BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

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

DIRECT TESTIMONY

OF

WILLIAM L. MATTHEWS
PUBLIC UTILITY AUDITOR
AUDITS SECTION

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

JANUARY 31, 2017

INTRODUCTION

Q. Please state your name and business address.

A. My name is William L. Matthews. My business address is Arkansas Public Service Commission (Commission), 1000 Center Street, Little Rock, Arkansas 72201.

Q. By whom are you employed and in what capacity?

A. I am employed by the General Staff (Staff) of the Commission as a Public Utility Auditor in the Audits Section. In that capacity, I analyze utility company filings, conduct field audits, identify and evaluate accounting issues, develop positions on those issues and present those positions in written and oral testimony before the Commission, and perform other duties as assigned.

Q. Please describe your educational background and experience.

A. I hold a Bachelor of Business Administration degree in Accounting and a Master of Business Administration degree from Henderson State University in Arkadelphia, Arkansas. Before joining Staff in September 2008, I served as an auditor and financial analyst in the finance industry. During this time, I served as a guest lecturer on financial statement and ratio analysis for the Small Business Administration at its national annual Micro Loan Conference. I have served as an adjunct faculty member for John Brown University teaching Accounting, Financial Mathematics, Financial Management, and Economics. Since joining Staff I have attended “The Basics - Practical Skills for the Changing Electric, Natural Gas, Telecommunications and Water Industries" jointly sponsored by the New Mexico State Center for Public Utilities and the National Association of Regulatory Utility Commissioners. I have previously filed testimony before this Commission on matters concerning utility company rate cases.

PURPOSE OF TESTIMONY

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

A. My testimony supports adjustments to Oklahoma Gas and Electric Company's (OG&E or Company) gross plant-in-service (GPIS) and related accumulated depreciation (AD). I also sponsor adjustments to depreciation, amortization, and *ad valorem* tax. In so doing, I address the relevant Direct Testimony of Company witnesses Malini R. Gandhi, Jason Thenmadathil, and Scott Forbes.

My proposed adjustments are summarized in the following tables. All adjustments are stated on a total company basis. The rate base adjustments are shown in Table 1 and the expense adjustments are shown in Table 2. In each table, my adjustments are compared to the Company's Application amounts if applicable.

Table 1
Summary of Rate Base Adjustments

Staff Adj. No.	OG&E Adj. No.	Description	Staff Adj. Amount	OG&E Adj. Amount	Difference
GROSS PLANT-IN-SERVICE					
RB-1	RB-1	Remove Non-Utility Holding Company Assets	($21,999,807)	($24,082,383)	$2,082,576
RB-3	RB-2 & 3	Net *Pro Forma* Additions and Retirements	$242,064,950	$422,768,033	(180,703,083)
RB-4	RB-4	Windspeed Reduction	($73,277,168)	($72,185,182)	($1,091,986)
RB-6	RB-6	Reduction for Transmission LSE	($886,125,226)	($886,125,226)	$0
RB-9	RB-9	Removal of CWIP	($319,442,382)	($300,106,240)	($19,336,142)
RB-11	RB-11	Removal of Non-Utility Property	($5,164,841)	($5,367,055)	$202,214
RB-12	RB-12	Removal of Plant Held for Future Use	($2,749,679)	($1,037,525)	($1,712,154)
RB-13	RB-13	Removal of ARO	($49,681,703)	$0	($49,681,703)
RB-14	N/A	Removal of AFUDC related to ACT 310 Filing	($964,264)	($40,072)	($924,192)
RB-15	RB-15	Removal of Acquisition Adjustment	($8,321,646)	$0	($8,321,646)
		Total Adj to GPIS	**($239,536,540)**	**($19,949,576)**	**($259,486,116)**
ACCUMULATED DEPRECIATION					

Staff Adj. No.	OG&E Adj. No.	Description	Staff Adj. Amount	OG&E Adj. Amount	Difference
RB-1	RB-1	Remove Non-Utility Holding Company Assets from GPIS	($19,658,308)	($20,502,817)	$844,509
RB-4	RB-4	Windspeed Reduction	($10,123,731)	($9,653,016)	($470,715)
RB-5	RB-5	Adjust for AR vs OK Depr Rate Differential (1986-2006)	$66,927,096	$31,657,965	$35,269,131
RB-6	RB-6	Reduction for Transmission LSE	($42,879,613)	($40,377,867)	($2,501,746)
RB-7	RB-7	Adjust for AR vs OK Depr Rate Differential (2011 to 2017)	($87,067,532)	($97,093,177)	$10,025,645
RB-8	RB-8	Adjust for Pro-Forma Year Depreciation	$230,817,676	$190,569,897	$40,247,779
RB-11	RB-11	Removal of Non-Utility Property	($2,167,571)	($2,205,038)	$37,467
RB-13	RB-13	Removal of ARO	$21,154,166	$0	$21,154,166
		Total Adj. to AD	**$156,977,312**	**$52,395,947**	**$104,606,236**

