BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

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

SURREBUTTAL TESTIMONY

OF

MATTHEW S. KLUCHER
DIRECTOR, RATES AND DEMAND RESOURCES

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

MARCH 30, 2017

INTRODUCTION

Q. Please state your name?

A. My name is Matthew S. Klucher.

Q. Are you the same Matthew S. Klucher who filed Direct Testimony in this Docket on January 31, 2017, 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 in this docket?

A. My Surrebuttal Testimony addresses certain cost allocation issues addressed in the Rebuttal Testimony of Oklahoma Gas and Electric Company (OG&E or Company) witness David Smith. In addition I will respond to certain cost allocation issues and recommendations raised in the Direct Testimonies of The Office of Arkansas Attorney General Leslie Rutledge (AG) witnesses David E. Dismukes and William Perea Marcus, and Arkansas River Valley Energy Consumers (ARVEC) witness Larry Blank. Finally, I will address the revenue allocation of the base rate revenue requirement used in designing rates.

Q. Do you sponsor any exhibits with your Rebuttal Testimony?

A. Yes, I sponsor my Surrebuttal Exhibits MSK-1, MSK-2, and MSK-3, which present the results of my Class Cost of Service (COS) Study and my recommended revenue requirement used in designing rates.

SUMMARY OF RECOMMENDATIONS

Q. What are your recommendations?

A. I recommend the Commission accept as reasonable the cost classification and allocation methodologies embedded in my Surrebuttal COS Study. Furthermore, I recommend that new rates be designed such that each customer class pays its revenue requirement as determined by my Surrebuttal COS Study results incorporating my recommended distribution of the revenue requirement.

COST ALLOCATION

Production Demand Allocation

Q. What are the parties' positions on the allocation methodology for allocating demand-related production costs?

A. The Company proposes to allocate demand-related production costs between jurisdictions and to the retail classes based on the Average & Excess four coincident peak (A&E 4CP) methodology. In my Direct Testimony, I supported using the A&E 4CP method. ARVEC witness Blank and Wal-Mart Stores Arkansas, LLC Sam's West, Inc. (Wal-Mart) witness Steve W. Chriss supported the use of the A&E 4CP method. AG witness Dismukes generally does not support the use of the A&E 4CP method to allocate demand-related production costs. However, AG witness Dismukes recommends the Commission only use the Company's proposed COS Study results as a starting point in setting the overall revenue distribution in this case.[1]

OG&E's Cost Allocation Issues and Recommendations

Q. Did the Company revise its classification of Coal Fuel Handling Equipment (Account 312)?

A. Yes. In my Direct Testimony I noted that the Company classified Account 312 as energy-related and recommended it be classified as demand-related. In his Rebuttal Testimony, Company witness Smith agreed and classified the costs as demand-related and allocated the costs using the production demand allocation factor.

Q. What issue did you raise in your Direct Testimony concerning how the Company proposed to allocate certain transmission plant cost it identified as Southwest Power Pool (SPP) Base Plan Upgrade Costs (SPP Upgrade Costs)?

A. In my Direct Testimony I noted that OG&E had proposed to identify certain costs in transmission plant as SPP Upgrade Costs. The Company proposed allocating the SPP Upgrade Costs between jurisdictions using a modified twelve monthly coincident peaks allocator (SPP 12CP Allocator). However, in my Direct COS Study, I did not allocate the SPP Upgrade Costs with the proposed SPP 12CP Allocator.[2]

[1] Direct Testimony of David Dismukes, p. 55, lines 10-20.
[2] Direct Testimony of Matthew S. Klucher, p. 14, line 16, through p. 16, line 4.

Q. Why did you not use the proposed SPP 12CP Allocator in your Direct COS Study?

A. As I stated in my Direct Testimony, the Company did not provide testimony supporting its proposed cost allocation for the SPP Upgrade Costs. As a result I was unable to support the change and requested the Company provide testimony supporting its proposed changes to transmission plant in its rebuttal testimony.[3]

Q. Did the Company provide testimony specifically addressing how the Company determined SPP Upgrade related costs, how it developed its SPP 12CP Allocator and why the SPP 12CP Allocator is appropriate for the allocation of these costs?

