BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF ENTERGY ARKANSAS, INC. FOR APPROVAL OF CHANGES IN RATES FOR RETAIL ELECTRIC SERVICE	)))))	**DOCKET NO. 15-015-U**

Testimony in Support of Settlement Agreement

of

JEFFRY POLLOCK

On Behalf of

ARKANSAS ELECTRIC ENERGY CONSUMERS, INC.

December 31, 2015

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GLOSSARY OF ACRONYMS

Term	Definition
4CP	Four Coincident Peak
12CP	Twelve Coincident Peak
A&E	Average and Excess
AAEA	Arkansas Advanced Energy Association, Inc.
AEEC	Arkansas Electric Energy Consumers, Inc.
AG	Consumer Utilities Rate Advocacy Division of the Attorney General's Office
CCR	Capacity Cost Recovery
EAI	Entergy Arkansas, Inc.
EECR	Energy Efficiency Cost Rate
FEA	Federal Executive Agencies
FRP	Formula Rate Plan
HHEG	Hospitals and Higher Education Group
Kroger	The Kroger Company
LGS	Large General Service
NDCR	ANO Decommissioning Cost Rider
PCA	Production Cost Allocation
ROE	Return on Equity
Staff	General Staff of the Arkansas Public Service Commission

INTRODUCTION

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

Q ARE YOU THE SAME JEFFRY POLLOCK WHO PREVIOUSLY SUBMITTED DIRECT AND SURREBUTTAL TESTIMONY ON BEHALF OF ARKANSAS ELECTRIC ENERGY CONSUMERS, INC. (AEEC)?

A Yes.

PURPOSE

Q WHAT IS THE PURPOSE OF YOUR SETTLEMENT TESTIMONY?

A I have been asked to comment on the Settlement Agreement (Settlement) submitted by the General Staff of the Arkansas Public Service Commission ("Staff"), Entergy Arkansas, Inc. ("EAI"), the Consumer Utilities Rate Advocacy Division of the Attorney General's Office ("AG"), Arkansas Advanced Energy Association, Inc. ("AAEA"), AEEC, Federal Executive Agencies ("FEA"), Hospitals and Higher Education Group ("HHEG"), and The Kroger Company ("Kroger"), hereinafter collectively the "Settling Parties."

ASSESSMENT

Q WHAT IS YOUR ASSESSMENT OF THE SETTLEMENT?

A While the Settlement is overall less advantageous to large business customers than the outcome that AEEC and other parties originally sought to secure, it provides a less risky result than a litigated outcome and equitably resolves the issues in this case. Settling this case required substantial compromise from each of the parties, and I urge the Commission to accept the Settlement in full, insofar as it will result in rates that the settling parties consider fair, just and reasonable.

Q WHAT ISSUES DOES THE SETTLEMENT RESOLVE?

A The Settlement resolves all major issues related to EAI's overall revenue requirement, the distribution of revenues among customer classes, rate design and the Formula Rate Plan (FRP). These were the major issues addressed by AEEC witnesses in this case.

For example, AEEC recommended specific adjustments to EAI's test year revenue requirement. This included a lower return on common equity (ROE) and removal of post-test year plant additions. Although AEEC's recommendation was not adopted *per se* in the Settlement, EAI's authorized revenue requirement will be $42.6 million lower under the Settlement, in part, due to a lower ROE and other adjustments.

Similarly, AEEC recommended specific changes to the proposed FRP. This included shortening the discovery turn-around period, requiring EAI to present additional, detailed information and using an Official Forecast to estimate EAI's Projected Year costs. The Official Forecast is defined as Entergy Corporation's Board of Directors approved five-year official budget for EAI. These changes have been incorporated in the FRP tariff.

Q HOW DOES THE CLASS REVENUE DISTRIBUTION UNDER THE SETTLEMENT COMPARE WITH THE PROPOSALS MADE BY THE PARTIES?

A The table below summarizes the class allocation of the relative base rate increase as proposed by EAI, AEEC and Staff, along with the resulting Settlement allocation. These and other parties supported the Average and Excess/Four Coincident Peak (A&E/4CP) method for allocating production plant and related costs. Also shown is a revenue distribution based on the Average and Peak (A&P) method. The

Commission has historically used A&P to allocate production plant and related costs. The AG supports the continued use of A&P.

Comparison of Relative Base Rate Increases*					
Customer Class	**EAI**	**AEEC[1]**	**Staff**	**A&P Method**	**Settlement**
Residential	116%	120%	108%	101%	108%
Small General Service	120%	140%	110%	85%	111%
Large General Service	62%	38%	85%	120%	85%
Lighting	0%	0%	0%	0%	0%
Total Retail	100%	100%	100%	100%	100%

* Class base rate increase ÷ Total retail base rate increase.

