

ARKANSAS PUBLIC SERVICE COMMISSION *CM*
SECRETARY OF STATE

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IN THE MATTER OF THE APPLICATION OF)
 ARKANSAS OKLAHOMA GAS CORPORATION)
 FOR APPROVAL OF A GENERAL CHANGE IN)
 RATES AND TARIFFS)

DOCKET NO. 13-078-U
 ORDER NO. 7

ORDER

Procedural and Litigation History

On October 15, 2013, AOG filed with the Arkansas Public Service Commission (Commission) an Application for approval of a general change in rates and tariffs, reflecting a \$5,725,455 revenue deficiency and a non-fuel revenue requirement of \$27,983,768, with an overall rate of return 6.74%, and a return on equity of 10.5%. AOG used a historical test period of six months actual ending June 30, 2013, and six months projected ending December 31, 2013, with a pro forma year ending December 31, 2014. AOG estimated that its proposed rate increase would produce an estimated monthly impact on the average residential customer of \$6.84, or 12.29%. AOG requested an increase in the Residential customer charge from the current \$9.90 to \$12.50. AOG sought approval of a System Safety Enhancement Rider (SSER) to allow AOG to begin recovering the costs of and earning a return on plant additions and improvements made in order to comply with safety and reliability obligations as those costs are incurred. AOG also requested use of 10-year rather than 30-year weather normalization in the Weather Normalization Adjustment (WNA); elimination of the Pooling Rate for the Medium and Large Businesses classes, with all costs directly assigned to those classes; modification of the Cost-of-Gas Adjustment Clause (COG) to require that Off-System Transportation Revenue collected by AOG is credited to System Supply Customers; and

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addition of the Medium Business (MB) and Large Business (LB) classes to the Billing Determinants Adjustment (BDA) rider approved in Docket No. 07-026-U. In support of its Application, AOG filed the prepared Direct Testimony and Exhibits of Michael J. Callan (with errata filed on November 15, 2013, and Supplemental Testimony filed on November 18, 2013), Robert L. Neissl, Fred Kirkwood, Kim R. Linam, Lianne R. Forsey, Ronald J. Amen, Ann E. Bulkley, and Dane A. Watson.

On March 11, 2014, the General Staff of the Commission (Staff) responded to AOG's Application by filing as its Direct case the Direct Testimony and Exhibits of Robert Booth, Bill Taylor, Judy Kay Lindholm, LaToya Johnson, William L. Matthews, Michael Marchand, Robert H. Swaim, Karen L. Wheatley, Ronald G. Garner, and Robert E. Henry. Therein, Staff recommended that the Commission increase AOG's rates to reflect a revenue deficiency of \$3,714,289, a difference of \$2,011,166 compared to AOG's direct case revenue deficiency. Based on its recommended Cost of Service Study, Staff's non-gas revenue requirement was \$26,221,904, amounting to a \$1,761,864 difference from AOG, or an overall revenue increase of 7.59%. Staff's proposed overall rate of return was 6.03% compared to AOG's 6.7353%. Staff's return on equity was 9.3% compared to AOG's 10.5%. Staff's Direct case reflected a test year using twelve months of actual data for the test year ending December 31, 2013, and a pro forma year ending December 31, 2014. Staff agreed with AOG's proposal to modify the COG Adjustment Clause so that off-system transportation revenue collected by the Company would be credited solely to system supply customers. Booth Direct at 5.

On March 11, 2014, the Attorney General of Arkansas (AG) filed the Direct Testimony and Exhibits of William B. Marcus and Garrick F. Jones (with errata filed on

May 7, 2014). As the only other party in the docket, the AG Direct case addressed certain aspects of AOG's rate case application: (1) capital structure; (2) rate of return; (3) return on equity; (4) various operating expense adjustments; (5) cost allocation and rate design; and (6) System Safety Enhancement Rider (SSER). The AG's proposed overall rate of return was 6.02% and his proposed return on equity was 9.2%.

On April 10, 2014, AOG filed the Rebuttal Testimony and Exhibits of its witnesses Mr. Callan, Mr. Neissl, Mr. Kirkwood, Ms. Linam, Ms. Forsey, Ms. Bulkley, Mr. Amen, and Christopher M. Wall. AOG's Rebuttal case reflected a \$5,438,922 revenue deficiency and a non-fuel revenue requirement of \$27,647,635 with an overall rate of return 6.56%, and a return on equity of 10.5%. AOG noted that many of the differences between AOG's and Staff's pro forma year adjustments related to updating of the December 31, 2013 projected balances to actual balances. In Rebuttal AOG proposed an increase to the Residential monthly customer charge from \$9.90 to \$10.95 (a downward revision from the \$12.50 level proposed in its Direct case). Amen Rebuttal at 24.