A. Yes. OG&E witness Smith provided testimony supporting the proposed SPP allocation methodology. Mr. Smith clarified that as a transmission owner and customer of SPP, OG&E is billed for these costs based on OG&E's load ratio share which does not include FERC wholesale customers who are billed directly by SPP. The SPP 12CP Allocator was developed to allocate only the SPP-related investment costs and expenses directly to its retail customers, not including its wholesale customers.[4]

Q. What is your position on this issue after reviewing Mr. Smith's Rebuttal Testimony?

[3] *Id*. at 15, line 19, through 16, line 4.
[4] Rebuttal Testimony of David Smith, p. 5, lines 14-22.

A. Based on the testimony provided by Mr. Smith, I agree that the Company's proposed allocation of SPP Upgrade Costs is reasonable. My Surrebuttal COS Study has been updated to reflect my agreement with the Company's proposed allocation of SPP Upgrade Costs.

Q. Did the Company raise any issues regarding your Direct COS Study?

A. Yes. Mr. Smith correctly observed that my Direct COS Study inadvertently allocated Arkansas' jurisdictional share of curtailment expenses associated with the Load Reduction (LR) Rider to all jurisdictions. In direct, Staff recommended the expenses associated with the LR Rider be rolled into base rates. These expenses should have been directly assigned to Arkansas. My Surrebuttal COS Study has been updated to reflect this correction.

<u>AG's Cost Allocation Issues and Recommendations</u>

Q. What cost allocation issues did AG witness Marcus identify in his Direct Testimony?

A. Mr. Marcus raised two cost allocation issues. The first issue is related to the internal allocator which is used to allocate General Plant and certain Administrative & General (A&G) Expenses (Supervised O&M Allocator). The second issue is related to the allocation of Working Capital Account 142 – Accounts Receivable and Account 173 – Accrued Utility Revenue (WC Accounts 142 and 173).[5]

[5] Direct Testimony of William Marcus, p. 104, lines 3-11.

Q. What concern did Mr. Marcus raise with the development of the Supervised O&M Allocator?

A. Mr. Marcus observed that the Supervised O&M Allocator included the amortization of Arkansas regulatory assets related to Smart Grid costs which were incurred in the past. These costs are directly assigned to Arkansas and included in Accounts 586 – Meter Expenses and 909 – Informational & Instructional Expenses (Accounts 586 and 909). Mr. Marcus states that these costs should not be included as they do not represent costs that need to be "supervised". Furthermore, he observed that similar Oklahoma regulatory assets are not included. He further stated that the inclusion of the amortization of these regulatory assets in Arkansas alone overstates the Arkansas allocation of A&G and general plant costs.[6]

Q. Did the Company address Mr. Marcus' concern regarding the Supervised O&M Allocator?

A. No, the Company did not address this concern raised by Mr. Marcus.

Q. Do you agree with Mr. Marcus' in regards to the Supervised O&M Allocator?

A. Yes. Mr. Marcus correctly points out that including the Arkansas-specific costs absent the Oklahoma-specific costs will cause the Supervised O&M Allocator to disproportionally and inappropriately allocate A&G and general plant costs to Arkansas. Given that the Oklahoma-specific cost are not included, I recommend

[6] *Id*. at 104, line 15, through 105, line 3.

the Arkansas-specific costs related to the amortization of smart grid costs in Accounts 586 and 909 be excluded in the development of the Supervised O&M Allocator. My Surrebuttal COS Study reflects this change from my Direct COS Study.