Table 2
Summary of Expense Adjustments

Staff Adj. No.	OG&E Adj. No.	Description	Staff Adj. Amount	OG&E Adj. Amount	Difference
IS-26	IS-26	Adjust Depreciation and Amortization Expense	($11,950,861)	$25,491,607	($37,442,468)
IS-29	IS-29	Adjustment to Ad Valorem	$368,012	$541,247	($173,235)
IS-30	IS-30	Adjust Acquisition Adjustment Amortization	$5,492,663	$5,567,337	($74,674)
N/A	IS-40	Amortization of Depreciation Differential	$0	$6,543,521	($6,543,521)
		Total Adj. to Expense	**($6,090,186)**	**$38,143,712**	**($44,233,898)**

PLANT-IN-SERVICE

Q. How does your total recommended GPIS and AD compare with the Company's?

A. I recommend a total *pro forma* GPIS of $9,727,014,287 and AD of $3,903,115,525 compared to the Company's GPIS of $9,850,401,173 and AD of $3,755,350,744. My total recommended amounts for GPIS and AD differ from the Company's Application amounts by $123,386,886 and $147,764,781, respectively. My use of actual amounts for the first four months of the *pro forma* year versus the Company's use of projected amounts comprise a significant part of these differences and are explained in greater detail below.

Q. Why does your Adjustment RB-1 of $21,999,807 to remove non-utility Holding Company assets differ from the Company's adjustment of $24,082,383?

A. The Company and I followed the same methodology in applying an allocation ratio to the Holding Company assets to develop our adjustments. However, where the Company's ratio and asset balances were based on partially projected test year amounts, I used actual balances for my adjustments. This use of actual balances resulted in my reduction to plant in service being $2,082,576 less than the Company respectively.

Q. Please discuss your Adjustment RB-3 for additions and retirements to GPIS and the differences between your adjustment and the Company's.

A. My adjustment comprehends the same adjustments contained within the Company's adjustments RB-2 and RB-3. The difference of $180,703,083 between my recommendation and the Company's is due to my use of actual balances for the first four months of the *pro forma* year and eight months of projections of the *pro forma* year, whereas the Company used projected amounts for the entire *pro forma* year, as well as the last three months of the test year. My total adjustment amount of $242,064,950 was comprised of actual net additions and retirements of $99,585,694 and projected net additions and retirements of $142,479,256.

Q. How did you determine your projected additions to GPIS?

A. Based on data through October 31, 2016, I developed an estimate of the projects in Construction Work-in-Progress (CWIP) whose level and rate of construction indicated that it would be completed by the end of 2016. In addition, I projected the last six months of the *pro forma* year using 87% of one half of the Company's projected 2017 capital budget. The 87% applied to the projected six month budget amount is reflective of the ten year average of completion for budgeted projects.

Q. How did you determine your projected retirements?

A. The Company and I both developed an average level of retirements as a percentage of additions. Our differences are due to the Company's larger projected additions and the Company's use of an average percentage of 23%

developed from test year amounts, whereas I used a ten year average of retirements as a percentage of additions of 13.92%. I believe that the inclusion of a normal level of retirements in determining *pro forma* GPIS is reasonable. In support of my use of 13.92%, the retirements during the first four months of the *pro forma* year were approximately 11.72%.

I will continue to monitor the progress of additions and retirements made by the Company and include available updated actual *pro forma* year amounts in my Surrebuttal Testimony. In addition, I will continue to review all aspects related to the Transmission LSE adjustment.

Q. Why does your Adjustment RB-4 not match the Company's?

A. I removed 34%, or $73,277,168, from GPIS for the Windspeed Transmission Line. The 34% was set in the Company's last rate case, Docket No. 10-067-U. The Company made the same adjustment in its Application, but used the balance from the 10-067-U Docket, whereas I used the actual balance as of test year end, which resulted in a difference of $1,091,986.

