In the Matter of the Application of	)	
Kansas Gas Service, a Division	)	
of ONE Gas, Inc. for Adjustment	)	DOCKET NO. 16-KGSG-___-RTS
of its Natural Gas Rates in the	)	
State of Kansas	)	

DIRECT TESTIMONY

OF

RICK A. GRUNDMAN

ON BEHALF OF

KANSAS GAS SERVICE

A DIVISION OF ONE GAS, INC.

DIRECT TESTIMONY

OF

RICK A. GRUNDMAN

KANSAS GAS SERVICE

DOCKET NO. 16-KGSG-___-RTS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. Eric Andesen “Rick” Grundman, my business address is 15 East Fifth Street Tulsa, Oklahoma 74103.

Q. BY WHOM AND IN WHAT CAPACITY ARE YOU EMPLOYED?

A. I am employed by ONE Gas, Inc. ("ONE Gas" or "Company") as the Vice President of Rates and Regulatory Affairs.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.

A. I earned a Bachelor of Liberal Studies from St. Edwards University and for the past 21 years, I have served in various roles of increasing responsibilities within the Company. Prior to being appointed to my current position, I held positions within the Company including: Manager of Process Improvement and Quality Assurance; Director of Government Affairs; Vice President of Administration for Texas Gas Service and Oklahoma Natural Gas.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide an overview of the comprehensive annual regulatory mechanisms and rules that are in place in other ONE Gas jurisdictions that provide financial review and recovery, and lag reduction, and discuss how such mechanisms have provided benefits to customers, regulators and the Company. Annual financial review mechanisms include the Performance Based Rate Change (PBRC) in Oklahoma and the Cost of Service Adjustment (COSA), and the recently ended El Paso Area Rate Review (EPARR), in Texas. The mechanisms that reduce regulatory lag include the Gas Reliability Infrastructure Program (GRIP) in Texas, which is an all-encompassing capital recovery mechanism and Texas Railroad Commission Rule 8.209, Distribution Facilities Replacements, which sets out minimum requirements for an operator of a gas distribution system to develop and implement a risk-based program for the replacement or removal of distribution facilities and allows for the establishment of regulatory assets for those programs.

Q. COULD YOU PLEASE IDENTIFY THE CORPORATE ORGANIZATIONAL STRUCTURE OF ONE GAS?

A. ONE Gas is a wholly regulated natural gas utility, which serves approximately 2.1 million customers in the states of Kansas, Oklahoma, and Texas. The state operations are conducted under the respective divisions of Kansas Gas Service (KGS), Oklahoma Natural Gas (ONG) and Texas Gas Service (TGS).

Q. COULD YOU PROVIDE AN OVERVIEW OF ONG AND TGS, AND THE REGULATORY FRAMEWORK IN EACH STATE?

A. ONG serves approximately 840,000 customers in Oklahoma and is the largest gas utility in Oklahoma. The Oklahoma Corporation Commission has state-wide jurisdiction in this traditionally regulated state.

Texas is a “Home-Rule” state, which places the original regulatory jurisdiction of gas utility rate cases with the cities inside their city boundaries, while the Railroad

Commission of Texas has original jurisdiction in the environs areas, and appellate authority over municipal gas rate cases.

TGS serves approximately 650,000 customers throughout Texas in 20 jurisdictions, which include 10 municipally regulated service areas and an additional 10 environs service areas under the Railroad Commission of Texas' primary jurisdiction. TGS' service areas include: Austin/Central Texas, El Paso, Rio Grande Valley ("RGV"), South Texas, Galveston, South Jefferson County ("SJC"), North Texas, Permian, Borger/Skelleytown and Dell City Service Areas, and the 10 environs areas surrounding those jurisdictions.

II. OVERVIEW OF ANNUAL FINANCIAL REVIEW AND LAG REDUCTION MECHANISMS

A. ANNUAL FINANCIAL REVIEW MECHANISMS

1. OKLAHOMA NATURAL GAS - PBR

Q. DOES ONG CURRENTLY OPERATE UNDER AN ANNUAL FINANCIAL REVIEW MECHANISM?

A. Yes it does.

Q. PLEASE EXPLAIN THE TARIFF APPROVED BY THE OKLAHOMA CORPORATION COMMISSION ("OCC") TO ANNUALLY REVIEW AND EVALUTE ONG'S BASE RATES.