Q IF EAI, AEEC, AND STAFF ALL SUPPORTED A&E/4CP, WHY ARE THERE LARGE DIFFERENCES IN THE BASE RATE INCREASES, PARTICULARLY FOR THE LARGE GENERAL SERVICE CUSTOMER CLASS?

A There are three primary reasons for the different revenue distributions. First, Staff used adjusted billing determinants and class coincident peak demands. This reduced the allocated costs to the Residential and Small General Service classes and increased the allocated costs to the Large General Service (LGS) class. Second, AEEC recommended that A&E/4CP also be used to allocate transmission plant and related costs. EAI and Staff both recommended the twelve coincident peak (12CP) method. The 12CP method allocates more costs to LGS than A&E/4CP. Finally, Staff proposed to mitigate the required revenue increases. Mitigation was accomplished by:

- Assigning no increase to the Lighting class, which was providing revenues well in excess of its allocated cost;

[1] Direct Testimony of Jeffry Pollock, **Exhibit JP-7** Errata.

- Setting the minimum increase (other than Lighting) to 85% of the system-average increase, which raised the LGS class's base revenue increase by $16.5 million; and
- Reallocating the Lighting class surplus and the higher LGS increase to offset the A&E/4CP revenue deficiency for the Residential and Small General Service classes.

Q DOES THE SETTLEMENT PROVIDE FOR A REASONABLE REVENUE DISTRIBUTION AMONG CUSTOMER CLASSES?

A Yes. Class revenue distribution was vetted extensively by the parties. The result was the product of substantial compromise. As the above table demonstrates, the Settlement strikes a balance between the class revenue allocations recommended by EAI, AEEC and Staff—which were based on A&E/4CP— and the A&P method historically used by the Commission and supported by the AG.

Q DOES THE SETTLEMENT CLASS REVENUE DISTRIBUTION GIVE RECOGNITION TO ACT 725?

A Yes. Act 725 requires, under certain circumstances, that the Commission utilize the A&E/4CP method to allocate production plant costs.[2] The Settlement class revenue distribution closely parallels Staff's class cost-of-service study, which utilized A&E/4CP. As previously explained, Staff recommended mitigating the A&E/4CP results. Mitigation is reasonable under these circumstances, however, because EAI was proposing a substantial base revenue increase and current base rates did not closely reflect allocated costs. It was also essential to reaching a negotiated settlement.[3]

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[2] Act 725 of 2015, Ark. Code Ann. § 23-4-422(b)(2)(B).

[3] AEEC recognizes that this negotiated Settlement Agreement contains standard language that negates the precedential value of the settlement outcome. Nonetheless, the parties negotiated a just and reasonable class revenue distribution by mitigating the results of Staff's class cost-of-service study, which utilized A&E/4CP to allocate production plant costs.

Q PLEASE SUMMARIZE YOUR ASSESSMENT OF THE SETTLEMENT CLASS REVENUE DISTRIBUTION?

A AEEC believes this compromise is a good outcome for this case and will result in rates that are fair, just and reasonable. Coupled with expected rate reductions in some of EAI's cost recovery riders (*i.e.,* Grand Gulf, PCA, EECR, MISO, and CCR), the Settlement rates will be conducive to promoting economic development and employment opportunities.

Q DOES THE SETTLEMENT PROVIDE FOR A REASONABLE RATE DESIGN FOR AEEC MEMBERS, MOST OF WHICH ARE IN THE LGS RATE CLASS?

A Yes.

Q IS THE SETTLEMENT RATE DESIGN CONSISTENT WITH ACT 725?

A Generally, yes. The proposed Demand charges would recover about seventy-nine percent (79%) of the demand-related costs allocated to the LGS class. Act 725 requires, under certain circumstances, that one hundred percent (100%) of the allocated demand-related costs be recovered in Demand charges, unless the change in rate design would result in a base rate impact higher than ten percent (10%). In this event, some mitigation would be appropriate. It is my understanding that limiting the Demand charges to seventy-nine percent (79%) of the allocated demand-related costs is consistent with the mitigation provision contained in Act 725.

CONCLUSION

Q WILL THE SETTLEMENT BENEFIT ALL OF EAI'S CUSTOMERS?

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

Q DOES THE PROPOSED SETTLEMENT PROVIDE A JUST AND REASONABLE RESOLUTION OF THE ISSUES RAISED BY EAI'S RATE CASE?

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

Q DOES THIS CONCLUDE YOUR TESTIMONY IN SUPPORT OF SETTLEMENT?

A Yes.

CERTIFICATE OF SERVICE

I, Jordan Tinsley, hereby certify that, on December 31, 2015, I served a copy of the foregoing Testimony in Support of Settlement Agreement upon all parties of record *via* electronic mail.

/s/ *Jordan B. Tinsley*