Q. What recommendation did Mr. Marcus make regarding the WC Accounts 142 and 173?

A. Mr. Marcus recommended using booked revenues to allocate these costs. Mr. Marcus observed that these costs, for the purpose of jurisdictional and class allocation, were allocated solely on base rate revenues without including revenues from fuel and other factors. He states that in AG DR 7-01a, OG&E agreed that these accounts include not only base rate revenues but fuel and other revenues. He concludes that the use of base rates only does not reflect cost causation.[7]

Q. Did the Company address Mr. Marcus' recommendation regarding the WC Accounts 142 and 173?

A. No, the Company did not address Mr. Marcus' recommendation.

Q. Do you agree with Mr. Marcus' recommendation for the WC Accounts 142 and 173?

A. Yes. Based on OG&E's response to the data request that these costs include revenues other than base rates, it would be appropriate to allocate the costs using a revenue allocator that includes similar revenues to those in the WC

[7] *Id*. at 105, line 17, through 106, line 7.

Accounts 142 and 173. For the purposes of this allocation, I have used the booked revenues consistent with Mr. Marcus' recommendation which better reflects the cost causation of these accounts. My Surrebuttal COS Study reflects this change from my Direct COS Study.

Q. Did AG witness Dismukes make any recommendation regarding cost allocation?

A. Yes, AG witness Dismukes recommended "the Commission accept the Company's proposed jurisdictional allocation, as consistent with what was done recently in Oklahoma and avoids over-recovery of its cost of service on a system-wide basis."[8] His only other cost allocation recommendation was related to the production demand allocator, as I discussed above.[9] AG witness Dismukes' testimony was primarily focused on the revenue distribution, which I will discuss below.

Q. Do you agree with AG witness Dismukes' recommendation to accept the Company's proposed jurisdictional allocation?

A. I agree in part. In my Direct Testimony, I agreed with the Company's proposed jurisdictional allocation methods with the exception of the SPP Upgrade Costs. As discussed above, I now agree with the Company's SPP Upgrade Costs allocation method; however, I made two jurisdictional allocation adjustments based on the recommendation of AG witness Marcus. Based on Mr. Marcus'

[8] Direct Testimony of David Dismukes, p. 49, lines 11-13.
[9] *Id*. at 49, line 9, through 56, line 2.

recommendation I have modified the allocation for WC Accounts 142 and 173 and the development of the Supervised O&M Allocator. Each of these recommendations directly changes the Company's proposed jurisdictional allocations. These two adjustments combined reduces Arkansas' rate schedule revenue requirement by $388,971.

Q. Do you have any other general observations regarding the testimony of AG witnesses Dismukes and Marcus?

A. Yes. AG witness Marcus states in his testimony that he will provide his recommendations on cost allocation to AG witness Dismukes for his use.[10] AG witness Dismukes states that his recommended revenue distribution includes the adjustments to the Company's requested revenue requirement increase supported by Mr. Marcus.[11] However, it is not clear if the AG's proposed revenue requirement as shown on AG Exhibit DED-4 includes Mr. Marcus' cost allocation issues.

<u>ARVEC's Cost Allocation Issues and Recommendations</u>

Q. What recommendation did ARVEC witness Blank propose for the allocation of OG&E's wind assets?

A. ARVEC witness Blank recommended that production wind plant assets be classified consistent with all production plant as demand-related.[12]

[10] Direct Testimony of William Marcus, p. 104, lines 12-14.
[11] Direct Testimony David Dismukes, p. 62, lines 8-10.
[12] Direct Testimony of Larry Blank, p. 10, line 4, through p. 13, line 5.

Q. Did the Company address ARVEC witness Blank's recommendation regarding the allocation of wind assets?

A. Yes, OG&E witness Smith did not agree with ARVEC witness Blank's recommendation. Mr. Smith continues to recommend that wind assets be classified as energy-related.[13]

Q. Do you agree with ARVEC witness Blank's recommendation regarding wind production allocation?

A. No. I agree with OG&E witness Smith's observations regarding wind production plant he made in his Rebuttal Testimony on page 3, line 6 through page 4, line 14 and continue to support the classification of wind assets as energy-related.

