

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

| | |
|--|---------------------|
| IN THE MATTER OF THE APPLICATION) OF CENTERPOINT ENERGY RESOURCES) CORP. D/B/A CENTERPOINT ENERGY) ARKANSAS GAS FOR A GENERAL) CHANGE OR MODIFICATION IN ITS) RATES, CHARGES AND TARIFFS) | DOCKET NO. 15-098-U |
|--|---------------------|

Testimony in Support of the
Stipulation and Settlement Agreement

of

JEFFRY POLLOCK

On Behalf of

ARKANSAS GAS CONSUMERS, INC.

July 1, 2016



J . P O L L O C K
I N C O R P O R A T E D

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

| | |
|--|---------------------|
| IN THE MATTER OF THE APPLICATION) OF CENTERPOINT ENERGY RESOURCES) CORP. D/B/A CENTERPOINT ENERGY) ARKANSAS GAS FOR A GENERAL) CHANGE OR MODIFICATION IN ITS) RATES, CHARGES AND TARIFFS) | DOCKET NO. 15-098-U |
|--|---------------------|

Table of Contents

GLOSSARY OF ACRONYMSIII
INTRODUCTION..... 1
PURPOSE1
ASSESSMENT..... 1
CONCLUSION 5
CERTIFICATE OF SERVICE 7

GLOSSARY OF ACRONYMS

| Term | Definition |
|-------------------|---|
| AGC | Arkansas Gas Consumers, Inc. |
| CEA | CenterPoint Energy Arkansas Gas |
| CCOSS | Cost of Service Study |
| Commission | Arkansas Public Service Commission |
| FRP | Formula Rate Plan |
| LTIC | Long Term Incentive Compensation |
| ROE | Return on Equity |
| SSA | Stipulation and Settlement Agreement |
| Staff | General Staff of the Arkansas Public Service Commission |
| STIC | Short Term Incentive Compensation |
| UAS | University of Arkansas System |

INTRODUCTION

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. Jeffry Pollock; 12647 Olive Blvd., Suite 585, St. Louis, MO 63141.

3 Q. ARE YOU THE SAME JEFFRY POLLOCK WHO PREVIOUSLY SUBMITTED
4 DIRECT AND SURREBUTTAL TESTIMONY ON BEHALF OF THE ARKANSAS
5 GAS CONSUMERS, INC. (AGC)?

6 A. Yes.

PURPOSE

7 Q. WHAT IS THE PURPOSE OF YOUR SSA TESTIMONY?

8 A. I have been asked to comment on the Stipulation and Settlement Agreement (SSA)
9 submitted by CenterPoint Energy Resources Corp d/b/a CenterPoint Arkansas Gas
10 (CEA), AGC, University of Arkansas System (UAS) and the General Staff (Staff) of the
11 Arkansas Public Service Commission (Commission), herein after referred to as the
12 Settling Parties.

ASSESSMENT

13 Q. WHAT IS YOUR ASSESSMENT OF THE SSA?

14 A. The SSA addresses and reasonably resolves AGC's primary Issues in this proceeding.
15 While the SSA is overall less advantageous to AGC members, it provides a less risky
16 result than a litigated outcome and equitably resolves issues in the case. Settling this
17 case required substantial compromise from each of the parties, and I urge the
18 Commission to accept the SSA in full, and so far as it will result in rates that the Settling

1 Parties consider fair, just and reasonable.

2 **Q. WHAT WERE AGC'S PRIMARY ISSUES AND HOW DOES THE SSA RESOLVE**
3 **THEM?**

4 A. AGC's primary issues and the resolution under the SSA are as follows:

5 **Issue #1—Incentive Compensation:**

6 AGC and others objected to the recovery of any financially-based incentive
7 compensation both for policy reasons and because recovery would be inconsistent
8 with Commission precedent. The SSA removed 100% of financially-based Long Term
9 Incentive Compensation (LTIC) and 40% of Short Term Incentive Compensation
10 (STIC), which results in a disallowance of approximately \$2.2 million.¹

11 **Issue #2—Capital Structure:**

12 AGC and other parties opposed CEA's proposed capital structure because it was
13 based on a 59% equity ratio. This is substantially above the equity ratio of other gas
14 delivery companies having risks comparable to CEA. The SSA provides for a fixed
15 48.5% equity ratio.²

16 **Issue #3—Return on Equity (ROE):**

17 CEA proposed a 10.3% ROE. AGC recommended a 9.2% ROE, with a range of 8.8%
18 to 9.5%. The SSA adopted a 9.5% ROE. Although at the upper end of AGC's range
19 of reasonableness, the outcome is acceptable because CEA's equity ratio was fixed
20 at 48.5%.

21 **Issue #4—Class Cost of Service Study (CCOSS):**

22 CEA proposed a CCOSS that fully reflected Act 725.³ AGC proposed several changes
23 to CEA's CCOSS, and the Settling Parties agreed on most of these issues. Further,
24 the Settling Parties agreed that the requirements for implementing Act 725 have been
25 met in this proceeding. However, there is disagreement about the interpretation of Act
26 725. Accordingly, the Settling Parties agreed not to recommend or endorse a specific

¹ SSA at 4-5.

² SSA at 6.

³ Act 725 of 2015, Ark. Code Ann. § 23-4-422.