A. The Performance Based Rate Change ("PBRC") tariff (Exhibit EAG – 1) is an annual financial review of ONG that aligns the interests of ONG with its customers and provides benefits to all stakeholders. However, it should be understood that customers receive a majority of the benefits. The PBRC includes a return on equity (ROE) dead-band range set by the OCC of 9% to 10%, with a midpoint of 9.5%. If

ONG earns within the dead-band, there is a “no change filing,” with no adjustment to base rates. If ONG earns above its OCC authorized dead-band (10%), then customers are entitled to most (75%) of the “excess earnings” through a 12-month billing credit. On the other hand, if ONG earns below a 9% ROE in the test year, rates are adjusted on a prospective basis. ONG never recoups the under-earned amounts during the test year or during the period of regulatory lag while a PBRC application is pending.

The outcome of the PBRC is neither guaranteed nor automatic. Ultimately, the OCC has the opportunity to review all ONG financial information before any rate modification goes into effect.

In the more than six years that the PBRC has been in place, ONG and its customers have benefited from the PBRC through streamlined regulation and cost efficiencies.

I believe the PBRC encourages greater efficiency and performance by ONG and has the effect of reducing the number of significant changes to base rates over time.

Q. HOW IS A PBRC FILING PROCESSED?

A. No later than March 15 of each year, ONG provides the OCC with a calculation of its earned return for the previous calendar year. The information supplied by ONG in the annual filing is not the only opportunity for the OCC to review the operating conditions of ONG, as communications occur throughout the year when questions or issues arise that require data or explanation. This interaction through both the annual filings and periodic ad hoc discussions has allowed the OCC Staff to have a deeper understanding of ONG's costs and operations. This leads to more frequent and consistent OCC oversight that is both informed and enhanced.

Q. WHAT HAS BEEN THE REACTION OF CUSTOMERS TO ONG'S PBRC MECHANISM SINCE THE DATE OF IMPLEMENTATION?

A. Since the inception of the PBRC in 2009, ONG has been recognized four times by an independent national research firm as having the highest residential customer satisfaction[1].

Q. HAS ONG EXPERIENCED ANY SIGNIFICANT NEGATIVE CUSTOMER RESPONSE FROM THE IMPLEMENTATION OF THE PBRC?

A. No, it has not. One measure of customer acceptance of the PBRC is that since the date the PBRC has been implemented in Oklahoma, ONG's customer approval ratings have increased significantly.

Q. DOES ONG BEING RECOGNIZED AS HAVING THE HIGHEST CUSTOMER SATISFACTION SCORES FOUR YEARS IN A ROW IN A NATIONALY RECOGNIZED ANNUAL CUSTOMER SATISFACTION SURVEY LEAD YOU TO BELIEVE THAT THE PBRC MECHANISM HAS PROVIDED BENEFITS TO ONG'S CUSTOMERS?

A. Yes, in my opinion it does. These studies are independently compiled and contain customer satisfaction issues and topics that measure ONG against utilities of similar size and location. The results show that since the implementation of the ONG PBRC in 2009, ONG customer's thoughts and opinions on the Company have risen to exceed the customers' opinions of other utilities within this study.

[1] J.D. Power Gas Utility Residential Customer Satisfaction Study

Q. DOES THE MECHANISM ENCOURAGE ONG TO CONTINUE ITS EFFORTS TO IDENTIFY AND IMPLEMENT OPERATING EFFICIENCIES?

A. Yes. The company's interests and the customers' interests are more closely aligned in a PBRC than in traditional ratemaking. Again, ONG knows it will be reviewed each year, rather than just for the period included in a test year under traditional ratemaking. This requirement ensures that proper, long-term, measures are implemented which result in sustained cost reductions and enhanced customer service.

ONG is in competition with electricity companies to provide energy service to customers. All homes are built with wiring to provide electricity, but natural gas is an optional energy source. If natural gas doesn't provide a better value over electricity, coupled with safe and reliable service, we will lose out on the opportunity to grow our customer base and/or to retain our current customers.

