

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA
OKLAHOMA OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR AN ORDER OF THE COMMISSION) CAUSE NO. PUD 201700496
AUTHORIZING APPLICANT TO MODIFY ITS)
RATES, CHARGES, AND TARIFFS FOR RETAIL)
ELECTRIC SERVICE IN OKLAHOMA)

Summary of the Responsive Testimony of Marlon F. Griffing, Ph.D
On Behalf of Mike Hunter, Oklahoma Attorney General

Dr. Marlon F. Griffing, Ph.D., submitted pre-filed responsive testimony in the case on May 2, 2018, on behalf of Mike Hunter, Oklahoma Attorney General. Dr. Griffing described his professional qualifications and his previous testimony before the Commission. Dr. Griffing testified that he recommended a return on equity (“ROE”) of 9.18 percent for Oklahoma Gas and Electric Co. (“OGE”) along with a capital structure of 50 percent equity and 50 percent debt. At a cost of long-term debt of 5.32 percent, this results in an overall rate of return for OGE of 7.25 percent.

Dr. Griffing explained that his ROE is based primarily on the discounted cash flow (“DCF”) model. After selecting a Comparison Group of 17 companies with risk similar to that of OGE, he applies the model to the companies in the group. To select the Comparison Group, Dr. Griffing began with a universe of electric utility companies found in Value Line, an investor information service. He then applied a variety of screens, including the following: 1) have shares publicly traded on a stock exchange; 2) be a U.S. firm based in the continental 48 states; 3) have a stable record of paying dividends; 4) have no ongoing merger, acquisition, or unusual operating conditions; 5) be a vertically integrated electric utility; 6) have 75 percent or more of the three-year average of net income, net operating income, or operating revenue derived from regulated

electricity operations; 7) have an S&P investment-grade credit rating, which is BBB- or better; and 8) have positive growth-rate projections from expert analysts.

During the course of applying the DCF model, Dr. Griffing relied on analyst estimated of expected earnings per share growth over the next several years. He also applied a ninth screen as part of the DCF analysis to remove any member of the Comparison Group whose DCF return did not provide a sufficient margin over OGE's cost of debt. Lastly, Dr. Griffing added a flotation adjustment. His DCF analysis showed an outcome of 9.18 percent for a recommended ROE for OGE. Dr. Griffing also performed additional DCF analysis, a multistage examination of the same group of companies. The long-term growth rates for the multistage DCF analysis are taken from the Congressional Budget Office and U.S. Energy Information Administration. The result of the multistage analysis, 8.82 percent, is considerably lower than for the constant-growth DCF analysis.

Dr. Griffing checked the reasonableness of his DCF result by applying the capital asset pricing model ("CAPM") and the empirical capital asset pricing model ("ECAPM"). To develop his CAPM and ECAPM, Dr. Griffing relied on very recent yields of thirty-year Treasury securities. To develop his expected risk premium, he reviewed analyst forecasts of returns for the wider stock market universe over the next three to five years. The outcomes of his CAPM and ECAPM analysis were 9.01 percent and 9.72 percent, respectively. As an additional reasonableness check, Dr. Griffing also surveyed the actual authorized ROEs for electric utilities awarded in fully litigated rate cases in 2016, 2017, and 2018 through March 2018. After considering all these results, Dr. Griffing arrives at a recommended ROE range of 9.01 percent to 9.35 percent. His recommended ROE of 9.18 percent is the midpoint of the range.

Dr. Griffing also provided a detail description of the differences between his analysis and the analysis of Dr. Morin on behalf of OGE. Dr. Griffing explained the differences in their

comparison or peer groups, and he explained that Dr. Morin's risk-free rate relied on *forecasted* thirty-year Treasury securities rather than recent actual yields. Dr. Griffing testified that forecasted interest rates have tended to overstate expected interest rate increases in recent years, and they should be rejected.

Dr. Griffing also responded to the testimony of Dr. Evans. He noted that while providing appropriate revenues for OGE ensured the Company could create jobs from its many activities, providing excessive revenues for the Company by setting a high ROE would reduce the activities and spending of other entities, such as industrial employers who rely on OGE's electricity and households who may have to choose between paying higher utility bills and spending money on other needs.

Lastly, Dr. Griffing responded to the testimony of Mr. Merrill on behalf of the Company. Dr. Griffing noted that the chart provided by Mr. Merrill stops in late 2017, excluding recent rate case decisions. Dr. Griffing provided an updated version of Mr. Merrill's chart with recent rate decisions, showing several recent cases with ROEs awarded lower than Mr. Merrill's chart would otherwise show.

CERTIFICATE OF SERVICE

On this 7th day of May, 2018, a true and correct copy of the above and foregoing *Summary of the Responsive Testimony of Marlon F. Griffing, Ph.D, On behalf of the Attorney General*, was sent via electronic mail to the following interested parties:

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