

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)	

SETTLEMENT TESTIMONY

OF

REGIS POWELL
FINANCIAL ANALYST
FINANCIAL ANALYSIS SECTION

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

APRIL 20, 2017

1
2 **INTRODUCTION**

3 **Q. Please state your name and position.**

4 A. My name is Regis Powell. I am employed by the General Staff (Staff) of the
5 Arkansas Public Service Commission (Commission) as a Financial Analyst in the
6 Financial Analysis Section.

7 **Q. Are you the same Regis Powell who filed Direct Testimony on January 31,
8 2017 and Surrebuttal Testimony on March 30, 2017?**

9 A. Yes.

10 **PURPOSE OF TESTIMONY**

11 **Q. What is the purpose of your Settlement Testimony?**

12 A. On April 20, 2017, a Joint Motion to Approve Settlement Agreement and to
13 Excuse Witnesses (Joint Motion) was filed in this docket by the Settling Parties.¹
14 The Settling Parties have reached agreement on all issues in Docket No. 16-052-
15 U. The Agreement comprehends all of Staff's recommendations as set out in
16 Staff's Surrebuttal testimonies, with certain adjustments or revisions as specified
17 in the Settlement Agreement (Agreement), which is attached as a Joint Exhibit to
18 the Joint Motion. My testimony supports, as reasonable, a portion of the
19 adjustments made to Staff's Surrebuttal case in arriving at the revenue
requirement in Section 2 of the Agreement and I address the capital structure to

¹ The Settling Parties include Staff, Oklahoma Gas and Electric Company ("OG&E"), the Office of the Attorney General Leslie Rutledge ("AG"), the intervenor, Arkansas River Valley Energy Consumers ("ARVEC"), and the intervenors Wal-Mart Stores Arkansas, LLC and Sam's West Inc. ("Wal-Mart"). Though Sierra Club is a party to this Docket, it is not a Settling Party, and takes no position on the Agreement.

1 be used in the Formula Rate Plan Rider (FRP Rider) in Section 4 of the
2 Agreement.

3 **Q. Are there other Staff witnesses who are filing testimony in this Docket in**
4 **support of the Agreement?**

5 A. Yes. Staff witness Jeff Hilton addresses certain issues affecting the revenue
6 requirement in Section 2 of the Agreement, and Staff witness Matthew S. Klucher
7 addresses the issues of billing determinants, cost allocation, and rate design in
8 Section 3 of the Agreement.

9 **COST OF EQUITY**

10 **Q. Did the Settling Parties agree to the return on equity (ROE) that was**
11 **recommended in your Direct and Surrebuttal Testimony?**

12 A. Yes. The Settling Parties agree to accept my recommended ROE of 9.50% for
13 use in calculating the overall rate of return (ROR) that OG&E should be allowed
14 to earn pursuant to a Commission order.

15 **CAPITAL STRUCTURE**

16 **Q. Did the Settling Parties agree to an external capital structure that is**
17 **different than that which you recommended in your Direct and Surrebuttal**
18 **Testimony?**

19 A. Yes. As supported in my testimony, the Settling Parties agreed to a hypothetical
20 capital structure in determination of the ROR, but for purposes of settlement, the
21 Settling Parties agreed to a debt-to-equity (DTE) ratio of 50/50, which modified
22 my recommendation of 52/48. The Settling Parties agreed to maintain the 2.9%
23 level of short-term debt as recommended in my testimony.

1 **Q. Is the external capital structure being agreed to in this settlement**
2 **reasonable?**

3 A. Yes. In evaluating my sample companies, the agreed-to DTE ratio falls within a
4 reasonable band of central tendency for my sample companies' capital structures
5 and thus, I support the 50/50 DTE ratio as reasonable.

6 **Q. Is it reasonable to use your recommended ROE of 9.50% in combination**
7 **with a hypothetical capital structure with a 50/50 DTE ratio?**

8 A. Yes. As noted above, the 50/50 DTE ratio falls within a reasonable band of
9 central tendency for my sample companies' capital structures. Therefore, it is
10 reasonable to use my recommended ROE of 9.50% in combination with a
11 hypothetical capital structure with a 50/50 DTE ratio.

12 **Q. By making the adjustment to the external capital structure, what is the**
13 **overall ROR that you are recommending for use in setting the revenue**
14 **requirement in this docket?**

15 A. As reflected in my Settlement Exhibit RP-1, the adjusted external capital
16 structure combined with the revised revenue conversion factor (RCF) from Staff's
17 Settlement cost of service as supported by Staff witness Matthew S. Klucher
18 produces an ROR of 5.42% after-tax and 7.68% pre-tax. The rates increased
19 from the 5.36% after-tax and 7.44% pre-tax ROR reflected in my Surrebuttal
20 Testimony. Additionally, the adjustment to the external capital structure resulted
21 in a weighted cost of debt of 1.96%, which is lower than the 2.04%
22 recommended in my Surrebuttal Testimony.

Formula Rate Plan Rider

Q. Did the Settling Parties agree to a fixed external capital structure in future FRP Rider filings as you supported in your Direct and Surrebuttal Testimony?

A. Yes. The Settling Parties agreed to fix the external capital structure in future FRP Rider filings to the DTE ratio, including the short-term debt percentage, as supported in the Agreement consistent with the recommendations in my Direct and Surrebuttal Testimony.

RECOMMENDATION

Q. What is your recommendation to the Commission regarding the Agreement entered into by the Settling Parties?

A. I recommend that the Commission find that the recommended adjustment to the external capital structure described herein will result in just and reasonable rates and should be approved in context of the overall settlement and resolution of all pending issues in this docket.

Q. Does this conclude your Settlement 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 mail via the Commission's Electronic Filing System this 20th day of April, 2017.

/s/ Justin A. Hinton
Justin A. Hinton