BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE FORMULA RATE PLAN FILINGS OF OKLAHOMA GAS AND ELECTRIC PURSUANT TO APSC DOCKET NO. 16-052-U	))))	DOCKET NO. 21-087-U

Direct Testimony and Exhibits

of

Jennifer E. Nelson

on behalf of

Oklahoma Gas and Electric Company

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I. INTRODUCTION AND PURPOSE

Q. Please state your name, affiliation, and business address.

A. My name is Jennifer E. Nelson. I am an Assistant Vice President at Concentric Energy Advisors, Inc. ("Concentric"). My business address is 293 Boston Post Road West, Marlborough, Massachusetts, 01752.

Q. On whose behalf are you submitting this testimony?

A. I am submitting this direct testimony ("Direct Testimony") before the Arkansas Public Service Commission ("Commission") on behalf of Oklahoma Gas and Electric Company, Inc. ("OG&E", or the "Company").

Q. Please describe your educational background.

A. I hold a Bachelor of Science degree in Business Economics from Bentley College (now Bentley University) and a Master of Science degree in Resource and Applied Economics from the University of Alaska.

Q. Please describe your experience in the energy and utility industries.

A. I have worked in the energy industry for thirteen years, having served as a consultant and energy/regulatory economist for state government agencies. Since 2013, I have provided consulting services to utility and regulated energy clients on a range of financial and economic issues including rate case support (e.g., cost of capital and integrated resource planning) and policy and strategy issues (e.g., alternative ratemaking and natural gas distribution expansion). Prior to consulting, I was a staff economist at the Massachusetts Department of Public Utilities, where I worked on regulatory filings related to energy efficiency, renewable power contracts, smart grid and electric grid modernization, and retail choice. A summary of my professional and educational background, including a list of my testimony filed before regulatory commissions, is included as Direct Exhibit JEN-1 to my Direct Testimony.

Q. Please describe Concentric's activities in energy and utility engagements.

A. Concentric provides financial and economic advisory services to energy and utility clients across North America. Our regulatory, economic, and market analysis services include utility ratemaking and regulatory advisory services; energy market assessments; market entry and exit analysis; corporate and business unit strategy development; demand forecasting; resource planning; and energy contract negotiations. Our financial advisory activities include buy and sell-side merger, acquisition, and divestiture assignments; due diligence and valuation assignments; project and corporate finance services; and transaction support services. In addition, we provide litigation support services on a wide range of financial and economic issues on behalf of clients throughout North America.

Q. Have you previously testified before this Commission?

A. Yes, I filed testimony before the Commission in Docket Nos. 18-027-U and 16-036-FR. As shown in Direct Exhibit JEN-1, I have also filed testimony before regulatory commissions in Kentucky, Maine, New Hampshire, New Mexico, North Carolina, Texas, and West Virginia.

Q. What is the purpose of your Direct Testimony in this proceeding?

A. The purpose of my Direct Testimony is to present evidence demonstrating that the Company's Rider Formula Rate Plan ("FRP Rider") is in the public interest in support of the Company's request to extend its FRP Rider for a five-year term. I also sponsor Direct Exhibit JEN-1 and Direct Exhibit JEN-2, which were prepared by me or under my direction.

Q. Please summarize your conclusion regarding the Company's request to extend its FRP Rider.

A. For the reasons explained throughout my Direct Testimony, I conclude that the Company's FRP Rider is in the public interest. Therefore, I recommend the Commission approve the Company's request to extend its FRP Rider for a five-year term. As detailed in my Direct Testimony, my conclusion is supported by the following:

- The Company's proposal is consistent with the statutory requirements governing Formula Rate Plans ("FRP"), as well as with the Company's current authorized FRP Rider that the Commission found to be in the public interest;
- The Company's FRP Rider is consistent with sound ratemaking principles and regulatory objectives, and provides important benefits to customers; and
- OG&E has maintained stable, affordable rates during the term of its current FRP Rider, while enabling the Company to make the necessary investments to maintain safe and reliable service.

Q. How is the remainder of your Direct Testimony organized?

A. The remainder of my Direct Testimony is organized as follows:

- Section II – Provides an overview of FRPs in Arkansas and the Company's request in this proceeding;
- Section III – Provides an overview of the traditional ratemaking framework and universal ratemaking principles, and explains how the Company's FRP Rider is consistent with sound ratemaking principles and regulatory objectives; and
- Section IV – Summarizes my conclusions and recommendations.

II. OVERVIEW OF ARKANSAS' FORMULA RATE PLANS AND OG&E'S REQUEST

Q. Please briefly summarize the implementation of FRPs in Arkansas.

A. In March of 2015, the Arkansas General Assembly enacted Act 725, which included the Formula Rate Review Act ("Act 725, as amended") that authorized a public utility to elect to have its rates regulated under a formula rate review mechanism, subject to approval by the Commission. The Legislature expressed that:

> The intent of this subchapter is to establish a regulatory framework that implements rate reforms to provide just and reasonable rates to consumers in this state and enables public utilities in this state to provide reliable service while maintaining stable rates.[1]

[1] Arkansas Code §23-4-1202(b).

Act 725, as amended, recognizes that regulatory reform is in the public interest and is critical to Arkansas' ability to compete with the surrounding region to attract new business and support job creation.[2] In recognizing the need to balance the financial integrity of utilities with maintaining stable, reasonable rates for customers, Act 725, as amended, authorizes utilities to elect to depart from the traditional ratemaking framework and implement a formula rate review mechanism, subject to approval by the Commission. In prior FRP proceedings, the Commission has recognized the Legislature's intent of Act 725, as amended, is to depart from a traditional ratemaking framework.[3]

Act 725, as amended, departs from traditional ratemaking by permitting: (1) an annual, streamlined review of a public utility's revenues, costs, and rates rather than a large, complex base rate case every few years;[4] (2) an adjustment to a utility rates if the earned Return on Equity ("ROE") is outside a 100-basis point deadband around the ROE authorized by the Commission in its most recent general rate case ("Target ROE");[5] (3) the election of an historical test year or a projected test year with an adjustment to net differences between the projected test period revenue and the actual historical revenue for that same year;[6] and (5) a four percent cap on the increase or decrease in the total revenue change for each rate class.[7]

After the passage of Act 725, the Commission approved FRPs as part of settlement agreements in base rate cases for Entergy Arkansas, Inc.,[8] CenterPoint Energy Arkansas,[9] OG&E,[10] and Southwestern Electric Power Company.[11]

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[2] Arkansas Code Annotated §23-4-1202.

[3] *See, e.g., In the Matter of the Formula Rate Plan Filings of CenterPoint Energy Resources Corp. d/b/a CenterPoint Energy Arkansas Gas Pursuant to APSC Docket No. 15-098-U*, Docket No. 17-010-FR, Order No. 13 at 21 (Jul. 3. 2019).

[4] Arkansas Code §23-4-1204.

[5] Arkansas Code §23-4-1207(b); Arkansas Code §23-4-1203(5).

[6] Arkansas Code §23-4-1205(a)(2); Arkansas Code §23-4-1207(c).

[7] Arkansas Code §23-4-1207(d)(2).

[8] Docket No. 15-015-U, Order No. 18 (February 23, 2016).

[9] Docket No. 15-098-U, Order No. 8 (September 2, 2016).

[10] Docket No. 16-052-U, Order No. 8 (May 18, 2017).

[11] Docket No. 19-008-U, Order No. 12 (December 20, 2019). I understand that Southwestern Electric Power Company filed a notice to withdraw its FRP on April 2, 2021, and filed a general rate case on July 23, 2021, Docket No. 21-070-U. In Docket No. 21-070-U, Southwestern Electric Power Company has petitioned the Commission for approval of its proposed FRP that is substantially the same as the FRP approved in Docket No. 19-008-U. *See*, Docket No. 21-070-U, Direct Testimony of Thomas B. Brice, at 16-17 (July 23, 2021).