Q. DOES THE PBRC ALLOW THE OCC STAFF AND OTHER INTERVENERS AMPLE TIME TO EVALUATE THE REASONABLENESS OF EACH ONG FILING?

A. Yes, it does. A determination of reasonableness, based on a full review of ONG's books and records, must be made under each annual filing. Historically, under traditional cost of service requirements, the OCC and its Staff would only conduct a review of ONG's costs as a part of a rate case that was filed in sporadic intervals several years apart. With the PBRC tariff, the Company's financial position is evaluated and reviewed annually. This level of review has allowed OCC Staff the ability to gain a deeper understanding of ONG's costs and operations. The Company's investments in plant-in-service are under constant OCC oversight that is both informed and enhanced by an ongoing and cooperative dialog. This ongoing regulatory review can result in more trust, transparency and cooperation between the Company and those parties participating in the annual PBRC review. It is not less work in the long run for OCC Staff, the Company, interveners, or the Oklahoma Office of the Attorney General. It does, however, allow the work to be spread out in a more organized, efficient manner, throughout the year as the next review period is known. In the case of the PBRC, no changes to current base rate levels can be made until approved via a final OCC order issued following a public hearing and notice to customers.

Q. WHAT IS THE ELAPSED TIME BETWEEN WHEN A PBRC IS FILED AND WHEN THE OCC ISSUES AN ORDER?

A. Typically, approximately four (4) months elapses between the PBRC annual filing date (March 15) and when the OCC issues an order (August 1). According to the PBRC tariff, (Tariff 1201 - attached to my testimony as Exhibit EAG-1), Section 7(d)," unless disputed by the parties, any rate schedules incorporating the PBRC plan by reference, will become effective by order of the OCC and approval of the Director with the first billing cycle in July. If the parties have not resolved the disputed issues, if any, the issues will be set for hearing before the OCC. If the OCC has not issued an order within one hundred and twenty (120) days from the date of the application, then the rate schedules may be placed into effect and collected on an interim basis subject to refund.

Q. ARE BASE RATE ADJUSTMENTS AUTOMATIC WITH ONG'S PBRC?

A. No, base rate adjustments are not automatic. Rates can only be modified by an OCC order after the conclusion of a public hearing on the audit results of the OCC

Staff, the Attorney General's office, and other interveners' review of the Company's financial information.

Q. COULD YOU PLEASE SUMMARIZE THE FINDINGS OF THE STAFF OF THE OCC ADDRESSING THE PUBLIC INTEREST ASPECTS OF THE PBRC MECHANISM?

A. First, it should be noted that implementation of the PBRC was the result of an OCC Staff and ONG joint application asking the OCC to approve a PBRC mechanism for ONG (Cause No. PUD 200800348). OCC's Staff's witness, Public Utility Director Brandy L. Wreath, made the following comments within his testimony in this Cause:

1. Staff is proposing, jointly with the Company a Performance Based Rate ("PBR") or a rate stabilization plan;
2. This tariff will enable Oklahoma Natural to adjust its rates in a more efficient manner on an annual basis, while allowing appropriate and improved Commission oversight;
3. It also will result in the elimination of multiple riders currently in place for Oklahoma Natural;
4. A PBR will provide Oklahoma Natural with a stable cash flow, which will aid the Company in complying with new requirements and necessary upgrades without the need for additional riders but while still giving the Commission a review of the costs incurred;
5. The adjustment to rates would allow the Company the opportunity to earn the allowed return but does not guarantee that this level of earnings will be maintained;
6. The intent is to maintain earnings within the allowed band;

7. The reduction in usage and the rate design issue are just a couple of the many reasons to utilize the PBR;

8. Oklahoma Natural Gas' ratepayers would also benefit through a more transparent rate calculation;

9. The numerous riders in place, other than the purchased gas adjustment, would be eliminated, as the PBR would incorporate all elements provided in each rider into the annual rate review and revenue requirement calculation;

10. It is not less work in the long run for Staff, Company, interveners, or the Attorney General. It does however; allow the work to be spread out in a more organized, efficient manner, throughout the year as the next review period is known;

11. Staff is able to review the Company's books, records and transactions throughout the year rather than waiting until the filing of the next rate case;

12. Staff sees the PBR as a plan that requires an annual review of spending and removes the utility's ability to retain all additional earnings that are realized as a result of efficiency between rate cases; and

13. Rates will be based on a full review of the books and a determination of reasonableness must be made under each annual review.

