

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

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

SURREBUTTAL EXHIBITS

OF

REGIS POWELL
FINANCIAL ANALYST
FINANCIAL ANALYSIS SECTION

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

MARCH 30, 2017

OG&E
Docket No. 16-052-U
Staff Recommended Capital Structure

Component	Amount	Proportion	Rate	Wtd Cost	Pre-tax
Long Term Debt	\$2,793,106,553	35.20%	5.68%	2.00%	2.00%
Short Term Debt	\$167,385,484	2.11%	0.76%	0.02%	0.02%
Common Equity	\$2,770,518,356	34.92%	9.50%	3.32%	5.40%
Customer Deposits	\$77,441,663	0.98%	1.47%	0.01%	0.01%
Accumulated Deferred Income Taxes	\$1,812,510,927	22.84%	0.00%	0.00%	0.00%
Post-1970 ADITC - Long Term Debt	\$1,172,737	0.01%	5.68%	0.00%	0.00%
Post-1970 ADITC - Short Term Debt	\$70,280	0.00%	0.76%	0.00%	0.00%
Post-1970 ADITC - Equity	\$1,163,253	0.01%	9.50%	0.00%	0.00%
Current, Accrued and Other Liabilities	\$302,661,812	3.81%	0.00%	0.00%	0.00%
Other Capital Items	\$8,082,810	0.10%	8.53%	0.01%	0.01%
Total	\$7,934,113,874	100.00%		5.36%	7.44%

Wtd Cost/Debt 2.04%

Revenue Conversion Factor Staff Recommendation 1.6272

External Capital	6/30/16 Balances	Staff Recommended Proportions	Staff Recommended Balances
Long-Term Debt (Gross)	2,555,298,990	49.1%	2,834,009,401
Short-Term Debt	41,043,240	2.9%	167,385,484
Common Equity	3,175,571,011	48.0%	2,770,518,356
	5,771,913,241	100.0%	5,771,913,241

L-T Debt

Staff Adjusted Amount	2,834,009,401
Net Discount and Premium	(\$40,902,848)
Total	2,793,106,553

Post-1970 ADITC

Components	\$2,406,269	Proportions	Balances
Long Term Debt	\$2,793,106,553	48.74%	\$1,172,737
Short Term Debt	\$167,385,484	2.92%	\$70,280
Common Equity	\$2,770,518,356	48.34%	\$1,163,253
Total	\$5,731,010,393	100.00%	\$2,406,269

Staff Risk Comparable Sample of Electric Utilities

	LT Debt	ST Debt	Equity + Preferred Stock	LT Debt	ST Debt	Equity + Preferred Stock
Alliant Energy Corporation	3,980	229	4,019	48.4%	2.8%	48.8%
Ameren Corporation	6,810	631	7,164	46.6%	4.3%	49.1%
Duke Energy Corporation	43,310	2,824	40,369	50.1%	3.3%	46.7%
Edison International	11,381	807	13,895	43.6%	3.1%	53.3%
El Paso Electric Company	1,278	81	1,040	53.3%	3.4%	43.3%
Entergy Corporation	14,290	660	9,586	58.2%	2.7%	39.1%
Eversource Energy	9,581	855	10,730	45.3%	4.0%	50.7%
Hawaiian Electric Industries, Inc.	1,690	53	2,045	44.6%	1.4%	54.0%
IDACORP, Inc.	1,771	19	2,116	45.3%	0.5%	54.2%
PG&E Corporation	16,718	1,221	17,415	47.3%	3.5%	49.3%
Pinnacle West Capital Corporation	4,080	155	4,847	44.9%	1.7%	53.4%
PNM Resources, Inc.	2,325	351	1,750	52.5%	7.9%	39.5%
Portland General Electric Company	2,300	0	2,312	49.9%	0.0%	50.1%
Southern Company	38,763	1,620	24,800	59.5%	2.5%	38.0%
Xcel Energy Inc.	13,953	347	10,846	55.5%	1.4%	43.1%
Average				49.7%	2.8%	47.5%
Total Debt / Total Equity				52%	/	48%