On April 26, 2021, the 93rd General Assembly enacted Act 894 amending certain provisions of the Formula Rate Review Act, including provisions that (1) clarify the netting adjustment applied under FRPs utilizing a projected test year, (2) amend language regarding cost allocation and formula rate revenue allocations to the rate classes, and (3) limit adjustments to the target ROE authorized as part of an FRP extension, among other items. Section 8 of Act 894 reiterated the Emergency Clause language from Act 725 stating:

> It is found and determined by the General Assembly of the State of Arkansas that investments by public utilities that provide utility service in Arkansas are required to provide reliable service at reasonable rates, but the costs that drive public utility rates are changing; that public utilities need to have procedures that permit the rates to change in response to those changing conditions that affect costs and address the allocation of costs and design of rates; and that this act is immediately necessary to maintain stable rates and to mitigate the magnitude of future rate changes by public utilities by clarification of the regulatory framework to ease the investment procedure for public utilities. Therefore, an emergency is declared to exist, and this act being immediately necessary for the preservation of the public peace, health, and safety shall become effective on: (1) The date of its approval by the Governor; (2) If the bill is neither approved nor vetoed by the Governor, the expiration of the period of time during which the Governor may veto the bill; or (3) If the bill is vetoed by the Governor and the veto is overridden, the date the last house overrides the veto.

Although I am not an attorney, I interpret the inclusion of the Emergency Clause in Act 894 to indicate that the General Assembly finds the regulatory framework provided by Act 725, as amended, to be necessary and in the public interest.

Q. Has the Commission found FRPs filed by utilities to be just and reasonable and in the public interest?

A. Yes, it has. As noted earlier, the Commission has approved FRPs as part of settlement agreements in base rate cases for three investor-owned electric utilities and one natural gas distribution utility.[12] The Commission has also approved annual formula rate filings each year.

With respect to the Company's FRP Rider specifically, in Order No. 8 in Docket No. 16-052-U, the Commission stated:

> The Commission finds that Rider FRP as proposed in the Agreement is reasonable. Rider FRP was revised to address concerns of the parties and its design and protocols appear to provide a reasonable framework to implement and administer OG&E's FRP under Act 725 ... Accordingly, based upon the totality of the evidence presented in this Docket, the Commission finds that the Agreement is just and reasonable and in the public interest.[13]

In each of the Company's annual formula rate plan filings, the Commission has similarly found the Settlement Agreements to be just and reasonable and in the public interest.[14]

Q. Please now summarize the Company's proposal to extend its FRP Rider.

A. Pursuant to Act 725, as amended, the Company proposes to extend its FRP Rider for a five-year term for the years 2023 through 2027.[15] As explained by Company Witness Rowlett, the Company's FRP Rider is substantially the same as that authorized by the Commission and found to be in the public interest in Docket 16-052-U and amended in the Company's annual FRP filings.[16] In particular, the FRP Rider maintains an historic test year consistent with Settlement Agreement approved in its 2019 FRP filing.[17]

Pursuant to Act 725, as amended, the Company requests a ten-basis point increase in the Target ROE to 9.60 percent.[18] Company witness Ms. Bulkley testifies to the reasonableness of the requested Target ROE.

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[12] As noted earlier, Southwestern Electric Power Company filed a notice to withdraw its FRP approved in Docket No. 19-008-U on April 2, 2021, and filed a general rate case on July 23, 2021, Docket No. 21-070-U. In Docket No. 21-070-U, Southwestern Electric Power Company has petitioned the Commission for approval of its proposed FRP that is substantially the same as the FRP approved in Docket No. 19-008-U.

[13] Docket No. 16-052-U, Order No. 8, at 19 (May 18, 2017).

[14] Docket No. 18-046-FR, Order No. 7, at 14 (March 6, 2019); Order No. 10, at 18 (February 28, 2020); and Order No. 15, at 18 (March 9, 2021).

[15] Arkansas Code §23-4-1208(a)(2)(A)(i).

[16] Direct Testimony of Donald R. Rowlett, at 4-5.]

[17] Docket No. 18-046-FR, Settlement Agreement filed January 29, 2020, approved by the Commission in Order No. 10 (February 28, 2020).

[18] Arkansas Code §23-4-1208(a)(A)(ii)(b).

In addition, consistent with Act 725, as amended, the Company proposes that the total amount of revenue increase or decrease for each rate class will not exceed four percent of each classes revenues for the twelve months preceding the Historical Year.[19] As explained further in the Direct Testimony of Company witness Rowlett, OG&E has made additional changes to its FRP as part of settlement agreements with the Company's stakeholders.

Q. Does the Company's proposed FRP Rider balance risks between customers and the Company?

A. Yes, the proposed FRP Rider maintains the customer benefits and protections provided for by Act 725, as amended. First, the Commission retains its right and responsibility to review the Company's expenses and investments in each annual filing for prudency. Commission staff and intervening parties continue to have the opportunity to scrutinize the Company's filings each year and file testimony proposing changes. While the process is more streamlined as compared to a base rate case, the ability to review in detail the Company's revenues, expenses, and investments has not changed. Importantly, as Company witness Rowlett explains, the annual filings provide more timely insight into the Company's operations than less frequent base rate case filings may provide.[20] Nonetheless, changes in rates are ultimately subject to review and approval by the Commission. Therefore, Act 725, as amended, does not diminish regulatory oversight.

Second, the 100-basis point deadband around the Target ROE and the four percent cap limit rate changes, providing an effective guardrail to ensure rate changes are consistent with the Legislature's intent to (1) provide reliable service, (2) maintain stable rates, and (3) mitigate the magnitude of future rate changes.[21]

Third, the FRP Rider mitigates regulatory lag, supporting the Company's cash flow and credit metrics. However, it does not eliminate regulatory lag, nor does it guarantee the Company earns its authorized return. As Company witness Bulkley explains, the

[19] Arkansas Code §23-4-1207(d)(2).
[20] Direct Testimony of Donald R. Rowlett, at 8.
[21] Section 8 of Act 894; Arkansas Code §23-4-1202(b).

Company's earned ROE has been well below its current authorized target ROE of 9.50 percent in each of its annual FRP filings.[22]

III. RATEMAKING PRINCIPLES AND THE BENEFITS OF FRP RIDER

Q. Before discussing general ratemaking principles and the benefits of OG&E's FRP Rider, please provide an overview of the ratemaking framework that has been applied under traditional regulation.

A. Under traditional regulation, utilities are granted an exclusive service territory in exchange for the obligation to provide service to customers within that territory, and to be subject to rate regulation, including a regulated rate of return. In large measure, cost of service regulation, which establishes the authorized level of revenue and returns, arises from the "essential" nature of utility services, whose unit costs decrease with increasing levels of output. Because of their declining cost structures, utility services in a given market area are more efficiently provided by a single firm than by multiple firms. Although they may serve different market sectors (*e.g.*, electricity, natural gas, water, wastewater) utilities typically are capital-intensive enterprises, whose investments are long-lived, essentially irreversible, and represent high "sunk" costs.

Under traditional cost-of-service ratemaking, the process of setting of just and reasonable rates applies historical costs to a test year to determine revenue requirements and billing determinants. The rates approved in the rate proceeding are then fixed until the next rate case. That is, historical costs are used to set future rates, which results in a lag between the time funds are expended, and the time rates are set to recover those costs. If sales are higher than anticipated, the utility's profit will be higher, all else equal. Under a traditional ratemaking approach, the utility retains the excess profit between rate cases to fund additional investment. However, if sales are lower than anticipated, revenues will be lower (all else equal), and the utility may not have sufficient earnings to cover its fixed costs and invest in the capital necessary to provide safe and reliable service. Therefore, under traditional ratemaking, regulatory lag is a significant challenge for utilities in situations in which costs are rising more rapidly than sales.

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22 Direct Testimony of Ann E. Bulkley, at 90.

Q. How does the current environment differ from the circumstances in which traditional cost of service regulation enabled utilities to maintain their financial strength and to provide safe and reliable service?

A. Electric utility sales volumes have been flat or declining for about the last fifteen years, driven in part by conservation efforts.[23] However, the need to maintain service reliability and address public policy objectives have continued, or even increased, thus putting increased cost pressure on utilities. For electric utilities, many of the investments required to maintain system integrity and reliability do not generate incremental revenue through additional volume growth; these non-revenue producing investments include investments for infrastructure replacement and grid modernization, vegetation management, and environmental compliance expenditures.[24] Unlike earlier periods when traditional cost of service regulation and volume growth enabled the timely return of and on incremental non-revenue producing investments, the current environment does not.

As a result, utilities cannot rely on load growth or increased profitability generated through reduced O&M costs to fund their infrastructure replacements, or to sustain their financial integrity as those investments are being undertaken. That condition presents considerable financial challenges for utilities with a continuing need to invest capital in non-revenue producing infrastructure. That earnings pressure becomes even more acute as the rate of capital expenditures accelerates.