Responding to a specific question asked, the OCC and Staff stated that it found that the PBRC mechanism is fair, just and reasonable and in the public interest.

2. TEXAS GAS SERVICE-COSA AND EPARR

Q. DOES TGS HAVE ANNUAL REVIEW MECHANISMS APPROVED IN ITS MUNICIPAL JURISDICTIONS?

A. Yes. In 2015, TGS had annual Cost of Service Adjustments (COSA) in its El Paso, RGV, Galveston, North Texas, Permian, Borger/Skelleytown and Dell City service areas.

Q. PLEASE IDENTIFY HOW MANY TGS JURISDICTIONS HAVE ANNUAL REVIEW MECHANISMS?

A. In 2015, TGS had seven annual review mechanisms in effect covering its El Paso, RGV, Galveston, North Texas, Permian, Borger/Skelleytown and Dell City service areas. TGS has recently ended the annual COSA type mechanism and filed rate cases in the El Paso, Permian and Galveston service areas to better reflect the Company's investments and costs under the new ONE Gas structure. It is anticipated that the Company and these service areas will consider re-instituting the COSA programs in these areas at the conclusion of the rate cases.

Q. HOW ARE TEXAS CITIES TYPICALLY REPRESENTED IN ANNUAL REVIEWS?

A. Cities typically hire consultants and law firms, or use internal accounting and legal resources, to conduct the annual reviews and ensure that a thorough and appropriate review is conducted. However, since the largest issues have been pre-determined in a preliminary rate case, more focus is placed upon the review on the expenses and investments. This reduces the number of issues that require review and reduces the amount of work and expense associated with a typical rate case.

Q. PROVIDE AN OVERVIEW OF THE ANNUAL EARNINGS' REVIEW MECHANISM IN THE EL PASO SERVICE TERRITORY.

A. The El Paso Annual Rate Review ("EPARR") allowed for increases or decreases in the Company's rates in the El Paso service area, based on the Company's cost of service at the end of each calendar year. A very similar review is conducted by the

City of Dallas for Atmos and is called the Dallas Area Rate Review (DARR). The cost of service was calculated according to the ratemaking treatments, principles, findings and adjustments included in the Company's last full El Paso service area rate case.

Q. AS IT RELATES TO THE COSAS WHAT IS THE ELAPSED TIME BETWEEN WHEN A FILING IS MADE AND WHEN NEW BASE RATES BECOME EFFECTIVE?

A. The review period varies depending upon the jurisdiction. The EPARR had a 125-day review period, while the RGV has 120 days, the North Texas cities have 90 days to act and rates become effective in 120 days, and Borger/Skellytown have a 30-day review period. The Galveston COSA, which was in place for 27 years, had a 45-day review.

Q. WHAT HAS BEEN THE REACTION OF CUSTOMERS TO TGS' ANNUAL REVIEWS?

A. TGS, and the cities we serve, typically receive minimal complaints regarding the annual reviews and rate changes if, or when, they occur.

B. LAG REDUCTION MECHANISMS

1. INCLUSIVE CAPITAL INVESTMENT RECOVERY MECHANISM-GRIP

Q. DOES TGS USE CAPITAL RECOVERY MECHANISMS?

A. Yes. In 2015 TGS had GRIP mechanisms in place in Austin/Central Texas, South Texas and South Jefferson County (SJC), as well as the environs of South Texas, North Texas, RGV and El Paso. TGS recently completed GRIP filings in Central Texas, South Texas and SJC. Under the GRIP statute, a gas utility is required to file a rate case after five annual GRIP filings have been completed. Following resolution of these rate cases, the cities may approve new annual review mechanisms like a COSA, or GRIP filings may be made.

Q. WHAT IS GRIP?

A. A GRIP filing is an annual rate adjustment mechanism that allows gas utilities to recover additional invested capital without filing a full rate case. Any increases are applied to monthly customer charges or block rates and are allocated among customer groups as determined in the determining rate case. Costs that can be included are return on investment, depreciation expense and taxes. In short, GRIP is a more robust statutory version of Kansas' GSRS. It differs from what is permitted in a GSRS filing in that a GRIP filing includes all capital investments, whereas a GSRS filing includes only safety and government relocation investments, which were approximately 1/3 of the total investments in Kansas since the last rate proceedings.