Q. Please explain your Adjustment RB-9.

A. This adjustment removes $319,442,382 for the test year CWIP in order to include only plant amounts in the cost of service that are used and useful by the end of the *pro forma* year. The difference between my adjustment and OG&E's is due to the Company's use of a projected test year-end balance, while I used the actual test year-end balance of CWIP.

Q. Why is your Adjustment RB-11 for $5,164,841 to remove Non-Utility Property $202,214 less than the Company's adjustment?

A. The difference between my adjustment and OG&E's is due to the Company's use of a projected test year-end balance, while I used the actual test year-end balance. The Company's updated work papers agree with my adjustment.

Q. Why does your Adjustment RB-12 differ from the Company's?

A. This adjustment removes plant held for future use from rate base. The Company only removed $1,037,525 instead of the total $2,749,679 I removed. The Company's rationale behind this adjustment is that it represents a compromise reached in an Oklahoma Cause No. PUD 201100087 between the positions of all parties to a rate case by not requiring customers to pay for future use land acquired more than 10 years ago. The Company proposed a similar adjustment in its last rate case before this Commission in Docket No. 10-067-U, and the proposal was not accepted by the Commission. Since the plant in question is not used and useful, I have removed it from rate base.

Q. Would you please explain your removal of $49,681,703 for Asset Retirement Obligations (ARO) in your Adjustment RB-13?

A. According to the FERC Uniform System of Accounts (USOA), an ARO represents a liability to recognize the obligation associated with the retirement of a long-lived asset that a company is required to settle under law. In addition, an associated asset retirement cost is recorded at fair value in the period when the obligation is incurred and is depreciated over the life of the related asset. This accounting adjustment required by the FERC USOA is an estimate that should not be reflected in rate base and depreciation expense, but instead should be addressed separately from the recovery being provided in depreciation rates which contains a removal cost component. Similarly, the offsetting ARO liability has been removed from CAOL as discussed in the Direct Testimony of Staff witness Bill Taylor. My adjustment removes this amount from GPIS and is consistent with the treatment of AROs in other recent rate cases[1].

Q. Would you please explain your Adjustment RB-14 of $964,264 for Allowance for Funds Used During Construction (AFUDC)?

A. This adjustment reduces total Company GPIS by $964,264 for the AFUDC accrued on CWIP projects included in Docket No. 15-034-U related to Act 310. In its calculations for AFUDC, the Company made a reduction which lowered the AFUDC amount to the Arkansas only portion. However, because production plant is not directly assigned to Arkansas, but instead determined on a total company basis and then allocated to Arkansas, reflecting only the Arkansas percentage of the AFUDC reduction in total plant is inadequate. Using the Company's AFUDC calculation, I modified the formula so the adjustment was on a total company basis and not an Arkansas only amount. Therefore, when the

[1] Docket No. 15-098-U, Docket No. 15-015-U

adjusted plant is allocated to Arkansas it reflects the full amount of recovery already received by the Company in its Environmental Compliance Plan Rider[2].

ACQUISITION ADJUSTMENT

Q. Would you please discuss your Adjustment RB-15 for Acquisition Adjustments?

A. My adjustment decreased rate base by $8,321,646. I removed the acquisition adjustments net of accumulated amortization for the High-Side Transmission Facilities, the Spring Creek Substation, and the Garber Substation in the amounts of $413,660, $2,221,980, and $193,343, respectively. The general rule related to the acquisition of utility plant previously providing utility service is that the rate base component for the plant includes only the original cost, net of accumulated depreciation, and excludes any acquisition adjustment for amounts paid over net book value. The Commission may allow recovery of an amount greater than net book value if the public utility can prove by a preponderance of the evidence that the original cost was reasonable and prudent and ratepayers will receive known and measurable benefits that are at least equal to the incremental amount for which the utility seeks recovery. Because OG&E did not provide such evidence, I have removed these amounts from rate base.

[2] Docket No. 15-034-U, Order No. 11

In Docket No. 08-103-U, the Redbud purchase was determined to be beneficial to ratepayers and the acquisition adjustment was included in rate base. Likewise, in my Adjustment RB-15, I reduced rate base by the $5,492,663 *pro forma* year amortization expense for the Redbud power plant acquisition adjustment credited to accumulated amortization.

ACCUMULATED DEPRECIATION

Q. Would you please explain why you removed $844,509 less than the Company did for Non-Utility Holding Company AD in your Adjustment RB-1?