The ability to efficiently acquire the capital needed to fund the growing level of infrastructure investments is dependent on the ability to recover that investment in a timely manner. As noted by the American Gas Association:

> Timely cost recovery of prudently incurred safety and reliability investments is of utmost importance to the financial stability of natural gas utilities. Because traditional ratemaking allows recovery of infrastructure investments only following approval in a rate case, there is often a multi-year delay before the recovery of

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23 *See,* U.S. Energy Information Administration, Electricity Data Browser, Annual U.S. retail sales of electricity, all sectors, 2005-2020. https://www.eia.gov/electricity/data/browser/ For all sectors, the compound annual growth rate of retail sales of electricity in the U.S. was 0.01 percent from 2005-2020. The average year-over-year change in retail sales during that same period was 0.03 percent.

24 *See, e.g.*, U.S. Energy Information Administration, "Major Utilities' spending on the electric distribution system continues to increase," *Today in Energy*, May 27, 2021.

> such investments begins. Investments that are recovered long after they are incurred cause the utility to bear carrying costs without the opportunity to recover these prudent expenditures. Credit agencies criticize companies with lag in the recovery of their costs and assign a lower credit rating to such utilities that ultimately translates into higher rates for customers. The only alternative is to file a rate case each year, which is a costly activity that also leads to higher rates for customers.[25]

These concepts hold true for electric utilities as well. Increasing capital investments, together with reduced sales, creates a circumstance under which each dollar of invested assets produces fewer dollars of revenue. When that occurs, the ability to fund capital investments through revenue increases will be limited. As the American Gas Association noted, absent other solutions, the only alternative to funding those investments is more frequent rate cases, which are costly and time consuming.

Q. What has been the trend in revenues generated from electric assets for electric utilities?

A. The ratio of a company's operating revenues to average assets is defined as the Asset Turnover ratio.[26] The Asset Turnover ratio is an efficiency ratio that measures the ability of a company's assets to produce revenue. A decrease in the Asset Turnover ratio occurs when there is an increase in assets with a less than one-to-one increase in revenues (*e.g.*, assets that are non-revenue producing). That is, a declining Asset Turnover ratio is an indication of the situation noted earlier in which each dollar of invested assets produces fewer dollars of revenue.

As Figure 1 below shows, OG&E's Asset Turnover ratio on a total company basis has declined between 2005-2020 years, as did its peers.[27] Whereas the average Asset Turnover ratio for OG&E's peers declined approximately 50.30 percent, the Company's Asset Turnover ratio declined more than 60.20 percent over the same period.

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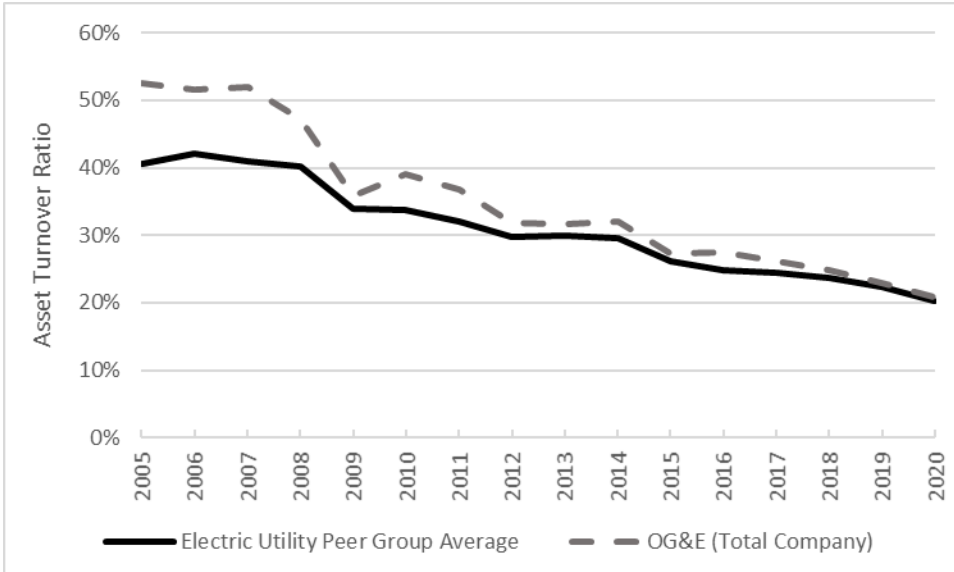
25 American Gas Association, Infrastructure Cost Recovery Update, June 2012, at 2.
26 *See e.g.*, https://www.investopedia.com/terms/a/assetturnover.asp
27 For consistency, I have used the same group of companies Company witness Bulkley has defined as comparable proxy companies to OG&E. *See*, Section VI of Direct Testimony of Ann E. Bulkley.

Figure 1: Asset Turnover Ratio, 2005-2020[28]

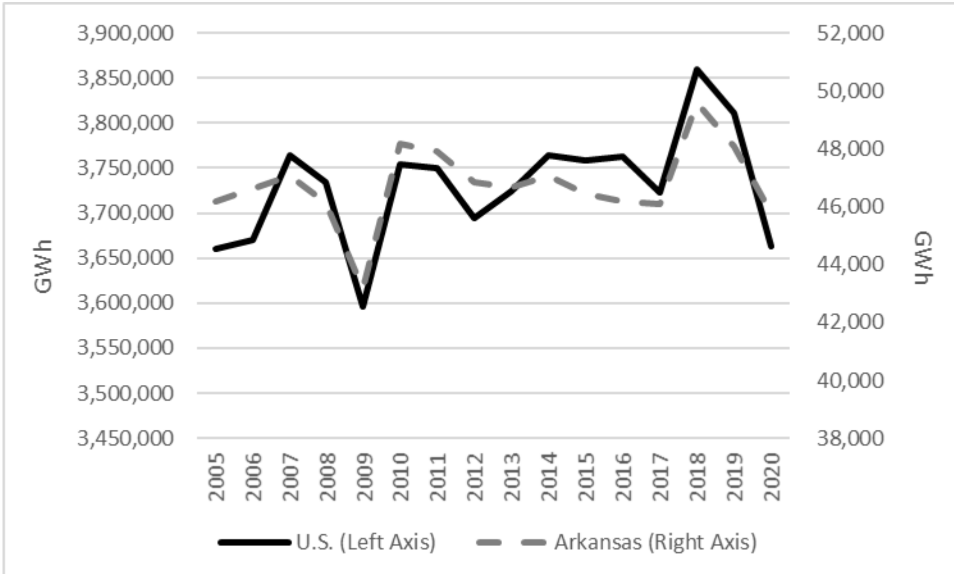


Q. How do retail sales of electricity in Arkansas compare to the trend in the U.S.?

A. As noted earlier, electricity sales in the U.S. have been flat over the last 15 years. According to data from the Energy Information Administration, total U.S. retail sales of electricity from all sectors grew only 0.08 percent in total from 2005 to 2020. In Arkansas, total retail sales of electricity from all sectors fell 0.82 percent over the same period. As shown in Figure 2 below, the trend in retail electricity sales in Arkansas was generally consistent with the trend in retail electricity sales in the U.S. overall.

[28] Source: S&P Capital IQ Pro.

Figure 2: Retail Sales of Electricity, All Sectors, 2005-2020[29]

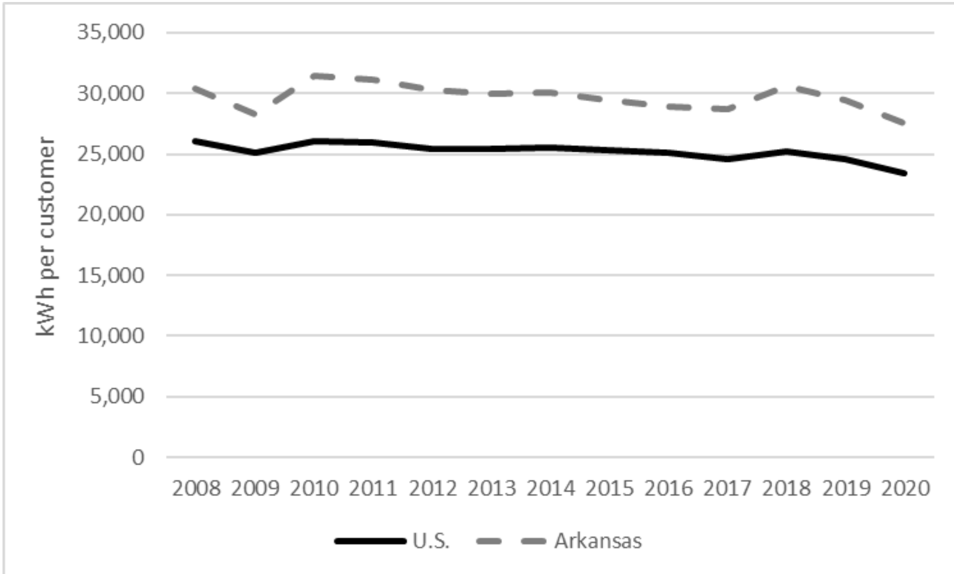


On a per-customer basis, retail sales have been on a slow decline since 2008, declining by 10.25 percent and 9.32 percent[30] in the U.S. and Arkansas, respectively, between 2008 and 2020 (*see* Figure 3 below). For the residential class, retail sales per customer declined 3.40 percent and 4.55 percent, respectively, in the U.S. and Arkansas over the same period. These statistics demonstrate that customers have been using less electricity over the last twelve years.

