BEFORE THE CORPORATION COMMISSION
OF THE STATE OF OKLAHOMA

APPLICATION OF OKLAHOMA NATURAL GAS COMPANY, A DIVISION OF ONE GAS, INC., FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017, ENERGY EFFICIENCY TRUE-UP AND UTILITY INCENTIVE ADJUSTMENTS FOR PROGRAM YEAR 2017, AND CHANGES OR MODIFICATIONS TO ITS TARIFFS	)	CAUSE NO. PUD 201800028 ORDER NO. **689337**

HEARINGS: July 27, 2018, in Courtroom B
2101 North Lincoln Boulevard, Oklahoma City, Oklahoma 73105
Before Michael D. Norris, Administrative Law Judge ("ALJ")

November 28, 2018, in Room 301
2101 North Lincoln Boulevard, Oklahoma City, Oklahoma 73105
Before the Commission *en banc*

APPEARANCES: Dustin R. Fredrick and Rick D. Chamberlain, Attorneys *representing* Oklahoma Natural Gas Company ("Oklahoma Natural" or "ONG")
Jared B. Haines and A. Chase Snodgrass, Assistant Attorneys General *representing* the Office of Attorney General ("AG"), State of Oklahoma
Michael L. Velez and Kyle Vazquez, Assistant General Counsels *representing* the Public Utility Division ("PUD"), Oklahoma Corporation Commission
Thomas P. Schroedter, Attorney *representing* Oklahoma Industrial Energy Consumers ("OIEC")

FINAL ORDER

BY THE COMMISSION:

The Corporation Commission of the State of Oklahoma ("Commission") being regularly in session and the undersigned Commissioners being present and participating, the above-styled and numbered Cause comes on for consideration and action.

I. PROCEDURAL HISTORY

The procedural history through the date of the merits hearing is contained in the Report and Recommendation of the Administrative Law Judge ("ALJ Report") filed September 20, 2018, which is appended hereto as Attachment 1 and incorporated herein by reference.

Additionally, on October 4, 2018, the AG and OIEC each filed exceptions to the ALJ Report, and a motion for oral argument and notice of hearing thereon.

On October 11, 2018, Oklahoma Natural and PUD each filed a response to the exceptions.

II. SUMMARY OF EVIDENCE

The summary of evidence set forth in Section III of the ALJ Report is incorporated herein by reference.

III. FINDINGS OF FACT AND CONCLUSIONS OF LAW

Having reviewed and evaluated the ALJ Report, the arguments of counsel, and the pleadings, exceptions, responses, and evidence contained in the record for this Cause, and upon a full and final consideration thereof, the Commission hereby adopts the recommendations set forth in the ALJ Report, **except as otherwise stated herein**.

1. The Commission finds the federal income corporate tax reform of the scale of the 2017 Tax Cuts and Jobs Act of 2017 ("2017 TCJA") occurs very infrequently, and the magnitude of the corresponding savings is significant. The evidence revealed that absent the reduction of costs due to the 2017 TCJA income tax reform, Oklahoma Natural's performance for the review period would have resulted in an earned return of less than 9%. The tax expense reduction stemming from the federal income tax reform was not the result of any efforts made by Oklahoma Natural.

2. The Commission further finds that due to the 2017 TCJA, Oklahoma Natural has experienced significant income tax savings and should refund the savings in excess of its current authorized return, and interest thereon that have accrued since January 9, 2018, the date of Order

No. 671984 that directed Oklahoma Natural to, in part, "record a deferred liability beginning on [January 9, 2018] to reflect the reduced federal corporate tax rate to 21 percent . . . on an interim basis subject to refund until utility rates are adjusted to reflect the federal tax savings." Order No. 671984 required any refunds accrue interest at ONG's cost of capital as set forth in Cause No. PUD 201700079. This savings should continue to be tracked for the 2018 PBR review period. Any earnings attributable to the tax savings above the 9.5% authorized return in the 2018 review period as reflected by the 2019 PBRC filing shall be refunded 100% to ratepayers.

3. The Commission further finds, consistent with Order No. 671984, that an adjustment to base rates to reflect lower tax costs at the authorized return is appropriate in the instant Cause. The Commission finds that Oklahoma Natural should recover all offsetting costs limited to its authorized return of 9.5%.

4. The Commission further finds that return of the protected and unprotected excess accumulated deferred income tax ("EDIT") shall be implemented in the instant Cause, instead of beginning with the 2019 annual filing.

5. The refund of the amortization of the EDIT shall be reflected as a line item on customers' bills.

6. To implement the findings and conclusions above, which are supported by the evidence and law, all corresponding/impacted calculations and tariffs shall be adjusted accordingly. Tariffs shall be effective upon submission to, and approval by, the Director of PUD.

ORDER

IT IS THEREFORE THE ORDER OF THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA that the attached ALJ Report, **subject to and as amended or superseded by the modifications detailed hereinabove**, is hereby adopted, and incorporated herein as if fully set forth, as the order of this Commission.

CORPORATION COMMISSION OF OKLAHOMA

Dana L. Murphy

DANA L. MURPHY, Chairman

J. Todd Hiett

J. TODD HIETT, Vice Chairman

Bob Anthony

BOB ANTHONY Commissioner

CERTIFICATION

DONE AND PERFORMED by the Commissioners participating in the making of this Order, as shown by their signatures above, this 8th day of January 2019.

[Seal]

Peggy Mitchell

PEGGY MITCHELL, Secretary

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICATION OF OKLAHOMA NATURAL GAS COMPANY, A DIVISION OF ONE GAS, INC., FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017, ENERGY EFFICIENCY TRUE-UP AND UTILITY INCENTIVE ADJUSTMENTS FOR PROGRAM YEAR 2017, AND CHANGES OR MODIFICATIONS TO ITS TARIFFS	))))))))))	CAUSE NO. PUD 201800028

FILED
SEP 20 2018
COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

HEARING: July 27, 2018, in Courtroom B
2101 North Lincoln Boulevard, Oklahoma City, Oklahoma 73105
Before Michael D. Norris, Administrative Law Judge

APPEARANCES: Dustin R. Fredrick and Rick D. Chamberlain, Attorneys *representing* Oklahoma Natural Gas Company
Jared B. Haines and A. Chase Snodgrass, Assistant Attorneys General *representing* Office of Attorney General, State of Oklahoma
Michael L. Velez and Kyle Vazquez, Assistant General Counsels *representing* Public Utility Division, Oklahoma Corporation Commission
Thomas P. Schroedter, Attorney *representing* Oklahoma Industrial Energy Consumers

REPORT AND RECOMMENDATION OF THE ADMINISTRATIVE LAW JUDGE

The above-captioned Cause comes before the Oklahoma Corporation Commission ("Commission") on the Application of Oklahoma Natural Gas Company, a Division of One Gas, Inc. ("ONG" or "Oklahoma Natural" or "Company") requesting approval of its Performance Based Rate Change Plan ("PBRC Plan") calculations for the twelve months ending December 31, 2017, energy efficiency true-up and utility incentive adjustments for program year 2017, and changes or modifications to its tariffs.

I. ALJ RECOMMENDATION

Upon hearing the arguments and testimony and considering the evidence and information provided in this Cause, it is the recommendation of the Administrative Law Judge ("ALJ") that the Commission should adopt the Joint Stipulation and Settlement Agreement filed in this Cause on July 26, 2018, with the exception of the treatment of unprotected excess deferred income taxes ("EDIT").

It is recommended that the Commission should not accept ONG's and the Public Utility Division's ("PUD") proposal to utilize the average rate assumption method ("ARAM") to return unprotected EDIT. The Commission should require ONG to amortize the unprotected excess

ATTACHMENT 1

EDIT and return it to ratepayers over 10 years using a straight-line method beginning with the 2019 PBRC filing for the test year ending December 31, 2018.

II. PROCEDURAL HISTORY

1. On March 15, 2018, ONG filed its Application with the Commission requesting approval of its PBRC Plan calculations for the twelve months ending December 31, 2017, energy efficiency true-up and utility incentive adjustments for program year 2017, and changes or modifications to its tariffs.

2. Also on March 15, 2018, ONG filed the Direct Testimonies of Cory Slaughter, Elizabeth Chandler, Don'ea Mayberry, Amelia Nguyen, Annette Ellis, Crystal Turner and Paul H. Raab. Schedules and workpapers were also filed by ONG.

3. On March 19, 2018, Jared B. Haines and A. Chase Snodgrass filed an Entry of Appearance on behalf of the Oklahoma Attorney General ("Attorney General").

4. On March 29, 2018, ONG filed a Motion to Establish Procedural Schedule along with a Notice of Hearing, a Motion for Protective Order along with a Notice of Hearing and a Motion to Establish Notice Requirements along with a Notice of Hearing. The Motion to Establish Procedural Schedule, the Motion for Protective Order and the Motion to Establish Notice Requirements were set for hearing on April 5, 2018, and were heard and recommended on that date.

5. On April 12, 2018, Thomas P. Schroedter filed an Entry of Appearance on behalf of Oklahoma Industrial Energy Consumers ("OIEC").

6. On May 9, 2018, the Commission issued Order No. 677527 Order Granting Motion for Protective Order, Order No. 677528 Order Granting Motion to Establish Procedural Schedule and Order No. 677529 Order Granting Motion to Establish Notice Requirements.

7. On June 15, 2018, PUD filed its Accounting Exhibit. Also on this date, PUD filed the Responsive Testimonies of David Melvin, Zachary Quintero, McKlein Aguirre, MaryDoris Casey, Jason Lawter, Kiran Patel, Geoffrey M. Rush, Andrew Scribner, Isaac D. Stroup, Elbert D. Thomas, Kathy Champion, Chris Bertus and Amy Taylor.

8. Also on June 15, 2018, the Attorney General filed the Responsive Testimonies of Edwin C. Farrar and James B. Alexander.

9. On June 22, 2018, PUD filed the Supplemental Testimony of Zachary Quintero.

10. Also on June 22, 2018, OIEC filed its Statement of Position.

11. On June 29, 2018, PUD filed the Rebuttal Testimony of Zachary Quintero and ONG filed the Rebuttal Testimony of Cory Slaughter.

12. On July 6, 2018, Exhibit Lists were filed by the Attorney General and PUD.

13. Also on July 6, 2018, PUD filed the Testimony Summaries of Amy Taylor, Kathy Champion, Chris Bertus, Jason Lawter, Zachary Quintero, Elbert D. Thomas, David Melvin, MaryDoris Casey, McKlein Aguirre, Kiran Patel, Andrew Scribner, Geoffrey M. Rush and Isaac D. Stroup.

14. Also on July 6, 2018, the Attorney General filed the Testimony Summaries of Edwin C. Farrar and James B. Alexander.

15. On July 11, 2018, David E. Keglovits filed a Notice of Withdrawal as Counsel for ONG.

16. On July 12, 2018, ONG filed its Exhibit List.

17. On July 20, 2018, Rick D. Chamberlain filed an Entry of Appearance on behalf of ONG.

18. On July 24, 2018, ONG filed Proof of Publications.

19. Also on July 24, 2018, ONG filed the Testimony Summaries of Don'ea Mayberry, Annette Ellis, Crystal Turner and Amelia Nguyen.

20. On July 26, 2018, ONG filed a Joint Stipulation and Settlement Agreement ("Joint Stipulation"), signed by ONG and PUD.

21. Also on July 26, 2018, ONG filed the Testimony Summaries of Paul H. Raab, Elizabeth Chandler and Cory Slaughter.

22. Also on July 26, 2018, the Pre-hearing Conference was heard and recommended.

23. On July 27, 2018, the Hearing on the Merits was held and the ALJ took the matter under advisement, requesting the parties submit Proposed Findings of Fact and Conclusions of Law by August 10, 2018.

24. On August 10, 2018, ONG, OIEC, the Attorney General and PUD filed their respective Proposed Findings of Fact and Conclusions of Law. Also on this date, ONG filed Offer of Exhibits after the Evidentiary Hearing.

25. On August 15, 2018, a Notice of Transcript Completion was filed.

III. SUMMARY OF EVIDENCE

A. Documents filed in this Cause are contained in the record kept by the Court Clerk of the Commission. Testimony was offered at the Hearing on the Merits as well as via pre-filed testimony. The entirety of the testimony offered is contained in the transcript of these proceedings. Testimony summaries are set forth in Attachment "A" attached hereto and incorporated herein.

B. The following numbered exhibits were admitted into evidence:

1. Order No. 671984, Cause No. PUD 201700571 (January 9, 2018).
2. Order No. 567498, Cause No. PUD 200800348 (May 7, 2009).
3. Responsive Testimony of Edwin C. Farrar, Cause No. PUD 201100087 (November 9, 2011).
4. Responsive Testimony of Edwin C. Farrar, Cause No. PUD 201700151 (September 21, 2017).
5. Order No. 648326, Cause No. PUD 201500213 (January 6, 2016).
6. Order No. 679358, Cause No. PUD 201700496 (June 19, 2018).

C. Pursuant to the PBRC Tariff 1201 established in Cause No. PUD 201500213, Order No. 648326 (Exhibit "C" to Hearing Exhibit No. 5), an allowed return on equity ("AROE") of 9.50 % with a deadband of 100 basis points was established. The deadband was set from 9.00% to 10.00% in which no rate change shall occur. Pursuant to the Tariff, ONG may request a rate increase only when the earned return on equity ("ER") falls below 9.00%. Similarly, any credit and sharing with the ONG's customers shall occur only when the ER is greater than 10.00%. If for the 12-month period ending December 31st, ONG's ER is below 9.00%, the base rates under the rate schedules subject to the PBRC plan shall be increased upon Commission approval in the amount necessary to restore the ER to the 9.50% AROE. Conversely, if for the 12-month period ending December 31st, ONG's ER is above 10.00%, the portion of the ER that is greater than 10.00% shall be shared on a 75/25 basis between the customers and ONG, with the customers receiving the greater amount.

D. ONG's Application requested an order of the Commission approving (a) the calculations for the 12 months ending December 31, 2017, presented by ONG according to the requirements of ONG's Tariff 1201, also known as the Performance Based Rate Change Tariff ("PBRC Tariff"), (b) the energy efficiency true-up and utility incentive adjustments for program year 2017, (c) ONG's methodology to comply with Commission Order No. 671984 regarding the Tax Cuts and Jobs Act of 2017 ("Tax ACT"), (d) a waiver allowing small transport customers to participate in ONG's energy efficiency programs, (e) the deferral and amortization of costs associated with the internal processing of credit/debit card payments, and (f) certain modifications to its tariffs.

IV. FINDINGS OF FACT AND CONCLUSIONS OF LAW

1. ONG is an Oklahoma corporation authorized to do business in the State of Oklahoma. ONG is a public utility with plant, property, and other assets dedicated to the distribution and sale of natural gas at wholesale and retail levels within the State of Oklahoma. The Commission has jurisdiction over this Cause by virtue of the provisions of Article IX, § 18 *et seq.* of the Constitution of the State of Oklahoma, 17 O.S. § 151 *et seq.*, and the Rules and Regulations of this Commission. Notice is proper in this Cause pursuant to Commission Order No. 677529 and the requirements of OAC 165:5-7-51.

2. On July 26, 2018, PUD and Oklahoma Natural filed a Joint Stipulation which incorporates all of PUD's recommended adjustments.

3. At the hearing, Mr. Slaughter testified that paragraph No. 1 of the Joint Stipulation contains the relief Oklahoma Natural requested in its Application.[1]

4. Mr. Slaughter testified that paragraph No. 2 of the Joint Stipulation establishes that Oklahoma Natural has earned ROE for the 2017 test year.[2] Accordingly, with the calculation of being over the deadband (approx 10.50%), Oklahoma Natural will implement a credit to customers of $5,862,739 over a 12 month period.[3] This provision is different than the Attorney General's recommendation.[4] The ROE for the 2017 test year was 10.51%.[5]

5. Mr. Slaughter testified that paragraph No. 3 of the Joint Stipulation establishes that the parties agree that the annual non-recurring revenue adjustment is an appropriate adjustment for purposes of PBRC filing calculations.[6] This is a disputed issue between the Stipulating Parties and Non-Stipulating Parties.[7]

6. Mr. Slaughter testified that paragraph No. 4 of the Joint Stipulation establishes the current year energy efficiency true-ups and the utility incentive in the amount of $2,148,946.[8] No parties filed testimony objecting to the Company's proposal.[9]

7. Mr. Slaughter testified that paragraph No. 5 of the Joint Stipulation establishes the new monthly service charges that will be implemented in several tariffs. The only thing that affects the monthly service charge is the energy efficiency, true-up utility incentive.[10] This was not a contested issue in this Cause.[11] The new monthly service charge for each class of ONG customers shall be as follows:

(a) Residential 101 "A" and 101-V "A" will pay a fixed charge of $16.85 per month and a volumetric delivery fee of $4.1143 per dekatherm;

(b) Residential 101 "B" and 101-V "B" will pay a fixed charge of $33.99 per month and no volumetric delivery fee;

(c) Small commercial "A" will pay a fixed charge of $21.65 per month and a volumetric delivery fee of $4.5599 per dekatherm;

(d) Small commercial "B" will pay a fixed charge of $36.85 per month and no volumetric delivery fee; and

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[1] Transcript of Proceedings p. 9, ll. 11-15.
[2] Transcript of Proceedings p. 10, ll. 17-18.
[3] Transcript of Proceedings p. 11, ll. 2-5.
[4] Transcript of Proceedings p. 11, ll. 24-25; p. 12, ll. 1-7.
[5] Quintero Responsive Testimony p. 5, ¶1
[6] Transcript of Proceedings p. 12, ll. 13-16.
[7] Transcript of Proceedings p. 12, ll. 20-24.
[8] Transcript of Proceedings p. 13, ll. 2-4.
[9] Transcript of Proceedings p. 13, ll. 10-12.
[10] Transcript of Proceedings p. 13, ll. 15-18.
[11] Transcript of Proceedings p. 13, ll. 20-22.

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1 Transcript of Proceedings p. 9, ll. 11-15.
2 Transcript of Proceedings p. 10, ll. 17-18.
3 Transcript of Proceedings p. 11, ll. 2-5.
4 Transcript of Proceedings p. 11, ll. 24-25; p. 12, ll. 1-7.
5 Quintero Responsive Testimony p. 5, ¶1
6 Transcript of Proceedings p. 12, ll. 13-16.
7 Transcript of Proceedings p. 12, ll. 20-24.
8 Transcript of Proceedings p. 13, ll. 2-4.
9 Transcript of Proceedings p. 13, ll. 10-12.
10 Transcript of Proceedings p. 13, ll. 15-18.
11 Transcript of Proceedings p. 13, ll. 20-22.