Q. HOW DOES A GRIP FILING PROCESS WORK?

A. The filing must be submitted with the appropriate regulatory authority (City and/or Railroad Commission) 60 days before proposed implementation date. Notice to all effected customers must be provided within 45 days of filing with the regulatory authority. After implementation, the utility must file the following information annually:

-Reports describing all new investments and retired plant;

-Costs, needs and customers benefited by the new investment must be stated;

-Annual earnings monitoring report showing the earnings in the past year to ensure that the utility is not earning above its allowed rate of return; and

-If earnings are more than 75 basis points (.75%) above currently approved rate of return, the utility must explain why earnings are not unreasonable.

Q. WHAT DOES A TYPICAL GRIP FILING COST TO PROCESS AT THE COMMISSION OR CITY LEVEL?

A. An entire annual GRIP filing and review typically costs between $15,000 to $20,000 to process.

2. RULE 8.209 MECHANISM

Q. ARE THERE ANY RAILROAD COMMISSION OF TEXAS RULES THAT REDUCE REGULATORY LAG AND PROMOTE THE REMOVAL OF AGING INFRASTRUCTURE?

A. Yes. The Railroad Commission's Rule 8.209, Distribution Facilities Replacements, sets out minimum requirements for an operator of a gas distribution system to develop and implement a risk-based program for the replacement or removal of distribution facilities. The program is designed to work in conjunction with the Distribution Integrity Management Program. Specifically, Rule 8.209(j) allows the operator of a gas distribution system to ". . . establish one or more regulatory asset accounts in which to record any expenses incurred by the operator in connection with the acquisition, installation or operation (including related depreciation) of facilities that are subject to the requirements" of Rule 8.209. Rule 8.209(j) also allows each regulatory asset to include the ". . . interest on the balance in the designated distribution facility replacement accounts based on pretax cost of capital last approved for the utility by the Commission." In a rate proceeding, TGS requests recovery of the balance in the Rule 8.209 regulatory asset account for the relevant jurisdiction. Once rates associated with the rate filing are implemented, TGS reduces the amount in the Rule 8.209 regulatory asset account to zero and increases the appropriate plant account by the amount that had been included in the regulatory asset account.

III. CONCLUSION

Q. PLEASE SUMMARIZE THE REASONS WHY YOU BELIEVE ANNUAL REVIEW MECHANISMS ARE BENEFICIAL?

A. First, gas utilities are increasing investment in plant to address aging and obsolete infrastructure and to update and/or replace information systems to respond to customer and business demands. This increased investment will reasonably result in more frequent rate reviews. The need for these regulatory reviews are coming at the same time there is downward pressure on state agency budgets. These budgetary pressures require agencies to do more, with less, forcing regulatory agencies to look for efficiencies and improvements in processes within their operations while continuing to deliver proper oversight in a more efficient manner.

Second, rate proceedings are costly. Our budget for this rate case is $1.3 million. This expense is eventually paid by our customers. Because the Final Order in this rate case will address the controversial issues and provide a determination for the treatment of these issues going forward, I believe a COSA filing, which would adopt the findings on these issues, would significantly reduce rate case costs to the benefit of our customers.

Third, annual review mechanisms, such as the COSA proposed in this filing, provide for annual reviews of KGS's operations and finances. The annual review will increase staff, intervener, and the public's familiarity with the Company's processes and accounting methods, resulting in more efficient and comprehensive oversight by the Commission of KGS.

Fourth, an annual review mechanism, like the COSA, will aid the Company's efforts to obtain and maintain a stable cash flow, and support the Company's ability to manage its compliance with new regulatory requirements as they are introduced by Pipeline and Hazardous Materials Safety Administration ("PHMSA") and this Commission.

Fifth, more frequent reviews benefit our customers by reducing the expenses associated with General Rate Cases and should make rates more stable and predictable over the long run.

Sixth, an annual review will be efficient for Staff, as it permits Staff to plan their work load and provides additional opportunity to review the Company's books and records throughout the year rather than waiting for a periodic full rate case filing.