[29] Source: Energy Information Administration, annual retail sales of electricity, all sectors.

[30] Sales per customer data is not available from the EIA prior to 2008. The compound annual growth rates from 2008 to 2020 were -0.90 percent per year for the U.S., and -0.81 percent per year for Arkansas. The compound annual growth rates for residential customers between 2008 and 2020 were -0.29 percent per year for the U.S., and -0.39 percent per year for Arkansas.

Figure 3: Retail Sales of Electricity per Customer, All Sectors, 2008-2020[31]



Q. What are your conclusions regarding the effectiveness of traditional ratemaking in the current environment for electric utilities?

A. The combination of (1) flat or declining sales and (2) increased pressure from non-revenue producing investments has resulted in a significant decline in the efficiency of electric utility assets' ability to produce revenue. Under such circumstances, the effectiveness of traditional ratemaking framework is likely impeded, resulting in a need for frequent, costly, and time-consuming rate cases. As the Legislature found, costs that drive public utility rates are changing; therefore, changes to the regulatory framework in which those costs are recovered need to adapt in response.[32]

Q. Turning now to the Company's FRP Rider, do the Company and its customers benefit from its FRP Rider?

A. Yes. As explained below, the proposed FRP Rider is consistent with sound ratemaking principles and provides important benefits to both customers and the Company.

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31 Source: Energy Information Administration, annual retail sales of electricity, all sectors; annual number of customer accounts, all sectors. Data series begins in 2008.

32 Section 8 of Act 894.

Q. What are ratemaking principles?

A. In his seminal text <u>Principles of Public Utility Rates</u>, James C. Bonbright outlined the principles of a sound rate structure, as summarized in Figure 4 below:

Figure 4: Ratemaking Principles and Regulatory Objectives[33]

Ratemaking Principle	Regulatory Objectives
Economic Efficiency	▪ Rates are cost-based ▪ Rates encourage efficient consumption of resources ▪ Rates encourage prudent cost control
Equity	▪ Rates are non-discriminatory ▪ Fair allocation of costs and risks ▪ Avoidance of cross-subsidization
Revenue Adequacy and Stability	▪ Revenue sufficient to ensure financial integrity and encourage new investment ▪ Recovers prudent utility costs ▪ Profit stability
Bill Stability	▪ Rate Stability and continuity ▪ Avoidance of rate shock ▪ Affordability
Public Acceptance	▪ Simplicity & understandability ▪ Reliable service ▪ Moderate regulatory burden ▪ Promotion of social objectives

As discussed below, the Company's proposed FRP Rider is consistent with sound ratemaking principles and is therefore in the public interest.

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33 Sources: Adapted from James C. Bonbright, Albert L. Danielsen and David R. Kamerschen, <u>Principles of Public Utility Rates</u>, 2nd Edition, Public Utilities Reports (March, 1988); *Alternative Rate Mechanisms and Their Compatibility with State Utility Commission Objectives*, National Regulatory Research Institute, April 2014; *Alternative Electricity Ratemaking Mechanisms Adopted By Other States*, Christensen Associates prepared for Public Utility Commission of Texas, May 25, 2016; *Alternative Regulation for Emerging Utility Challenges: 2015 Update, Edison Electric Institute*, November 11, 2015.

Q. How does the Company's proposed FRP Rider promote economic efficiency?

A. Consistent with the Act 725, as amended, the Company's FRP Rider results in rates that are cost-based. As part of the Settlement Agreement approved in the 2019 annual filing, the FRP Rider was amended to use an historical test year as opposed to a projected test year. Therefore, rates produced by FRP Rider are based on the Company's actual cost of service. Additionally, both the 100-basis point deadband around the target ROE and the four percent cap on revenue changes encourage prudent cost control. Because the Company retains earnings above the Target ROE within the deadband, it is incented to contain costs, as rates are not adjusted to recover costs within the deadband. Similarly, the four percent revenue cap incents the Company to keep spending within the cap, as incremental revenue requirement above the cap is not recoverable.

Additionally, the FRP Rider has enabled prudent control of operating and maintenance ("O&M") expenses during its initial term. As Company witness Rowlett explains, the Company's proposed total non-fuel O&M expense in the 2021 Evaluation Report is approximately 4.00 percent less than the total non-fuel O&M expense approved in the Company's last rate case.[34] Importantly, the annual nature of the FRP review filings allows customers to benefit from O&M cost reductions closer to real time.[35] That is, consistent with the regulatory principle of Economic Efficiency, FRP Rider ensures rates reflect the Company's actual cost to service in a timelier basis.

Q. Does the Company's proposed FRP Rider also promote equity?

A. Yes. FRP Rider allocates costs based on the most recent class cost of service study approved by the Commission, resulting in an allocation of costs the Commission has determined produces just and reasonable rates. I further understand that pursuant to Act 725, as amended, the Company has updated its Cost of Service Study in this proceeding to reflect more current data.

Moreover, the rate adjustment mechanism is symmetrical, balancing risks and rewards between the Company and customers. If the earned ROE is more than 50-basis points above the target ROE of 9.50 percent, customers are refunded the excess. Similarly,

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[34] Direct Testimony of Donald R. Rowlett, at 9.
[35] Direct Testimony of Donald R. Rowlett, at 9.

if the earned return is more than 50-basis points below the target ROE of 9.50 percent, rates are adjusted upward to the target ROE. From that perspective, rate adjustments are symmetrical.

Q. Does the Company's proposed FRP Rider enable revenue and bill stability?

A. Yes, it does. The FRP Rider enables revenue stability in three ways. First, the ability to recognize investments in rates through annual FRP filings mitigates regulatory lag and stabilizes revenues. I note, however, that regulatory lag is not eliminated as the Company's current FRP uses an historical test year. For example, the Company filed its 2021 FRP filing on October 1, 2021 based on revenues and expenses incurred between April 1, 2020 and March 31, 2021. Approved rate adjustments will not go into effect until April 1, 2022. Therefore, it could be as much as two years before the Company receives recovery of certain investments. Second, rates are not adjusted when earnings are within the 100-basis point deadband. Lastly, the four percent cap on revenue changes limits revenue increases or decreases, stabilizing revenues.

As noted earlier, revenue stability benefits both the Company and customers by supporting its financial integrity, which enables the Company to provide safe and reliable service. Moreover, revenue stability enables bill stability. Under a traditional cost-of-service ratemaking framework, rate shock can occur when large capital investments are put into rate base at once. Under the FRP Rider, the Company's investments are reviewed each year and included in rates as approved by the Commission, subject to the 100-basis point deadband and four percent cap. Rate changes are limited to four percent of each rate class's revenue mitigating large swings in revenue changes and rate shock. And as noted earlier, rates are not adjusted if the earned ROE is within the 100-basis point deadband, further stabilizing rates.

Q. Has the Company's FRP Rider encouraged new investment?

A. Yes, it has. As shown in Figure 4 above, one of the objectives under the regulatory principle of "Revenue Stability" is the encouragement of new investment. During the term of its current FRP Rider, OG&E's rate base has increased by 28.50 percent since the Commission's final order in its 2016 rate case, from approximately $506.71 million to

$651.48 million (*see* Figure 5 below). As Company witness Rowlett explains, OG&E's capital investments included significant investments in reliability and environmental compliance projects.[36] The Company has managed this while reducing O&M costs (as discussed earlier), and maintaining stable, affordable rates.