OG&E'S REBUTTAL COS STUDY

Q. What are the results of the Company's Rebuttal COS Study?

A. The result of the Company's Rebuttal COS Study is shown on OG&E's Rebuttal MFR Schedule G-1. The Company's Rebuttal COS Study resulted in an Arkansas-jurisdictional rate schedule revenue requirement of $109,650,453[14], an increase of 15.9% over the present rate schedule revenues of $94,621,808[15]. As discussed in my Direct Testimony, OG&E has included the current revenues from several riders that will be collected through base rates once new rates in this case are approved by the Commission.[16] I continue to support a more straight-forward approach that only includes present base rates in the present rate

[13] Rebuttal Testimony of David Smith, p. 3, line 6, through p.5, line 14.
[14] Source: The Company's Rebuttal MFR Schedule G-1, line 30.
[15] Source: The Company's Rebuttal MFR Schedule G-1, line 7.
[16] Direct Testimony of Matthew S. Klucher, p. 7, lines 10-13.

schedule revenues. On a total revenue requirement basis,[17] OG&E's Rebuttal COS Study resulted in a total Arkansas-jurisdictional revenue requirement of $185,723,304[18], an increase of 8.8% over the current total revenue requirement of $170,694,659[19].

Q. Do you have any observations regarding the total Arkansas-jurisdictional revenue requirement shown on OG&E's Rebuttal MFR Schedule G-1, line 36?

A. Yes. Consistent with the recommendation made by Staff in Direct, OG&E moved the expenses and revenues associated with the Load Reduction Rider (LR Rider) into base rates, which are currently recovered through the Energy Cost Recovery Rider (ECR Rider). This resulted in an increase in expenses of $2,973,972 and an offsetting increase in present rate schedule revenues. This amount is a transfer of costs and revenues from a current rider to base rates; and therefore it should not have an effect on the increase in the total revenue requirement.

However, in the development of OG&E's Rebuttal MFR Schedule G-1 the Company did not update its current fuel revenues on line 31 to reflect the removal of the LR Rider Revenues. This caused the Company to double count the LR Revenues and overstate its total revenue requirement by $2,973,972. The total revenue requirement of $185,723,304 adjusted for the LR Rider Revenues results in a proposed total revenue requirement of $182,749,332. This

[17] Total revenue requirement includes base rates and riders, including fuel.
[18] Source: The Company's Rebuttal MFR Schedule G-1, line 36.
[19] Source: The Company's Rebuttal MFR Schedule G-1, the sum of lines 9, 31, and 32.

is $1,485,008 less than the total revenue requirement of $184,234,340 proposed in the Company's Direct MFR G-1 Schedule line 36.

Q. What current rider revenues did OG&E include as part of its present base rate revenue?

A. Consistent with its approach to Base Rate Revenues in its Application, OG&E included the revenues from several current riders that will have expenses rolling into base rates when new rates are approved in this case. OG&E has now included the LR Rider Revenue Requirement collected through the ECR Rider (LR ECR Revenues) along with the same rider revenues it included in its Application, which include the Lost Contribution to Fixed Cost (LCFC) component of the Energy Efficiency Cost Recovery (EECR) Rider; Smart Grid Recovery (SGR) Rider; the Crossroads Wind Farm revenue collected through the ECR Rider (Crossroads ECR revenues); and the Environmental Compliance Plan (ECP) Rider (collectively, "Expiring Rider Revenues"). Incorporating the Expiring Rider Revenues as part of the rate schedule revenues does not materially affect the revenue requirement. It does, however, reduce the apparent rate schedule revenue deficiency resulting from the Company's Rebuttal COS Study by approximately $9.7 million.

The results of OG&E's Rebuttal COS Study are summarized in Table 1 below.[20] The percentage increase to base rates excluding the Expiring Rider Revenues which more accurately reflects the overall increase in base rates is

[20] Source: The Company's Rebuttal MFR Schedule G-1.

summarized in Table 1, line 8. I have also included on line 13 the percentage increase to base rates if the Expiring Rider Revenues are included, which is consistent with how the Company presented its case. The percentage increase to total revenues is shown on line 16, which includes all revenues including fuel and other riders. Additionally, I have adjusted the fuel rider revenues at present rates to remove the LR Rider Revenues, which are now part of the Expiring Rider Revenues as discussed above.