(e) Large commercial will pay a fixed charge of $92.78 per month and no volumetric delivery fee.[12]

8. Mr. Slaughter testified that paragraph No. 6 of the Joint Stipulation establishes that Oklahoma Natural applied the new 2018 federal income tax rate of 21% to the 2017 test year.[13]

9. Mr. Slaughter testified that paragraph No. 7 of the Joint Stipulation establishes that, in compliance with the PBRC Tariff, the Company and customers share in the earnings that are above the deadband with 75% going to customers and 25% going to the Company.[14] The Company is foregoing its portion of those earnings that are above the deadband. This is a $1.4 million dollar benefit to the customers.[15]

10. Mr. Slaughter testified that paragraph No. 8 of the Joint Stipulation is the agreement with Oklahoma Natural and PUD that, as proposed by PUD, the Company will continue to accrue interest on revenues that are associated with excess tax expense.[16]

11. Mr. Slaughter testified that paragraph No. 9 of the Joint Stipulation establishes that Oklahoma Natural will return any of the excess ADIT, both protected and unprotected, utilizing ARAM.[17]

12. Mr. Slaughter testified that paragraph No. 10 of the Joint Stipulation establishes that the one-time annual ADIT credit for 2018 is $7,317,150 subject to a true-up, and that true-up is based on what the actual results of the tax filings that occur later in the year.[18]

13. Mr. Slaughter testified that paragraph No. 11 of the Joint Stipulation demonstrates that if the ADIT credit, the PBRC credit, and the energy efficiency true-up are added together, the total 12 month impact for the average residential customer is $16.65.[19;20]

14. Mr. Slaughter testified that paragraph No. 12 of the Joint Stipulation explains the Stipulating Parties' agreement that the $5,862,739 PBRC credit and return of the excess ADIT complies with the PBRC Tariff and Order No. 671984 in Cause No. PUD 201700571.[21]

15. Mr. Slaughter testified that paragraph No. 13 of the Joint Stipulation is an agreement to recommend that the Commission provide a waiver to the rules so that Oklahoma

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[12] Please note, if the treatment of unprotected EDIT as recommended by the ALJ is accepted by the Commission, some of all of these calculations may change.
[13] Transcript of Proceedings p. 14, ll. 5-7.
[14] Transcript of Proceedings p. 14, ll. 22-25; p.15, ll.1-2.
[15] Transcript of Proceedings p. 15, ll. 4-6.
[16] Transcript of Proceedings p. 15, ll. 21-24.
[17] Transcript of Proceedings p. 16, ll. 8-11.
[18] Transcript of Proceedings p. 16, ll. 23-25; p. 17, ll.1-2.
[19] Transcript of Proceedings p. 17, ll. 9-15.
[20] Please note, if the treatment of unprotected EDIT as recommended by the ALJ is accepted by the Commission, this calculation may change.
[21] Transcript of Proceedings p. 17, ll. 19-21.

Natural's small transport customers that are on Tariff 255-T have the ability to participate in the energy efficiency programs.[22] This was not a contested issue in this Cause.[23]

16. Mr. Slaughter testified that paragraph No. 14 of the Joint Stipulation establishes that Oklahoma Natural will defer an amortized cost associated with internal processing of credit and debit card payments. This was not a contested issue in this Cause.[24]

17. Mr. Slaughter testified that paragraph Nos. 15 through 17 of the Joint Stipulation are all tariff modifications that were unopposed.[25]

18. Mr. Slaughter testified that in paragraph No. 18 of the Joint Stipulation, the Stipulating Parties agree that the Joint Stipulation represents a fair, just and reasonable settlement of all issues in this proceeding among the Stipulating Parties and that the terms and conditions of the Joint Stipulation are in the public interest.[26]

19. Mr. Slaughter testified that in paragraph No. 19 of the Joint Stipulation, the parties agree that Oklahoma Natural should be permitted to utilize the revised tariffs.[27]

20. During the hearing, Mr. Quintero testified that PUD has reviewed the Joint Stipulation, agrees with the Joint Stipulation, and recommends the Commission accept the Joint Stipulation.[28]

V. CONCLUSION

After considering the arguments, testimony, information and evidence in this Cause, it is the ALJ's recommendation that the Commission adopt the Joint Stipulation and Settlement Agreement filed in this matter on July 26, 2018, which incorporated all of the recommended adjustments of PUD except for the provisions stated by the ALJ in this Report concerning unprotected EDIT.

It is further recommended that the Commission require ONG to amortize the unprotected EDIT and return it to ratepayers over 10 years using a straight-line method beginning with the 2019 PBRC filing for year ending December 31, 2018.

The ALJ recommends the Commission should find that the Joint Stipulation and Settlement Agreement, as amended by the ALJ's recommendation concerning unprotected EDIT, represents a fair, just and reasonable settlement among the Stipulating Parties, including the revenue and expense adjustments described therein, is in the public interest and should be approved.

[22] Transcript of Proceedings p. 18, ll. 7-11.
[23] Transcript of Proceedings p. 18, ll. 24-25; p. 19, ll. 1.
[24] Transcript of Proceedings p. 19, ll. 5-8.
[25] Transcript of Proceedings p. 19, ll. 16-20.
[26] Transcript of Proceedings p. 20, ll. 9-15.
[27] Transcript of Proceedings p. 20, ll. 17-18.
[28] Transcript of Proceedings p. 104, ll. 12-20.

Respectfully submitted,

Michael D. Norris

MICHAEL D. NORRIS
Senior Administrative Law Judge

9-20-18
Date

C:
Chairman Dana L. Murphy
Vice Chairman J. Todd Hiett
Commissioner Bob Anthony
Teryl Williams
Nicole King
Matt Mullins
James L. Myles
Elizabeth A.P. Cates
Dustin R. Fredrick
Rick D. Chamberlain
Jared B. Haines
A. Chase Snodgrass
Thomas P. Schroedter
Michael L. Velez
Kyle Vazquez
Mary Candler
Maribeth D. Snapp

Attachment "A"

FILED
JUL 06 2018
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CORPORATION COMMISSION
OF OKLAHOMA

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICATION OF OKLAHOMA NATURAL GAS COMPANY, A DIVISION OF ONE GAS, FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017, ENERGY EFFICIENCY TRUE-UP AND UTILITY INCENTIVE ADJUSTMENTS FOR PROGRAM YEAR 2017, AND CHANGES OR MODIFICATIONS TO ITS TARIFFS	)	CAUSE NO. PUD 201800028

Summary of the Responsive Testimony of Edwin C. Farrar on Behalf of Mike Hunter, Oklahoma Attorney General

Mr. Edwin C. Farrar submitted pre-filed direct testimony on behalf of Mike Hunter, Attorney General of the State of Oklahoma. In his testimony, Mr. Farrar testified regarding his educational and professional background as a Certified Public Accountant working on regulatory matters primarily before the Oklahoma Corporation Commission ("Commission"). He noted that he had previously testified before the Commission and that his qualifications as an expert on accounting and regulatory matters were accepted.

Mr. Farrar provided testimony on behalf of the Attorney General regarding three issues. First, Mr. Farrar recommended that the Company credit ratepayers with the tax savings within the Performance Based Rate Change ("PBRC") deadband by resetting rates at Oklahoma Natural Gas Company's ("ONG" or "Company") authorized return instead of giving customers a temporary credit. Second, Mr. Farrar responded to ONG's proposal to amortize the unprotected excess accumulated deferred income tax ("ADIT") using the average rate assumption method ("ARAM"). Third, Mr. Farrar recommended that the PBRC non-recurring revenue adjustment be discontinued prospectively. The adjustments Mr. Farrar recommended would change ONG's PBRC credit to a rate reduction and increase the rate reduction by $5,475,973 per year to $11,095,455.

Mr. Farrar explained that ONG's PBRC tariff allows the Company to retain earnings that fall between a return on equity ("ROE") of 9.5 percent and 10 percent, with a sharing of the earnings above a 10 percent ROE. ONG explained that it would have sought a rate increase in the current proceeding if not for the passage of the Tax Cuts and Jobs Act ("TCJA" or "Act"), so the entire amount of the earnings within and above the deadband is the result of the Act. The Commission previously determined that all of the tax expense savings from the Act benefit ratepayers. Order No 671,984 states, in part:

> THE COMMISSION FURTHER FINDS ONG shall record a deferred liability beginning on the effective date of this Order, to reflect the reduced federal corporate tax rate to 21 percent and the associated savings in excess ADIT and any other tax implications of the Act on an interim basis subject to refund until utility rates are adjusted to reflect the federal tax savings and a final order is issued in ONG's next scheduled PBRC proceeding to be filed on or after March 15, 2018, or as otherwise ordered by the Commission.

Mr. Farrar's recommendation would ensure rates are properly adjusted to reflect the tax savings that resulted from the Act.

Mr. Farrar recommended that ONG's rates be reset at its authorized ROE, so that the full benefit of the tax expense savings, net of ONG's increased costs, be provided to ratepayers in compliance with Order No. 671,984. Additionally, the reset rates serve as a baseline for future PBRC proceedings. The impact of the recommendation to adjust ONG's rates to give ratepayers the full benefit of the savings from the Act will turn the excess earnings credit into a permanent rate reduction and will reduce rates by an additional $5,475,973.

Mr. Farrar testified that ONG included an adjustment to remove what it refers to as non-recurring revenue of $1,375,963 from its operating revenue. ONG included this adjustment because the Company does not expect to earn them again in the future. Mr. Farrar explained that the non-recurring revenue removed by ONG included surcharges for miscellaneous utility equipment totaling $1,872, service and yard line work totaling $272,913, and line extension forfeitures totaling $1,101,178. Mr. Farrar disagreed with ONG's adjustment, stating that he reviewed several of ONG's recent proceedings and found that the Company had included an adjustment to remove non-recurring revenue in each one. ONG had included as adjustments for non-recurring revenue in each case:

Cause No.	Non-Recurring Revenue
PUD 201300032	$3,896,205
PUD 201400069	$2,064,028
PUD 201500213	$2,533,604
PUD 201700079	$2,067,307
PUD 201800028	$1,375,963

Mr. Farrar explained that, although the annual amounts fluctuate, the non-recurring revenue keeps recurring, and it should be recognized in the ONG PBRC. Mr. Farrar explained that, unlike a conventional rate case where rates are expected to be in place for several years, the PBRC provided for an annual review of rates. Because the PBRC is refiled every year, the inclusion of the non-recurring revenues only means that customers would be refunded prospectively as a reduction in rates for last year's revenue, and if the revenue for the current year doesn't have any similar level of non-recurring revenue, then it will not be refunded in the following year. With the

PBRC refiled every year, the Company will not be harmed if the adjustment in not made to remove non-recurring revenue.

Mr. Farrar recommended that, prospectively, the non-recurring revenue remain in test year operating revenue. Mr. Farrar testified that this is consistent with Section 2(c) of the PBRC tariff that permits changes to the PBRC tariff.

Mr. Farrar explained that the non-recurring revenue alone has not been large enough to produce a refund or a rate increase, but the inclusion of non-recurring revenue could increase the impact of other changes to ONG's cost of service so that rate refunds could be increased as much as 75 percent of the non-recurring revenue and rate decreases would be reduced by 100% of the non-recurring revenue.

Mr. Farrar explained that ONG is requesting that the unprotected excess ADIT be amortized using the same ARAM amortization of 3.13 percent as it is using for the protected excess ADIT even though that is not required under the Act. ONG argued that over half of the unprotected excess ADIT was the result of plant related repairs and the next largest item is for pensions, which have a longer life than plant.

Mr. Farrar recommended that the Commission adopt a five-year amortization for the unprotected excess ADIT. He explained that the excess ADIT is the result of an over collection of taxes in the past because the tax rate reduction was not, and could not be, anticipated. The passage of the Act resulted in changing ONG's liability from a tax liability to a ratepayer liability, and it is related to an over collection from past ratepayers, not future ratepayers. It is appropriate to allow the amortization of this liability to avoid cash flow problems for ONG, but it is not necessary to extend the amortization over several decades, as use of the ARAM would do.

Mr. Farrar testified that the change would increase the amortization of the unprotected excess ADIT to $12,990,913 million dollars per year from the $2,033,078 proposed by the Company. This refund will be credited to customers annually under ONG's proposal.

Mr. Farrar recommended that the total 2018 amortization of the excess ADIT, adjusted to a pretax basis, is $18,273,165. This amount will be subject to the adjustments found before the filing of the tax return in September and will also be subject to a true up as proposed by ONG.

Mr. Farrar explained that ONG was required to record a regulatory liability for excess income tax expense collected in rates because of the TCJA tax rate reduction in Order No 671,984. ONG's current rates, last reviewed in Cause No. PUD 201700079, are based on the old federal corporate tax rate of 35 percent, and the TCJA reduced the maximum corporate income tax rate to 21 percent. ONG included the tax savings in this Cause as a part of their formula rate plan, but also included offsetting cost increases. ONG calculated the excess tax collection, net of its increased cost of service, based on the earnings in excess of a 10 percent return on equity in the formula rate plan. The excess earnings are then prorated over the period they expect the existing rates to be in effect. ONG then recommends that it not be required to refund this liability because it has the PBRC.

Mr. Farrar disagreed with ONG's proposal not to refund the excess tax expense collected under its current rates. There being several reasons to disagree with ONG's recommendation, Mr. Farrar listed only a few. First, ONG's $5 million dead band would eliminate the refund even if ONG's costs of service did not increase. Second, the excess tax expense is being collected from ONG's customers now, so there is no need for ONG to keep the ratepayers money for another year. Third, the Commission has ordered that the deferred liability be recorded for the excess tax collection so that it can be refunded to ratepayers.

Mr. Farrar explained that he disagreed with the amount of the deferred liability recorded by ONG for the excess tax expense collected under current rates. ONG included the excess earnings above its PBRC deadband ceiling of 10 percent, which allows ONG to recover its increased costs, but it also allows the Company to keep the excess tax expense collected for the portion between its authorized ROE of 9.5 percent and 10 percent. The excess earnings within the deadband total $5,475,973 on an annual basis. The total excess tax collection would be $11,095,455 annually. Another consideration is that the procedural order in this Cause will not permit a refund by June 30, 2018, as proposed by ONG. Mr. Farrar calculated a refund based on an order date before October 1, 2018, but explained that the final order in this Cause will need to base the refund on the period of time from January 9, 2018, through the effective date of new rates. Mr. Farrar also recommended that the refund of the protected excess ADIT be limited to the amortization up to the refund date to ensure compliance with the Act, which prohibits an amortization more rapid than the ARAM. Assuming an effective date for new rates of October 1, 2018, the amount prorated from January 9, 2018, through September 30, 2018, would be $8,082,979.

Mr. Farrar explained that interest should also be included in the refund. Interest, at ONG's current pretax rate of return of 9.052 percent, would total $241,331 through September 30, 2018. The interest only applies to ONG's excess income tax collected in base rates because ratepayers benefit from inclusion of the balance of excess ADIT in rate base.

Mr. Farrar recommended that ONG refund the excess income tax expense recovered in rates, with interest, at September 30, 2018 in the amount of $8,324,310. Mr. Farrar explained that the total refund should include the amortization of excess ADIT and the excess tax expense collected in rates, plus interest, be returned to ONG's customers. Assuming new rates effective

September 30, 2018, the refund would total $21,636,213. Mr. Farrar further recommended that the refund be reflected as a line item on customer's bills.

Mr. Farrar recommended that the Commission adopt his recommendations to order a permanent reduction in ONG's rates, including the adjustment he recommended to reduce rates by $11,095,455. Mr. Farrar also recommended that the excess tax expense collected in rates, plus interest at ONG's pretax authorized return, plus the amortization of the excess ADIT be refunded to customers on a specific date.

CERTIFICATE OF SERVICE

On this 6th day of July, 2018, a true and correct copy of the above and foregoing *Responsive Testimony Summary of Edwin C. Farrar, on Behalf of Mike Hunter, Oklahoma Attorney General,* with attached exhibits, was sent via electronic mail to the following interested parties:

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VICTORIA D. KORRECT
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BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICATION OF OKLAHOMA NATURAL GAS COMPANY, A DIVISION OF ONE GAS, FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017, ENERGY EFFICIENCY TRUE-UP AND UTILITY INCENTIVE ADJUSTMENTS FOR PROGRAM YEAR 2017, AND CHANGES OR MODIFICATIONS TO ITS TARIFFS	)	CAUSE NO. PUD 201800028

Summary of the Responsive Testimony of James B. Alexander on Behalf of Mike Hunter, Oklahoma Attorney General

Mr. James B. Alexander, submitted pre-filed direct testimony on behalf of Mike Hunter, Attorney General of the State of Oklahoma. In his testimony, Mr. Alexander testified regarding his educational and professional background as well as the request by Oklahoma Natural Gas' ("ONG" or "the Company") request to defer and amortize the expenses related to in-house processing of debit and credit card transactions.

Mr. Alexander testified he had reviewed the pre-filed testimony of Mr. Slaughter in this proceeding. He also explained that the Company had requested to move transactions of debit and credit card payments in-house. This would result in an estimated $0.10 per month increase to customer bills. The Company has requested to defer the expenses and amortize them over a four year period in the 2020 PBRC filing. Mr. Alexander also discussed how this request differs from the current treatment, in which third party process such payments.

Mr. Alexander testified he had submitted several discovery requests pertaining to the Company's request. Alexander explained his concerns on possible fee increases over time. He testified the $3.70 fee currently charged by external third parties could have impacted customers' payment method decisions in the past. He explained that customers who are able to pay by alternative methods are likely to do so, in order to avoid that fee. He then testified that if customers shift their payment method decisions to debit and credit card transactions, they could unknowingly cause an increase to their rates.

Mr. Alexander recognized the benefits of handling credit card payments in-house. He stated the in-house costs, as currently estimated, would reduce the cost to customers who use credit card payments, improve customer satisfaction, and give ONG more control over the security of customer's payment information.

Mr. Alexander concluded his testimony with a recommendation to approve the request by ONG to defer expenses until the March 2020 PBRC, while the reasonableness and recovery of those expenses should be subject to future review. He also recommended that the number of credit/debit card payments be closely monitored and reviewed at the following PBRCs to ensure the costs do not exceed the current per transaction cost.

CERTIFICATE OF SERVICE

On this 6th day of July, 2018, a true and correct copy of the above and foregoing *Responsive Testimony Summary of James B. Alexander, on Behalf of Mike Hunter, Oklahoma Attorney General,* with attached exhibits, was sent via electronic mail to the following interested parties:

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BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICATION OF OKLAHOMA NATURAL GAS COMPANY, A DIVISION OF ONE GAS, INC., FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017, ENERGY EFFICIENCY TRUE-UP AND UTILITY INCENTIVE ADJUSTMENTS FOR PROGRAM YEAR 2017, AND CHANGES OR MODIFICATIONS TO ITS TARIFFS	)	**CAUSE NO. PUD 201800028**

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1907

SUMMARY TESTIMONY

OF

AMY TAYLOR

JULY 6, 2018

Amy Taylor is employed by the Public Utility Division ("PUD") of the Oklahoma Corporation Commission ("Commission") as a Public Utility Regulatory Analyst. On March 15, 2018, Oklahoma Natural Gas Company ("Oklahoma Natural" or "Company") filed its Application for approval of its Performance Based Rate Change plan calculations for the twelve months ended December 31, 2017.