1 cost allocation methodology. The Customer Class COS study (Settlement G-1)
2 reflects a compromise between competing positions.⁴

3 **Issue #5—Class Revenue Allocation:**

4 CEA proposed eliminating interclass subsidies completely. AGC supported CEA's
5 proposal, but also proposed that if there was to be a mitigation, the maximum increase
6 should be limited to 150% of the system average non-fuel revenue increase. The
7 Settling Parties agreed to limit the residential base rate increase to 125% of the system
8 average increase, which is the mitigation proposal the Staff adopted from the AG in its
9 Surrebuttal testimony, but this metric excluded present Rider revenues.⁵ When
10 restated to include present Rider revenues, the SSA would result in essentially the
11 same 150% cap that AGC proposed. Thus, the settlement essentially adopted AGC's
12 proposed class revenue allocation with mitigation.

13 **Issue #6—Rate LCS-1 Design:**

14 CEA proposed eliminating the volumetric charges and rolling all riders into the demand
15 charges. The Office of Attorney General opposed eliminating the volumetric charge.
16 However, the Settling Parties agreed to support the Staff's proposed rate design as
17 outlined in its Surrebuttal testimony, which recommended eliminating the volumetric
18 charge and increasing the Demand charges by an equal percentage. AGC believes
19 that the LCS-1 rate design is fully consistent with Act 725.

20 **Issue #7—Formula Rate Plan (FRP):**

21 CEA's proposed FRP lacked the necessary structure, procedure and information
22 needed to properly adjudicate a filing. The status of certain riders was also unclear.
23 Various parties proposed implementing essentially the same structure, protocols and
24 information requirements adopted in the FRP approved for Entergy Arkansas, Inc. The
25 SSA adopts Staff's proposed FRP. Further, various riders will expire when the FRP is
26 implemented.

⁴ SSA at 8.

⁵ SSA at 5.

1 **Q. DOES THE SSA PROVIDE FOR A REASONABLE REVENUE DISTRIBUTION**
2 **AMONG CUSTOMER CLASSES?**

3 A. Yes. As discussed previously, class revenue class distribution was vetted extensively
4 by the parties. The result was the product of substantial compromise.

5 **Q. DOES THE SSA CLASS REVENUE DISTRIBUTION GIVE RECOGNITION TO ACT**
6 **725?**

7 A. Yes. Act 725 requires, under certain circumstances, that the Commission utilize
8 certain classification and allocation methodologies to allocate specific distribution plant
9 accounts and related operating expenses. The SSA class revenue distribution closely
10 parallels the CCOSS filed with Staff's Surrebuttal testimony, which explicably
11 recognized Act 725 in the allocation of FERC Account Nos. 374-376. However, the
12 Settling Parties still disagree over the proper interpretation of Act 725 pertaining to the
13 allocation of FERC Account Nos. 378 and 379.

14 As previously explained, mitigation was applied to limit the increase in
15 residential gas delivery rates while providing below-average base rate increases to all
16 the other classes. This result is consistent with the CCOSS and provides a reasonable
17 compromise over the competing allocation methods.

18 **Q. PLEASE SUMMARIZE YOUR ASSESSMENT OF THE SETTLEMENT CLASS**
19 **REVENUE DISTRIBUTION.**

20 A. AGC believes this compromise is a good outcome for this case and will result in rates
21 that are fair, just and reasonable for all customers.

1 **Q. DOES THE SSA PROVIDE FOR A REASONABLE RATE DESIGN FOR AGC**
2 **MEMBERS TAKING SERVICE IN THE LCS-1 RATE CLASS?**

3 A. Yes. The design of Rate LCS-1 fully recognizes Act 725, and it will result in rates for
4 these customers that are fair, just and reasonable.

CONCLUSION

5 **Q. WILL THE SSA BENEFIT ALL OF CEA'S CUSTOMERS?**

6 A. Yes, it will. The SSA will benefit all of CEA's customers because it will provide more
7 cost-competitive rates that are essential to economic development. Thus, it will be
8 conducive to retaining and attracting manufacturing jobs. This, in turn, will directly
9 benefit all CEA customers by spreading CEA's fixed costs over a larger sales base
10 and indirectly through increased economic activity (*i.e.*, disposable income, tax
11 revenues and additional service sector-related jobs) that creates wealth and minimizes
12 tax collections by defraying the cost of state/local government services.

13 **Q. DOES THE PROPOSED SSA PROVIDE A JUST AND REASONABLE**
14 **RESOLUTION OF THE ISSUES RAISED BY CEA'S RATE CASE?**

15 A. Yes. The SSA addresses all the issues in the case and involved a great deal of give
16 and take among the negotiating parties. Further, based on the testimony filed by AGC
17 and the other parties in this proceeding, the terms of the proposed SSA fall well within
18 the range of likely outcomes that the Commission could have reached had the parties
19 chosen to litigate the case rather than settle. The SSA provides a just and reasonable
20 outcome for the parties to this case, for CEA and its customers generally. For all of
21 these reasons, I recommend that the Commission approve the SSA.

- 1 Q. DOES THIS CONCLUDE YOUR TESTIMONY IN SUPPORT OF THE SSA?
- 2 A. Yes.

CERTIFICATE OF SERVICE

I, Jordan Tinsley, hereby certify that, on July 1, 2016, I served a copy of the foregoing Testimony in Support of SSA Agreement upon all parties of record *via* electronic mail.

/s/ Jordan B. Tinsley _____