Table 1
Summary of Company's Rebuttal COS Study

Line No.	Description (1)	Total Arkansas Retail (2)	Residential (3)	General Service (4)	Power & Light (5)	Power & Light TOU (6)	Municipal Pumping (7)	Athletic Field Lighting (8)	Lighting (9)
1	Rate Schedule Revenue Requirement	$109,650,453	$45,417,783	$12,791,272	$29,774,974	$18,477,153	$95,113	$112,763	$2,981,396
2	Other Revenues	$694,920	$519,079	$56,106	$75,010	$38,476	$373	$393	$5,483
3	Fuel Rider Revenues@Present Rates	$61,948,474	$17,842,920	$5,229,139	$18,650,101	$19,444,481	$30,545	$25,162	$726,126
4	Other Rider Revenues@Present Rates*	$10,455,485	$3,913,068	$1,121,904	$3,190,596	$2,122,992	$5,280	$4,489	$97,156
5	Total Revenue Requirement (L1+L2+L3+L4)	$182,749,332	$67,692,850	$19,198,421	$51,690,681	$40,083,102	$131,311	$142,807	$3,810,161
	<u>Base Rates Excluding Expiring Riders Revenues</u>								
6	Present Rate Schedule Revenues*	$85,034,181	$30,711,142	$9,237,103	$24,694,922	$17,275,881	$58,298	$54,747	$3,002,088
7	Revenue Deficiency/(Surplus) (L1-L6)	$24,616,273	$14,706,641	$3,554,169	$5,080,052	$1,201,272	$36,815	$58,016	($20,692)
8	**% Increase on Rate Sch. Rev.** (L7/L6)	**28.9%**	**47.9%**	**38.5%**	**20.6%**	**7.0%**	**63.1%**	**106.0%**	**-0.7%**
	<u>Base Rates Including Expiring Riders Revenues</u>								
9	Expiring Riders	$9,657,951	$3,005,206	$881,684	$3,005,738	$2,639,927	$4,900	$4,035	$116,461
10	H-2 Reconciliation	($70,324)	($22,621)	($10,186)	($3,054)	($34,039)	($340)	($84)	$0
11	Present Rate Schedule Revenues**	$94,621,808	$33,693,727	$10,108,601	$27,697,606	$19,881,769	$62,858	$58,698	$3,118,549
12	Revenue Deficiency/(Surplus) (L1-L11)	$15,028,645	$11,724,056	$2,682,671	$2,077,368	($1,404,616)	$32,255	$54,065	($137,153)
13	**% Increase on Rate Sch. Rev.** (L12/L11)	**15.9%**	**34.8%**	**26.5%**	**7.5%**	**-7.1%**	**51.3%**	**92.1%**	**-4.4%**
	<u>Increase in Total Revenues</u>								
14	Total Current Revenues**	$167,720,687	$55,968,794	$16,515,750	$49,613,313	$41,487,718	$99,056	$88,742	$3,947,314
15	Change in Total Rev. Requirement (L5-L14)	$15,028,646	$11,724,056	$2,682,671	$2,077,368	($1,404,616)	$32,255	$54,065	($137,153)
16	**% Increase in Total Rev. Req.** (L15/L14)	**9.0%**	**20.9%**	**16.2%**	**4.2%**	**-3.4%**	**32.6%**	**60.9%**	**-3.5%**

*Excludes the Expiring Rider Revenue
**Includes the Expiring Riders Revenues

STAFF'S COS STUDY

Q. What are the results of your Surrebuttal COS Study?

A. The details of my Surrebuttal COS Study are presented in Surrebuttal Exhibit MSK-1. Table 2 below, summarizes the results of my Surrebuttal COS Study. I have presented the results of my Surrebuttal COS Study in the same format as I did for the Company's Rebuttal COS Study in Table 1. Line 8 shows the percentage increase in base rates consistent with how Staff has developed its Surrebuttal COS Study. My Surrebuttal COS Study summary is provided by the seven major customer groups within the Surrebuttal COS Study. However, each of the seven customer groups has individual rate classes within them for a total of 23 different rate classes. A more detail presentation by rate class is provided in my Surrebuttal Exhibit MSK-2.