Ms. Taylor filed Responsive Testimony on June 15, 2018, to present PUD's recommendation regarding Unbilled and Over / Under Recoveries, Gas Cost and Gross Receipts Revenue Adjustment, Remove Purchased Gas Cost ("PGC") and Unrecovered Purchased Gas Costs ("UPGC") Billed, Gas Costs Related to Operations and Maintenance and Transport Customer Over / Under, Removal of all Gas Costs Collected, Eliminate Unbilled Revenue, Materials and Supplies, and Gas-in-Storage.

Ms. Taylor testified that PUD reviewed the Application, Company workpapers, applicable statutes, and Commission rules. PUD also reviewed the testimony of Company witnesses, Company schedules, general ledgers, and trial balances, along with the data requests and responses issued in this Cause. Ms. Taylor testified that she reviewed supporting documentation for the prior two PBRC causes and the Company's monthly Purchased Gas Adjustment submissions for calendar year 2016 and 2017. In addition, PUD conducted onsite audits at the Company's division office in Oklahoma City, Oklahoma, to review confidential information and interview Company personnel who manage and perform the functions under review.

Ms. Taylor testified that after review of Oklahoma Natural's proposed adjustments and supporting documentation, PUD believes the methodology used by Oklahoma Natural pertaining to the assigned areas was applied correctly, and the calculations were arithmetically accurate. Ms. Taylor testified that PUD does not recommend any adjustments for Unbilled and Over / Under Recoveries, or Gas Cost and Gross Receipts Tax Revenue Adjustment. PUD does recommend the Commission accept the following proposed adjustments as presented by the Company:

1. Oklahoma Natural's proposed adjustment for the removal of $257,273,802 to reduce operating revenues associated with the PGC and UPGC Billed collected through customer billings during the 2017 calendar year;

2. Oklahoma Natural's proposed adjustment for the removal of $8,308 to reduce operating expenses associated with the Removal of Gas Costs Related to O&M and Transport Customer Over / Under;

3. Oklahoma Natural's proposed adjustment to remove $257,273,802 from All Gas Costs Collected from operating expense;

4. Oklahoma Natural's proposed adjustment which removes Unbilled Revenues in the amount of $316,560 from operating revenue for the purpose of computing actual revenues for calendar year 2017;

5. Oklahoma Natural's proposed adjustment for Removal of Materials and Supplies in the amount of $1,901,901 from rate base; and,

6. Oklahoma Natural's proposed adjustment to Gas-in-Storage to remove $2,069,289 from rate base.

Ms. Taylor testified that PUD believes that the recommendations made in this Testimony are fair, just, reasonable, and in the public interest.

CERTIFICATE OF SERVICE

This is to certify that on July 6, 2018, a true and correct copy of the above and foregoing, was sent via electronic mail and/or United States Postal Service, postage fully prepaid thereon to the following interested parties:

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BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICATION OF OKLAHOMA NATURAL GAS COMPANY, A DIVISION OF ONE GAS, INC., FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017, ENERGY EFFICIENCY TRUE-UP AND UTILITY INCENTIVE ADJUSTMENTS FOR PROGRAM YEAR 2017, AND CHANGES OR MODIFICATIONS TO ITS TARIFFS	)	**CAUSE NO. PUD 201800028**

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SUMMARY TESTIMONY

OF

KATHY CHAMPION

JULY 6, 2018

EXECUTIVE SUMMARY

Kathy Champion is employed by the Public Utility Division ("PUD") of the Oklahoma Corporation Commission ("Commission") as a Senior Regulatory Analyst. In this Cause, Ms. Champion read the Application, testimony, Oklahoma Natural's EM&V report for program year 7 (2017), and PUD Cause No. 201600132, Order No. 656769 in which the programs, budgets, and recovery for the 2017 – 2019 Demand programs were approved. Ms. Champion also reviewed the Commission Rules on Demand Programs,[1] held discussions with Company personnel and Oklahoma Natural witnesses, including Paul Raab and Cory Slaughter, and data responses provided to other parties in this Cause.

Ms. Champion recommends approval of the 2017 EM&V Report and the Energy Efficiency adjustment to base rates, including the 2018 program budget adjustment, the 2017 incentive calculation, and the true-up of previous amounts. Ms. Champion also recommends approval of the PBRC revenue distribution and base rate adjustments caused by the EE adjustment.

Ms. Champion further recommends approval of the requested waiver of the Demand Program rules to allow the Commercial Class 255-Transport customers to participate in the Demand Programs. Finally, Ms. Champion recommends approval of the changes to Tariff 1083 and Tariff 707 as proposed by Company witness Cory Slaughter.

Ms. Champion believes these recommendations are fair, just, and reasonable to both the Company and its ratepayers.

[1] OAC Chapter 45, Subchapter 23 Demand Programs.

CERTIFICATE OF SERVICE

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APPLICATION OF OKLAHOMA NATURAL GAS COMPANY, A DIVISION OF ONE GAS, INC., FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017, ENERGY EFFICIENCY TRUE-UP AND UTILITY INCENTIVE ADJUSTMENTS FOR PROGRAM YEAR 2017, AND CHANGES OR MODIFICATIONS TO ITS TARIFFS	))))))))))	**CAUSE NO. PUD 201800028**

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SUMMARY TESTIMONY

OF

CHRIS BERTUS

JULY 6, 2018

Chris Bertus is employed by the Public Utility Division ("PUD") of the Oklahoma Corporation Commission ("Commission") as a Regulatory Analyst. On March 15, 2018, Oklahoma Natural Gas Company ("Oklahoma Natural" or "Company") filed an application for approval of its Performance Based Rate Change ("PBRC") plan calculations for the twelve months ended December 31, 2017, Energy Efficiency True-up, and Utility Incentive Adjustments for program year 2017, and changes or modifications to its tariffs.

Mr. Bertus filed Responsive Testimony on June 15, 2018, and testified that PUD reviewed the merits of the Company's request to defer and amortize the costs associated with processing credit and debit card transactions internally.

The Company requested to defer these costs in the fourth quarter of 2018 and entire year of 2019. Beginning with the March 2020 PBRC, Oklahoma Natural would then amortize these expenses over a four year period. Additionally, this proposal would result in a change to the way in which customers are charged for these processing costs. Currently, customers who pay their service bills with a credit or debit card are assessed a surcharge. Under the proposal these costs would be recoverable through base rates.

Mr. Bertus testified that in preparing recommendations, PUD reviewed the Company's Application, testimony, workpapers, conducted onsite audits, and held discussions with Company personnel. Mr. Bertus testified that PUD also reviewed data requests issued by intervenors and the associated responses, and researched credit and debit card networks. After this review, PUD concluded that Oklahoma Natural's request is reasonable and recommends the Commission grant the Company's request.

Mr. Bertus testified that PUD believes that these recommendations are fair, just, reasonable, and in the public interest.

CERTIFICATE OF SERVICE

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SUMMARY TESTIMONY

OF

JASON LAWTER

JULY 6, 2018

Jason Lawter is employed by the Public Utility Division ("PUD") of the Oklahoma Corporation Commission ("Commission") as a Public Utility Regulatory Analyst. On March 15, 2018, Oklahoma Natural Gas Company ("Company") filed an Application for approval of its Performance Based Rate Change plan calculations for the twelve months ended December 31, 2017, Energy Efficiency true-up and Utility Incentive adjustments for program year 2017, and changes or modifications to its tariffs. PUD reviewed the Application, Company workpapers, and the applicable statutes and Commission rules. On June 15, 2018, Mr. Lawter filed Responsive Testimony to present PUD's recommendation regarding Weather Normalization Adjustment.

Mr. Lawter testified that after reviewing the area of Weather Normalization, PUD determined the models used by the Company were in line with industry standards and prior Causes. However, PUD recommends that in the future, the Company test real Gross Domestic Product ("GDP") for Oklahoma in the weather normalization model.

Mr. Lawter testified that PUD believes that this recommendation is fair, just, reasonable, and in the public interest.

CERTIFICATE OF SERVICE

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OF OKLAHOMA

SUMMARY TESTIMONY

OF

ZACHARY QUINTERO

JULY 6, 2018

Zachary Quintero is employed by the Public Utility Division ("PUD") as a Senior Public Utility Regulatory Analyst. On March 15, 2018, Oklahoma Natural Gas ("Oklahoma Natural" or "Company") filed its Application requesting approval of its Performance Based Rate Change ("PBRC" or "PBR") calculations for the twelve months ended December 31, 2017. In compliance with its approved tariff, Oklahoma Natural files an annual PBRC to allow PUD and other intervenors to review financial data for the previous test year and determine if any changes in the Company's rates are necessary. Due to the federal corporate income tax reduction as a result of the Tax Cuts and Jobs Act of 2017, Oklahoma Natural claimed in its Application that it is currently earning a Return on Equity ("ROE") of 10.51%. The Company has requested a decrease in its base rate revenues of $5,619,482 to return within the approved 10.00% ROE dead-band target.

On June 15, 2018, Mr. Quintero filed his Responsive Testimony and the PUD Accounting Exhibit he prepared which calculated PUD's adjustments to the Company's Application. Mr. Quintero testified that PUD reviewed the testimony of Company witnesses, workpapers, general ledgers, and other supporting documentation to make recommendations regarding Oklahoma Natural's claimed expenses, revenues, and rate base investments. Mr. Quintero also testified that PUD analysts conducted multiple onsite audits at Oklahoma Natural's corporate headquarters in Oklahoma City, Oklahoma, in order to review confidential information and speak with Company personnel. For the purposes of his testimony, Mr. Quintero testified that PUD reviewed the Tax Cuts and Jobs Act of 2017 and the Company's treatment of its deferred tax regulatory liability created as a result of Order No. 671984 in Cause No. PUD 201700571.

On June 22, 2018, Mr. Quintero filed his Supplemental Testimony, which corrected a calculation error included in his original Accounting Exhibit filed on June 15, 2018. Mr. Quintero attached an Amended Accounting Exhibit as Exhibit ZJQ-2 to his Supplemental Testimony. Mr. Quintero testified that he recommends the Commission adopt his and other PUD adjustments with the updated values provided in his Supplemental Testimony.

On June 29, 2018, Mr. Quintero filed his Rebuttal Testimony which addressed a recommendation made by Attorney General ("AG") witness Edwin C. Farrar regarding Oklahoma Natural's proposed customer credit. Mr. Farrar recommended the customer credit be based upon an Earned Return ("ER") of 9.5% rather than 10% as proposed by the Company. Mr. Quintero testified that the AG's recommendation would violate the approved PBRC tariff which states that any credit to the customer occurs only when the ER is above 10%. Mr. Quintero testified that modifications to the PBRC calculation can only be made prospectively, and basing this year's customer credit on a 9.5% ER would constitute inappropriate retroactive ratemaking.

Based upon the sum of his testimonies, Mr. Quintero testified that PUD makes the following recommendations:

- **Ad Valorem / Property Tax**
    - Accept Oklahoma Natural's claimed amounts for Ad Valorem / Property Tax for the test year ended December 31, 2017. The Company's test year amounts accurately matched the amounts booked in its general ledger and the overall millage rate was 0.01% less when compared to the previous test year.

- **Bad Debt Expense**
  - Accept the Company's claimed amounts for Bad Debt Expense for the test year ended December 31, 2017. The Company's test year amounts accurately matched the amounts booked in its general ledger and the percentage of bad debt expense to revenues was comparable or lower than that of another large, regulated Oklahoma gas utility.

- **Cash Working Capital**
  - Accept PUD Adj. No. B-1 to reduce the Company's Cash Working Capital by $7,483 as a result of all PUD recommended adjustments to Oklahoma Natural's expenses.

- **State and Federal Income Tax**
  - Accept PUD Adj. No. J-1 to reduce the Company's tax expense by $124 to synchronize the interest expense with PUD's recommended adjustments to Rate Base.
  - Accept Oklahoma Natural's calculation of State and Federal Income Tax with the exception of PUD Adj. No. J-1. The Company used the new effective corporate tax rate of 21% in calculating its prospective rates, and thus accurately calculated its total income tax expense going forward.
  - Accept Oklahoma Natural's proposal to consider in its 2019 PBRC filing the excess tax expense being collected in current rates from January 9, 2018, to the implementation of new rates as a result of this Cause. The excess tax expense currently being collected by the Company should be considered along with all other 2018 test year financial information in order to accurately return any possible benefit to customers.
  - Instruct Oklahoma Natural to continue accruing cost of capital interest on any excess income tax expense collected from January 9, 2018 until the excess tax expense is included in base rates as a part of the 2019 PBRC filing.

- **Accumulated Deferred Income Taxes ("ADIT")**
  - Accept Oklahoma Natural's use of the federally mandated Average Rate Assumption Method to amortize and return the protected and unprotected excess ADIT balance to ratepayers in order to properly balance the impact of an effective increase in Rate Base caused by returning the liability to customers.
  - Accept Oklahoma Natural's proposal to true-up any difference between estimated and actual excess ADIT amortization in each subsequent PBRC or rate case filing, adjusting the subsequent year's customer credit as necessary. This mechanism allows the Company flexibility to adjust the credit to only the actual excess ADIT amounts due to ratepayers.
  - Accept Oklahoma Natural's proposal to return the annual amortization amounts using an annual bill credit in order to ensure ratepayers receive the credit as soon as possible.

- **Attorney General's Earned Revenue Adjustment**
    - Reject the AG's proposal to base the customer credit on an ER of 9.5% rather than the 10% prescribed in the PBRC tariff.
    - Changes to the PBRC tariff can only occur prospectively.
    - Basing the customer credit upon a 9.5% ER would constitute inappropriate retroactive ratemaking.

Mr. Quintero testified that PUD's recommendations result in a PBRC Revenue Requirement decrease of $243,257 when compared to the Oklahoma Natural's Application, and a $5,862,732 decrease overall. Mr. Quintero testified that these recommendations are fair, just, reasonable, and in the public interest.

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OKLAHOMA CORPORATION COMMISSION

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICATION OF OKLAHOMA NATURAL GAS COMPANY, A DIVISION OF ONE GAS, INC., FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017, ENERGY EFFICIENCY TRUE-UP AND UTILITY INCENTIVE ADJUSTMENTS FOR PROGRAM YEAR 2017, AND CHANGES OR MODIFICATIONS TO ITS TARIFFS	)	**CAUSE NO. PUD 201800028**

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OF OKLAHOMA

GREAT SEAL OF THE STATE OF OKLAHOMA
1907

SUMMARY TESTIMONY

OF

ELBERT D. THOMAS

JULY 6, 2018

Elbert Thomas is employed by PUD ("Public Utility Division") of the Oklahoma Corporation Commission ("Commission") as a Public Utility Regulatory Analyst. In this Cause, Mr. Thomas presented PUD's recommendation for his assigned areas in response to the Application filed by Oklahoma Natural Gas Company ("Oklahoma Natural" or "Company").

On March 15, 2018, Oklahoma Natural filed its Application for approval of its performance based rate change ("PBRC") plan calculations for the twelve months ended December 31, 2017. Mr. Thomas testified that PUD reviewed the Application, Testimony, schedules, relevant statutes, Commission rules, general ledgers, working copies of all computer model spreadsheets, and conducted onsite audits at the Company's division office in Oklahoma City, Oklahoma.

On June 15, 2018, Mr. Thomas filed Responsive Testimony for the following areas: Customer Deposits, Customer Advances, Contributions in Aid of Construction, Waiver for Small Transport Customers to Participate in Energy Efficiency, and Interest on Customer Deposits. Mr. Thomas requests the Commission accept the following recommendations:

Company Proposed Adjustments:

- **<u>Customer Deposits:</u>** Adjustment RB-10 to decrease Customer Deposits by $223,267. This will reduce the rate base by $223,267. The main element in this review is based on a 13-month average and the test year amount.

- **<u>Customer Advances:</u>** Adjustment RB-12 to decrease Customer Advances by $325,520. This will reduce the rate base by $325,520. The main element in this review is based on a 13-month average and the test year amount.
- **<u>CIAC:</u>** Adjustment No. RB-11 to decrease CIAC by $1,909,643. This will reduce the rate base by $1,909,643. The main element in this review is based on a 13-month average and the test year amount.
- **<u>Waiver for Small Transport Customers to Participate in Energy Efficiency:</u>** Approve Company's request to include Small Transport, 255-T customers in EE Commercial Custom Program.
- **<u>Interest on Customer Deposits:</u>** Adjustment E-5 to decrease Interest on Customer Deposits by $408,123. This will decrease the Operating Expenses by $408,123. The main element in this review is based on a 13-month average and the test year amount.

Mr. Thomas testified that PUD believes these recommendations are fair, just, reasonable, and in the public interest.

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SUMMARY TESTIMONY

OF

DAVID MELVIN

JULY 6, 2018

David Melvin is employed by the Public Utility Division ("PUD") of the Oklahoma Corporation Commission ("Commission") as a Public Utility Regulatory Analyst. On March 15, 2018, Oklahoma Natural Gas Company ("Oklahoma Natural" or "Company") filed its Application for approval of its Performance Based Rate Change plan calculations for the twelve months ended December 31, 2017. Mr. Melvin filed Responsive Testimony on June 15, 2018. The purpose of his Responsive Testimony was to present PUD's recommendations concerning Cause No. PUD 201800028.

Mr. Melvin's Responsive Testimony focused on Plant in Service, Construction Work in Progress ("CWIP"), Plant Operations and Maintenance Expenses ("O&M"), Regulatory Assets, Removal of Ft. Sill Expenses, December Depreciation Annualization, and Accumulated Depreciation.

Mr. Melvin testified that PUD reviewed the Application, schedules, and Company Testimony for consistency and arithmetical accuracy, and conducted onsite audits at the Company's division office in Oklahoma City, Oklahoma. Mr. Melvin performed a trend analysis on both Plant in Service and O&M expenses, and sent out a data request for information regarding the Regulatory Assets amortization schedules, as well as additional information on a sample set of Plant in Service additions completed during the test year. Mr. Melvin conducted a second onsite audit to speak with engineering and planning personnel regarding estimated construction costs, reasons for the construction performed during the test year, alternatives discussed for the projects, and reasons for differences between actual costs of construction and estimated costs of construction.