On May 8, 2014, Staff filed the Surrebuttal Testimony and Exhibits of Mr. Booth, Mr. Henry, Ms. Johnson, Ms. Lindholm, Mr. Marchand, Mr. Matthews, Mr. Swaim, Mr. Taylor, and Ms. Wheatley. Staff's Surrebuttal case reflected a revenue deficiency of \$3,925,682, a difference of \$1,513,310 compared to AOG's rebuttal case revenue deficiency. Staff's non-gas revenue requirement was \$26,413,956, amounting to a \$1,233,679 difference from AOG. The major revenue requirement differences between the AOG rebuttal and Staff surrebuttal cases were: (1) Rate Base - \$96,645; (2) Rate of Return - \$246,880; (3) Taxes and Revenue Conversion Factor -\$350,715; and (3) Operating Expense Adjustments - \$539,439. Staff's proposed overall rate of return was

6.14% compared to AOG's proposed 6.7353%. Staff's return on equity was 9.3% -- the mid-point of Staff's ROE range of 8.8% to 9.8% -- as compared to AOG's proposed ROE of 10.50%. Staff proposed a debt-to-equity ratio of 45% to 55%. Staff's proposed monthly customer charge was \$10.68 (compared to AOG's Rebuttal case requested charge of \$10.95 and the current AOG charge of \$9.90). Swaim Surrebuttal at 19-20. Staff recommended approval of the SSER with certain modifications. Booth Surrebuttal at 3-4. Staff also recommended the use of a 30-year weather normalization and the addition of the MB and LB classes to the BDA rider approved in Docket No. 07-026-U. Swaim Surrebuttal at 3, 12-19. In the absence of more justification than was presented in AOG's Direct and Rebuttal cases, Staff opposed the elimination of the Pooling Rate. Swaim Surrebuttal at 21.

Also on May 8, 2014, the AG filed the Surrebuttal Testimony and Exhibits of Mr. Jones, recommending an overall rate of return of 5.99% and overall return on equity of 9.2%, with a debt-to-equity ratio of 45% to 55%. Mr. Jones testified that no party opposed AOG's proposed SSER. Jones Surrebuttal at 22.

On May 15, 2014, AOG filed the Sur-surrebuttal Testimony of Mr. Callan, Ms. Linam, Ms. Bulkley, and Mr. Amen. AOG's Sur-surrebuttal case reflected a \$5,409,829 revenue deficiency and a non-fuel revenue requirement of \$27,618,472 with an overall rate of return 6.5575%, and a return on equity of 10.5%. AOG proposed a debt-to-equity ratio of 43% to 57%. In its Sur-surrebuttal case, AOG's proposed Residential customer charge was \$10.95 per month, the same amount proposed in its Rebuttal case. Amen Sur-Surrebuttal at 21.

On May 20, 2014, AOG, the AG, and Staff (the Parties) submitted their Issues List (as amended by errata filed on the same date), identifying the issues to be litigated, referencing pertinent testimonies and exhibits, and stating that the Parties had agreed to waive cross examination on uncontested issues as designated in the filed document. Among the uncontested issues identified by the Parties were the SSER, the Cost-of-Gas Adjustment Clause, and the BDA Rate Adjustment Tariff.

On June 4, 2014, AOG, the AG, and Staff (Settling Parties) filed a *Joint Motion to Approve Settlement Agreement* (Joint Motion), in which the Settling Parties agree to accept each of Staff's Surrebuttal case positions filed on May 8, 2014, except for specific revisions to Staff's Surrebuttal case as set forth in the Stipulation and Settlement Agreement (Joint Exhibit to the Joint Motion), including Agreement Attachment Nos. 1 and 2. The Settlement Agreement provides that AOG's Non-Gas Rate Schedule Revenue Requirement is \$25,869,733, with a resulting Revenue Deficiency of \$4,212,963, as shown on Agreement Attachment No. 1. The Settlement Agreement reflects an adjustment to increase AOG's total revenue requirement by \$287,281 from Staff's Surrebuttal case. The Agreement reflects agreement by the Settling Parties on an overall rate of return of 6.18% and a return on equity of 9.3%, with a debt-to-equity ratio of 45% to 55%. The agreed-upon Residential customer charge is \$10.70 per month under the Settlement, reflecting an increase of \$0.80 or 8.1% from the current \$9.90. In support of the Settlement Agreement, the Settling Parties filed the Settlement Testimony and Exhibits of Mr. Booth for Staff, Mr. M. Shawn McMurray for the AG, and Mr. Callan for AOG.