Table 2
Staff's Surrebuttal COS Study Summary

Line No.	Description (1)	Total Arkansas Retail (2)	Residential (3)	General Service (4)	Power & Light (5)	Power & Light TOU (6)	Municipal Pumping (7)	Athletic Field Lighting (8)	Lighting (9)
1	Rate Schedule Revenue Requirement	$103,506,201	$42,693,859	$11,944,426	$28,174,939	$17,822,684	$87,465	$103,874	$2,678,956
2	Other Revenues	$326,181	$173,153	$35,010	$73,802	$38,072	$373	$393	$5,378
3	Fuel Rider Revenues@Present Rates	$62,947,816	$17,781,470	$5,414,557	$19,394,616	$19,542,498	$30,570	$24,198	$759,907
4	Other Rider Revenues@Present Rates*	$10,551,167	$3,896,222	$1,161,022	$3,288,375	$2,099,218	$5,050	$4,125	$97,155
5	Total Revenue Requirement (L1+L2+L3+L4)	$177,331,364	$64,544,703	$18,555,014	$50,931,731	$39,502,471	$123,458	$132,590	$3,541,397
	Base Rates Excluding Expiring Riders Revenues								
6	Present Rate Schedule Revenues*	$85,336,115	$30,861,067	$9,518,040	$24,749,924	$17,112,925	$56,598	$50,596	$2,986,964
7	Revenue Deficiency/(Surplus) (L1-L6)	$18,170,086	$11,832,791	$2,426,385	$3,425,014	$709,759	$30,868	$53,278	($308,008)
8	**% Increase on Rate Sch. Rev.** (L7/L6)	**21.3%**	**38.3%**	**25.5%**	**13.8%**	**4.1%**	**54.5%**	**105.3%**	**-10.3%**
	Base Rates Including Expiring Riders Revenues								
9	Expiring Riders	$9,741,043	$3,006,882	$916,970	$3,088,956	$2,639,596	$3,326	$2,633	$82,680
10	H-2 Reconciliation	$0	$0	$0	$0	$0	$0	$0	$0
11	Present Rate Schedule Revenues**	$95,077,158	$33,867,950	$10,435,010	$27,838,880	$19,752,521	$59,924	$53,229	$3,069,643
12	Revenue Deficiency/(Surplus) (L1-L11)	$8,429,043	$8,825,909	$1,509,415	$336,058	($1,929,838)	$27,541	$50,645	($390,688)
13	**% Increase on Rate Sch. Rev.** (L12/L11)	**8.9%**	**26.1%**	**14.5%**	**1.2%**	**-9.8%**	**46.0%**	**95.1%**	**-12.7%**
	Increase in Total Revenues								
14	Total Current Revenues**	$168,902,321	$55,718,794	$17,045,599	$50,595,673	$41,432,309	$95,916	$81,945	$3,932,084
15	Change in Total Rev. Requirement (L5-L14)	$8,429,043	$8,825,909	$1,509,415	$336,058	($1,929,838)	$27,541	$50,645	($390,688)
16	**% Increase in Total Rev. Req.** (L15/L14)	**5.0%**	**15.8%**	**8.9%**	**0.7%**	**-4.7%**	**28.7%**	**61.8%**	**-9.9%**

*Excludes the Expiring Rider Revenue
**Includes the Expiring Riders Revenues

Q. What are the primary differences between the results of the Company's Rebuttal COS Study and your Surrebuttal COS Study?

A. There are three primary differences: 1) the total recommended base rate revenue requirement; 2) the billing determinants used to allocate costs to the customer classes, such as number of customers and energy consumption; and 3) the Supervised O&M Allocator and the allocation of WC Accounts 142 and 173, as discussed above. The difference between the Company's and Staff's total recommended base rate revenue requirement is addressed in the Surrebuttal Testimony of Staff witness Jeff Hilton and shown on his Surrebuttal Exhibit JH-7.

The difference between the Company's and Staff's billing determinants is addressed in the Surrebuttal Testimony of Staff witness Robert H. Swaim.