Mr. Melvin testified that after review, PUD makes the following recommendations:

(1) The Commission accept the Plant in Service of $2,378,232,738 and CWIP amount of $53,330,901 included in Schedule B-3 and Schedule B-1;

(2) The Commission accept $170,218,366 in Operating Expenses as stated in Workpaper H-3 Summary of Operating Expenses;

(3) The Commission accept Adjustment E-1 removing Ft. Sill expenses in Schedule H-2 in the amount of $130,433;

(4) The Commission accept the Depreciation Annualization Adjustment E-10 increasing expenses on Schedule H-2 by $885,675;

(5) The Commission accept the Accumulated Depreciation included in Schedules B-1, B-2, and B-3 reducing rate base by $804,265,234;

(6) The Commission accept Adjustment RB-6, Regulatory Asset – Transition Costs, reducing rate base by $376,456;

(7) The Commission accept Adjustment RB-8, Regulatory Asset – One Gas Stand Up Costs, reducing rate base by $1,209,117; and

(8) The Commission accept Adjustment RB-9, Regulatory Asset – Private Lines, reducing rate base by $20,250.

PUD believes that these recommendations are fair, just, reasonable, and in the public interest.

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SUMMARY TESTIMONY

OF

MARYDORIS CASEY

JULY 6, 2018

MaryDoris Casey is employed by the Public Utility Division ("PUD") of the Oklahoma Corporation Commission ("Commission") as a Public Utility Regulatory Analyst. On March 15, 2018, Oklahoma Natural Gas Company ("Oklahoma Natural" or "Company") filed an Application for approval of its Performance Based Rate Change plan calculations for the twelve months ending December 31, 2017, energy efficiency true-up and utility incentive adjustments for program year 2017, and changes or modifications to its tariffs. Ms. Casey filed Responsive Testimony on June 15, 2018.

Ms. Casey testified that PUD reviewed the Application, testimony of Company witnesses, Company workpapers, and conducted onsite audits at the Company's corporate offices in Oklahoma City, Oklahoma, and Tulsa, Oklahoma.

Further, Ms. Casey testified that after review of the Company's supporting documentation regarding Non-Recurring Revenues, PUD recommends the Commission accept the Company's proposed Adjustment R-5 for $1,375,963, as it is reasonable and necessary due to the non-recurring nature of the revenue. Ms. Casey identified no concerns during PUD's review of the Company's Internal Auditors Reports, Board of Directors Meeting Minutes, and Annual Report, and therefore PUD does not have any recommendations for these areas.

Ms. Casey testified that PUD believes this recommendation is fair, just, reasonable, and in the public interest.

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SUMMARY TESTIMONY

OF

MCKLEIN AGUIRRE

JULY 6, 2018

McKlein Aguirre is employed by the Public Utility Division ("PUD") of the Oklahoma Corporation Commission ("Commission") as a Public Utility Regulatory Analyst. Mr. Aguirre filed Responsive Testimony in Oklahoma Natural Gas Company's ("Oklahoma Natural" or "Company") Cause No. PUD 201800028 on June 15, 2018.

On March 15, 2018, Oklahoma Natural filed an Application for approval of its Performance Based Rate Change plan calculations for the twelve months ended December 31, 2017, energy efficiency true-up and utility incentive adjustments for program year 2017, and changes or modifications to its tariffs. Mr. Aguirre testified that PUD reviewed the Application, Company testimony, and Company workpapers. PUD also reviewed the Oklahoma Attorney General's data requests and the associated responses, interviewed Company personnel, and conducted multiple onsite audits at the Company's corporate office in Oklahoma City, Oklahoma.

Mr. Aguirre testified that PUD reviewed the areas of Outside Services / Attorney Fees, Removal of Regulatory Asset – Rate Case Expenses, Regulatory Expenses, and Payments to Private Lines. PUD believes expenses the Company included in Outside Services / Attorney Fees and Regulatory Expenses are reasonable. PUD does not recommend any adjustments to Outside Services / Attorney Fees or Regulatory Expenses.

Mr. Aguirre testified that PUD recommends the Commission accept the following adjustments proposed by Oklahoma Natural:

(1) RB-7 to remove the unamortized Regulatory Asset balance of $421,316 from rate base for costs associated with the 2015 rate cause.[1]

(2) RB-9 to remove the unamortized Regulatory Asset balance of $20,250 from rate base.[2]

(3) E-4 to include one year of amortization expense which totaled to $98,000 of deferred Payments to Private Line customers.[3]

Mr. Aguirre testified that PUD believes that the recommendations are fair, just, reasonable, and in the public interest.

[1] This Regulatory Asset for Rate Case Expenses was approved by Commission Order No. 648326 in Cause No. PUD 201500213 to be amortized over a four-year period and will be fully amortized in December 2019.

[2] This Regulatory Asset for Payments to Private Lines was approved by Commission Order No. 666781 in Cause No. PUD 201700079 to be amortized over a four-year period.

[3] Commission Order No. 666781 in Cause No. PUD 201700079 authorized the Company to defer and amortize over a four-year period, payments to Private Line customers in order to defray the cost conversion to alternative fuel sources in cases where it is uneconomical to rebuild the line.

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OF

KIRAN PATEL

JULY 6, 2018

Kiran Patel is employed by the Public Utility Division ("PUD") of the Oklahoma Corporation Commission ("Commission") as a Fuels Coordinator. Ms. Patel filed Responsive Testimony in Oklahoma Natural Gas Company's ("Oklahoma Natural" or "Company") Cause No. PUD 201800028 on June 15, 2018.

On March 15, 2018, Oklahoma Natural filed an Application for approval of its Performance Based Rate Change ("PBRC") plan calculations for the twelve months ended December 31, 2017, energy efficiency true-up and utility incentive adjustments for program year 2017, and changes or modifications to its tariffs. The Public Utility Division ("PUD") reviewed the Application, Company testimony, and Company workpapers. Ms. Patel testified that PUD also reviewed intervenors' data requests and the associated responses, interviewed Company personnel, and conducted multiple onsite audits at the Company's corporate office in Oklahoma City, Oklahoma.

Ms. Patel testified that PUD reviewed the areas of Prepayment Expenses, Prepayment Corporate Expenses, and Miscellaneous General Expenses. PUD verified the calculation on WP B-3-4 and WP B-3-5 that resulted in the amount the Company proposed and agrees with the 13-month average balance of Prepayment Expenses and Prepayment Corporate Expenses. The Company used its month end balances from December 2016 through December 2017 to calculate the 13-month average balance amount of $2,548,400 for Prepayment Expenses and the 13-month average balance amount of $6,820,057 for Prepayment Corporate Expenses. PUD believes the methodology used by Oklahoma Natural pertaining to the assigned areas was applied correctly.

Ms. Patel testified that PUD recommends the Commission accept Oklahoma Natural's proposed adjustment No. 4, to decrease $2,548,400 for the 13-month Average balance for Prepayment Expenses and proposed adjustment No. 5, to increase $6,820,057 for the 13-month Average balance for Prepayment Corporate Expenses. Also, Ms. Patel has no recommendation regarding the Miscellaneous General Expenses as the Company did not include any expenses for this area in this PBRC.

Ms. Patel testified that PUD believes that these recommendations are fair, just, reasonable, and in the public interest.

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SUMMARY TESTIMONY

OF

ANDREW SCRIBNER

JULY 6, 2018

Andrew Scribner is employed by the Public Utility Division ("PUD") of the Oklahoma Corporation Commission ("Commission") as a Public Utility Regulatory Analyst. Mr. Scribner filed Responsive Testimony in Oklahoma Natural Gas Company's ("Oklahoma Natural" or "Company") Cause No. PUD 201800028 on June 15, 2018.

On March 15, 2018, Oklahoma Natural filed an Application for approval of its Performance Based Rate Change plan calculations for the twelve months ended December 31, 2017, energy efficiency true-up and utility incentive adjustments for program year 2017, and changes or modifications to its tariffs. Mr. Scribner testified that PUD reviewed the Application, Company workpapers, and the applicable statutes and Commission rules. PUD conducted multiple onsite audits at the Company's corporate office in Oklahoma City, Oklahoma, and discussed areas under review with Company personnel.

Mr. Scribner testified that after reviewing the areas of Advertising Expenses, Dues and Donations, Informational, Instructional, Miscellaneous, and Sales Expenses, and Legal Settlements, PUD recommends three adjustments for Advertising Expenses, Dues and Donations, and Informational, Instructional, Miscellaneous, and Sales Expenses. PUD recommends the Commission accept Legal Settlements as presented by the Company.

Mr. Scribner testified that PUD recommends the Commission accept PUD's Adjustment No. H-1 to decrease Oklahoma Natural's operating expenses by $5,862 to exclude various Advertising Expenses that are not allowed for ratemaking purposes. According to 17 O.S. § 180.1, these expenses are not allowed for ratemaking purposes because they are not associated with advertising campaigns related to: (1) protection of health and safety; (2) environmental protection; (3) safe and economic use of equipment; or (4) conservation of energy. PUD determined that the Company's operating expenses contained expenses for an award program and several sponsorships that did not meet the criteria enumerated above and were not proper for inclusion.

Mr. Scribner testified that PUD also recommends the Commission accept PUD's Adjustment H-2 to decrease Dues and Donations by $190,524. This disallowance is necessary to remove expenses that are not allowed for ratemaking purposes and result in sharing costs that benefit both the ratepayers and the shareholders. As part of Dues and Donations, the Company included expenses in the amount of $3,570 for Better Business Bureau dues. PUD recommends the Commission disallow these expenses as they do not facilitate the provision of service to ratepayers and should not be allowed for recovery. The Company also included the amount of $172,357 for Chambers of Commerce dues. In prior causes, the Commission has determined that certain Chambers of Commerce dues benefit both the ratepayers and shareholders and should be shared between the parties. Therefore, PUD recommends the Commission order Oklahoma Natural to divide equally the amount of $172,357 between the ratepayers and shareholders resulting in a disallowance of $86,179. Additionally, PUD also determined that other Dues and Donations expenses for sponsorships, donations, and banquets included for recovery in the amount of $100,775 did not benefit ratepayers and recommends the Commission disallow these operating expenses. These three disallowances equal the total recommended adjustment to decrease Dues and Donations by $190,524.

Mr. Scribner testified that PUD further recommends the Commission accept PUD's Adjustment No. H-3 to decrease Informational, Instructional, Miscellaneous, and Sales Expenses by $47,042. This Federal Energy Regulatory Commission account, 908, includes the cost of labor, materials used, and expenses incurred in providing instructions or assistance to customers to encourage safe, efficient, and economical use of the utility's service. Oklahoma Natural allocated expenses to this account that were improper for inclusion such as dues, sponsorships, golf tournaments, and advertising. These expenses are not allowed for ratemaking purposes because they do not facilitate the provision of service and may force ratepayers to involuntarily contribute to activities, associations, organizations, and institutions of which they have no knowledge, choice, or direct benefit.

Mr. Scribner testified that PUD believes that these recommendations are fair, just, reasonable, and in the public interest.

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OKLAHOMA CORPORATION COMMISSION

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICATION OF OKLAHOMA NATURAL GAS COMPANY, A DIVISION OF ONE GAS, INC., FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017, ENERGY EFFICIENCY TRUE-UP AND UTILITY INCENTIVE ADJUSTMENTS FOR PROGRAM YEAR 2017, AND CHANGES OR MODIFICATIONS TO ITS TARIFFS	)	**CAUSE NO. PUD 201800028**

FILED
JUL 06 2018
COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

SUMMARY TESTIMONY

OF

GEOFFREY M. RUSH

JULY 6, 2018

Geoffrey M. Rush is employed by the Public Utility Division ("PUD") of the Oklahoma Corporation Commission ("Commission") as a Public Utility Energy Coordinator. In this Cause, Mr. Rush presented PUD's recommendation for his assigned areas in response to the Application filed by Oklahoma Natural Gas Company ("Oklahoma Natural" or "Company").

On March15, 2018, Oklahoma Natural filed its Application for approval of its performance based rate change ("PBRC") plan calculations for the twelve months ended December 31, 2017.. Mr. Rush reviewed the Application, as well as the Direct Testimony of Oklahoma Natural witnesses Cory Slaughter and Annette Ellis. In addition, Mr. Rush testified that PUD issued data requests, reviewed data requests and responses, and conducted onsite audits at the Company's division office in Oklahoma City, Oklahoma.

On June 15, 2018, Mr. Rush filed Responsive Testimony for the following areas: Payroll Expenses, Long-Term Incentives ("LTI"), Short-Term Incentives ("STI"), and Supplemental Executive Retirement Plan ("SERP"). In addition, Mr. Rush reviewed Payroll Distribution and Directors'/ Executive Expense Vouchers.

The Company did not propose any changes to Payroll Distribution or Directors' / Executive Expense Vouchers. However, with respect to Payroll Expense, LTI, STI and SERP, Mr. Rush requests the Commission accept the following recommendations:

1) The Company's proposed increase to Payroll Expense in the amount of $507,808;
2) The Company's proposed decrease to LTI in the amount of $403,774;

3) The Company's proposed decrease to STI in the amount of $1,017,435;

4) The Company's proposed decrease to SERP in the amount of $302,810.

Mr. Rush testified that PUD believes that the recommendations are fair, just, reasonable, and in the public interest.

CERTIFICATE OF SERVICE

This is to certify that on July 6, 2018, a true and correct copy of the above and foregoing, was sent via electronic mail and/or United States Postal Service, postage fully prepaid thereon to the following interested parties:

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OKLAHOMA CORPORATION COMMISSION

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICATION OF OKLAHOMA NATURAL GAS COMPANY, A DIVISION OF ONE GAS, INC., FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017, ENERGY EFFICIENCY TRUE-UP AND UTILITY INCENTIVE ADJUSTMENTS FOR PROGRAM YEAR 2017, AND CHANGES OR MODIFICATIONS TO ITS TARIFFS

CAUSE NO. PUD 201800028

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GREAT SEAL OF THE STATE OF OKLAHOMA
1907

SUMMARY TESTIMONY

OF

ISAAC D. STROUP

JULY 6, 2018

Isaac D. Stroup is employed by the Public Utility Division ("PUD") of the Oklahoma Corporation Commission ("Commission") as a Public Utility Regulatory Analyst. Mr. Stroup filed Responsive Testimony in Oklahoma Natural Gas Company's ("Oklahoma Natural" or "Company") Cause No. PUD 201800028 on June 15, 2018.

On March 15, 2018, Oklahoma Natural filed an Application for approval of its Performance Based Rate Change plan calculations for the twelve months ended December 31, 2017, energy efficiency true-up and utility incentive adjustments for program year 2017, and changes or modifications to its tariffs. Mr. Stroup testified that PUD reviewed the Application, Company workpapers, and the applicable statutes and Commission rules. PUD conducted multiple onsite audits at the Company's corporate office in Oklahoma City, Oklahoma, and discussed areas under review with Company personnel.

Mr. Stroup testified that after reviewing the areas of the Ft. Sill Revenue and Expense adjustments, the EFM Equipment Fee Revenue adjustment, the adjustment to Normalize Revenue Related to Reimbursements, and the Corporate Support Services/Distrigas adjustment, PUD recommends that the Commission approve the Company's adjustments to remove $1,030,639 from operating income related to Fort Sill Revenue, and remove $130,433 from operating expenses related to Fort Sill Expense. Oklahoma Natural is allowed to charge Fort Sill special rates for natural gas distribution service. In order to prevent subsidization, Oklahoma Natural tracks and removes all revenue and expenses related to Fort Sill. These adjustments result in a combined $900,206 reduction in operating income.

In addition, Mr. Stroup testified that PUD recommends the Commission approve the Company's adjustment to remove $123,240 from operating income related to Electronic Flow Measurement ("EFM") Equipment Fee Revenue. EFM Equipment Fee Revenue is incurred when a customer opts to move to a transportation tariff and pays the Company to install special EFM equipment. This is one-time revenue, and is removed from operating income for the purpose of ratemaking.

Mr. Stroup also testified that PUD recommends the Commission approve the Company's adjustment to Normalize Revenue Related to Reimbursements, which removes $1,093,401 from operating income. Oklahoma Natural is not allowed to earn a rate base return on Expenses related to highway relocation, however, the Company is allowed to amortize revenue related to highway relocation over a five-year period. This adjustment reconciles the difference between the annual amortization amount and the amount that was actually amortized during the test year.

Finally, Mr. Stroup testified that PUD recommends that the Commission approve the Company's Corporate Support Services/Distrigas adjustment to remove $4,053,651 from operating income. This adjustment removes certain allocated expenses that are not allowed to be recovered from ratepayers, including aviation, government relations, civic activities, contributions and donations, supplemental executive retirement pay, and long term incentives.

Mr. Stroup testified that PUD believes that the recommendations are fair, just, reasonable, and in the public interest.

CERTIFICATE OF SERVICE

This is to certify that on July 6, 2018, a true and correct copy of the above and foregoing, was sent via electronic mail and/or United States Postal Service, postage fully prepaid thereon to the following interested parties:

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OKLAHOMA CORPORATION COMMISSION

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

APPLICATION OF OKLAHOMA NATURAL GAS COMPANY, A DIVISION OF ONE GAS, INC., FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017, ENERGY EFFICIENCY TRUE-UP AND UTILITY INCENTIVE ADJUSTMENTS FOR PROGRAM YEAR 2017, AND CHANGES OR MODIFICATIONS TO ITS TARIFFS	)	CAUSE NO. PUD 201800028

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JUL 24 2018
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CORPORATION COMMISSION
OF OKLAHOMA

TESTIMONY SUMMARY

OF

DON'EA MAYBERRY

ON BEHALF OF

OKLAHOMA NATURAL GAS

July 24, 2018

Don'ea Mayberry is employed by Oklahoma Natural Gas Company ("Oklahoma Natural," or the "Company") as a Rates Analyst in the Rates and Regulatory Reporting Department. She has a Bachelor of Science in Agricultural Business from Langston University and a Masters of Business Administration degree from Southern Nazarene University. She has been employed by the Company since June 2004, working in varying duties and levels of responsibility. Ms. Mayberry is responsible for conducting analyses related to issues brought before the Oklahoma Corporation Commission (the "Commission").

Ms. Mayberry testified regarding the pro forma adjustments RB-2, RB-3, RB-6, RB-8, R-1, R-4, E-5 and Workpaper H-3, and modifications to Tariff 2001, Gas Transportation Agreement.

Ms. Mayberry testified that the Company relies on gas in storage as part of its overall gas procurement plan to assure that the Company can provide reliable deliveries of natural gas to its customers. As a result, a substantial financial commitment must be made to support the buildup of gas in storage reserves during the off-peak season. As of December 31, 2017, the test year end, The Company's per book investment in gas in storage was $88,917,460. The Company proposes pro forma adjustment RB-2 to lower the test year end gas in storage level to $86,848,171. This decrease of $2,069,289 reflects a 13-month average investment level. A 13-month average normalizes the fluctuations in the investment in gas in storage during the test year.

Ms. Mayberry testified that at test year end, the Company had $23,129,340 on its balance sheet related to materials and supplies. For the components of Working Capital included in rate base (such as gas in storage, materials and supplies, and prepayments) a 13-month average is more representative of the Company's investment in these items than the balance recorded in the Company's books at the end of the test year. An average balance over 13 months normalizes the fluctuations in these accounts during the test year. Pro forma adjustment RB-3 adjusts the Company's materials and supplies test year end balance to a 13-month average of $21,227,439 decreasing rate base by $1,901,901.