Q. ISN'T THIS MECHANISM A DEPARTURE FROM TRADITIONAL COST OF SERVICE REGULATION?

A. The proposed COSA does not depart from traditional cost of service regulation. The annual review is based on a traditional cost of service rate case, which sets the ground rules for subsequent annual reviews. The annual review provides additional transparency and information to all parties, and follows traditional rate making fundamentals and procedures.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

VERIFICATION

STATE OF OKLAHOMA)
) ss.
COUNTY OF TULSA)

Eric A. "Rick" Grundman, being duly sworn upon his oath, deposes and states that he is Vice President Rates and Regulatory Affairs for ONE Gas, Inc.; that he has read and is familiar with the foregoing Direct Testimony filed herewith; and that the statements made therein are true to the best of his knowledge, information, and belief.

NAME

Subscribed and sworn to before me this 27th day of April 2016.

NOTARY PUBLIC

My appointment Expires:
1-15-2018

NOTARY SEAL PUBLIC
HEATHER ALDRIDGE
Notary Public
State of Oklahoma
Commission # 02000843 Expires 01/15/18

RATE SCHEDULE 1201
PERFORMANCE BASED RATE CHANGE ("PBRC") PLAN

Section 1 - Application
This Rate Schedule is the formula by which the jurisdictional non-fuel revenue requirements of Oklahoma Natural Gas Company ("Oklahoma Natural" or "the Company") shall be calculated and allocated to the Company's various rate schedules subject to the jurisdiction of the Oklahoma Corporation Commission ("OCC"). The Rates associated with the PBRC will be calculated in Exhibit A and the rates associated with the Energy Efficiency programs will be calculated in Exhibit B. Sections 2 through 7 are intended to address the PBRC calculation and Section 8 is intended to address the rates associated with the Energy Efficiency programs.

No provision contained within this tariff will limit the Company's ability to file a general rate change application, or the Commission's authority to file a show cause.

The Company shall file an Application for a Commission determination pursuant to this PBRC Rate Schedule for calendar years 2016, 2017, 2018 and 2019.

The Company shall file Chapter 70 general rate change application on or before June 30, 2021 for calendar year 2020.

Section 2 – Application of the PBRC Plan

(a) The Company's Allowed Return on Equity ("AROE") is 9.50% This AROE shall be the effective AROE until modified by Commission order after notice, an evidentiary hearing, and approval of this Rate Schedule by the Director of the Public Utility Division of the Oklahoma Corporation Commission ("Director"). Such modification shall be applied prospectively.

(b) The Earned Return on Equity ("ER") shall be recalculated annually under this Plan, for use in determining any rate change adjustments that become effective during subsequent years. Except

Rates Authorized By The Oklahoma Corporation Commission:

Effective	Order No.	Cause/Docket No.
January 6, 2016	648326	PUD 201500213
August 8, 2014	628742	PUD 201400069
January 16, 2014	620407	PUD 201300185
August 1, 2013	614409	PUD 201300032
July 19, 2012	599934	PUD 201200029
February 2, 2012	593650	PUD 201100170
July 5, 2011	586900	PUD 201100034
May 12, 2011	585366	PUD 201000143
May 7, 2009	567498	PUD 200800348

APPROVED
January 20, 2016
DIRECTOR OF PUBLIC UTILITY

as otherwise provided by Sections 5 and 6 of this tariff, the calculation shall be performed using the same methodology used to calculate the 9.50% AROE in the Company's last Chapter 70 general rate change application.

(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. No such modifications may become effective until approved by the Commission after notice and an evidentiary hearing.

(d) 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%. However, due to practical constraints, no adjustments provided for under this Rate Schedule will be made for amounts less than $200,000.

(e) Should a change in non-fuel revenues be required under the terms of this Rate Schedule, the required change will be made to the Monthly Service Charge or Monthly Utility Meter Charge as listed in the rate schedules subject to this Rate Schedule. The Company will provide revised rate schedules to the Director each time the rates are adjusted pursuant to this Rate Schedule. Those rate schedules shall become the effective rates of the Company upon approval by the Director.

(f) 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 3 – Term

This Rate Schedule shall become effective upon issuance of a Commission order and approval of the Director.