REVENUE REQUIREMENT USED IN DESIGNING RATES

Q. What are the parties' positions regarding the recommended base rate revenue requirement used in designing rates for each customer class?

A. ARVEC witness Blank and Wal-Mart witness Chriss support the use of the unmitigated results of the COS Study. AG witness Dismukes proposed a three-step process which caps the increase to each class at no more than 1.25 times the system average increase in total revenues and a minimum increase of 0.5 times the system average increase in total revenues.[21] OG&E witness Bryan Scott supported the recommendation I made in my Direct Testimony.[22]

Q. What is your position regarding the recommended base rate revenue requirement used in designing rates?

A. I continue to recommend the same approach as I did in my Direct Testimony. The results of my recommendation are shown in Table 3 below. A more detailed presentation by rate class is provided in my Surrebuttal Exhibit MSK-3.

[21] Direct Testimony David Dismukes, p. 61, line 11, through p. 62, line 10.
[22] Rebuttal Testimony of Bryan J. Scott, p. 3, lines 4-17.

Table 3
Staff's Proposed Revenue Allocation

Line No.	Description (1)	Total Arkansas Retail (2)	Residential (3)	General Service (4)	Power & Light (5)	Power & Light TOU (6)	Municipal Pumping (7)	Athletic Field Lighting (8)	Lighting (9)
1	Rate Schedule Revenue Requirement	$103,506,201	$39,761,399	$11,944,426	$28,659,616	$19,932,887	$73,205	$65,026	$3,069,643
2	Other Revenues	$326,181	$173,153	$35,010	$73,802	$38,072	$373	$393	$5,378
3	Fuel Rider Revenues@Present Rates	$62,947,816	$17,781,470	$5,414,557	$19,394,616	$19,542,498	$30,570	$24,198	$759,907
4	Other Rider Revenues@Present Rates*	$10,551,167	$3,896,222	$1,161,022	$3,288,375	$2,099,218	$5,050	$4,125	$97,155
5	Total Revenue Requirement (L1+L2+L3+L4)	$177,331,364	$61,612,243	$18,555,014	$51,416,408	$41,612,674	$109,198	$93,743	$3,932,084
	Base Rates Excluding Expiring Riders Revenues								
6	Present Rate Schedule Revenues*	$85,336,115	$30,861,067	$9,518,040	$24,749,924	$17,112,925	$56,598	$50,596	$2,986,964
7	Revenue Deficiency/(Surplus) (L1-L6)	$18,170,086	$8,900,331	$2,426,385	$3,909,691	$2,819,961	$16,607	$14,430	$82,680
8	**% Increase on Rate Sch. Rev.** (L7/L6)	**21.3%**	**28.8%**	**25.5%**	**15.8%**	**16.5%**	**29.3%**	**28.5%**	**2.8%**
	Base Rates Including Expiring Riders Revenues								
9	Expiring Riders	$9,741,043	$3,006,882	$916,970	$3,088,956	$2,639,596	$3,326	$2,633	$82,680
10	H-2 Reconciliation	$0	$0	$0	$0	$0	$0	$0	$0
11	Present Rate Schedule Revenues**	$95,077,158	$33,867,950	$10,435,010	$27,838,880	$19,752,521	$59,924	$53,229	$3,069,643
12	Revenue Deficiency/(Surplus) (L1-L11)	$8,429,043	$5,893,449	$1,509,415	$820,735	$180,365	$13,281	$11,797	$0
13	**% Increase on Rate Sch. Rev.** (L12/L11)	**8.9%**	**17.4%**	**14.5%**	**2.9%**	**0.9%**	**22.2%**	**22.2%**	**0.0%**
	Increase in Total Revenues								
14	Total Current Revenues**	$168,902,321	$55,718,794	$17,045,599	$50,595,673	$41,432,309	$95,916	$81,945	$3,932,084
15	Change in Total Rev. Requirement (L5-L14)	$8,429,043	$5,893,449	$1,509,415	$820,735	$180,365	$13,281	$11,797	$0
16	**% Increase in Total Rev. Req.** (L15/L14)	**5.0%**	**10.6%**	**8.9%**	**1.6%**	**0.4%**	**13.8%**	**14.4%**	**0.0%**