Figure 5: OG&E Arkansas Rate Base, 2016 - 2021[37]

16-052-U	**FRP - Historic Year Ending March 31**			
Historic Year	Settled			Filed
June 30, 2016	**2018**	**2019**	**2020**	**2021**
506,714,693	$574,014,588	$606,452,853	$670,546,327	$651,480,786

Q. Has the Company's FRP Rider resulted in affordable rates to customers?

A. Yes, it has. As shown in Figure 4 above, affordability is a key regulatory objective within the ratemaking principle of "Bill Stability." As Company witness Rowlett explains, electricity prices in Arkansas are among the lowest in the nation.[38] According to the EIA, in 2019, the total average electricity price to end users in Arkansas was in the bottom 10th percentile among the 50 U.S. states and the District of Columbia.[39]

Within Arkansas, OG&E has historically had the lowest retail electric prices of the four investor-owned electric utilities (*see* Figure 6 below).

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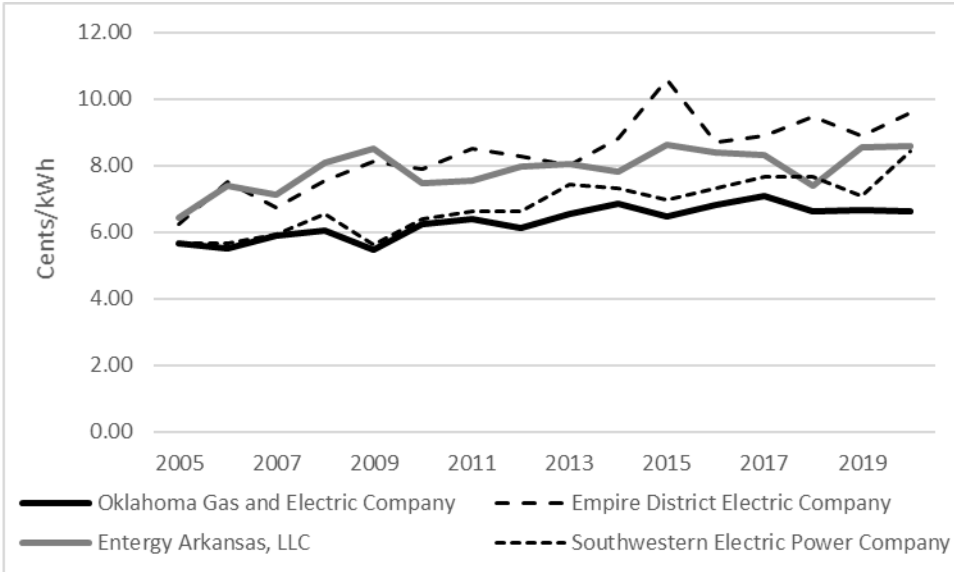
36 Direct Testimony of Donald R. Rowlett, at 9.

37 Source: Docket No. 16-052-U, Settlement Attachment No. 1 (April 20, 2017); Docket No. 18-046-FR, Attachment D-1 filed in annual Settlement Agreements and approved by the Commission in Order No. 7 (March 6, 2019), Order No 10 (February 28, 2020), and Order No 15 (March 9, 2021). 2021 data presented in Docket No. 18-046-FR, Attachment D-1, filed on October 1, 2021.

38 Direct Testimony of Donald R. Rowlett, at 10-11. *See also*, U.S. Energy Information Administration, Form EIA-861; S&P Global Market Intelligence, "Rankings of 2020 statewide average price to customers", June 28, 2021.

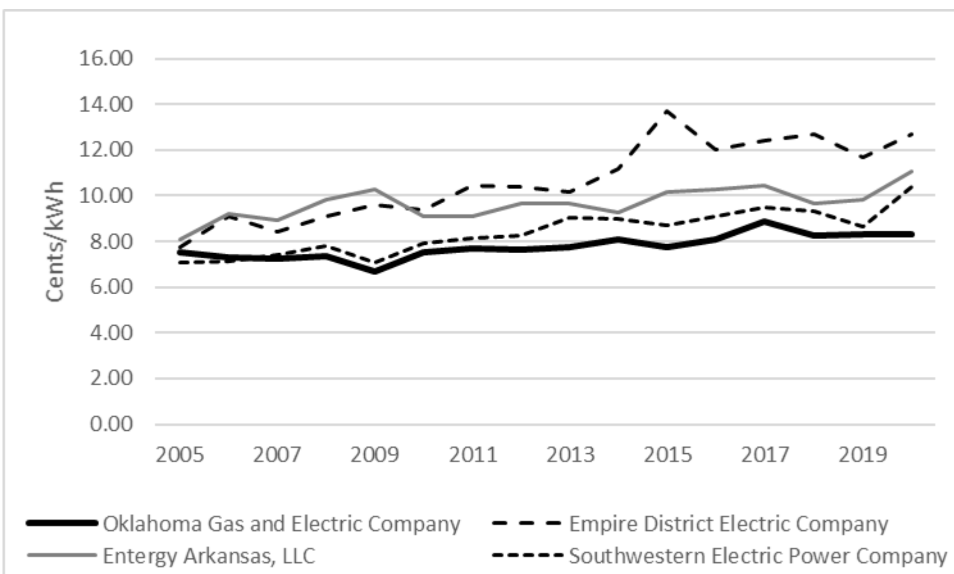
39 Source: U.S. Energy Information Administration, Form EIA-861.

Figure 6: Arkansas IOU Retail Electric Prices, 2005-2020 (all rate classes)[40]



Focusing on the residential customer class, the Company's residential rates have also been the lowest of the four investor-owned electric utilities in Arkansas (*see* Figure 7 below).

Figure 7: Residential Retail Electric Prices, 2005-2020[41]



40 Source: S&P Capital IQ Pro. Defined as "average price per unit of all fully-bundled electric sales."
41 Source: S&P Capital IQ Pro. Defined as "average price per unit of all fully-bundled electric sales."

Importantly, as Figures 6 and 7 show, the Company's electricity prices have been flat during the first three years of its current FRP Rider.

Q. How is FRP Rider consistent with the regulatory principle of "Public Acceptance"?

A. As shown in Figure 4 above, one objective under the regulatory principle of "Public Acceptance" is "moderate regulatory burden." FRP Rider streamlines the regulatory review process moderating the regulatory burden and reducing the need to file costly rate cases.

FRPs are common in southern U.S. regulatory jurisdictions, indicating their acceptance by U.S. regulatory commissions geographically near Arkansas. In addition to Arkansas, FRPs have been implemented for electric or natural gas utilities in Alabama, Georgia, Illinois, Louisiana (both the New Orleans City Council and the Louisiana Public Service Commission), Mississippi, Oklahoma, South Carolina, Tennessee, and Texas (*see* Direct Exhibit JEN-2).

Q. Have you reviewed the major components of the Arkansas' statutory FRP framework and compared them to other utilities' Formula Rate Plans?

A. Yes, I have. As an additional check on the reasonableness of Arkansas' FRP Framework provided for in Act 725, as amended, I reviewed the major components of FRPs in place at other utilities to benchmark Arkansas' FRP Framework against other approved FRPs. Direct Exhibit JEN-2 presents the results of that analysis.

As Direct Exhibit JEN-2 shows, the major statutory components of Arkansas' FRP framework are consistent with FRPs in place at other utilities. First, of the FRPs in which a term is specified, the term of the FRPs in place at other utilities generally range from three to five years. Second, the substantial majority of FRPs include a 100-basis point deadband around the target ROE, as Act 725, as amended requires. Third, for the FRPs in which a rate change or revenue cap exists, the cap ranges from 2.50 percent to 10.00 percent, with the most common cap being 4.00 percent. Based on my review, I conclude that the statutory components of Arkansas' FRP framework are consistent with FRPs currently in place at other utilities.

Q. What is your conclusion regarding the Company's FRP Rider as it relates to universal ratemaking principles?

A. As explained above, the Company's existing FRP Rider is consistent with universally accepted principles of sound ratemaking. Additionally, FRP Rider provides important benefits to customers, while enabling investment to provide safe, reliable service.