Ms. Mayberry testified that pro forma adjustment RB-6 removes the transition regulatory asset of $376,456 from rate base. The regulatory asset represents the transition costs from the 1997 merger with Western Resources. These transition costs were approved by Commission Order No. 416480 in Cause No. PUD 970000106 dated October 3, 1997, to be amortized over a forty-year period and will be fully amortized in December 2037.

Ms. Mayberry testified that pro forma adjustment RB-8 removes the ONE Gas stand up costs regulatory asset of $1,209,117 from rate base. This regulatory asset is to amortize the costs to migrate data and applications from ONEOK to ONE Gas. This regulatory asset is being removed for a recovery of the expense but not a return on the asset. These ONE Gas stand up costs were approved by Commission Order No. 648326 in Cause No. PUD 201500213 dated January 6, 2016, to be amortized over a four-year period and will be fully amortized in December 2019.

Ms. Mayberry also testified that the Company amortizes to income, over a five-year period, contributions received because of pipeline relocation projects and other special reimbursements, thereby reducing utility revenue requirements. The Commission has allowed the Company to normalize highway reimbursable income for a five-year normalized period (Order No. 388124 in Cause No. PUD 910001190). Pro forma adjustment R-1 makes the adjustment as required by this Commission Order. The total adjustment to utility operating income is a reduction of $1,093,401 which is a summation of adjustments relating to the Company's distribution and transmission systems.

Further, Ms. Mayberry testified, that for financial reporting purposes, the Company records unbilled revenues monthly due to billing lag, which exists from the time gas is sold or delivered to the customer and until those sales or deliveries are actually billed to the customer. This book adjustment is intended to closely match gas sales with gas purchases monthly. The entry made in any given month is reversed the following month when the actual sales data becomes available. The unbilled revenue adjustment is strictly an estimate to match monthly revenues and expenses. It should be eliminated for regulatory purposes since the gas sales statistic utilized by the Company includes a full 12-month accounting of actual sales activity. For the test year ending December 31, 2017, the Company booked $316,560 related to unbilled revenues. This amount should be removed for calculating actual test year revenues.

Ms. Mayberry testified that the Company is required by Commission rule OAC 165:45-11-1 to pay interest on the deposits it receives from customers. Unlike the deposits themselves, which are recognized as a source of non-investor supplied capital and are removed from rate base, the interest the Company pays on deposits is a legitimate operating cost. Pro forma adjustment E-5 in the amount of $408,123 is necessary to reflect the total interest expense on the long and short-term customer deposits held by the Company.

Ms. Mayberry also testified that Supplemental Workpaper H-3, Summary of Operating Expenses, is a schedule of expenses detailed by account number, title and month for twelve months of the test year and the corresponding annual totals for the two preceding years. The schedule depicts the amounts expensed during each month and the percentage change between the years as reported in the Company's income statement excluding adjustments made according to Tariff 1201 (Performance Based Rate Change ("PBRC") Plan). Section 7 (a)(1) of PBRC Tariff 1201 requires Chapter 70 Minimum Filing Requirement Supplemental W/P H-3 be filed as part of each PBRC filing.

Ms. Mayberry testified, that the Company is requesting that Tariff 2001, Gas Transportation Agreement be modified to correct the word "ore" to "or" on page 1 of 5. See Exhibit DM-1 (redline and clean versions).

In conclusion, Ms. Mayberry testified that the proposed adjustments have been made pursuant to Tariff 1201 (PBRC Plan), Section 6(c). Section 6(c) states, "Rate Base and cost of service shall be computed in the same manner as in the Company's last Chapter 70 general rate change application."

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

APPLICATION OF OKLAHOMA NATURAL GAS COMPANY, A DIVISION OF ONE GAS, INC., FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017, ENERGY EFFICIENCY TRUE-UP AND UTILITY INCENTIVE ADJUSTMENTS FOR PROGRAM YEAR 2017, AND CHANGES OR MODIFICATIONS TO ITS TARIFFS	)	CAUSE NO. PUD 201800028

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JUL 24 2018
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CORPORATION COMMISSION
OF OKLAHOMA

TESTIMONY SUMMARY

OF

ANNETTE ELLIS

ON BEHALF OF

OKLAHOMA NATURAL GAS

July 24, 2018

Annette Ellis is employed by Oklahoma Natural Gas Company ("Oklahoma Natural," or the "Company") as a Rates Analyst II in the Rates and Regulatory Reporting Department. She has a Bachelor of Science degree in Accounting from the University of Central Oklahoma and a Masters of Business Administration degree from Southern Nazarene University. She has been employed by the Company for 39 years in varying duties and levels of responsibility. Mrs Ellis is responsible for conducting analyses related to issues brought before the Oklahoma Corporation Commission (the "Commission").

Mrs. Ellis testified regarding pro forma adjustments RB-4, RB-7, RB-10, RB-11, RB-12, R-2, R-5, E-7, E-8, E-9, and E-11.

Mrs. Ellis testified that the pro forma adjustment RB-4, decreases rate base by $2,548,400 to capture a 13-month average of the direct pre-paid account balance instead of the test year-end balance of $3,682,309. Adopting a 13-month average of $1,133,909 is more representative of the Company's average investment than the balance recorded in the Company's books at the end of the test year. An average balance over 13 months normalizes the fluctuations in this account during the test year.

Mrs. Ellis testified that the pro forma adjustment RB-7 is necessary to remove the unamortized regulatory asset balance of $421,316 from rate base for costs associated with the 2015 rate case. These costs were approved by Commission Order No. 648326 in Cause No. PUD 201500213 to be amortized over a four-year period and will be fully amortized in December 2019.

Mrs. Ellis testified that customer deposits are a source of non-investor supplied capital received by the Company in advance of providing natural gas service. Therefore, these deposits must be a deduction for the purpose of calculating net rate base. As required by and identified within Workpaper B-6, the balance of customer deposits is most appropriately based upon the test year end 13-month average. Pro forma adjustment RB-10 in the amount of ($223,267) represents the adjustment needed to reflect this 13-month average.

Mrs. Ellis testified that Contributions in Aid of Construction ("CIAC") are a source of non-investor supplied capital received by the Company in the form of reimbursable projects related to governmental entities. Therefore, CIAC must be a deduction for the purpose of calculating net rate base. As required by and identified within Workpaper B-6, the balance of CIAC is most appropriately based upon the test year end 13-month average. Pro forma adjustment RB-11 in the amount of ($1,909,643) represents the adjustment needed to reflect this 13-month average.

Mrs. Ellis testified that Customer Advances for Construction ("CAC") are a source of non-investor supplied capital received by the Company in the form of prepayments collected from customers for projects in advance of construction. Therefore, CAC must be a deduction for the purpose of calculating net rate base. As required by and identified within Workpaper B-6, the balance of CAC is most appropriately based upon the test year end 13-month average. Pro forma adjustment RB-12 in the amount of ($325,520) represents the adjustment needed to reflect this 13-month average.

Regarding pro forma adjustment R-2, Mrs. Ellis testified that, currently, any customer with usage of 900 Dths or greater is allowed to purchase their gas from a third party and have it transported to ONG's system. Tariffs 255-T and 655-T require an EFM equipment fee of $1,896 per customer. In the test year, Oklahoma Natural installed approximately 65 EFMs and collected $123,240 in EFM equipment fees from these customers. These initial EFM equipment fees will not be charged again to these customers on a going forward basis and therefore, need to be removed for the purpose of calculating Oklahoma Natural's revenue requirement. The Company has not removed the recurring O&M charges collected each month from these customers for maintenance of the equipment as these charges will continue. Pro forma adjustment R-5 removes $1,375,963 of non-recurring revenue and should not be taken into consideration for the purpose of setting rates because the Company does not expect to earn them again in the future.

Mrs. Ellis testified that the Company provides competitive long term incentive compensation to key employees and non-employee directors who contribute to our long term growth, profitability, and ability to maintain a safe and reliable distribution system. These incentives are provided to attract, retain, motivate, and reward these individuals. Pro forma adjustment E-7 in the amount of $403,774 is necessary to remove all booked LTI expense from the Cost of Service, consistent with our most recent general rate case, Order No. 648326, Cause No. PUD 201500213. Order No. 648326, Cause No. PUD 201500213 stated that the Company shall recover short term incentive ("STI") compensation at the lesser of the 100% target level or the actual total amount paid out ("Lesser of Target or Actual Level"). Pro forma adjustment E-8 in the amount of $1,017,435 is necessary to remove booked STI expense above 100% target from the cost of service.

Pro forma adjustment E-9 represents total SERP expenses in the amount of $302,810 are being excluded from the Cost of Service in compliance with Commission Order No. 648326 in the Company's most recent rate case Cause No. PUD 201500213.

Regarding the Payroll and Labor Attendant pro forma adjustment E-11, Mrs. Ellis testified that the Company proposes to annualize December 2017 payroll and compare it to actual test year payroll expense. An adjustment is made to Payroll and the associated payroll related costs (Labor Attendant costs), in the amount of $507,848. The method of calculating this adjustment is consistent with previous PBRC filings and the most recent rate case in Cause No. PUD 201500213. Furthermore, this adjustment is made pursuant to Tariff 1201 (PBRC Plan), Section 6(e)(4). This section of the PBRC tariff states, "Operating Expenses shall also be modified as follows: The level of salaries and wages, savings plans expenses, payroll taxes, and other payroll-related expenses for the last month (December) of the Test year shall be annualized."

Mrs. Ellis testified in conclusion, that the proposed adjustments have been made pursuant to Tariff 1201 (Performance Based Rate Change ("PBRC") Plan), Sections 6(c) and 6(e)(4). Section 6(c) states, "Rate Base and cost of service shall be computed in the same manner as in the Company's last Chapter 70 general rate change application." Section 6(e)(4) states, operating expenses shall also be modified as follows: "The level of salaries and wages, savings plan expenses, payroll taxes, and other payroll-related expense for the last month (December) of the Test year shall be annualized."

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

APPLICATION OF OKLAHOMA NATURAL GAS COMPANY, A DIVISION OF ONE GAS, INC., FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017, ENERGY EFFICIENCY TRUE-UP AND UTILITY INCENTIVE ADJUSTMENTS FOR PROGRAM YEAR 2017, AND CHANGES OR MODIFICATIONS TO ITS TARIFFS	CAUSE NO. PUD 201800028

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OF OKLAHOMA

TESTIMONY SUMMARY

OF

CRYSTAL TURNER

ON BEHALF OF

OKLAHOMA NATURAL GAS

July 24, 2018

Crystal Turner is employed by ONE Gas, Inc. ("ONE Gas") as a Rates Analyst II for the ONE Gas division utilities, which include Oklahoma Natural Gas ("Oklahoma Natural" or "Company"), Kansas Gas Service and Texas Gas Service. She has a Master's of Science in Quantitative Financial Economics from Oklahoma State University and a Bachelor's of Science Degree in Statistics with minors in Mathematics and Spanish as well as an Honors Degree with International Emphasis from Oklahoma State University. Ms. Turner has been employed by ONE Gas since May 12, 2014, as a Rates Analyst. Prior to joining ONE Gas, she worked as a Risk Analyst for Seminole Energy Services, LLC, from February 2012 to April 2014. Ms. Turner's current responsibility is assisting the division utilities with the review and analysis of Company financial data and records.

The purpose of Ms. Turner's testimony is to address and sponsor pro forma adjustments for Corporate Prepayments RB-5 and Corporate Support Services/Distrigas E-6.

Ms. Turner testified that Pro forma adjustment RB-5 includes a 13-month average of corporate prepayments allocated to Oklahoma Natural in the amount of $6,820,057 to rate base. By taking the average balance over 13 months, fluctuations in corporate prepayment accounts during the test year are normalized. The average 13-month balance has been adjusted to remove aviation insurance activity. Prepayments are properly included in rate base as they represent an investment the Company has made in the provision of utility service, similar to the plant in service assets. The Company maintains a prepayment balance to cover annual insurance premiums for policies such as general liability, automobile, workers' compensation, property insurance, as well as annual equipment and software maintenance agreements, software license fees and other miscellaneous prepaid items.

Ms. Turner testified that Pro forma adjustment E-6 decreases the Company's test year operating expenses by $4,053,651. This adjustment is necessary to remove certain costs allocated to Oklahoma Natural through the ONE Gas Distrigas allocation methodology such as governmental relations, civic activities, contributions and donations, supplemental executive retirement plan, long-term incentive compensation (LTI), and remove activity such as corporate aircraft, costs for which the Company has elected not to seek recovery in this case, and adjust short-term incentive (STI) compensation down to 100% of target. An additional adjustment was made to annualize the December 2017 payroll allocated to Oklahoma Natural through the ONE Gas Distrigas allocation method.

Ms. Turner testified that ONE Gas continues to allocate corporate costs using the same cost allocation methodology applied in Cause No. PUD 201500213, Order No. 648326.

Lastly, Ms. Turner testified that the proposed adjustments have been made pursuant to Tariff 1201 (Performance Based Rate Change ("PBRC") Plan), Sections 6(c) and 6(e)(4). Section 6(c) states, "Rate Base and cost of service shall be computed in the same manner as in the Company's last Chapter 70 general rate change application." Section 6(e)(4) states that operating expenses shall also be modified as follows: "The level of salaries and wages, savings plan expenses, payroll taxes, and other payroll-related expense for the last month (December) of the Test year shall be annualized.".

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APPLICATION OF OKLAHOMA NATURAL GAS COMPANY, A DIVISION OF ONE GAS, INC., FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017, ENERGY EFFICIENCY TRUE-UP AND UTILITY INCENTIVE ADJUSTMENTS FOR PROGRAM YEAR 2017, AND CHANGES OR MODIFICATIONS TO ITS TARIFFS	)	CAUSE NO. PUD 201800028

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TESTIMONY SUMMARY

OF

AMELIA NGUYEN

ON BEHALF OF

OKLAHOMA NATURAL GAS

July 24, 2018

Thanh Truc (Amelia) Nguyen is employed by Oklahoma Natural Gas Company ("Oklahoma Natural," or the "Company") as a Rates Analyst in the Rates and Regulatory Reporting Department. She has a Bachelor of Business Administration with a major in Finance from the University of Oklahoma. She has been employed by the Company since June 2007. Prior to her current position, she worked in the Communications Department as a Communications Consultant. Ms. Nguyen is responsible for conducting analyses related to issues brought before the Oklahoma Corporation Commission (the "Commission") and has been responsible for the duties associated with the monthly Purchased Gas Adjustment ("PGA").

Ms. Nguyen testified regarding pro forma adjustments RB-1, R-3, R-6, E-1, E-2, E-3 and E-10.

Ms. Nguyen testified that pro forma adjustment RB-1 is made to remove specific portions of property, plant, and equipment, which are further described below, from rate base. The total adjustment reduces rate base by $6,251,867.

Ms. Nguyen testified that in 2001, the Company acquired the distribution assets of Fort Sill, a United States Army installation, after becoming the successful bidder for a contract under the Army's Utility Privatization Program. Pursuant to the Commission order approving the transaction, Order No. 453529 issued in Cause No. PUD 200100189, the Company tracks the assets, expenses, and revenues associated with Fort Sill and removes them for ratemaking purposes to avoid subsidization by the Company's other customers. This adjustment results in the removal of all Fort Sill assets from rate base, net of depreciation, in the amount of $3,054,455.

Ms. Nguyen testified that Oklahoma Natural has allocated a portion of ONE Gas' plant assets, which include the corporate aircraft. The Company proposes to remove its allocated portion of the corporate aircraft, net of depreciation, resulting in the removal of $3,197,412 from rate base. (Pro forma adjustment RB-1.)

Ms. Nguyen testified that since test year end at December 31, 2017, the Company has not included a pro forma adjustment related to known and measurable changes in plant levels, but has included the Construction Work in Progress ("CWIP") account in filed plant levels. Section 17-284 of Title 17 states that "...the Corporation Commission shall give effect to known and measurable changes occurring or reasonably certain to occur within six (6) months of the end of the test period upon which the rate review is based." It is expected that projects currently classified as CWIP will be completed during the processing of this filing, and that an update to property, plant, and equipment would reflect an increase in plant levels commensurate with the test year end amount contained within CWIP. This is consistent with the Company's prior rate case in Cause No. PUD 201500213 as well as the five Performance Based Rate Change ("PBRC") applications in Cause Nos. PUD 201100034, PUD 201200029, PUD 201300032, PUD 201400069 and PUD 201700079.

Ms. Nguyen testified, with regard to pro forma adjustments R-3 and E-1 related to Fort Sill's revenues and expenses, that Commission Order No. 453529 issued in Cause No. PUD 200100189 authorized the Company to charge rates under a special contract to provide natural gas distribution service to Fort Sill. The Company agreed to track the assets, expenses, and revenues associated with Fort Sill and to remove them from subsequent rate cases.

Ms. Nguyen testified that pro forma adjustment R-3 reduces revenue by $1,030,639 which is the amount collected from Fort Sill during the test year. Pro forma adjustment E-1 reduces expense by $130,433 which is the amount expended to provide Fort Sill service during the test year. The treatment of Fort Sill assets was discussed earlier in my testimony.

Ms. Nguyen, testifies that this Cause relates to the establishment of new rates, exclusive of commodity cost, that will allow the Company the authorization to bill customers on a going forward basis. Therefore, all gas cost revenue and expense related activity must be removed from the test year. The specific gas cost revenue and expense pro forma adjustments that she sponsors are: (a) R-6 - Purchased Gas Costs Billed (PGC) and Unrecovered Purchased Gas Costs Billed (UPGC) in the amount of $257,273,802; (b) E-2 Gas Costs Collected by the PGC and UPGC in the amount of $257,273,802; and (c) E-3 - Gas Costs O&M not Collected through the PGA/UPGC and Transport Over/Under Charges in the amount of $8,308. A more detailed discussion for each adjustment can be found within the workpapers for the respective adjustment, which are included as part of the Application Package filed in this Cause. PUD Staff annually reviews commodity costs for prudency in a separate cause.

Ms. Nguyen testified, regarding pro forma adjustment E-10, that in order to best reflect depreciation expense levels going forward, the Company is proposing to annualize December 2017 booked depreciation expense. This results in an increase of $885,675 to depreciation expense over what was booked by the Company during 2017. Oklahoma Natural believes this adjustment is appropriate since it brings in line depreciation expense with the plant levels contained in this filing. Furthermore, this adjustment is made pursuant to Tariff 1201 (PBRC Plan), Section 6(e)(5). This section of the PBRC tariff states that operating expenses shall also be modified as follows: "The level of depreciation and amortization expense for the last month (December) of the Test Year shall be annualized."