On June 10, 2014, AOG submitted a complete set of compliance tariffs consistent with the Settlement Agreement and Supporting Testimonies filed on June 4, 2014. Also on June 10, 2014, Staff filed the Supplemental Settlement Testimony of Mr. Booth, recommending that the Commission approve by July 25, 2014, the compliance tariffs, with the tariffs to become effective for bills rendered on or after August 1, 2014.

On June 17, 2014, the Commission conducted an evidentiary hearing in Little Rock, Arkansas, having previously excused all witnesses except the three witnesses filing Settlement Testimony. Pursuant to Ark. Code Ann. § 23-2-103(b), the Commission extended an opportunity for public comments on AOG's rate increase request during the evidentiary hearing and during a public comment hearing conducted on June 25, 2014, at the offices of the Arkansas Oil & Gas Commission at 3309 Phoenix Avenue, Fort Smith, Arkansas. At the Little Rock evidentiary hearing, no individuals offered public comment on AOG's rate increase request. At the Fort Smith public hearing, no members of the public appeared or offered written or oral comments. The Commission received no email or telephone comments on AOG's Application.

The Settlement Agreement and Supportive Testimony

In the Joint Motion the Settling Parties state that they have reached agreement on the issues outstanding in this docket. Their agreement is set forth in the *Stipulation and Settlement Agreement*, attached hereto as Exhibit 1, including Agreement Attachment Nos. 1 and 2. The Settling Parties state that they support the Settlement Agreement as a reasonable resolution of the issues in this docket and as being in the public interest. They note that the Settlement Agreement, *inter alia*, establishes AOG's revenue requirement in total, the assignment of the revenue among the rate classes, the

rate design for each class, and the tariffs to implement the Agreement. They state that the Settling Parties agree to accept each of Staff's Surrebuttal case positions filed on May 8, 2014, except for the specific revisions to Staff's Surrebuttal case as set forth in the Settlement Agreement. They request expeditious approval of the Agreement, which they state resolves all issues raised in a fully developed record, after full advocacy of each party's respective position as reflected in its pre-filed testimony, and with complete discussion of the issues in this docket.

On June 4, 2014, Staff witness Booth provided Settlement Testimony outlining the Agreement's variances from Staff's Surrebuttal position, explaining the basis for those variances coupled with the related balancing provisions of the Agreement. His testimony identifies and explains the adjustments made to Staff witness Bill Taylor's Surrebuttal Exhibit BT-1 filed on May 8, 2014, to arrive at the revenue requirement and revenue deficiency provided in the Agreement. Booth Settlement at 3-8. He describes the cost classification and allocation methodologies embodied in Staff's Surrebuttal Cost of Service (COS) Study, the results of which were filed by Staff witness Wheatley as Surrebuttal Exhibit K LW-1, with the adjustments specified in the Agreement used in the development of the Settlement COS Study (summarized in Settlement Agreement Attachment No. 1). Booth Settlement at 8-9.

Mr. Booth also explains the basis for the Settling Parties' acceptance the following adjustments:

1. AG witness Marcus's recommendation to allocate \$14,416,593 of reclassified distribution mains as transmission for the purpose determining a transmission allocation factor;

2. AG witness Jones's recommendation to allocate Compressed Natural Gas advertising expenses based on revenues instead of customers;
3. the recommendation of Staff and the AG to establish the Residential customer charge at \$10.70, or slightly less than half of the increase of the class average of 16.4%, resulting in an 8.1 % increase in the customer charge;
4. the request of the Company, based on a customer impact study described in the Sur-surrebuttal Testimony of AOG witness Amen and attached as Sur-surrebuttal Exhibit RJA-1, to increase the demand charge for the 26 customers receiving service under the LB rate schedule from \$1.50 to \$3.00 per Mcf;
5. AOG's proposal to eliminate a separate Pooling Rate for the MB and LB rate schedules, as modified by the Company's agreement to offer a lower customer Charge to existing and future Sales customers. This allows for the movement of the Pooling Rate costs into the Customer Charge for Transportation customers, so as to maintain the requirement that only the Transportation customers pay the costs associated with the service, while allowing the Company to simplify the rate schedule by creating a separate customer charge for both Sales and Transport customers; and
6. AOG's commitment to continue to collect the detailed data necessary to conduct a zero-intercept study to determine the proper classification of distribution mains between the customer and demand functions.

Booth Settlement at 9-13.

