988)	$350,998	($551,986)
IS-18	IS-18	Regulatory Expense	($5,727,906)	($5,560,476)	($167,430)
IS-19	IS-19	Bad Debt Expense	($2,495,772)	($2,513,189)	$17,417
IS-21	IS-21	Southwest Power Pool Expense	$174,136	104,771	$69,365
IS-39	IS-39	Enable Reimbursements	$4,596,002	$4,643,005	($47,003)

ADVERTISING EXPENSE IS-13

Q. Have you made any changes to your Adjustment IS-13 in consideration of the Direct Testimony of AG witness Marcus?

A. Yes. After reviewing Mr. Marcus's testimony, I accept his additional adjustments. We both accept the expenses removed by OG&E, but Mr. Marcus removes

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additional advertising expenses that the Company included in its expenses. These additional advertising expenses include promotional advertising, rodeo sponsorships, and gifts (hats, shirts, and gift certificates). I recommend a revised adjustment to test year advertising expenses of $3,296,900, which is a difference of $2,434,821 from the Company's request.

INSURANCE EXPENSE IS-14

Q. Did OG&E address your Adjustment IS-14 to Insurance Expense?

A. No. The Company did not revise its Adjustment IS-14 in Rebuttal Testimony, nor did it respond to my Direct Testimony recommendation. Therefore, I am not recommending a change.

As I did in my Direct Testimony, AG witness Marcus also recommended including 50% of the Directors and Officers Liability Insurance expense, with the other 50% being excluded. My recommended Surrebuttal Adjustment IS-14, with no changes from my Direct Testimony, reduces Insurance Expense by $200,988, which differs from the Company's requested increase of $350,998 by $551,986.

REGULATORY EXPENSE IS-18

Q. Did you revise your Adjustment IS-18 to Regulatory Expense?

A. Yes. I updated the Arkansas rate case portion of the regulatory expenses by using actuals provided by the Company in the amount of $404,795. I estimated additional rate case expenses of $39,000 for a total of $443,795, which includes a $19,000 increase in legal costs and a $20,000 increase in hearing costs. I normalized those expenses along with $190,236 in test year direct labor cost over five years, or $126,806. Comparing this amount to test year rate case

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expense of $362,210 resulted in a reduction of $235,404. Therefore, my total adjustment to test year regulatory expense of $6,492,843, including Oklahoma jurisdictional expenses of $5,492,502, is $5,727,906 Company witness Thenmadathil,[1] AG witness Marcus,[2] and ARVEC witness Mark Garrett[3] also recommended that the Arkansas rate case expense should be normalized over five years. No other adjustments to Adjustment IS-18 were addressed by any party.

UNCOLLECTIBLE ACCOUNTS EXPENSE IS-19

Q. Did you revise your Adjustment IS-19 Uncollectible Accounts Expense?

A. Yes. My Adjustment IS-19 changed because the revenue on which bad debt is calculated changed, as discussed in Staff witness Robert H. Swaim's Surrebuttal Testimony. The methodology and ratio used to arrive at bad debt expense remained the same as that used in my Direct Testimony, producing a total company expense decrease of $2,495,772. My Adjustment IS-19 differs from OG&E's recommendation by $17,417 due to the difference in revenue.

SOUTHWEST POWER POOL EXPENSE IS-21

Q. Did you revise your adjustment to Southwest Power Pool (SPP) expense?

A. Yes. My Direct Testimony recommendation for SPP expense was based on actual amounts for July 2016 thru December 2016 with estimates for January 2017 through June 2017. The Company provided actuals for January 2017 and February 2017, producing my recommended Surrebuttal adjustment of $174,136.

[1] Rebuttal Testimony of Jason Thenmadathil, p.5, lines 9-13.
[2] Direct Testimony of William Marcus, p. 100, lines 21-24.
[3] Direct Testimony of Mark Garrett, p. 44, lines 3-10.

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Net Energy per Load amounts as well as quarterly North American Electric Reliability Corporation (NERC) assessment fees drove the increase. In the Rebuttal Testimony of Company witness Thenmadathil,[4] he agreed with my recommendation from my Direct Testimony which was based on actuals available at that time.