Hevert's Risk Comparable Sample of Electric Utilities

	LT Debt	ST Debt	Equity + Preferred Stock	LT Debt	ST Debt	Equity + Preferred Stock
ALLETE, Inc.	1,558	0	1,868	45.5%	0.0%	54.5%
Alliant Energy Corporation	3,980	229	4,019	48.4%	2.8%	48.8%
Ameren Corporation	6,810	631	7,164	46.6%	4.3%	49.1%
American Electric Power Company, Inc.	19,593	1,618	17,827	50.2%	4.1%	45.7%
Avista Corporation	1,613	114	1,621	48.2%	3.4%	48.4%
Black Hills Corporation	3,186	116	1,657	64.3%	2.3%	33.4%
CMS Energy Corporation	9,423	118	4,231	68.4%	0.9%	30.7%
DTE Energy Company	9,863	362	9,089	51.1%	1.9%	47.1%
IDACORP, Inc.	1,771	19	2,116	45.3%	0.5%	54.2%
NorthWestern Corporation	1,783	235	1,642	48.7%	6.4%	44.9%
Otter Tail Corporation	544	43	644	44.2%	3.5%	52.3%
Pinnacle West Capital Corporation	4,080	155	4,847	44.9%	1.7%	53.4%
PNM Resources, Inc.	2,325	351	1,750	52.5%	7.9%	39.5%
Portland General Electric Company	2,300	0	2,312	49.9%	0.0%	50.1%
SCANA Corporation	6,415	826	5,627	49.9%	6.4%	43.7%
WEC Energy Group, Inc.	9,120	868	8,899	48.3%	4.6%	47.1%
Xcel Energy Inc.	13,953	347	10,846	55.5%	1.4%	43.1%
Average				50.7%	3.1%	46.2%
Total Debt / Total Equity				54%	/	46%

**Oklahoma Gas and Electric Company
Weighted Cost of Debt**

Component	Weighted Cost
Long-term Debt	2.00%
Short-term Debt	0.02%
Customer Deposits	0.01%
ADITC - LT Debt	0.00%
ADITC - ST Debt	0.00%
Other Capital Items	0.01%
	<hr/>
Total	<u><u>2.04%</u></u>

Source: Surrebuttal Exhibit RP-1

Staff Risk-Comparable Sample

Company	Electric Retail Revenue As % Of Total Revenue
Alliant Energy Corporation	74%
Ameren Corporation	74%
Duke Energy Corporation	80%
Edison International	97%
El Paso Electric Company	84%
Entergy Corporation	72%
Eversource Energy	80%
Hawaiian Electric Industries, Inc.	90%
IDACORP, Inc.	88%
PG&E Corporation	76%
Pinnacle West Capital Corporation	92%
PNM Resources, Inc.	83%
Portland General Electric Company	90%
Southern Company	85%
Xcel Energy Inc.	71%
Average	82%
OG&E	88%

Hevert Risk-Comparable Sample

Company	Electric Retail Revenue As % Of Total Revenue
ALLETE, Inc.	47%
Alliant Energy Corporation	74%
Ameren Corporation	74%
American Electric Power Company, Inc.	63%
Avista Corporation	51%
Black Hills Corporation	43%
CMS Energy Corporation	59%
DTE Energy Company	40%
IDACORP, Inc.	88%
NorthWestern Corporation	66%
Otter Tail Corporation	45%
Pinnacle West Capital Corporation	92%
PNM Resources, Inc.	83%
Portland General Electric Company	90%
SCANA Corporation	52%
WEC Energy Group, Inc.	62%
Xcel Energy Inc.	71%
Average	65%