In conclusion, Ms. Nguyen testified that the proposed adjustments have been made pursuant to Tariff 1201 (PBRC Plan), Section 6(c), and Section 6(e)(5). Section 6(c) states, "Rate Base and cost of service shall be computed in the same manner as in the Company's last Chapter 70 general rate change application." Section 6(e)(5) states that operating expenses shall also be modified as follows: "The level of depreciation and amortization expense for the last month (December) of the Test Year shall be annualized."

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

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CORPORATION COMMISSION
OF OKLAHOMA

TESTIMONY SUMMARY

OF

PAUL H. RAAB

ON BEHALF OF

OKLAHOMA NATURAL GAS

July 26, 2018

Paul H. Raab is an independent economic consultant appearing on behalf of Oklahoma Natural Gas Company ("Oklahoma Natural" or "the Company"). Mr. Raab has a B.A. in Economics from Rutgers University and an M.A. from the State University of New York at Binghamton with a concentration in Econometrics. While attending Rutgers, he studied as a Henry Rutgers Scholar.

Mr. Raab testified that within the current Application, the Company is seeking to adjust its Energy Efficiency Program Rate, consistent with Tariff 1201, to include recovery of projected energy efficiency program costs for Program Year 8 (Calendar Year 2018), the level of incentive to which the Company is entitled as a result of its Program Year 7 (Calendar Year 2017) efforts and the under-collection of program expenses through Program Year 7. The purpose of Mr. Raab's testimony is to present the new Energy Efficiency Program Rate and supporting documentation, as well as the Annual Report of the performance of the Company's Demand Programs as required by the Commission's rules.

Mr. Raab testified that he sponsors two exhibits. Exhibit PHR-1 is a summary of the new Energy Efficiency Program Rate, presented in the form of Exhibit B as required by the Company's PBRC Tariff. Exhibit PHR-2 is the Company's Annual Report for Program Year 7 (Calendar Year 2017). This Report provides the information required by §165:45-23-7 and §165:45-23-8 of the Commission's rules. Consistent with new rules that went into effect on January 1, 2017, the Company has contracted with an independent third-party evaluator to conduct its EM&V, as required by §165:45-23-6 of the rules. The Company has selected ADM Associates, Inc. ("ADM") as the evaluation contractor for its PY7 programs. ADM's savings estimates and benefit/cost calculations support the net Total Resource Cost ("TRC") benefits that are needed to determine the level of incentive to which the Company is entitled as a result of its Program Year 7 efforts. Exhibit PHR-2 also summarizes the updated cost effectiveness results of the Company's programs and the associated incentive calculation details.

Mr. Raab testified that as detailed in Exhibit PHR-1, the Company's new Energy Efficiency Program Rates for the upcoming year are $1.71/residential customer/month, $2.27/small commercial customer/month, $2.78/large commercial customer/month and $2.07/eligible transportation customer/month. The residential rate is lower than the current rate by $0.13/residential customer/month, the small commercial rate is higher than the current rate by $0.84, and the large commercial rate is lower than the current rate by $3.33. These rates are developed as the sum of the current year unadjusted rate, shown on Line No. 3 of Exhibit PHR-1; the utility incentive, shown on Line No. 5 of Exhibit PHR-1; the current year true-up adjustment, shown on Line No. 7 of Exhibit PHR-1; and the carryover true-up adjustment, shown on Line No. 9 of Exhibit PHR-1.

Mr. Raab testified that the Company is proposing to modify the eligibility of its Commercial Custom program offerings to include small transportation customers served under Tariff 255-T. These customers have the same usage characteristics as commercial sales customers and will be able to benefit from the same types of conservation and energy efficiency measures that are promoted under the Commercial Custom Program.

Mr. Raab testified that the Company is proposing to modify the eligibility of its Commercial Custom Program offerings to include small transportation customers. These customers should also be able to benefit from the same types of conservation and energy efficiency measures that are currently offered only to large commercial sales customers under the Commercial Custom Program.

Mr. Raab further testified that to the extent that these customers do not participate at levels anticipated by the Company, the reduced participation levels and costs will be trued up in subsequent program yearsIn other words, customers in these classes will only pay for the conservation and energy efficiency services that they utilize.

Mr. Raab identified the components of the Company's New Energy Efficient Program Rate. Referencing Exhibit PHR-1, the current year unadjusted rate (Line No. 3) is simply the Commission-approved Year 8 program budget of $15,367,000, allocated or assigned to residential, small commercial, large commercial and small transportation customers, divided by the 2017 customer counts in each of these classes. The utility incentive rate (Line No. 5) is dependent upon updated benefit/cost evaluations and the updated evaluations are described in the ADM EM&V Report, filed in this docket as Exhibit CMS-5 to the Direct Testimony of Company Witness Cory M. Slaughter, in Exhibit PHR-2 and in the subsections below. Because the incentive is earned for Program Year 7 offerings, and small transportation customers did not participate in programs in Program Year 7, they are not allocated any of the utility incentive earned by Oklahoma Natural in 2017.

The current year true-up adjustment is the difference between collections in the program year and expenditures. For this program year, the Company over-collected expenditures for energy efficiency by $1,775,409.23 and this over-collection requires a decrease to the new current year true-up rate (Line No. 7). The current year over-collection is largely the result of an attempt to recover prior year under-recoveries as reflected in the carryover over/under energy efficiency program rate (Line No. 9). As can be determined by comparing the current year adjustment balance in Line No. 6 and the carryover adjustment balance in Line No. 8, the Company's chronic under-recovery of Energy Efficiency Program costs has been significantly reduced, to only about $500,000. The carryover true-up adjustments are the cumulative difference between collections in prior program years and expenditures. Because small transportation customers did not participate in programs in Program Year 7, they are not allocated any of these differences between collections and expenditures.

Mr. Raab testified that the realized energy savings by customer sector and program support the revised TRC benefit/cost evaluations, which are an important input to the calculation of the level of incentive to which the Company is entitled as a result of its Program Year 7 efforts. Consistent with new rules that went into effect on January 1, 2017, the Company has contracted with ADM as the evaluation contractor for its PY7 programs. ADM's savings estimates are provided in its EM&V Report filed pursuant to these rules in this docket and contains the details supporting these metrics.

Mr. Raab testified that ADM also provided updated benefit/cost evaluations of the Company's programs. ADM's benefit/cost test results are provided in its EM&V Report, which also contains the details supporting these calculations. The TRC results from that report are summarized for all of the Company's programs for Program Year 7 in column (D) of Schedule 11 of Exhibit PHR-2.

Mr. Raab further testified that as can be seen from these results, each one of Oklahoma Natural's programs that results in energy savings is TRC cost-effective, except for the Heating Season Check-Up Program, which was discontinued in PY7 and beyond, and the

Range Replacement Program. However, all other programs are cost effective, as is Oklahoma Natural's total Demand Portfolio.

Mr. Raab testified that TRC test results are important because they are needed to calculate the Company incentive. Section 165:45-23-8 of the Commission's rules allow the Company to receive an incentive for successful implementation of its Demand Portfolio only if the Company's Demand Portfolio achieves a total resource cost test benefit/cost ratio (TRC: B/CR) that is greater than one.

Mr. Raab testified that in addition to the requirement that the Demand Portfolio achieves a TRC: B/CR that is greater than one, the Demand Portfolio must also achieve a minimum of 80% of the company's goal ratio (Verified savings divided by Projected savings). As shown in Exhibit PHR-2, both of these threshold conditions are satisfied. The Company achieved approximately 175% of projected savings and the programs produce a net benefit of over $33M, which is more than sufficient to absorb all of the program administrative expenses of $883,485 and still produce a TRC: B/CR greater than 1.00.

Further, Mr. Raab testified that this result is confirmed by the Incentive Calculation shown on Schedule 11 of Exhibit PHR-2, which determines the incentive to which the Company is entitled based on the Commission's rules as 15 percent of Net Benefits achieved, or $2,152,388. As required by the Commission's rules, this calculation includes all costs incurred for implementation of Demand Programs including all program costs, education or outreach program costs, Administrative costs, and EM&V costs and does not exceed 15 percent of Demand Portfolio costs inclusive of program delivery costs, education, and/or marketing outreach costs, Administrative costs and EM&V costs.

Mr. Raab testified that the Company collected a total of $16,101,392 from customers during Program Year 7 for conservation and energy efficiency activities. Of this total, $13,845,601 was collected from residential customers, $723,062 was collected from small commercial customers, and $1,532,729 was collected from large commercial customers. Mr. Raab testified that total program costs are $14,326,306. The amount attributable to residential customers is $12,483,940, the amount attributable to small commercial customers is $259,342, and the amount attributable to large commercial customers is $1,583,023. Thus, the Company over-collected its costs during Program Year 7 by $1,775,086.23. This amount is adjusted by an additional reconciling amount of $323, which is needed to reconcile the cumulative true-up balance to the General Ledger. The resulting over-collection is summarized on Line No. 6 of Exhibit PHR-1 and is used to offset the Energy Efficiency Rate by the amounts shown on Line No. 7 of Exhibit PHR-1 for the upcoming Program Year.

In addition, Mr. Raab testified that there remains a cumulative under-collection of $2,296,072.95 as a result of the Company's activities in Program Years 1 through 6. This under-collection, by class, is summarized on Line No. 8 of Exhibit PHR-1 and is used to change the Energy Efficiency Rate by the amounts shown on Line No. 9 of Exhibit PHR-1 for the upcoming Program Year.

In conclusion, Mr. Raab testified that the net of these true-ups is a cumulative under-collection of $520,663.72 through PY7, which is a significant reduction in this balance relative to last year.

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

APPLICATION OF OKLAHOMA NATURAL GAS COMPANY, A DIVISION OF ONE GAS, INC., FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017, ENERGY EFFICIENCY TRUE-UP AND UTILITY INCENTIVE ADJUSTMENTS FOR PROGRAM YEAR 2017, AND CHANGES OR MODIFICATIONS TO ITS TARIFFS	)	CAUSE NO. PUD 201800028

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OF OKLAHOMA

TESTIMONY SUMMARY

OF

ELIZABETH CHANDLER

ON BEHALF OF

OKLAHOMA NATURAL GAS

July 26, 2018

Elizabeth Chandler is employed by Oklahoma Natural Gas Company ("Oklahoma Natural" or the "Company") as a Manager in the Rates and Regulatory Reporting Department. She is a Certified Public Accountant with a Bachelor of Science degree in Accounting and a Bachelor of Business Administration in Finance from the University of Central Oklahoma. She has been employed by the Company since August 2011 and have worked in various roles in financial planning, financial accounting and currently as Manager - Rates and Regulatory Analysis. Prior to joining the Company, she worked as an auditor at KPMG LLP from August 2007 to July 2011. Mrs. Chandler is responsible for managing and conducting analyses related to issues brought before the Oklahoma Corporation Commission (the "Commission").

The purpose of Mrs. Chandler's testimony is to: (1) discuss overall filing and compliance with Performance Based Rate Change ("PBRC") Tariff 1201; (2) Discuss calculation of overall Revenue Requirement (Schedule A-1); (3) Discuss allocation of proposed PBRC monthly credit and Energy Efficiency "EE" rate changes to customer classes (Schedule A-2) and modifications to associated Tariffs 101, 101-V, 200 SCI, 200 SCI-V, 200 LCI, and 255-T; (4) Discuss capital spending since the previous rate change filing; and (5) Address and sponsor pro forma adjustments RB-9, E-4, and E-12.

The current PBRC filing is based on the test year ended December 31, 2017. The Revenue Requirement, Rate Base, and Operating Income have all been calculated in compliance with the PBRC Tariff 1201 and Order No. 648326. The proposed adjustments have been made pursuant to Tariff 1201 (PBRC Plan), Section 6(c). This section of the PBRC Tariff 1201 states, "Rate Base and cost of service shall be computed in the same manner as in the Company's last Chapter 70 general rate change application." The proposed adjustment addressed in my testimony and those addressed in the testimonies of other Company witnesses are required to compute Rate Base (B-3) and Operating Income (H-2) in the same manner as in the Company's last Chapter 70 general rate change application. The only deviation from the adjustment methodology is the inclusion of amortization expense for regulatory asset for payments to private line customers approved in Order 666781 in Cause No. PUD 201700079 and discussed in detail below.

Based on the Company's Revenue Requirement calculation, the Company is operating above the approved return on equity ("AROE") band (9.00%-10.00%) at an ROE of 10.51%. Section 5(c) of Tariff 1201, states "if for the 12-month period ending December 31, the Company's ER (earned return) is above 10.00%, the portion of ER that is greater than 10.00%, shall be shared on a 75/25 basis between the customers and the Company, with the customers receiving the greater amount." The schedules determining this Revenue Requirement position are discussed in detail later within my testimony.

Schedule A-1 is the calculation of the Revenue Requirement as it relates to the ROE band that is approved within the PBRC Tariff 1201. Line 1, columns A through E, identify the Rate Base and Rate Base Adjustments that are located in Schedules B-1 through B-4. This Rate Base and associated adjustments were calculated in the same manner as the Company's last Chapter 70 general rate change application as required by Section 6(c) of the PBRC Tariff 1201. The adjusted Rate Base is multiplied by the rates of return at the lower (6.879%), middle (7.169%), and upper (7.459%) points of the ROE band (9.00-10.00%) whose midpoint (9.50%) was approved in the Company's 2015 rate case (Cause No. PUD 201500213, Order No. 648326) and whose 100 basis point band complies with Section 2(d) of the PBRC Tariff 1201 in order to calculate the Operating Income Required (Line 3, Columns C, D, and E) to stay within the ROE band. The rates of return at each point in the band are identified in Schedule F-1, Capital Structure. The Operating Income Required at each point in the band is then compared to the Actual Operating Income (Line 4, Columns C, D, and E) in order to determine the Company's position within the ROE band. The Income Tax Gross-Up Factor (Line 6, Columns C, D, and E) is based on a Federal Tax Rate of 21% and a State Tax Rate of 6%. The resulting Base Rate Revenue Excess is that the Company was operating at an ROE of 10.51% which is, after tax gross-up, $5,619,482 above the Commission authorized upper point (10.00%) of the ROE band during PBRC test year 2017. In terms of rate of return, the Company operated at a rate of 7.757% (calculated at Schedule H-1 PBRC Operating Income Statement, Line 17) which is 0.298% above the upper rate of return 7.459% as shown in Schedule A-1, PBRC Revenue Requirement.

Based on the Company's Revenue Requirement calculation and in compliance with Section 2(f) of PBRC Tariff 1201, there will be a credit to ratepayers over a 12 month period beginning July cycle one billing or after rates are adjusted in an order in this cause. Section 2(f) states, "Should this Rate Schedule require a credit to the Company's customers, the credit shall be made by crediting customer bills over a 12-month period beginning with July cycle one bills."

The calculated ROE position of 10.51% is 0.51% above the upper point of the ROE band (10.00%) and outside the 100 basis point AROE dead-band as prescribed within Section 2(d) of PBRC Tariff 1201. Section 2(d) states, "An AROE dead-band of 100 basis points is hereby established. The dead-band shall be from 9.00% to 10.00% in which no rate change shall occur. The Company may request a rate increase only when the ER falls below 9.00%. Similarly, any credit and sharing with the Company's customers shall occur only when the ER is greater than 10.00%." As the calculated ROE position of 10.51% is above the upper point of the ROE band (10.00%) as shown in Schedule A-1, the Company will give a credit to customers.

Mrs. Chandler further testified that the Revenue Requirement by explaining Schedule H-1, PBRC Operating Income Statement calculates the Company's operating income for the test year ended December 31, 2017, as adjusted for those known and measurable changes permitted under the PBRC Tariff 1201 and further detailed in the testimony of the Company's witnesses. Column A shows the Company's utility income statement revenues, expenses, and deductions per the Company's books and records for the test year. Column B represents the known and measurable adjustments that are required to be in compliance with Section 6(c) of the PBRC Tariff 1201. Line 15, Column C, is the resulting operating income that is used as the Actual Operating Income at Line 4, Columns C, D, and E of Schedule A-1 for determination of the Company's position within the authorized ROE band.

Mrs. Chandler further testified that Schedule A-2, was prepared to allocate the PBRC monthly credit from Schedule A-1 to residential Tariff 101, large commercial and industrial ("LCI") Tariff 200, transport only 900 Dth but less than 5,000 Dth Tariff 255-T ("255-T"), and transport only 5,000 Dth but less than 30,000 Dth Tariff 291-T ("291-T") customers, as well as to incorporate the change related to Energy Efficiency for residential Tariff 101, small commercial and industrial ("SCI") Tariff 200, LCI Tariff 200 and Tariff 255-T customers.

Mrs. Chandler explained Line 4 concerning PBRC monthly bill credit as part of Oklahoma Natural's methodology to comply with Commission Order No. 671984 regarding the Tax Cuts and Jobs Act of 2017, all earnings above the top of the AROE dead-band will be returned as a billing credit over a 12 month period beginning July cycle 1 billing or after an order in this cause. The PBRC monthly credits of ($0.54) for residential, ($1.91) for LCI, ($1.46) for 255-T and ($0.42) for 291-T customers is presented on Line 4 of Schedule A-2. These credits are discussed further and reflected within the revised PBRC Tariff 1201 attached to Mr. Cory Slaughter's testimony at Exhibit CMS-1.

Mrs. Chandler testified that the Energy Efficiency rates to be applied to the monthly service charges of residential Tariffs 101 and 101-V, small commercial and industrial Tariffs 200 SCI and 200 SCI-V, large commercial and industrial Tariff 200 LCI, and non-residential transport only Tariff 255-T were calculated by and discussed in testimony by Company witness Paul Raab. Please refer to his testimony for discussion of the calculation of those rates. The net increase (decrease) in Energy Efficiency rates of ($0.13) for residential, $0.84 for SCI, ($3.33) for LCI, and $2.07 for 255-T customers is presented in Schedule A-2 solely for the purpose of calculating the total proposed monthly service charges to customers and pursuant to Sections 7 and 8 of Tariff 1201, have no effect on the evaluation of the Company's placement within the ROE band.

Mrs. Chandler testified regarding the proposed changes in the monthly service charges of customers. Mrs. Chandler further testified to the total impact per customer class for the proposed rate changes. Mrs. Chandler testified why the PBRC Credit for SCI customers zero. As reflected in Schedule A-2, the PBRC Credit is allocated to customer classes based on the same cost of service allocation within 5(a) of PBRC Tariff 1201 and approved in the most recent rate case. Therefore, the proposed monthly service charge for SCI customers will equal the change in the Monthly Service Charge only. Further, Ms. Chandler testified that although the result of the PBRC calculation is a credit to customers, the Company made significant investments in the distribution system without the need to increase customer rates. Total capital additions from the 2015 Rate Case to the 2018 PBR is $340,499,711.