A. Just as in RB-1 above, I used actual amounts in making my adjustment while the Company used partially projected amounts in its calculations.

Q. Does your Adjustment RB-4 to AD differ from the Company's RB-4 Adjustment for the same reasons as listed in your discussion for RB-4 for GPIS above?

A. Yes, it does.

Q. Would you please discuss Staff's adjustment to AD in RB-5 and RB-7 and contrast it with the Company's Adjustment RB-5 and RB-7?

A. Staff's adjustments reflect a net decrease to AD of $20,140,436 in recognition of the depreciation rate differential between Arkansas and Oklahoma. Staff's adjustments are $45,294,776 less that the Company's net reduction to AD of $65,435,212. Staff's adjustment and reasoning are discussed further in the Direct Testimony of Staff witness Gerrilynn Wolfe.

Q. Does your Adjustment RB-6 for the removal of Transmission associated with regionally allocated transmission plant assigned to other Load Serving Entities (LSE) differ from the Company's adjustment?

A. Yes, it does. My decrease to AD of $42,879,613 is greater than the Company's by $2,501,746. While I agreed with the Company's methodology and the Company's adjustment to GPIS, I noted a mistake in an AD amount, and my adjustment simply reflects the correct amount.

Q. Would you please explain your Adjustment RB-8 for AD and discuss the differences from OG&E's Adjustment RB-8?

A. My Adjustment RB-8 increases AD by $230,817,676 to reflect both the actual and projected activity in this account for the *pro forma* year. The Company's AD Adjustment RB-8 is $190,569,897, which differs from my adjustment by $40,247,779. In making my adjustment, I used four months of actual net *pro forma* changes to AD of $82,200,112 and a projected amount of $148,617,564 based on my projected additions to GPIS. The difference in projected additions and the Company's use of a higher retirement ratio of 23% were the main reasons behind the difference.

Q. Does your Adjustment RB-11 to AD related to non-utility plant differ from the Company's RB-11 adjustment for the same reasons as listed in your discussion for GPIS above?

A. Yes, it does.

Q. Did you make a similar adjustment to remove AD related to ARO in your Adjustment RB-13?

A. Yes. I removed $21,154,166 from AD consistent with my treatment of GPIS discussed above.

DEPRECIATION AND AMORTIZATION EXPENSE

Q. Would you please discuss your Adjustment IS-26 to depreciation and amortization expense?

A. My recommended decrease in depreciation expense of $11,950,861 is $37,442,468 less than the $25,491,607 increase proposed by the Company. As previously discussed, the Company used estimated amounts of plant additions in its application when computing depreciation expense, while I used a combination of actual amounts and projections based on OG&E's 2017 budget, which was not available at the time of the Company's Application. The application of the depreciation rates recommended by Staff witness Wolfe as discussed in her Direct Testimony to my recommended GPIS amounts resulted in the total difference.

Q. Why does your Adjustment IS-29 to *Ad Valorem* Tax differ from the Company's?

A. In my Adjustment IS-29, I recommend an increase to *Ad Valorem* Tax of $368,012 which is $172,235 less than the Company's recommended increase of $541,247. My adjustment was made similar to the Company's with two modifications. I updated the *Ad Valorem* Tax expense amount to reflect the effect of capitalized *Ad Valorem* Taxes. Also, in its adjustment, the Company included an increase of $2,445,901. Since this increase reflected both the 2016 increase and the impact for the entire 2017 calendar year, I reduced the adjustment in order to reflect only the impact of the last six months of the *pro forma* year.

Q. Would you please discuss your Adjustment IS-30 for Acquisition Adjustments?

A. This adjustment of $5,492,663 is related to the prior approved Redbud power plant acquisition adjustment mentioned earlier in my testimony. I disallowed the acquisition adjustment amounts related to the High-Side Transmission Facilities, the Spring Creek Substation, and the Garber Substation whose total disallowance of $74,674 represents the difference between my adjustment and the Company's IS-30 amount of $5,567,337.

Q. Did you make an adjustment for the amortization of a depreciation differential as proposed by the Company?

A. No. In its Adjustment IS-40, the Company proposed an increase to expense of $6,543,521 related to the net effect of Adjustments RB-5 and RB-7. Staff's rationale for not making a similar adjustment is discussed further in the Direct Testimony of Staff witness Wolfe.

Q. Does this conclude your testimony?

A. Yes.

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 Electronic Filing System on this 31st day of January, 2017.

/s/ Justin A. Hinton
Justin A. Hinton