

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

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

SETTLEMENT TESTIMONY

OF

JEFF HILTON
DIRECTOR OF REVENUE REQUIREMENTS

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

APRIL 20, 2017

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INTRODUCTION

Q. Please state your name.

A. My name is Jeff Hilton.

Q. Are you the same Jeff Hilton who filed Direct and Surrebuttal Testimony on January 31, 2017, and March 30, 2017, respectively, 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 Settlement Testimony in this docket?

A. My testimony supports as reasonable the adjustments made to Staff's Surrebuttal case in arriving at the Revenue Requirement in the Stipulation and Settlement Agreement (Settlement). I address certain Revenue Requirement issues set forth in Section 2 of the Settlement. I also discuss the Formula Rate Plan Rider (FRP Rider) tariff modifications, the Large Capital Additions (LCA) Rider and the Storm Damage Recovery Rider (SDR) discussed in Section 4 of the Settlement.

Q. Are there other Staff witnesses who are filing testimony in this Docket in support of the Settlement?

A. Yes. Staff witness Regis Powell addresses the issue of cost of capital in both

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1 Section 2 regarding changes in the Revenue Requirement and in Section 4
2 regarding the FRP Rider, and Staff witness Matthew S. Klucher addresses the
3 revised Jurisdictional Wind Production Cost Allocator in Section 2. Mr. Klucher
4 also addresses the allocation of the revenue requirement to the classes and rate
5 design in Section 3 of the Settlement.

6 **Q. What is the purpose of the Settlement?**

7 A. The Settlement addresses and resolves all outstanding issues in this docket and
8 comprehends all of Staff's recommendations as set out in Staff's Surrebuttal
9 Testimony, with certain adjustments or revisions as specified.

10 **REVENUE REQUIREMENT**

11 **Q. Please summarize the Revenue Requirement as provided in the Settlement.**

12 A. As shown in Attachment No. 1 to the Settlement, the Arkansas Jurisdictional
13 Retail Rate Schedule Revenue Requirement is \$102,193,196, which is
14 \$5,968,293 less than the \$108,161,489 requested by OG&E in its Revised
15 Application¹, and \$1,313,005 less than the \$103,506,201 recommended by Staff
16 in its Surrebuttal Testimony. The Revenue Deficiency resulting from the
17 Settlement is \$16,857,081, which excludes the revenue from the expiring riders
18 being included in base rates of \$9,741,043. Including the expiring rider revenue
19 results in a Revenue Deficiency of \$7,116,038.

¹ As reflected in OG&E's Revised Application Schedule G-1, line 30.

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1 **Q. What adjustments were made to Staff's Surrebuttal Testimony to arrive at**
2 **the Revenue Requirement as provided in the Settlement?**

3 A. The adjustments made to the Revenue Requirement set out in Staff's Surrebuttal
4 Testimony are outlined in Section 2 of the Settlement and discussed below.
5 Specifically, the revisions made were due to the correction of an error, updated
6 information, and for purposes of settlement.

7 **Q. What change in Advertising Expense is reflected in Section 2 of the**
8 **Settlement?**

9 A. Staff recommended a reduction in test year Advertising Expense of \$3,296,900 in
10 Surrebuttal Testimony. However, the adjustment contained an inadvertent error.
11 As discussed in the Sur-Surrebuttal Testimony of OG&E witness Jason
12 Thenmadathil,² Staff's Adjustment IS-13 included \$2,339,207 that was already
13 being removed in Adjustments IS-23 and IS-31, which eliminated expenses
14 recovered in riders. Correcting this duplicate reduction in total company expense
15 resulted in an increase in Revenue Requirement of \$162,772.

16 **Q. What revision was made to the Revenue Conversion Factor as reflected in**
17 **Section 2 of the Settlement?**

18 A. OG&E's Application Schedule C-11 - Calculation of Current Income Tax Expense
19 and the supporting workpaper, included the Domestic Production Activities

² Sur-Surrebuttal Testimony of Jason Thenmadathil, p. 2, line 23, through p. 3, line 13.

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1 Deduction (DPAD), or Manufacturing Tax Deduction, in its *pro forma* deductions.
2 Therefore, Staff's Revenue Conversion Factor (RCF), as presented in my Direct
3 Exhibit JH-7, included the DPAD as a component of the composite tax rate used
4 to determine the RCF. Based on the Sur-Surrebuttal Testimony of OG&E
5 witness Donald Rowlett,³ the Company will continue to have a Net Operating
6 Loss (NOL) carry-forward for tax purposes through 2019 and therefore is not
7 eligible for the DPAD. The revised RCF resulted in an increase in Revenue
8 Requirement of \$274,009.