**Staff Risk-Comparable Sample
Price, Dividend, and Yield**

Company	13 Week Average Price	Current Dividend	Dividend Yield
Alliant Energy Corporation	\$37.78	1.26	3.34%
Ameren Corporation	\$52.85	1.76	3.33%
Duke Energy Corporation	\$76.63	3.42	4.46%
Edison International	\$70.68	2.17	3.07%
El Paso Electric Company	\$45.87	1.24	2.70%
Entergy Corporation	\$72.58	3.48	4.79%
Eversource Energy	\$54.37	1.90	3.49%
Hawaiian Electric Industries, Inc.	\$31.88	1.24	3.89%
IDACORP, Inc.	\$77.87	2.20	2.83%
PG&E Corporation	\$59.95	1.96	3.27%
Pinnacle West Capital Corporation	\$75.53	2.62	3.47%
PNM Resources, Inc.	\$33.06	0.97	2.93%
Portland General Electric Company	\$42.69	1.28	3.00%
Southern Company	\$48.48	2.24	4.62%
Xcel Energy Inc.	\$40.09	1.36	3.39%

Source: Yahoo! Finance and SNL Financial

**Staff Risk-Comparable Sample
Growth Rates**

Company		g1		g2	g3	g4	g5
	(a)	(b)	(c)				
Alliant Energy Corporation	6.0%	5.5%	6.0%	4.5%	7.0%	7.0%	6%
Ameren Corporation	6.0%	6.5%	5.7%	4.0%	-4.0%	-4.5%	-3%
Duke Energy Corporation	4.0%	4.6%	3.5%	3.5%	3.0%	NA	NA
Edison International	3.5%	5.3%	2.3%	9.5%	3.5%	9.5%	7%
El Paso Electric Company	4.0%	4.4%	7.0%	5.0%	4.0%	NA	12%
Entergy Corporation	0.5%	-1.4%	-8.3%	2.5%	-3.0%	6.0%	3%
Eversource Energy	6.0%	6.1%	5.8%	6.0%	6.0%	9.5%	10%
Hawaiian Electric Industries, Inc.	4.0%	4.0%	4.0%	1.0%	8.5%	NA	1%
IDACORP, Inc.	3.0%	4.3%	4.1%	7.5%	8.0%	2.5%	10%
PG&E Corporation	12.0%	4.3%	5.6%	7.0%	-5.5%	NA	1%
Pinnacle West Capital Corporation	4.0%	4.3%	4.0%	5.0%	8.5%	2.5%	5%
PNM Resources, Inc.	9.0%	6.7%	5.9%	10.0%	23.4%	1.0%	1%
Portland General Electric Company	5.5%	6.0%	5.6%	6.0%	6.5%	NA	7%
Southern Company	4.0%	3.9%	3.3%	3.5%	3.5%	4.0%	3%
Xcel Energy Inc.	5.5%	5.4%	5.4%	6.0%	6.0%	4.0%	5%

Notes:

g1: (a) Value Line's projected EPS Growth, (b) Zack's projected EPS growth, and (c) Yahoo's projected EPS growth;
g2: Value Line's projected five-year dividend growth;
g3: Value Line's five-year historic EPS growth;
g4: Value Line's ten-year historic dividend growth;
g5: Value Line's ten-year historic EPS growth;

**Staff Risk-Comparable Sample
Cost of Equity Results**

Company	k1		k2		k3	k4	k5
	(a)	(b)	(c)				
Alliant Energy Corporation	9.4%	8.9%	9.4%	7.9%	10.5%	10.5%	9.4%
Ameren Corporation	9.4%	9.9%	9.1%	7.4%	NA	NA	NA
Duke Energy Corporation	8.6%	9.2%	8.0%	8.0%	7.5%	NA	NA
Edison International	6.6%	8.5%	NA	12.7%	6.6%	12.7%	9.7%
El Paso Electric Company	6.8%	7.2%	9.8%	7.8%	6.8%	NA	14.9%
Entergy Corporation	NA	NA	NA	7.4%	NA	10.9%	7.9%
Eversource Energy	9.6%	9.7%	9.4%	9.6%	9.6%	13.2%	13.2%
Hawaiian Electric Industries, Inc.	8.0%	8.0%	8.0%	NA	12.6%	NA	NA
IDACORP, Inc.	5.9%	7.2%	7.0%	10.4%	10.9%	NA	12.5%
PG&E Corporation	15.5%	7.6%	8.9%	10.4%	NA	NA	NA
Pinnacle West Capital Corporation	7.5%	7.8%	7.5%	8.6%	12.1%	6.0%	8.1%
PNM Resources, Inc.	12.1%	9.7%	8.9%	13.1%	NA	NA	NA
Portland General Electric Company	8.6%	9.1%	8.6%	9.1%	9.6%	NA	10.1%
Southern Company	8.7%	8.6%	8.0%	8.2%	8.2%	8.7%	7.7%
Xcel Energy Inc.	9.0%	8.9%	8.8%	9.5%	9.5%	7.5%	8.5%
Cost of Equity Results	8.7%		9.3%		9.4%	9.9%	10.2%
Midpoint	9.5%						