VEGETATION MANAGEMENT EXPENSE IS-22

Q. Did you revise your adjustment to Vegetation Management Expense?

A. No. I made no change from my Direct Testimony to the Company's updated actual increase amount of $874,927, and Company witness Rowlett agreed in Rebuttal Testimony.[5] ARVEC witness Mark Garrett recommended the Commission hold vegetation management expense at the test year level since it was higher than normal and recommended that no additional expenses should be allowed.[6] However, with the Company's increasing number of distribution line miles and the implementation of an optimal 4-year cycle for vegetation management, which is planned to be in place before the end of the *pro forma* year,[7] the Company's requested Vegetation Management plan is a reasonable and proactive approach, and it is in the best interest of ratepayers.

STORM COST RECOVERY IS-32

Q. Did you revise your adjustment to Storm Cost Recovery expense?

A. Yes. The Company provided actual storm cost recovery amounts as well as straight time labor costs for the five years of 2012 through 2016. The straight

[4] Rebuttal Testimony of Jason Thenmadathil, p. 5, lines 16-18.
[5] Rebuttal Testimony of Dan Rowlett, p. 10, lines 9-17.
[6] Direct Testimony of Mark Garrett, p. 44, lines 3-10.
[7] Rebuttal Testimony of Dan Rowlett, p. 10, lines 11-17.

time labor costs will be removed from storm cost recovery expenses, since these expenses are captured in payroll expense. The actual 5-year average for storm cost recovery expenses of $1,098,864, less the actual 5-year average for straight time labor costs of $186,637, leaves a 5-year average expense of $912,227. Additionally, the Company revised the Arkansas direct-assigned test year expenses (less labor) to $275,602, an increase of $96,477. Thus, my recommended adjustment is $636,625.

Both the AG and ARVEC support the use of an average level of storm recovery costs. AG witness Marcus recommended a 5-year average of 2011-2015 and the removal of straight time labor costs. ARVEC witness Mark Garrett recommended a 2-year average (2014-2015), which would eliminate the unusually high year of 2013 and the unusually lower year of 2012. However, I include a 5-year average of 2012-2016, which will recognize and normalize the variability of storm costs using the most recent five years of data.

ENABLE REIMBURSEMENTS IS-39

Q. Did you revise your adjustment to Enable Reimbursement?

A. Yes. My Direct Testimony was based on actual amounts for January 2016 through November 2016, annualized. The Company provided the actual reimbursement amounts through December 2016, therefore my recommended Adjustment IS-39 is $4,596,002. Company witness Forbes agreed with my Direct Testimony recommendation.[8]

[8] Rebuttal Testimony of Scott Forbes, p 2, line 25-26.

ARVEC witness Mark Garrett recommended reversing the Company's proposed adjustment considering the amount to be excessive. Company witness Forbes, in his Direct Testimony explained the efforts made to mitigate the reduced level of reimbursements from Enable by reducing or eliminating any variable costs no longer required by Enable.[9] Also, in his Rebuttal Testimony, Mr. Forbes reinforced the cost reduction, asserting that there are no excess costs to reduce or eliminate as the remaining allocations are related to fixed information technology and related infrastructure cost, which are required by OG&E.[10] Lastly, Mr. Forbes summarized this issue by noting that the Company should not be denied recovery of necessary administrative costs simply because its customers have benefited in the past by offsetting a portion of fixed administrative costs, but is unable to continue to do so.[11] OGE Corporation has previously reduced the level of variable costs required to serve Enable. Because the updated cost levels reflect these reductions and are reasonable and necessary, they should be included in OG&E's cost of service.

Q. Does this conclude your testimony?

A. Yes.

[9] Direct Testimony of Scott Forbes, p. 4, lines 9-17.
[10] Rebuttal Testimony of Scott Forbes, p. 3, lines 14-17.
[11] *Id.,* at p. 3, lines 20-23.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served on all parties of record by electronic mail via the Electronic Filing System on this 30th day of March, 2017.

/s/ Justin Hinton
Justin Hinton