IV. SUMMARY AND CONCLUSION

Q. Please summarize your conclusions and recommendation.

A. I conclude the Company's existing FRP Rider is in the public interest. First, the Company's proposal is consistent with the statutory requirements governing FRPs in Arkansas, as well as with the Company's current authorized FRP Rider that the Commission found to be in the public interest. Second, I demonstrate that the Company's FRP Rider is consistent with sound ratemaking principles and regulatory objectives, and provides important benefits to customers. Lastly, FRP Rider has enabled OG&E to (1) prudently control its O&M costs, (2) increase its capital investments needed to provide safe and reliable service, and (3) maintain stable, affordable rates during the term of its current FRP Rider. As such, in my opinion, FRP Rider achieves the legislative intent of Act 725, as amended, by enabling the Company to make the necessary investments to provide safe and reliable service while maintaining stable rates. For these reasons, I recommend the Commission approve the Company's request to extend the term for five years.

Q. Does this conclude your Direct Testimony?

A. Yes.

CERTIFICATE OF SERVICE

I, Lawrence E. Chisenhall, Jr., hereby state that a copy of the foregoing instrument was served on all the parties of record via the APSC Electronic Filing System on this the 1st day of October, 2021.

/s/ Lawrence E. Chisenhall, Jr.
Lawrence E. Chisenhall, Jr.

JENNIFER E. NELSON
Assistant Vice President

Ms. Nelson has thirteen years of experience in the energy industry, spanning the oil, natural gas, electric, and renewable energy segments. She has provided expert witness testimony for electric and natural gas utilities regarding the cost of capital and alternative ratemaking proposals. In her time as a consultant, Ms. Nelson has provided research and analysis on a variety of utility regulatory matters including ratemaking and regulatory policy, integrated resource planning, renewable power contracts, natural gas pipeline development, and natural gas utility supply planning issues. Ms. Nelson has extensive experience performing statistical analyses, developing economic and financial models, and providing policy analyses and recommendations.

Prior to joining Concentric, Ms. Nelson was a Director at ScottMadden, Inc., and prior to that a managing consultant at Sussex Economic Advisors, LLC. Prior to consulting, she was a staff economist at the Massachusetts Department of Public Utilities and a petroleum economist for the State of Alaska. Ms. Nelson holds a Master of Science degree in Resource and Applied Economics from the University of Alaska and a Bachelor of Science degree in Business Economics from Bentley College.

PROFESSIONAL HISTORY

Concentric Energy Advisors, Inc. (2021 – present)
Assistant Vice President

ScottMadden Management Consultants (2016 – 2021)
Director

Sussex Economic Advisors, LLC (2013 – 2016)
Managing Consultant

Massachusetts Department of Public Utilities (2011 – 2013)
Economist, Electric Power Division

State of Alaska (2007 – 2010)
Petroleum Economist

EDUCATION

University of Alaska
Master of Science, Resource and Applied Economics

Bentley College
Bachelor of Science, Business Economics
Graduated *magna cum laude*

REPRESENTATIVE PROJECT EXPERIENCE

Cost of Capital

- Submitted expert testimony on behalf of an electric utility before the Arkansas Public Service Commission, the New Mexico Public Regulation Commission, and the Public Utilities Commission of Texas regarding the cost of capital.
- Submitted expert testimony on behalf of a natural gas utility before the Public Service Commission of West Virginia regarding the cost of capital.
- Submitted expert testimony on behalf of a water utility before the Kentucky Public Service Commission regarding the appropriate capital structure and cost of debt.
- Supported expert testimony regarding the cost of capital before numerous state utility regulatory commissions and the FERC on behalf of electric and natural gas utilities through state and company-specific research and analysis, financial analysis and modeling, and testimony development.

Alternative Ratemaking Mechanisms

- Submitted expert testimony on behalf of a water utility before the Arkansas Public Service Commission regarding the utility's proposed Formula Rate Plan.
- Co-sponsored expert testimony on behalf of a natural gas utility before the Maine Public Utilities Commission regarding the utility's proposed capital investment cost recovery mechanism.
- Supported expert testimony and performed research and analysis on alternative ratemaking frameworks.

Resource and Supply Planning

- Supported expert testimony on the reasonableness of utility resource supply portfolio decisions.
- Assisted in a benchmarking analysis on behalf of a Northeast natural gas utility regarding its supply planning standards and design day demand forecast process.
- Supported the development of a New Hampshire electric utility's Integrated Resource Plan filed with the New Hampshire Public Utility Commission.
- Performed research and financial analysis to evaluate the benefits, costs, and policy options associated with natural gas expansion by Massachusetts natural gas utilities as part of a prepared report for the Massachusetts Department of Energy Resources.

- Developed a dynamic natural gas demand forecast model for in-state use for the State of Alaska, which included forecasting demand from both existing and anticipated natural gas utilities, power consumption, and large commercial operations.
- Conducted research and prepared analyses for a natural gas pipeline Open Season.

Other Regulatory Financial Issues

- Supported expert testimony on the appropriate level of remuneration associated with electric utilities' long-term contract for wind power through financial analysis and modeling, and testimony development.
- Provided research and analytical support estimating financial damages incurred as a result of construction delays for an electric transmission company.
- Prepared a Feasibility Study for an electric cooperative utility supporting a utility-owned solar project.

Mergers & Acquisitions

- Performed buy-side benchmarking and regulatory analysis for a utility acquisition.

DESIGNATIONS AND PROFESSIONAL AFFILIATIONS

Member, Society of Utility and Regulatory Financial Analysts

AVAILABLE UPON REQUEST

Extensive client and project listings, and specific references.

SPONSOR	DATE	CASE/APPLICANT	DOCKET NO.	SUBJECT
Arkansas Public Service Commission				
Liberty Utilities (Pine Bluff Water)	10/18	Liberty Utilities (Pine Bluff Water)	18-027-U	Sponsored testimony supporting Liberty Utility's proposed Formula Rate Plan and tariff
Entergy Arkansas, LLC	11/20	Entergy Arkansas, LLC	16-036-FR	Sponsored testimony evaluating the Return on Equity included in Rider FRP
Kentucky Public Service Commission				
Bluegrass Water Utility Operating Company, LLC	09/20	Bluegrass Water Utility Operating Company, LLC	2020-290	Capital Structure and Cost of Long-Term Debt
Maine Public Utilities Commission				
Unitil Corporation	06/19	Northern Utilities, Inc.	19-00092	Co-sponsored testimony supporting Northern Utilities proposed CIRA capital tracking mechanism
New Hampshire Public Utilities Commission				
Unitil Energy Systems, Inc.	04/21	Unitil Energy Systems, Inc.	DE 21-030	Return on Equity
New Mexico Public Regulation Commission				
El Paso Electric Company	07/20	El Paso Electric Company	20-00104-UT	Cost of Capital
North Carolina Utilities Commission				
Public Service Company of North Carolina d/b/a Dominion Energy North Carolina	04/21	Public Service Company of North Carolina d/b/a Dominion Energy North Carolina	G-5, Sub 632	Return on Equity
Public Utilities Commission of Texas				
El Paso Electric Company	06/21	El Paso Electric Company	52195	Return on Equity
Sharyland Utilities L.L.C.	12/20	Sharyland Utilities L.L.C.	51611	Cost of Capital
Public Service Commission of West Virginia				
Hope Gas, Inc. d/b/a Dominion Energy West Virginia	11/20	Hope Gas, Inc. d/b/a Dominion Energy West Virginia	20-0746-G-42T	Cost of Capital