Note:

1. k1 gives 1/3 weighting each to EPS projections of Value Line, Zacks, and Yahoo.
2. The FERC Method for removing outlier estimates was employed, which is based on the risk-return tradeoff, i.e., investors in a utility's equity take on more risk than investors in that utility's debt. Thus equity investors should receive a higher return than the yield on public utility debt, which was 4.53% from September 2016 - January 2017. Any estimates under 1% above recent bond yields were deemed outliers. Additionally, growth rate g3 for PNM Resources was deemed an outlier.

Betas in Company Witness Hevert's CAPM Model

Direct			Rebuttal		
	Bloomberg	Value Line		Bloomberg	Value Line
ALLETE, Inc.	0.620	0.750	ALLETE, Inc.	0.677	0.750
Alliant Energy Corporation	0.610	0.750	Alliant Energy Corporation	0.584	0.700
Ameren Corporation	0.623	0.750	Ameren Corporation	0.588	0.650
American Electric Power Company	0.573	0.700	American Electric Power Company, Inc.	0.592	0.650
Avista Corporation	0.591	0.750	Avista Corporation	0.658	0.700
CMS Energy Corporation	0.544	0.700	Black Hills Corporation	0.560	0.900
DTE Energy Company	0.605	0.700	CMS Energy Corporation	0.547	0.650
IDACORP, Inc.	0.696	0.800	DTE Energy Company	0.587	0.650
NorthWestern Corporation	0.601	0.700	IDACORP, Inc.	0.726	0.750
Otter Tail Corporation	0.701	0.800	NorthWestern Corporation	0.629	0.700
Pinnacle West Capital Corporation	0.605	0.750	Otter Tail Corporation	0.827	0.850
PNM Resources, Inc.	0.645	0.800	Pinnacle West Capital Corporation	0.622	0.700
Portland General Electric Company	0.619	0.800	PNM Resources, Inc.	0.659	0.750
SCANA Corporation	0.599	0.700	Portland General Electric Company	0.625	0.700
Xcel Energy Inc.	0.484	0.650	SCANA Corporation	0.574	0.700
			WEC Energy Group Inc.	0.516	0.600
			Xcel Energy Inc.	0.488	0.600
Average	0.608	0.740	Average	0.615	0.706

Company Betas Across Different Indices

Company	S&P 500 INDEX	Wilshire 5000 Index	Morningstar U.S. Market Index
Apple Inc	0.91	0.86	0.86
Caterpillar Inc	1.62	1.63	1.63
Coca-Cola Co	0.48	0.44	0.44
Expedia Inc	0.53	0.50	0.51
Exxon Mobil Corp	0.94	0.90	0.90
Johnson & Johnson	0.65	0.61	0.61
Monsanto Co	1.19	1.18	1.18
Nvidia Corp	1.31	1.25	1.26
Procter & Gamble Co	0.53	0.49	0.49
Wells Fargo & Co	0.88	0.85	0.85

Duff & Phelps 2016 *Valuation Handbook: Guide to Cost of Capital*, 5-2

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 30th day of March, 2017.

/s/ Justin A. Hinton
Justin A. Hinton