*Excludes the Expiring Rider Revenue
**Includes the Expiring Riders Revenues

Q. Did you compare the different approaches to the revenue distribution proposed by the parties?

A. Yes. I used Staff's Surrebuttal Total Revenue Requirement of $177,331,364 as shown in Table 2, Line 5. I separately developed what the class allocation would be by rate class based upon 1) the recommendations made by ARVEC and Wal-Mart (the results of the COS Study), 2) my recommendation which was supported by the Company, and 3) AG witness Dismukes. The results of my comparisons are presented in Table 4.

Table 4
Comparison of the Proposed Revenue Allocation Recommendations

Line No.	Description (1)	Total Arkansas Retail (2)	Residential (3)	General Service (4)	Power & Light (5)	Power & Light TOU (6)	Municipal Pumping (7)	Athletic Field Lighting (8)	Lighting (9)
1	Total Current Revenues	$168,902,321	$55,718,794	$17,045,599	$50,595,673	$41,432,309	$95,916	$81,945	$3,932,084
	ARVEC and Wal-Mart's Recommendation (Staff Surrebuttal COS Study)								
2	Total Revenue Requirement	$177,331,364	$64,544,703	$18,555,014	$50,931,731	$39,502,471	$123,458	$132,590	$3,541,397
3	% Increase	5.0%	15.8%	8.9%	0.7%	-4.7%	28.7%	61.8%	-9.9%
4	Relative Revenue Increase	1.00	3.17	1.77	0.13	-0.93	5.75	12.38	-1.99
	Staff Recommendation								
5	Total Revenue Requirement	$177,331,364	$61,612,243	$18,555,014	$51,416,408	$41,612,674	$109,198	$93,743	$3,932,084
6	% Increase	5.0%	10.6%	8.9%	1.6%	0.4%	13.8%	14.4%	0.0%
7	Relative Revenue Increase	1.00	2.12	1.77	0.33	0.09	2.77	2.88	0.00
	AG Recommendation								
8	Total Revenue Requirement	$177,331,364	$59,194,591	$18,108,921	$53,342,550	$42,466,145	$101,900	$87,057	$4,030,199
9	% Increase	5.0%	6.2%	6.2%	5.4%	2.5%	6.2%	6.2%	2.5%
10	Relative Revenue Increase	1.00	1.25	1.25	1.09	0.50	1.25	1.25	0.50

Q. Does your recommended approach produce reasonable results compared to the other proposed options?

A. Yes. My approach provides a reasonable approach towards aligning prices with the full COS Study results while reflecting the gradualism principle. Additionally, OG&E has not had a change in rates since its last rate case in Docket No. 10-067-U, approximately 6 years ago. Based on the time since OG&E's last increase, the recommended overall increase of 5% equals a compound annual growth rate (CAGR) of 0.8% per year. My recommended increase for the Residential class of 10.6% equals a CAGR of 1.7% per year. The largest increase for any class based on my recommendation is the Residential VPP class at 19.2%, or a CAGR of 3.0% per year.

RECOMMENDATIONS

Q. What are your recommendations?

A. For the reasons set forth above, I recommend that the Commission:

- Reject the Company's Rebuttal COS Study and accept my Surrebuttal COS Study as summarized in Table 2 and detailed in my Surrebuttal Exhibits MSK-1 and MSK-2;
- Accept as reasonable the classification and allocation methodologies embedded in my Surrebuttal COS Study, including my recommendation for the Supervised O&M Allocator and the allocation of WC Accounts 142 and 173 as discussed above; and
- Order the Company to design rates such that each customer class pays its COS as determined by my Surrebuttal COS Study incorporating my recommended mitigation of the distribution of the base rate revenue requirement as shown in Table 3 above and detailed by rate class in Surrebuttal Exhibit MSK-3.

Q. Does this conclude your testimony?

A. Yes, it does.

CERTIFICATE OF SERVICE

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

/s/ Justin A. Hinton
Justin A. Hinton