Comparison of Electric and Gas Utility Formula Rate Plan Components

State	Company	Ultimate Parent Ticker	Service Type	Term of Plan	Test Year	ROE (target)	ROE (band)	Caps on Rate Adjustment (Y/N)	Caps on Rate Adjustment (Description)	Special Provisions
Alabama	Alabama Power Co.	SO	Elec.	Unspecified	Historical	5.98% (WRRCE)	WRRCE (weighted equity return range) band: 5.75% - 6.15%	Y	Adjustments for any consecutive two-year period, when averaged together, do not exceed four percent (4%). The maximum increase in any one year associated with the operation of Rate RSE shall not exceed five percent (5%)	The performance-based adder shall be added to the adjusting point if, at the time of the annual Rate RSE filing, the Company satisfies at least one of the following criteria: (i) an "A" credit rating equivalent with at least one of the recognized rating agencies, or (ii) a ranking in the top third of the most recent customer value benchmark survey or its successor in function.
Alabama	Spire Alabama Inc.	SR	Gas	4 years (2018 -2022), absent a Commission order modifying RSE for the Company, RSE will continue in effect beyond 2021	Historical (with quarterly review)	10.40%	RCE (return on average common equity) band: 10.15% - 10.65%	Y	Annual increases or decreases derived by the operation of the RSE shall be limited to not more than four percent (4%) of the Annual Revenue (AR) as hereinafter defined.	Only rate decreases shall be allowed for the RSEs effective April 1, July 1 and October 1. In any year in which the RSE mechanism produces a revenue adjustment, the Company will be allowed to earn an additional ten (10) basis points (0.10%) above the 10.4% adjusting point of the RCE range in the event the Company performs according to the Accelerated Infrastructure Modernization (AIM) Program on tariff Sheet Nos. 7-9. Conversely, in any year in which the RSE mechanism produces a revenue adjustment, the Company may be required to reduce the 10.4% adjusting point of the RCE range in accordance with the Accelerated Infrastructure Modernization (AIM) program.
Alabama	Spire Gulf Inc.	SR	Gas	4 years (2017 - 2021), Adjustments hereunder shall continue after September 30, 2022 unless and until the Commission enters an Order to the contrary in a manner consistent with the law.	Historical (with quarterly review)	10.70%	RCE (return on average common equity) band: 10.45% - 10.95%	Y	Annual increases or decreases derived by the operation of the RSE shall be limited to not more than four percent (4%) of the Annual Revenue (AR) as hereinafter defined.	The above notwithstanding, in any year in which the RSE mechanism produces a revenue adjustment, the Company will be allowed to earn an additional ten (10) basis points (0.10%) above the 10.4% adjusting point of the RCE range in the event the Company performs according to the Accelerated Infrastructure Modernization (AIM) Program on tariff Sheet Nos. 7-9. Conversely, in any year in which the RSE mechanism produces a revenue adjustment, the Company may be required to reduce the 10.4% adjusting point of the RCE range in accordance with the Accelerated Infrastructure Modernization (AIM) program as outlined on tariff Sheet Nos. 7-9.
Arkansas	CenterPoint Energy Resources	CNP	Gas	5 years	Projected	9.50%	0.50% above or 0.50% below Target Return Rate	Y	The total amount of such revenue increase or decrease for each rate class shall not exceed four percent (4%) of each rate class's revenue for the Filing Year.	
Arkansas	Entergy Arkansas	ETR	Elec.	5 years	Projected	9.75%	0.50% above or 0.50% below Target Return Rate	Y	During the five-year extension term of Rider FRP, the total change in the formula rate revenue level shall be allocated to each applicable rate class based on an equal percentage of the base rate revenue as determined in the EAL cost of service filed with the 2020 Evaluation Report filing. Additionally, the Large General Service (LGS) Rate Class' allocated amount shall be reduced annually during the fiveyear extension term by one-fifth of the amount by which the LGS Rate Class' base rate revenues were adjusted for mitigation in Docket No. 15-015-U; this amount shall be allocated to the remaining classes based on an equal percentage of the base rate revenue as determined in the EAL cost of service that was filed with the 2020 Evaluation Report filing	
Arkansas	Oklahoma Gas & Electric	OGE	Elec.	5 years	Projected (year 1-2), Historical (year 3-5); proposing historical test year if FRP is extended	9.50%	0.50% above or 0.50% below Target Return Rate	Y	The total amount of such revenue increase or decrease for each rate class shall not exceed four percent (4%) of each rate class's revenue for the Filing Year.	The annual evaluation of the Formula Rate Review shall be based upon data for the twelve-month period ended March 31 of the Projected Year for the 1st and 2nd Evaluation Reports filed on or about October 1 of 2018 and 2019. Beginning with the Company's 3rd Evaluation Report filed on or about October 1 of 2020 and each subsequent year thereafter the annual evaluation of the Formula Rate Review shall be based upon data for the twelve-month period ended March 31 of the Historical Year.
Arkansas	Southwestern Electric Power	AEP	Elec.	5 years	Historical	9.45%	0.50% above or 0.50% below Target Return Rate	Y	The total amount of such revenue increase or decrease for each rate class shall not exceed four percent (4%) of the revenue for each rate class for the Prior Year.	Note: FRP Approved in Docket No. 19-008-U, but withdrawn in April 2021. In Docket No. 21-070-U, SWEPCO requested approval of FRP similar to that approved in 19-008-U (with 10.35% requested ROE)
Georgia	Atlanta Gas Light Co.	SO	Gas	Unspecified	Projected	10.25%	0.20% above or 0.20% below target earned ROE	N		
Georgia	Liberty Utilities (Peach State Nat. Gas) Corp.	AQN	Gas	Unspecified	Projected	10.20%	0.20% above or 0.20% below target earned ROE	N		

State	Company	Ultimate Parent Ticker	Service Type	Term of Plan	Test Year	ROE (target)	ROE (band)	Caps on Rate Adjustment (Y/N)	Caps on Rate Adjustment (Description)	Special Provisions
Illinois	Ameren Illinois Co.	AEE	Elec.	EIMA Statute sunsets December 31, 2022	Historical	8.382% (based on 2020 filing)	50 basis points above or below target earned ROE	Y	2.5%; In the event that the average annual increase exceeds 2.5% as calculated pursuant to this subsection (g), then Sections 16-108.5, 16-108.6, 16-108.7, and 16-108.8 of this Act, other than this subsection, shall be inoperative as they relate to the utility and its service area as of the date of the report due to be submitted pursuant to this subsection and the utility shall no longer be eligible to annually update the performance-based formula rate tariff pursuant to subsection (d) of this Section.	Cost of equity calculated as the sum of the following: (A) the average for the applicable calendar year of the monthly average yields of 30-year U.S. Treasury bonds published by the Board of Governors of the Federal Reserve System in its weekly H.15 Statistical Release or successor publication; and (B) 580 basis points. Performance based adjustments can include adder or penalty to ROE.
Illinois	Commonwealth Edison Co.	EXC	Elec.	EIMA Statute sunsets December 31, 2022	Historical	8.38% (based on 2020 filing)	50 basis points above or below target earned ROE	Y	2.5%; In the event that the average annual increase exceeds 2.5% as calculated pursuant to this subsection (g), then Sections 16-108.5, 16-108.6, 16-108.7, and 16-108.8 of this Act, other than this subsection, shall be inoperative as they relate to the utility and its service area as of the date of the report due to be submitted pursuant to this subsection and the utility shall no longer be eligible to annually update the performance-based formula rate tariff pursuant to subsection (d) of this Section.	Cost of equity calculated as the sum of the following: (A) the average for the applicable calendar year of the monthly average yields of 30-year U.S. Treasury bonds published by the Board of Governors of the Federal Reserve System in its weekly H.15 Statistical Release or successor publication; and (B) 580 basis points. Performance based adjustments can include adder or penalty to ROE.
Louisiana (NOCC)	Entergy New Orleans LLC	ETR	Elec.	3 years	Historical	9.35%	0.50% above or 0.50% below target earned ROE	N		In the event that the change in Total Rider FRP Revenues determined under the provisions of Section II.C.2 is less than 10% and the comparison in the above paragraph shows a rate class increase of greater than 10% in the Total Rider EFRP Revenue for the Mastered Metered Non-Residential, High Voltage, or Large Interruptible Service rate classes individually, then such rate class's EFRP Revenue increase shall be limited to 10% and the increase above 10% shall be allocated to all other rate classes (to the extent not subject to the cap described in this paragraph) in proportion to their individual rate class Total Rider FRP Revenues.
Louisiana (NOCC)	Entergy New Orleans LLC	ETR	Gas	3 years	Historical	9.35%	0.50% above or 0.50% below target earned ROE	N		
Louisiana (PSC)	CenterPoint Energy Resources Corp. (N LA)	CNP	Gas	Effective 2007; term unspecificed	Historical	9.95%	0.50% above or 0.50% below target earned ROE	N		
Louisiana (PSC)	CenterPoint Energy Resources Corp. (S LA)	CNP	Gas	Effective 2007; term unspecificed	Historical	9.95%	0.50% above or 0.50% below target earned ROE	N		
Louisiana (PSC)	Entergy Louisiana LLC	ETR	Elec.	3 years	Historical	2017: 9.95%; 2018-2019: 9.80%	0.60% above or 0.60% below target earned ROE; A change in the Base Rider FRP Revenue level shall not be made unless it changes the EROE for the Evaluation Period by more than 0.05%	Y	For the 2018 and 2019 Evaluation Periods, with the exception of the items listed in Sections 3, 4 and 5, herein and other matters as shall be determined by the Louisiana Public Service Commission, the amount of ELL Base Rider FRP Revenue rate increases pursuant to Section 2.C.2.c may not exceed $35 million per year for the 2018 Evaluation Period, and shall not exceed $70 million for the cumulative 2018 and 2019 Evaluation Periods.	
Louisiana (PSC)	Entergy Louisiana LLC	ETR	Gas	3 years (2020, 2021, 2022)	Historical	9.80%	0.50% above or 0.50% below target earned ROE; A change in the Rider RSP Revenue level shall not be made unless it changes the EROE for the Evaluation Period by more than 0.05%	Y	For differences between the EROE and the EPCOE of up to 200 basis points, rates will be increased or decreased by 50 percent of the difference necessary to bring the EPCOE to the end point of the dead band. For example, if EROE were 200 basis points above the EPCOE, rates would be reduced by the amount necessary to reduce the EROE by 75 basis points (or one half of the difference between 200 basis points and 50 basis points above the EPCOE). For differences of more than 200 basis points above or below the EPCOE, rates will be adjusted by 100 percent of the amount necessary to eliminate the return differential in excess of 200 basis points plus one half of the difference between 200 basis points and the end point of the dead band. For example, if the EROE was 250 basis point below the EPCOE, rates would be increased by an amount equal to that necessary to increase the return by the 50 basis points in excess of the EPCOE minus 200 basis points plus 75 basis points for one half of the difference between 200 basis points and 50 basis points below the EPCOE.	ELL Rate Stabilization Plan Rider ("RSP") Evaluation Period Earnings in Excess of 10.3% EROE: Commencing with the RSP Evaluation Period of 2019 (i.e., Test Year Ended September 30, 2019), to the extent that ELL's annual RSP demonstrates that ELL has earned in excess of the Upper Band of the Common Equity Bandwidth (i.e., 10.3%) ("RSP Excess"), instead of reducing rates by 50 percent of the first 200 basis points above the allowed return on equity (ROE) and 100 percent of any amount in excess of the allowed ROE plus 200 basis points, as currently required by the RSP, any RSP Excess shall first be applied to prospectively offset the Rider IIRR-G revenue requirement associated with the return on and of Rider IIRR-G eligible property as reported in the, then effective, Rider IIRR-G in Attachment C, Page 1, Line 15. The RSP Excess shall be applied to reduce the referenced Rider IIRR-G revenue requirement to a value of zero. Any residual RSP Excess remaining after offsetting Rider IIRR-G revenue requirement shall be reflected and implemented as a prospective reduction of the RSP rate on a dollar-for-dollar basis effective for bills rendered on and after the first billing cycle of April of the year of the RSP Evaluation Report filing.