9 **Q. What revision was made to the jurisdictional Wind Production Allocation**
10 **Factor as reflected in Section 2 of the Settlement?**

11 A. Staff's Cost of Service in Surrebuttal Testimony utilized an Energy Allocator to
12 allocate wind-related production plant and expense to the Arkansas jurisdiction.
13 However, for the purpose of settlement, the parties agreed to use a Demand
14 Allocator to allocate those costs to the Arkansas jurisdiction. This revised
15 Jurisdictional Allocation Factor reduced the Revenue Requirement by \$2,102,493
16 and is discussed in the Settlement Testimony of Staff witness Klucher.

17 **Q. What revision was made to the Capital Structure as reflected in Section 2 of**
18 **the Settlement?**

³ Sur-Surrebuttal Testimony of Donald Rowlett, p. 3, lines 9-10.

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1 A. Staff's recommendation in its Surrebuttal Testimony reflected an overall Rate of
2 Return of 5.36% and a Weighted Cost of Debt of 2.04%, based on a 52/48 Debt
3 to Equity Ratio. However, as discussed in the Settlement Testimony of Regis
4 Powell, for the purpose of settlement, the parties agreed to revise the Debt to
5 Equity Ratio to 50/50. Revising the Rate of Return of 5.42% and Weighted Cost
6 of Debt of 1.96% increased the Revenue Requirement by \$782,400.

7 **Q. What change was made to Storm Expense as reflected in Section 2 of the**
8 **Settlement?**

9 A. Staff's recommendation in its Surrebuttal Testimony was based on an average of
10 storm costs, excluding labor, for the years 2012-2016. For the purpose of
11 settlement, the parties agreed to use a three-year average of 2014-2016 storm
12 costs instead. This revised level of Storm Expense resulted in a decrease to
13 Revenue Requirement of \$429,693.

14 **FRP RIDER**

15 **Q. What revision has been made to the FRP Rider as reflected in Section 4 of**
16 **the Settlement and Attachment No. 4?**

17 A. As discussed in the Settlement Testimony of Staff witness Powell, the parties
18 support using the Capital Structure reflecting a Debt to Equity Ratio of 50/50, in
19 the FRP Rider. Therefore, the parties will modify the FRP Rider Attachments B-
20 5, D-5, and Attachment C, Section II, paragraph E.4 in the Compliance Tariffs to

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1 reflect the use of a fixed 50/50 Debt to Equity Ratio, including the short-term debt
2 percentage of 2.9%.

3 In addition, as also addressed in Mr. Klucher's Settlement Testimony, the
4 Jurisdictional Allocators, including the revised Wind Production Allocator, will be
5 re-determined in each FRP Rider filing, but will continue to reflect the allocation
6 methodology approved by the Commission in the instant rate case; whereas the
7 class percentages will be fixed at the level approved in this docket.

8 Lastly, as noted above in discussing the changes in the Revenue
9 Requirement, the Revenue Conversion Factor is no longer reduced by the DPAD
10 in the Settlement because OG&E has a NOL carry forward. However, the FRP
11 Rider continues to include language in Attachment C, Section I, Paragraph I.,
12 and reflected in Attachments B-1 and D-1, that the DPAD will be included if
13 OG&E has taxable income available for that year.

14 **LCA Rider and SDR**

15 **Q. Did Section 4.C. and 4.D regarding OG&E's withdrawal of its proposals of**
16 **the Large Capital Additions Rider and the Storm Damage Rider in this**
17 **Docket modify Staff's Surrebuttal recommendation?**

18 **A.** No. Staff recommended in both Direct and Surrebuttal Testimony that these two
19 riders not be approved in this docket, but be addressed on a case-by-case basis,
20 considering specific circumstances at the time, including the appropriate costs

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1 and terms of the rider. OG&E agreed in Settlement to no longer seek approval of
2 these riders in this Docket.

3 **CONCLUSION**

4 **Q. What are your conclusions and recommendations?**

5 A. As noted previously, the Settlement has as its foundation each of the
6 recommendations set forth in Staff's Surrebuttal Testimony. My Settlement
7 Testimony addresses several adjustments or revisions made to the Revenue
8 Requirement proposed in Staff's Surrebuttal Testimony, and as stated above,
9 these adjustments and revisions were to correct an error, utilize updated
10 information, or for the purposes of settlement. For that reason, I support as
11 reasonable these provisions of the Settlement and recommend their approval.

12 **Q. Does this conclude your testimony?**

13 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