Mr. Booth testifies that AOG requests, and the other Settling Parties do not object to, an order by the Commission approving the Agreement and compliance tariffs by July 25, 2014 and that the compliance tariffs become effective for bills rendered on or after August 1, 2014. Booth Settlement at 14. In Supplemental Settlement Testimony filed on June 10, 2014, Mr. Booth testifies that he and other members of Staff have reviewed AOG's compliance tariffs and have determined that the tariffs are designed to collect the appropriate Rate Schedule Revenue Requirement and conform to all aspects of the Agreement. He thus recommends that the Commission approve by July 25, 2014, the compliance tariffs filed by AOG on June 10, 2014, to become effective for bills rendered on or after August 1, 2014.

On June 4, 2014, the AG submitted the Settlement Testimony of Mr. McMurray, supporting the Settlement Agreement as being in the public interest, noting the AG's original concerns with the overall rate increase requested by AOG (in particular for the residential class), AOG's rate design, and the anticipated bill impacts. He testifies that the Agreement addresses these concerns in a reasonable way and is far better for ratepayers than AOG's initial proposal. McMurray Settlement at 3-5.

On June 4, 2014, AOG submitted the Settlement Testimony of its President, Mr. Callan, supporting the Settlement Agreement and briefly describing the major areas covered by the Agreement and the negotiations that led to it. He testifies that the Settling Parties' agreement to implementation of the System Safety Enhancement Rider (SSER) recognizes the prevailing and prudent attitude of utilities and regulators alike that aging infrastructure must be addressed in order to enhance the system safety.

Callan Settlement at 3-4. Mr. Callan states that the Agreement does not result in attainment of all of the goals sought by any party. However, he states that the end result and the component parts thereof fall within the specific parameters established by the evidence submitted by the parties. He concludes that AOG thus supports the Agreement as a reasonable compromise and as being in the overall public interest by appropriately balancing the interests of the ratepayers and the shareholders. Mr. Callan also states his commitment that the Company will perform its obligations pursuant to the terms of the Agreement. Callan Settlement at 3-5.

Findings and Ruling

After a thorough review of the Parties' extensive pre-filed testimonies and exhibits introduced in this proceeding and careful evaluation of the Settlement Agreement in light of the litigation positions of the parties, the Commission finds that there is substantial evidence of record to support a finding that the Settlement Agreement represents a just and reasonable resolution of all issues in this case and, therefore, is in the public interest. The Agreement increases AOG's total revenue requirement by \$287,281 from Staff's Surrebuttal case and reflects agreement by the Settling Parties on an overall rate of return of 6.18% and a return on equity of 9.3%, with a debt-to-equity ratio of 45% to 55%. The Agreement reduces the overall rate increase to AOG's customers to \$4.21 million -- \$1.6 million or 35% less than originally requested. The agreed-upon customer charge for the Residential customer is \$10.70 per month under the Settlement, an increase of \$0.80, or 8.1%, from the current charge of

\$9.90, as compared with the original AOG request for a 26% increase.¹ Further, the Commission finds that, based on the record, the Settlement Agreement produces an overall revenue requirement that is within a reasonable range of the possible litigated outcomes that could be reached in this case based upon the evidence of record. And, finally, the Commission finds that the Rates and Tariffs, submitted by the Company on June 10, 2014, accurately reflect the terms of the Agreement and should, therefore, be approved, as requested, effective for all bills issued by AOG on or after August 1, 2014.

Accordingly, the Commission finds, orders, and directs as follows:

1. The Stipulation and Settlement Agreement set forth in the Joint Exhibit, including Attachment Nos. 1 and 2, and attached here as Exhibit No. 1, is supported by substantial evidence of record, is in the public interest, and, in the absence of an objection from any party or member of the public during evidentiary and public comments hearings, is hereby approved; and
2. The complete set of compliance Rates and Tariffs filed by the Company on June 10, 2014, is approved effective for all AOG bills on or after August 1, 2014.

¹ According to a customer bill impact analysis submitted by Staff on behalf of the Settling Parties as requested by the Commission during the evidentiary hearing, the monthly dollar increase in base rates for the average residential customer under the Settlement Agreement is \$4.46 per month. After factoring in the reductions in AOG's Energy Efficiency Cost Recovery Rider (EECR) -- approved on June 25, 2014 by Order No. 62 in Docket No. 07-077-TF -- and the re-setting to zero of both the cumulative Lost Contribution to Fixed Costs (LCFC) currently collected under the EECR and the costs collected under the Act 310 rider by including those costs in base rates, the monthly dollar increase in the total bill for the average residential customer is \$4.09 per month. Letter filing by Staff on June 20, 2014, Attachment 1.