State	Company	Ultimate Parent Ticker	Service Type	Term of Plan	Test Year	ROE (target)	ROE (band)	Caps on Rate Adjustment (Y/N)	Caps on Rate Adjustment (Description)	Special Provisions
Mississippi	Atmos Energy Corp.	ATO	Gas	Unspecified	Hybrid: Historical O&M; certain rate base items (plant in service, accumulated depreciation, ADIT) may be projected	Initial BRORB of 10.8%	If the revenue deficiency or excess calculated in accord with Appendix "C" is less than $250,000, no change in revenue will occur.	N		Benchmark Return on Rate Base is calculated each year as the average of DCF analysis and Risk Premium Regression Analysis; 12.5 basis points added for flotation costs. The Company's Performance Adjuster is determined annually in conjunction with the Company's annual evaluation. Based on the Company's performance, a score of 0 to 10 on each indicator is determined, the scores are weighted as provided herein, and the overall score is rounded to the nearest tenth (.05 and greater being rounded to .1). This performance score is then multiplied by .001 and .005 is subtracted from the resulting number to determine the Performance Adjuster which may be a positive or negative number. This Performance Adjuster is then added to the Benchmark Return to calculate the Company's Performance Based Benchmark Return. The Performance Adjuster falls between a positive and a negative 50 basis points.
Mississippi	Entergy Mississippi LLC	ETR	Elec.	Unspecified	Hybrid	Initial Base ROE of 10.07%	0.50% above or 0.50% below target earned ROE	Y	The Net Rate Adjustments that result from the Evaluation Report filing shall be implemented effective April 1 of the filing year on a temporary basis subject to refund or credit to customer accounts with such temporary implementation subject to a cap of 2% of Evaluation Period Retail Revenues. If the ERORB is less than the Lower Point, the then currently effective Annual Rate Adjustments shall be increased in accordance with the provisions of Section C.3 below so that, when the Annual Rate Adjustments so revised are applied to the Evaluation Period billing units ("kW" or "kWh"), the resulting increase in revenue would increase the ERORB for the Evaluation Period to the Point of Adjustment as described below. However, the amount of such revenue increase shall not exceed 4% of the Company's unadjusted Evaluation Period revenue.	Benchmark Return on Rate Base is calculated each year as the average of DCF analysis and Risk Premium Regression Analysis; Base ROE was 10.07%, performance adjustments was 0.49% in the most recent rate case in 2014.
Mississippi	Mississippi Power Co.	SO	Elec.	Unspecified	Historical	9.00%	0.50% above or 0.50% below target earned ROE	Y	The Interim Rate is subject to a 2% cap of the Evaluation Period aggregate retail revenues. No annual revenue adjustment shall exceed four percent (4%) of the annual aggregate retail revenues of the Company during the Evaluation Period.	Benchmark Return on Rate Base is calculated each year as the average of DCF analysis and Risk Premium Regression Analysis; 12.5 basis points added for flotation costs. The Company's PROI will be determined by adjusting the Company's weighted average ROE for performance. Three performance indicators will be used to measure the operational performance of the Company: Customer Price, Customer Satisfaction, Customer Service Reliability.
Oklahoma	CenterPoint Energy Resources Corp.	CNP	Gas	Unspecified	Historical	10.00%	9.50% - 10.50%	N		Earnings sharing when earned return is greater than 10.50%, shared on a 75/25 basis between customers and the Company.
Oklahoma	Oklahoma Natural Gas Co.	OGS	Gas	4 years (2016-2019)	Historical	9.50%	9.00% - 10.00%	N		Due to practical constraints, no adjustments provided for under this Rate Schedule will be made for amounts less than $200,000.
South Carolina	Piedmont Natural Gas Company	DUK	Gas	Until next base rate case	Historical	12.60%	12.10% -13.10%	N		Ratified by the General Assembly (S.C. Code Ann. § 58-5-400) in 2005. Utilities file quarterly Monitoring Reports for each 12-month period ending end of March, June, September, and December. March 31 report is used in ORS Audit for adjusting rates
South Carolina	South Carolina Electric & Gas	D	Gas	Until next base rate case	Historical	10.25%	9.75% - 10.75%	N		Ratified by the General Assembly (S.C. Code Ann. § 58-5-400) in 2005. Utilities file quarterly Monitoring Reports for each 12-month period ending end of March, June, September, and December. March 31 report is used in ORS Audit for adjusting rates
Tennessee	Atmos Energy Corp.	ATO	Gas	Unspecified	Projected	9.80%		N		
Texas	Atmos Energy Corp. - Mid-Tex	ATO	Gas	Unspecified	Historical	9.80%		N		
Texas	Atmos Energy Corp. - West Texas Division	ATO	Gas	Unspecified	Historical	9.80%		N		
Texas	CenterPoint Energy Resources Corp.	CNP	Gas	Unspecified	Historical	9.50% (CNP AR)		Y	CenterPoint Arkansas 4% cap would apply.	The Formula Rate Plan Rider (Rider FRP) shall be the amount charged to CenterPoint Energy's customers residing or located in Texarkana, Arkansas under Arkansas tariff Rider Schedule Rider Schedule No. 9 Formula Rate Plan Rider (Rider FRP).
Texas	Texas Gas Service Co. Inc.	OGS	Gas	Unspecified	Historical	9.50%		Y	North Texas: The actual percentage change in total calendar year operating expenses shall not exceed three and one-quarter percent (3.25%), provided that the costs for the Company to provide public notice and reimburse City and Company rate case expenses as required herein, shall not be included in calculating the (3.25%) limitation . Rio Grande Valley: The actual percentage change in total calendar year operating expenses shall not exceed five percent (5%).	

[1] Sources: RRA, *Alternative Ratemaking Plans in the US,* April 16, 2020; Individual company tariffs and commission Orders.