Mrs. Chandler testified that pro forma adjustment RB-9 is necessary to remove the unamortized regulatory asset balance of $20,250 from rate base for deferral of payments to private line customers in order to defray the cost of conversion to alternative fuel sources in cases where it is uneconomical to rebuild the line. This regulatory asset was approved by Commission Order No. 666781 in Cause No. PUD 201700079 to be amortized over a four-year period.

Mrs. Chandler further testified regarding the pro forma adjustment E-4. Commission Order No. 666781 issued in Cause No. PUD 201700079 authorized the company to defer and amortize over a four-year period, payments to private line customers in order to defray the cost of conversion to alternative fuel sources in cases where it is not economical to rebuild the line. Approximately 130 payments totaling $392,000 was deferred for the test year ended December 31, 2017. One year of amortization expense, $98,000, has been included within PBRC Operating Income in pro forma adjustment E-4.

Mrs. Chandler further testified that pro forma adjustment E-12 reflects an increase to income tax expense in the amount of $19,810 and is required to reflect the change in income taxes resulting from the effects of all Oklahoma Natural pro forma adjustments associated with the rate base and the operating income statement.

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

APPLICATION OF OKLAHOMA NATURAL GAS COMPANY, A DIVISION OF ONE GAS, INC., FOR APPROVAL OF ITS PERFORMANCE BASED RATE CHANGE PLAN CALCULATIONS FOR THE TWELVE MONTHS ENDING DECEMBER 31, 2017, ENERGY EFFICIENCY TRUE-UP AND UTILITY INCENTIVE ADJUSTMENTS FOR PROGRAM YEAR 2017, AND CHANGES OR MODIFICATIONS TO ITS TARIFFS)	CAUSE NO. PUD 201800028

TESTIMONY SUMMARY

OF

CORY SLAUGHTER

ON BEHALF OF

OKLAHOMA NATURAL GAS

July 26, 2018

Direct Testimony

Cory Slaughter is employed by Oklahoma Natural Gas Company ("Oklahoma Natural" or the "Company") as the Director of Rates and Regulatory. Mr. Slaughter is a Certified Public Accountant with a Bachelor of Science degree in Accounting. He has been employed with the Company for over 15 years in various roles. Prior to employment with the Company, Mr. Slaughter worked for two years as an auditor within the audit assurance group of the accounting firm Ernst & Young LLP. Mr. Slaughter is responsible for directing all activities of the Oklahoma Natural Rates and Regulatory Department.

The purpose of Mr. Slaughter's testimony is to discuss and identify: (1) why this application was filed; (2) Oklahoma Natural's Performance Based Rate Change ("PBRC") mechanism requirements; (3) the PBRC equity dead-band and the Company's position within this dead-band; (4) compliance with the Tax Cuts and Jobs Act of 2017 and Commission Order No. 671984; (5) request to defer and amortize customer benefit related to processing of credit/debit cards; (6) waiver of Commission Rule to include Small Transport Tariff 255-T customers in Energy Efficiency Program; (7) proposed modifications to CNG Rebate Tariff 707; (8) Proposed modifications to Multi-Unit Extension Policy Tariff 1083; and (9) the Evaluation, Measurement, and Verification (EM&V) report of an independent evaluator in compliance with commission rules.

Mr. Slaughter testified that the current cause was filed to be in compliance with Performance Based Rate Change ("PBRC") Tariff 1201 and the Company's methodology to comply with Commission Order No. 671984 regarding federal corporate income tax changes.

Mr. Slaughter testified further that the specific requirements within PBRC Tariff 1201 are, generally: (i) per section 1, an application must be filed for the **calendar year 2017**; (ii) per section 7, part (a), this application must be made **on or before March 15**; (iii) per section 2: Part (a) - The allowed return on equity ("AROE") is **9.50%**; Part (b) - The calculation of the earned return on equity ("ER") used in determining any rate adjustments shall be performed using the same methodology as the AROE of 9.50% from the most recent general rate case; Part (c) - All parties to the annual review may request modifications to be applied prospectively to this tariff including the rate change adjustments (rate base and cost of service) used to determine the AROE in the Company's last Chapter 70 general rate change application; and Part (d) - An AROE **dead-band** of 100 basis points is established to be from **9.00% to 10.00%** in which no rate change occurs; (iv) per section 6, part (c), the Rate Base and cost of service shall be computed in the same manner as in the Company's Chapter 70 general rate change application; (v) per section 6, part (d), Operating Revenues shall be modified as follows: (a) all revenues associated with energy efficiency shall be removed; (b) gas cost revenues shall be removed; and (c) modifications requested by the parties under Section 2(c) and approved by the Commission shall be applied prospectively. (vi) per section 6, part (e), Operating Expenses shall also be modified as follows: (a) All expenses associated with energy efficiency shall be removed; (b) Gas costs shall be removed; (c) Statutorily enacted tax changes or unfunded federal mandates shall be annualized; (d) The level of salaries and wages, savings plans expenses, payroll taxes, and other payroll-related expenses for the last month (December) of the Test year shall be annualized; (e) The level of depreciation and amortization expense for the last month (December) of the Test Year shall be annualized; (f) Any expenses associated with energy efficiency will be removed prior to the PBRC calculation and addressed in accordance with Section 8; and (g) Modifications requested by the parties under Section 2(c) and approved by the Commission shall be applied prospectively.

Mr. Slaughter testified that filing has been prepared in compliance with Tariff 1201. Further, that there are there specific requirements laid out within Order No. 648326 of Cause No. PUD 201500213, the last general rate case, that relate to the current PBRC filing. Which are: Section C, part 3 - Short Term Incentives ("STI") are to be recovered at the lesser of target (100%) or actual level within each subsequent PBRC review; - Long Term Incentives ("LTI") are not to be recovered unless otherwise ordered by the Commission; Section D, part 1 - Oklahoma Natural's capital structure shall be adjusted to reduce equity by 1% point within each subsequent PBRC review beginning with 59% equity and 41% debt in Oklahoma Natural's 2017 PBRC review of calendar year 2016. This capital structure shall serve as a cap. The capital structure utilized within the 2018 PBRC review will include the 58% equity and 42% debt as it is lower than the Company's actual equity; Section D, part 2 - Oklahoma Natural's rates shall reflect its actual cost of debt in the amount of 3.95%; and Section D, part 3 - Oklahoma Natural's authorized return on equity is 9.5% (i.e., the Allowed Return on Equity as defined within the PBRC Tariff).

Mr. Slaughter testified that the PBRC is a mechanism that provides for an annual review and adjustment of the Company's base rates depending upon the Company's Oklahoma jurisdictional operating income as measured by a calendar year calculated return on equity and a set equity dead-band. Mr. Slaughter further testified that the PBRC requirements above, Oklahoma Natural's equity dead-band spans 100 basis points from a low of 9.00% to a high of 10.00%. If the Company's earned return on equity ("ER") is within this dead-band, there is no change in rates. Mr. Slaughter testified that if Oklahoma Natural's ER is below 9.00%, the Company's rates are increased to reflect a return on equity of 9.50% (the mid-point of the equity dead-band), upon Commission approval. Mr. Slaughter further testified that per tariff, if the Company's ER is above 10.00%, the portion of equity return above 10.00% is shared with our customers on a 75/25 basis, i.e. 75% to the customers and 25% to the Company. As will be discussed later in my testimony, it is the Company's intention to return 100% to customers and not retain the 25% that is prescribed by the tariff.

Mr. Slaughter described the Company's methodology to comply with Commission Order No. 671984 (the "Order"). There are four ways the Company intends to address the Order within the current filing: (1) The application of a 21% federal income tax rate; (2) Record a deferred liability, subject to refund and review within this filing, equal to the excess deferred income taxes ("EDIT") resulting from the change in the federal corporate income tax rate from 35% to 21% that occurred on January 1, 2018; (3) Record a deferred liability, subject to refund and review within this filing, to reflect the reduced federal corporate tax rate, beginning with the date of the Order (January 9, 2018), until rates are adjusted to reflect tax savings and a final order issued in the current PBRC cause; and (4) To the extent not already accounted for in ONG's current PBRC tariff, the amount of any refunds determined to be credited to customers (associated with items 2 and 3 above) shall accrue interest at a rate equivalent to ONG's cost of capital as recognized in Order No. 666781 in PUD Cause No. PUD 20170079 until rates are adjusted and a final order is issued in this cause.

Mr. Slaughter testified that the tax rate applicable to the 2017 test year is 35%. This is the rate that will be used to determine the Company's federal tax liability for the current test year. Mr. Slaughter testified that the new federal corporate income tax contained in the federal Tax Cuts and Jobs Act ("TCJA") of 2017, applicable for tax years beginning January 1, 2018, is 21%. Mr. Slaughter testified that the federal corporate income tax rate of 21% is being applied as part of the Company's methodology to comply with the Order.

Mr. Slaughter testified that the result of applying the 2018 federal corporate income tax rate to the 2017 test year in the current filing is a reduction in the revenue requirement calculation of approximately $17 million and the Company's AROE being above the ROE dead-band by $5,619,482. Oklahoma Natural will allocate the entire amount as a credit to customers over a 12-month period as described in the pre-filed testimony of Company witness Elizabeth Chandler.

The Company does not intend to retain any of the over-earnings as prescribed by the PBRC Tarif 1201. Although Section 5(c) of the PBRC Tariff 1201 states that earnings above the dead-band shall be shared and that the Company should retain 25% of the overearnings, the Company feels that, based on the circumstances surrounding the reduction in the Company's federal income tax rate, it is appropriate that the entire amount be credited to customers.

Mr. Slaughter testified that if the 35% tax rate (that was applicable to the test year) had been used, the PBRC calculation would have resulted in a requested **increase** in base rates of approximately $11 million. By applying the 2018 federal income tax rate a year early (to the 2017 test year), customers will receive a one-time annual benefit of $11 million associated with the 2017 test-year under-earning that will never be collected from customers. Please see Exhibit CMS-1 for this calculation.

Mr. Slaughter testified that, in compliance with the Order, the Company has remeasured accumulated deferred income taxes ("ADIT") based on the reduced federal income tax from 35% to 21% and booked the difference as an EDIT deferred liability. Mr. Slaughter testified that $174,062,249 of deferred liability has been booked to balance sheet account 2540200 - Other Regulatory Liability Excess Deferred Tax as of 12/31/2017. It should be noted that this amount is an estimate. Mr. Slaughter further testified that the reason this amount is an estimate is because the timing differences (the difference between when the Company gets a tax deduction and when the Company books a GAAP expense) for tax year 2017 will not be known until the Company files it's Federal Income Tax forms with the IRS in September 2018. Until then, this balance is an estimate and is subject to change.

Mr. Slaughter identified the interest at the cost of capital rate discussed in the Order. The Order requires, to the extent not covered by the PBRC, interest at the cost of capital rate from the 2017 PBRC filing, should be applied to the EDIT liability from the date of the order, January 9, 2018, until rates are adjusted, and a final order issued in this cause. There is no interest to be added to this EDIT liability as the PBRC has already addressed this issue within last years and the current filing. The EDIT liability was previously included within the ADIT balance that offset rate base in the March 2017 PBRC filing. This in effect gives customers a credit for the cost of capital rate that has been in base rates since the conclusion of the 2017 PBRC filing in August 2017.

Mr. Slaughter testified that the Company has deferred any amortization of the EDIT liability that would be required by the financial accounting rules. As a result, the entire amount of the EDIT liability is subject to review and flow back to customers.

Mr. Slaughter testified that to comply with Section 13001 of the TCJA, the Company will amortize the excess deferred income taxes utilizing the average rate assumption method

("ARAM") for book versus tax depreciation on plant that are protected by the TJCA. These protected items make up approximately $126 million of the $174 million EDIT estimate.

Mr. Slaughter testified that the remaining $48 million is made up of items that are considered to be not protected. This means that these amounts are not required by law to be returned using the ARAM. More than half of the remaining $48 million is excess deferred income tax items for repairs expense that directly relate to the Company's plant in service and the next largest item, pension, has a life that would be longer than the ARAM. These two items combine to make up nearly the entire balance of unprotected excess deferred tax items. The Company believes utilizing the same ARAM method of amortization for the unprotected items would be appropriate and fair.

Mr. Slaughter testified that as amounts are identified by the ARAM calculation for flowback within a given year, the Company intends to identify those amounts and the associated customer bill credits within the annual PBRC filings for review and approval. The Company also intends that the amount of the EDIT credit be applied as a one-time bill credit to be applied within 60 days of a PBRC order and any over/under amount be trued up in the following PBRC filing. The Company intends to return this excess deferred liability as a separate bill credit outside of the PBRC calculation to ensure 100% of the EDIT returns to customers.

Mr. Slaughter testified that the ARAM calculation requires a modification to the Company's tax software that is currently under way. Once that modification is made the detailed calculation of the EDIT amortization utilizing ARAM can then be completed. The Company anticipates that both the software modification and calculation of the ARAM will be complete during the processing of this case. It is expected that the amortization schedule that results from the calculation will show a flowback credit for 2018, and the Company's intention is that this amount would become part of this case and credited to customers as described previously.

Mr. Slaughter testified that the Company intends to allocate the EDIT credit based on the same cost of service allocation as outlined in Section 5(a) of the PBRC Tariff and as approved in the most recent rate case.

A revised PBRC Tariff 1201 (redline and clean) containing a new Section 9 describing how the credit will be applied and trued up on an annual basis within the PBRC filings is attached to Mr. Slaughter's testimony.

Mr. Slaughter testified that in compliance with the Order, the Company has booked a deferred liability subject to review and potential refund in this filing that quantifies the impact of rates at 35% versus 21% beginning with the date of the Order, January 9, 2018. The amount that is currently being booked is approximately $2.86 million and equates to 173 days of the over-earning position calculated in this cause ($5,619,482) plus interest over the same period at the 2017 cost of capital rate of 7.225%.

As mentioned previously, the current filing is calculated on a test year ending 12/31/2017 coupled with the new federal income tax rate of 21% that went into effect on 1/1/2018. Therefore, we know what the actual over-earning of the Company is after including all components of the revenue requirement with the new tax rate being applied.

The Company used 173 days in the interest calculation. The effective date of the Order is January 9 and the PBRC Tariff states that customer credits are to begin with July cycle one bills. Cycle one is July 2 and there are 173 days between January 9, 2018 and July 2, 2018.

Mr. Slaughter testified that the $2.86 million deferral that has been booked to comply with the Order should not be refunded to customers. The PBRC mechanism, as designed, keeps both the Company and customer whole going forward with the current and future filings making a refund with interest unnecessary.

Mr. Slaughter testified that the PBRC mechanism makes a refund unnecessary. First, unlike companies operating under traditional ratemaking, the revenues ONG collects during the time-period of January 9, 2018 until customer rates are adjusted will be contained in the Company's 2018 test year for the PBRC to be filed in March 2019. These revenues, based on the 35% tax rate, will move the company's earned return higher when determining the company's placement within or outside of the PBRC dead-band in the March 2019 filing. Second, and consistent with the Order, it is appropriate to ensure a proper evaluation of the Company's position within or outside of the earnings dead-band. 2018 test year revenues should be evaluated and reviewed in unison with 2018 expenses and 2018 investments. This review and evaluation will occur in the March 2019 filing keeping both the customers and Company whole and not capture income tax changes as single-issue ratemaking. Finally, and as mentioned previously, the liability that is being booked is based upon the PBRC credit calculated in this cause because it is approximately the same timing as the change in income tax rates (12/31/2017 test year, 1/1/2018 new income tax rate going forward). As opposed to just considering the change in the tax rate, this calculation includes all components of changes in the revenue requirement providing a much clearer picture and results in a more balanced customer impact. This is further proof that the PBRC, when allowed to operate as designed, properly balances the interests of both customers and the Company.

Mr. Slaughter quantified the major components driving the current PBRC credit. There are significant investments in rate base, increases in depreciation expense, and ad valorem taxes that are offsetting the decrease in income tax expense. There are also decreases in other expenses such as pension and OPEB.

Mr. Slaughter testified that in the pre-filed testimony of Ms. Chandler, the Company has invested over $340 million since September 1, 2015, in upgraded and new infrastructure to insure safe and reliable service.

Mr. Slaughter testified that currently, approximately 570,000 credit/debit annual card payments are processed by an external vendor annually. When a customer calls the Company requesting payment with a credit or debit card, the call is forwarded to a third-party vendor. The fee for these transactions is $3.70 per bill payment and this fee is paid by the individual residential customer. The total annual expense, based on current volume for our residential customers is approximately $2.1 million.

Mr. Slaughter testified that the Company believes that there is a more cost-effective way of processing credit/debit card payments that would significantly reduce the per transaction cost and remove the cost burden placed on the individual card holder. This would be a significant benefit for residential customers. In addition to cost savings, this modification will improve customer satisfaction and make the process simpler for the customer. Also, by the Company processing these credit/debit card payments the Company will more easily be able to control the process from end to end and be able to offer convenience, security and stability.

Mr. Slaughter testified that it is becoming a common practice for utilities to not directly charge customers for these types of transactions.

Beginning in late 2018, the Company will begin processing credit/debit cards internally and paying the transaction costs as opposed to utilizing an external vendor that charges the individual customer. The result is a significantly reduced transaction cost that is currently estimated at $1.10 per transaction as opposed to the current $3.70 per transaction for residential customers. Since these will be processed by the Company, there will be additional Operating and Maintenance expense ("O&M") estimated to be approximately $312,000 annually associated with increased call volumes, IT maintenance, and annual licensing fees. Combining the reduction in transaction fees with the increase in O&M expense results in an estimated annual reduction of approximately $1.2 million or 57% from the current cost being paid by individual customers.

These transaction costs would be spread to customers based on the cost of service resulting in a cost of approximately $0.10 per month. The Company believes this to be a significant benefit to customers. There are no costs related to this process change within the current calculation of the revenue requirement. To provide a benefit to its customers, the Company is requesting to defer the transaction costs for processing these payments as well as the additional O&M expense for the initial period from the 4th quarter of 2018 through 2019 to reduce the lag of recovery of the expenses. The Company requests that these deferred expenses be amortized over four years beginning with the March 2020 PBRC filing.

There will be a corporate capital investment of approximately $265,000 for software required to process these transactions. Approximately $100,000 of this amount would be allocated to ONG. This investment will be made in 2018 and included within rate base of the March 2019 PBRC filing.

The Company requests a waiver to Commission Rule 165:45-23-4(e) to include small transport customers, Tariff 255-T Transport 900 Dth but less than 5,000 Dth, within the eligibility of the Company's Energy Efficiency programs. This Commission Rule states, "Transportation customers shall not be subject to Demand Programs and related Program costs implemented pursuant to this Subchapter."