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Section 4 – Force Majeure Provision
If any cause beyond the reasonable control of the Company, such as natural disaster, orders or acts of civil or military authority, terrorist attacks, or government mandates, which results in a deficiency in the revenues which are not readily capable of being addressed in a timely manner under this Rate Schedule, the Company may file for expedited rate relief. This expedited or out of cycle rate relief will still be subject to the filing requirements of Section 7 but will not be bound by the timelines identified in Sections 5, 6 and 7 of this Rate Schedule. Such expedited rate relief would result in a calendar year containing multiple filings.

Section 5 – Application of PBRC Plan Calculation Procedure

(a) For each 12-month period ending December 31, the Company shall file an Application for a Commission determination pursuant to this PBRC Rate Schedule to determine whether the Company's jurisdictional non-fuel revenues should be increased, decreased, or left unchanged. If it is determined that the jurisdictional non-fuel revenues should be increased or decreased, the Company's rate schedules will be adjusted in the manner set forth in this Rate Schedule. These adjustments will be added to or subtracted from the rate schedules previously in effect and the revised rate schedules will become effective by Order of the Commission and approval of the Director for the July cycle one bills and will remain in effect until changed under the provisions set forth in this Rate Schedule and by order of the Oklahoma Corporation Commission. These non-fuel jurisdictional revenue modifications will be allocated to the Company's customers based upon the customer class cost of service allocation approved by the Commission in the Company's last Chapter 70 general rate change application.

(b) If for the 12 month period ending December 31, the Company's ER is below 9.00%, the base rates under the rate schedules subject to this PBRC Plan shall be increased upon Commission approval for the amount necessary to restore the ER to the 9.50% AROE.

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January 20, 2016
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(c) 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.

(d) Should a change in non-fuel jurisdictional revenues be required under the terms of this PBRC Plan, then the PBRC shall be developed using the Schedules and Format outlined and attached herewith. The amounts used to calculate ER shall be the actual costs recorded in the books and records of the Company, except for the adjustments for any payroll changes implemented during the Test Year, any depreciation and amortization expense increases during the Test Year, and any statutorily enacted tax changes as listed in Section 6(e) below. Also, actual revenues as adjusted per Section 6(c) will be used in all calculations of ER. (This provision does not preclude Staff, the Office of the Attorney General, or any other intervening parties from proposing test-year adjustments customarily accepted for ratemaking purposes by the OCC.)

Section 6 – Annual PBRC Plan Calculation

(a) The calendar year shall be the test year.

(b) There shall be no pro forma adjustments to Test Year, per books amounts except as listed in (e).

(c) 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. As noted in section 2(c), this section does not prohibit the parties from requesting certain modifications to these rate change adjustments.

(d) Operating Revenues shall be modified as follows:
(1) All revenues associated with energy efficiency shall be removed;
(2) Gas cost revenues shall be removed; and
(3) Modifications requested by the parties under Section 2(c) and approved by the Commission shall be applied prospectively.

Rates Authorized By The Oklahoma Corporation Commission:

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APPROVED
January 20, 2016
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(e) Operating Expenses shall also be modified as follows:
(1) All expenses associated with energy efficiency shall be removed;
(2) Gas costs shall be removed;
(3) Statutorily enacted tax changes or unfunded federal mandates shall be annualized;
(4) 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;
(5) The level of depreciation and amortization expense for the last month (December) of the Test Year shall be annualized;
(6) Any expenses associated with energy efficiency will be removed prior to the PBRC calculation and addressed in accordance with Section 8; and
(7) Modifications requested by the parties under Section 2(c) and approved by the Commission shall be applied prospectively.

Section 7 – Annual Application and Review

(a) The Company shall, on or before March 15, file an application with the Court Clerk of the OCC and provide copies to Staff of the OCC, the A.G. and intervening parties the following information:
(1) The forms identified in exhibit one including; a Variance Analysis in the form of the Chapter 70 Minimum Filing Requirement Supplemental W/P H-3;

(2) Supporting documentation for any modification requested under Section 2(c);

(3) The ER calculation;

(4) The PBRC calculation;

(5) The Utility Incentive Adjustment;

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January 16, 2014	620407	PUD 201300185
August 1, 2013	614409	PUD 201300032
July 19, 2012	599934	PUD 201200029
February 2, 2012	593650	PUD 201100170
July 5, 2011	586900	PUD 201100034
May 12, 2011	585366	PUD 201000143
May 7, 2009	567498	PUD 200800348

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(6) The Energy Efficiency True-up Adjustment; and

(7) The revised rate schedules.