The 255-T Tariff includes the same type and usage level of customers as 200-LCI for large commercial and industrial sales customers using less than 5,000 Dth who can participate in energy efficiency. The only difference is that 255-T customers have chosen to procure their own gas as opposed to purchasing gas from the Company. 200-LCI customers currently participate in the Commercial Custom Program which is significantly under-subscribed. The Company believes including the 255-T customers within the eligibility of this program could help to utilize these dollars while providing benefits of energy efficiency to an additional class of customers. Including the small transport 255-T customers would provide more than 4,300 industrial and commercial transport customers with the opportunity to participate in and benefit from the Commercial Customer Program. This tariff class represents approximately 80% of all transport customers. Adding these small transport customers would allow the Company to provide benefits to more customers without increasing the budget. The 255-T customers would share in the costs of the Commercial Custom Program with 200-LCI. The calculation of the rate is discussed by Company witness Paul Raab and the effect of the rate on the monthly service charge is shown in Workpaper A-2 and discussed by Company witness Ms. Chandler. The remainder of transport customers would not be affected by this waiver and would continue to not be charged for ONG's energy efficiency programs. The purpose of Tariff 1083 is to allow the Company to provide a cash inducement to defray the costs of venting and piping that are typically a cost barrier to builders and result in the majority of residential multi-units not offering natural gas. Mr. Slaughter testified that Tariff 1083 has been under-utilized since it was originally approved. The Company is planning a renewed push to educate and utilize these funds to benefit residential natural gas consumers. In reviewing the tariff, there were items noted that created confusion and uncertainty about the application of the tariff. The proposed modifications are an attempt to address these issues.

Mr. Slaughter describes the modifications to Multi-Family Extension Tariff 1083. The modifications being requested are summarized as: (1) Clarifying language to alleviate confusion and add certainty for customers and Company employees regarding the tariff; (2) Clarify that multi-unit structures should consist of four or more units. The reason for this clarification is that the incremental cost to include natural gas appliances in a structure with less than four units is no more than the typical family residence; (3) Include specific language that the cash inducement is intended to cover the actual cost of piping and venting; and (4) The current tariff does not include a cap on the cash inducement per unit. The Company proposes to add a cap on the inducement that is equal to the maximum allowable investment ("MAI") that is utilized for the line extension under Tariff 1081 Distribution Extension Policy.

Mr. Slaughter testified that the modifications do not change the original intention and purpose of Tariff 1083. The intention of the tariff is to provide cash inducements to defray the cost of venting and piping in these residential multi-units. The Company believes these modifications will help to further utilize the tariff and provide benefits to these customers.

Mr. Slaughter further testified that Tariff 707 allows the Company to collect $0.25 per gas gallon equivalent of CNG from the Company's public CNG fueling dispensers to be utilized as rebates for the purchase of CNG vehicles and CNG refueling units. Currently, available rebate dollars have increased to more than $1 million. The requested modifications are intended to expand the amounts and eligibility of rebates to utilize these available rebate dollars and further support the CNG infrastructure in the state of Oklahoma.

Mr. Slaughter further testified that customers do not pay for these rebates in base rates. As mentioned previously, the rebates are funded by a $0.25 surcharge that is paid by individuals who utilize the Company's publicly available CNG dispensers.

Mr. Slaughter described the requested modifications to CNG Tariff 707. CNG Tariff 707 is being requested to be modified as follows: (1) Include local governmental entities within the eligibility of the program. This would include state, county, city, schools and federal recognized tribal governments within the state of Oklahoma; (2) Increase the annual maximum number of rebates and the dollar amount of the rebates from $2,000 up to $10,000 depending on the size of the vehicle; (3) Increase rebate for CNG fueling units from $3,000 up to $5,000 and include a component to cover the cost of electrical and plumbing up to $2,500; and (4) Include language that limits the amount of a rebate to the cost of the vehicle, conversion of the vehicle, cost of the home fueling unit, or cost of the plumbing/electrical. This will help ensure the rebate program is not utilized for profit taking.

Mr. Slaughter, described Exhibit CMS-5 attached to his testimony. In accordance with Commission Rule 165:45-23-6(a) effective for the 2017 Energy Efficiency Program Year, the Company has retained an independent third-party evaluator, ADM Associates Inc.; to conduct the Evaluation, Measurement and Verification ("EM&V") as well as determine the cost effectiveness of the Company's programs. Their report is attached to my testimony as Exhibit CMS-5.

Mr. Slaughter summarized the following points made within his testimony: (1) This filing has been prepared and filed in compliance with the PBRC Tariff 1201; the order in the last chapter 70 general rate case; Commission Order No. 671984 concerning income tax changes; and the Tax Cuts and Jobs Act of 2017; (2) The Company's earned ROE, utilizing a federal income tax rate of 21%, results in a $17 million decrease in revenue requirement and $5.6 million above the ROE dead-band. All $5.6 million will be returned to customers over a 12-month period following an order in this cause; (3) The Company has appropriately addressed Commission Order No. 671984 and the Tax Cuts and Jobs Act of 2017 by changing the federal income tax rate to 21% and booking regulatory liabilities, subject to review and refund, for excess ADIT and rates charged at a federal income tax rate of 35% between January 9, 2018 and new rates in this cause; (4) The Company has recognized that the liability for excess deferred income taxes needs to be returned to customers and will do so over the period defined by the ARAM as required by IRS tax normalization rules. This includes the liability offsetting rate base providing the cost of capital as outlined in Commission Order No. 671984; (5) The Company believes it has provided significant evidence in this testimony that a customer refund for the difference in rates based on a federal income tax rate of 35% versus 21% for the period January 9, 2018, to the date that new rates are put in place is not necessary or required. There are significant offsets for increased investments and other changes to revenue requirement components that are addressed by the calculations in this PBRC filing as well as the PBRC filing in March 2019 which will evaluate this specific time-period; (6) The proposed waiver of a Commission rule to allow 255-T transport customers to participate in Energy Efficiency programs will let similar type and usage customers to benefit from and further utilize available funds; (7) The proposed tariff modification to Tariff 1083 will help to further clarify and structure the tariff so that it can be more easily understood and utilized by the Company and customers to expand natural gas service to residential multi-unit structures; (8) The proposed modifications to Tariff 707 are intended to expand the individual amounts and availability of the rebates for CNG vehicles and fueling units to utilize available rebate dollars and further support the CNG infrastructure in the state of Oklahoma; and (9) The Company has appropriately addressed Commission Rule 165:45-23-6(a) that became effective for Energy Efficiency Program Year 2017 by hiring an independent third-party evaluator to perform the EM&V as well as determine the cost effectiveness of the Company's programs.

<u>Rebuttal Testimony</u>

Mr. Slaughter testified that the Attorney General's ("AG") witness Ed Farrar's recommendations to: 1) lower rates to the middle of the return on equity ("ROE") dead-band; and 2) require a refund based on this 9.50% ROE for revenues that will be reviewed in the March 2019 Performance Based Rate Change ("PBRC") filing, rely on single issue ratemaking, incorrect assertions, and a deviation from the requirements of the Commission approved PBRC Tariff, Tariff 1201. Mr. Farrar's recommendations will undermine how the PBRC is intended to operate and will potentially create unnecessary swings in customer rates. In addition, Mr. Farrar's recommendation to amortize the unprotected portion of excess deferred income taxes ("EDIT") over a 5-year straight line period is unreasonable, not based upon any evidence, and arbitrary. As noted in my pre-filed testimony, and discussed later in this testimony, the Company's proposal to return the unprotected EDIT utilizing the same methodology as the protected EDIT is based upon the actual elements making up this balance.

Mr. Farrar's recommendation violates the requirements of the Commission approved PBRC Tariff by lowering rates to the mid-point (9.5%) of the PBRC ROE dead-band. Lowering rates to the mid-point, combined with a refund of over $8 million, would likely result in an increase in rates within the March 2019 PBRC filing. This increase would be due to reliance on a single issue, income tax, occurring outside of the current test year as opposed to properly matching and reviewing all 2018 test year revenues, expenses, and rate base changes within the 2019 PERC filing. The specific tariff violations are discussed later in this rebuttal testimony.

Mr. Slaughter testified that the Company will not benefit by keeping revenues that are based on a 35% income tax for the period from January 9, 2018, until these revenues are reviewed in the appropriate 2018 test year PBRC filing in March of 2019. These revenues will be reviewed along with all other changes occurring within the 2018 test year (2019 PBRC) as required by the PBRC Tariff and Order No. 671984 regarding tax reform. In addition, if the PUD's proposal of continuing to accrue interest on this revenue is accepted, then the interest obligation also will be included in the 2019 PBRC filing ensuring there is no benefit to the Company. In other words, the PBRC mechanism will ensure the Company stays within its authorized ROE band without violating the terms of the PBRC Tariff.

Mr. Slaughter testified that Mr. Farrar wrongly asserts that the only factor that caused earnings above the dead-band was the reduction in federal income tax rates. Mr. Farrar uses this assertion as his only basis to justify ignoring the requirements of the PBRC Tariff. As discussed in my pre-filed testimony, had the 2017 effective federal income tax rate of 35% been applied to the 2017 test year, the PBRC calculation would have yielded an increase of more than $11 million that the Company will never collect. The Company will pay actual taxes based on 35% for 2017, not 21%. In addition, the reduction in income taxes is not the only change creating earnings above the band. As but one example, the Company's pension expense decreased by approximately $11 million since the last rate change, also driving earnings above the dead-band. Mr. Farrar's assertion simply ignores facts such as this. In contrast, the Company's filing follows the requirements of the PBRC Tariff, and considers all changes in the Company's revenues, expenses, and rate base that effect the 2017 test year. Additionally, the Company annualized the effect of the new 21% federal income tax rate consistent with Section 6(E)(3) of the PBRC Tariff. In addition, revenues (based on the 35% income tax rate) occurring during the 2018 test year will be recalculated using an annualized 21% income tax rate, properly matched with other 2018 test year changes, along with interest at the cost of capital rate (PUD proposal) ensuring the Company does not over-earn based on tax rate changes during this period. The PBRC Tariff reflects the Commission's commitment to equitable ratemaking principles that do not allow for consideration of a single issue on which to base rate changes.

Mr. Slaughter testifies that applying the PBRC Tariff mechanism requirements to the 2017 test year yields an earned ROE of 10.51% and an excess revenue calculation of $5,619,482, that will be returned to customers over a 12-month period following an order in this case.

Mr. Slaughter testified to specific requirements of the PBRC Tariff Section 2 Part (d) states, "An AROE dead-band of 100 basis points is established to be from 9.00% to 10.00% in which no rate change occurs." Section 5 Part (c) states, "If for the 12-month period ending December 31, the Company's ER is above 10.00%, the portion of the ER that is greater than 10.00% shall be shared on a 75/25 basis between the customers and the Company, with the customers receiving the greater amount." Additionally, Section 2, Part (f) states, "Should this Rate Schedule require a credit to the Company's customers, the credit shall be made by crediting customer bills over a 12-month period beginning with the July cycle one bills." Section 6, Part (e)(3) states, "Statutorily enacted tax changes or unfunded federal mandates shall be annualized."

Mr. Slaughter testified that the Company calculated an excess revenue amount of $5,619,482 over the top of the ROE dead-band to be credited over 12 months in compliance with the PBRC Tariff with one exception. The Company made the voluntary decision in this filing to forego its 25% share of earnings over the top of the dead-band and credit all the $5.6 million to customers. This customer benefit, that was not required by the PBRC Tariff, equates to $1,404,871.

Mr. Slaughter testified that Mr. Farrar's recommendation to lower rates to the mid-point of the ROE dead-band does not comply with the requirements of the PBRC Tariff. Mr. Farrar's position is unbalanced and represents an ill-conceived attempt at retroactive ratemaking. Mr. Slaughter states that the specific requirements of Commission Order No. 671984 are as follows:

> THE COMMISSION FURTHER ORDERS ONG shall record a deferred liability beginning on the effective date of this Order, to reflect the reduced federal corporate tax rate to 21 percent and the associated savings in excess ADIT and any other tax implications of the Act on an interim basis subject to refund until utility rates are adjusted to reflect the federal tax savings and a final order is issued in ONG's next scheduled PBRC proceeding to be filed on or after March 15, 2018, or as otherwise ordered by the Commission.
>
> THE COMMISSION FURTHER ORDERS to the extent not already accounted for in ONG's current PBRC Tariff, the amounts of any refunds determined to be owed to customers shall accrue interest at a rate equivalent to ONG's cost of capital as recognized in Order No. 666781 issued in Cause No. PUD 201700079, until issuance of a final order in its upcoming PBRC proceeding.

Mr. Slaughter discussed four ways the Company addressed and complied with the Order: (1) Applied a 21% federal income tax rate in this filling to determine the AROE; (2) Recorded a deferred liability, subject to refund and review within this filing, equal to the excess deferred income taxes ("EDIT") resulting from the change in the federal corporate income tax rate to 21% from 35% that occurred on January 1, 2018; (3) Recorded a deferred liability, subject to refund and review within this filing, to reflect the reduced federal corporate tax rate, beginning with the date of the Order (January 9, 2018), until rates are adjusted to reflect tax savings and a final order issued in the current PBRC cause; and (4) To the extent not already accounted for in the Company's current PBRC Tariff, the amount of any refunds determined to be credited to customers (associated with items 2 and 3 above) shall accrue interest at a rate equivalent to ONG's cost of capital as recognized in Order No. 666781 in PUD Cause No. PUD 20170079 until rates are adjusted and a final order is issued in this cause. The Company utilized the new federal income tax rate of 21%. In addition, this 21% tax rate has been annualized and applied to the entire 2017 test year. In compliance with the Order, the Company has remeasured accumulated deferred income taxes ("ADIT") based on the reduced federal income tax to 21% from 35% and booked the difference as an EDIT deferred liability.

Mr. Slaughter testified that the amount of the deferred liability the Company booked is $174,062,249 to balance sheet account 2540200 – Other Regulatory Liability Excess Deferred Tax as of December 31, 2017. It should be noted that this amount is an estimate. The reason this amount is an estimate is because the timing differences (the difference between when the Company gets a tax deduction and when the Company books a GAAP expense) for tax year 2017 will not be known for certain until the Company files its Federal Income Tax returns with the Internal Revenue Service in September 2018. Until then, this balance is an estimate and is subject to change.

Mr. Slaughter testified that to comply with Section 13001 of the TCJA, the Company will amortize the EDIT utilizing the average rate assumption method ("ARAM") for book versus tax depreciation on plant that are protected by the TCJA. These protected items make up approximately $126 million of the $174 million EDIT.

Mr. Slaughter testified that the remaining $48 million is made up of items that are not protected. This means that these amounts are not required by law to be returned using the ARAM. More than half of the remaining $48 million EDIT is associated with repairs expense that directly relate to the Company's plant in service. The next largest item, associated with pensions, has a life that is much longer than the ARAM. These two items combine to make up nearly the entire balance of unprotected excess deferred tax items. The Company believes utilizing the same ARAM method of amortization for the unprotected items would be appropriate and balanced.

Mr. Slaughter testified that as amounts are identified by the ARAM calculation for flowback within a given year, the Company intends to identify those amounts and the associated customer bill credits within the annual PBRC filings. The Company also intends that the amount of the EDIT be applied as a one-time bill credit within 60 days of a PBRC order and any over/under billed amount be trued up in the following PBRC filing. The Company intends to return this excess deferred liability as a separate bill credit outside of the PBRC calculation to ensure 100% of the EDIT returns to customers. The Company identified $5,453,472 as the estimated EDIT credit to be given to customers within 60 days of an order being issued in this filing.

Mr. Slaughter testified that in compliance with the Order, the Company has booked a deferred liability subject to review and potential refund in this filing that quantifies the impact of rates at 35% versus 21% beginning with the date of the Order, January 9, 2018. The amount that is recorded is approximately $2.86 million and equates to 173 days of the over-earning position calculated in this cause ($5,619,482) plus interest over the same period at the 2017 cost of capital rate of 7.225%.

Mr. Slaughter discussed the deferred liability based on the over-earning position calculated in this cause. As mentioned previously, the current filing is calculated on a test year ending December 31, 2017, coupled with the new federal income tax rate of 21% that went into effect on January 1, 2018. Mr. Slaughter explained why 173 days was used in the interest calculation. The effective date of the Order is January 9 and the PBRC Tariff states that customer credits are to begin with July cycle one bills. Cycle one is July 2 and there are 173 days between January 9, 2018 and July 2, 2018. Mr. Slaughter does not believe the $2.86 million deferral that has been booked to comply with the Order should be refunded to customers. The PBRC mechanism, as designed, keeps both the Company and customers whole going forward within the current and future filings therefore making a refund with interest unnecessary.

As opposed to just considering the change in the tax rate, the PBRC calculation includes all components of changes in the revenue requirement providing a much clearer picture and results in a more balanced customer impact. This is further proof that the PBRC, when allowed to operate as designed, properly balances the interests of both customers and the Company. Consistent with the Order, it is appropriate to ensure a proper evaluation of the Company's position within or outside of the earnings dead-band. Test year 2018 revenues should be evaluated and reviewed in unison with 2018 expenses and 2018 investments. This review and evaluation will occur in the March 2019 filing keeping both customers and the Company whole thereby not capturing income tax changes as single-issue ratemaking. In addition, unlike companies operating under traditional ratemaking, the revenues ONG collects during the period from January 9, 2018, until customer rates are adjusted will be contained in the Company's 2018 test year to be used for the PBRC to be filed in March 2019. These revenues, based on the 35% tax rate, will move the Company's earned return higher when determining the Company's placement within or outside of the PBRC dead-band in the March 2019 filing. Finally, and as mentioned previously, the liability that is being booked is based upon the PBRC credit calculated in this cause because the test year end is approximately the same date the change in income tax rates occurred (December 31, 2017, test year end; January 1, 2018, new income tax rate going forward).

The Company requests that the AG's proposal to prospectively disallow the adjustment (R-5) to remove non-recurring revenue should be denied. These revenues are one-time occurrences, such as copays for line extensions, that do not occur again. Traditionally, revenue items that are non-recurring are removed from the ratemaking formula. These revenues have been removed from all previous PBRC filings.

Mr. Slaughter testified that certain requests were made by the Company to which no party has taken issue: (1) Energy Efficiency Incentive, True-up, and associated rates; (2) The Company's request to defer and amortize the customer benefit related to processing of credit/debit cards; (3) Waiver of a Commission rule that will allow small transport 255-T customers to be included in energy efficiency programs; (4) Proposed modifications to Residential Multi-Unit Distribution Extension Policy, Tariff 1083; and (5) Proposed modifications to Compressed Natural Gas Surcharge Incentive Mechanism, Tariff 707. Mr. Slaughter testified he requests that the Company's positions related to these issues be approved as there is no opposition from the parties to this cause on these issues.

In conclusion, Mr. Slaughter testified that based on the evidence provided in this testimony and the Company's pre-filed testimony, that he requests that the Company's positions, which are based upon compliance with the PBRC Tariff and Commission Order No. 671984 be accepted and approved while the AG's positions regarding the rate reduction and refunds that violate the PBRC Tariff be denied.