(b) A reconciliation of those issues (rate base and cost of service) that resulted in the annual adjustments.

(c) An expedited processing schedule shall be established to provide notice and due process to all interested parties, including customers. Any calculations disputed by the parties shall be identified to the Company prior to May 1. The parties shall work in good faith to resolve all disputes prior to May 30.

(d) Unless disputed by the parties, any rate schedules incorporating the PBRC Plan by reference will become effective by Order of the Commission and approval of the Director with the first billing cycle in July. If the parties have not resolved the disputed issues, the issues will be set for hearing before the Commission. If the Commission has not issued an order within one hundred twenty (120) days from the date of filing the application, then the rate schedules may be placed into effect and collected on an interim basis subject to refund.

Section 8 – Energy Efficiency ("EE")

In addition to any credits or base rate increases applied pursuant to the PBRC plan above, the energy efficiency program costs and a utility incentive shall be recovered within the PBRC and trued up annually as set forth in this Section. The energy efficiency component of the PBRC will be added to or subtracted from the Company's base rates and may be adjusted twice annually. Each adjustment shall be added to the base rates currently in effect. The Company's EE Program Rate will be effective with the first billing cycle in January of each year and remain in effect until the last billing cycle in December ("Program Year"). The Company's Utility Incentive and True-Up Adjustments for the prior Program Year will be effective with the first billing cycle in July.

(a) EE PROGRAM RATE - The EE Program Rates shall be concurrently recovered beginning with

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the first billing cycle in January and shall end with the last billing cycle in December of each Program Year. On November 1 prior to the Program Year, the Company shall propose the rates to be recovered during the Program Year accompanied by the work papers sufficient to fully document the computation of the proposed rates.. Such rates shall consist of the budgeted EE program costs for the upcoming Program Year approved by the Commission as part of the Company's most recent energy efficiency filing, shall be calculated by the rate formulas as set forth in Exhibit B and shall be in addition to any existing Utility Incentives and True-Up Adjustments as set forth in 8(b) and 8(c) below. The rates will become effective with the first billing cycle in January or as the Commission shall otherwise determine.

(b) UTILITY INCENTIVE ADJUSTMENT - The Company may propose to make a Utility Incentive Adjustment calculated as set forth below. The utility incentive shall be proposed as part of the PBRC rate filings made pursuant to Section 8 above and shall be effective with the first billing cycle in July, or as the Commission shall otherwise determine. The Utility Incentive Adjustment shall be applied in addition to the current EE program Rates and any True-Up Adjustment as set forth in 8(c) below:

(1) Utility incentive for programs that pass the Total Resource Cost ("TRC") Test: The Company may collect fifteen percent (15%) of the net benefits of such programs; and

(2) Utility incentive for programs that do not pass the TRC Test: The Company may collect fifteen percent (15%) of the program costs for the applicable program period.

(c) TRUE-UP ADJUSTMENT - The EE Program Rates and Utility Incentive Adjustment shall be trued-up annually. The True-Up Adjustment shall consist of the difference between the energy efficiency revenues collected during the prior Program Year and (1) the actual costs of the energy efficiency programs; and (2) the utility incentive approved by the Commission for recovery during the same period. To this difference shall be added any remaining over/under balance from the prior year. The True-up adjustment shall be proposed as part of the PBRC rate filing pursuant to Section 8 and shall be implemented with the first billing cycle in July, or as the

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Commission shall otherwise determine. This adjustment shall be applied in addition to the current EE Program Rates and Utility Incentive Adjustment.

(d) For each adjustment made pursuant to Section 8, the Company shall file a schedule in the form of Exhibit B that sets forth the proposed adjustments to the rates.

(e) Program or budget amendments that cause overall program budget to exceed ten percent (10%) of the previously approved budget shall be filed with the Commission by September 1 prior to the start of the Program Year.

(f) Should the balance in the over-recovery or under-recovery account for energy efficiency program costs exceed ten percent (10%) of the energy efficiency costs approved by the Commission for that Program Year, the Company may propose an interim revision to the then-currently effective energy efficiency program costs being collected by the Company.

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