BY ORDER OF THE COMMISSION,

This 25th day of July, 2014.

Colette D. Honorable, Chairman

I hereby certify that this order, issued by the Arkansas Public Service Commission, has been served on all parties of record on this date by the following method:

U.S. mail with postage prepaid using the mailing address of each party as

indicated in the official docket file, or

Electronic mail using the email address of each party as indicated in the official docket file.

Olan W. Reeves, Commissioner

Elana C. Wills, Commissioner

Cynthia M. Sappington (acting)
Michael Sappington, Secretary of the Commission

**BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION**

IN THE MATTER OF THE APPLICATION)
OF ARKANSAS OKLAHOMA GAS)
CORPORATION FOR APPROVAL OF A) DOCKET NO. 13-078-U
GENERAL CHANGE IN RATES AND TARIFFS)

STIPULATION AND SETTLEMENT AGREEMENT

Come now Arkansas Oklahoma Gas Corporation (“AOG”), the Arkansas Attorney General (“AG”), and General Staff (“Staff”) of the Arkansas Public Service Commission (“Commission”), being the only parties to this docket (hereinafter collectively the “Settling Parties”), hereby agree to the following terms as set forth in this Stipulation and Settlement Agreement (“Agreement”).

1. PROCEDURAL SCHEDULE AND RECORD DEVELOPMENT

A. This Agreement resolves all issues raised in this docket.

B. AOG filed an application for approval of a general change in rates and tariffs on October 15, 2013, along with the Direct Testimony and Exhibits of nine witnesses. AOG proposed a specific level of revenue requirement and corresponding rates and made certain other proposals. After conducting discovery, Staff and AG responded in Direct Testimony and Exhibits on March 11, 2014. AOG filed Rebuttal Testimony and Exhibits on April 10, 2014. Staff and AG filed Surrebuttal Testimony on May 8, 2014. AOG filed Sur-Surrebuttal Testimony on May 15, 2014.

C. The record has been fully developed and a complete discussion of the issues has been undertaken by the Settling Parties, with each being a strong advocate for its respective positions as reflected in its pre-filed testimony. The Settling Parties agree to accept each of Staff’s Surrebuttal case positions filed on May 8, 2014, except for the specific revisions to Staff’s Surrebuttal case as set forth in this Agreement.

2. REVENUE REQUIREMENT

A. The Settling Parties agree that AOG's Non-gas Rate Schedule Revenue Requirement is \$25,869,733 with a resulting Revenue Deficiency of \$4,212,963, as shown on Agreement Attachment No. 1.

B. While the agreed upon Revenue Requirement and Cost Allocation reflects a negotiated settlement of all Revenue Requirement and Cost Allocation issues, the Settling Parties agree that the Revenue Requirement and Revenue Deficiency were developed by adjusting Staff's Surrebuttal case resulting in a total increase in revenue requirement of \$287,281 from Staff's Surrebuttal filing to include:

1. Increase *pro forma* Gross Plant-In-Service by \$816,097 to reflect additional and more current financial records and other information supporting additional projects; major equipment and vehicle purchases; and the Advanced Metering Infrastructure ("AMI") project that will be completed and in service during the *pro forma* year and to correct both the Arkansas allocation and the retirements for certain projects. With the related decrease to Accumulated Depreciation of \$91,887, Rate Base increased by \$907,984. In addition, Depreciation Expense increased by \$52,343 and Ad Valorem tax increased by \$3,855. These changes result in an increase in revenue requirement of \$132,380.
2. Increase *pro forma* Insurance expense by \$16,973 to correct an omission.
3. Decrease *pro forma* payroll expense by \$27,704 and related benefits and taxes by \$2,292 to recognize the anticipated expense savings of one meter reader position being redirected primarily to capitalized installation work due to the AMI project.

4. Increase employee medical expense by \$145,253 to reflect an updated three-year average based on more current data and to correct the number of covered employees.
5. Increase 401(k) expense by \$14,228 to correct the *pro forma* levels of consulting and audit fees included in that expense item.
6. Reduce American Gas Association (“AGA”) expenses by an additional \$9,109 (\$15,905 total reduction) to a level of allowed dues totaling \$24,356, consistent with the AG’s recommendation.
7. Reduce AOG’s advertising expense by an additional \$10,217 to reflect the AG’s recommendation for the disallowance of outdoor billboard advertising.
8. Revise AOG’s capital structure to reflect 1% short-term debt to reflect an updated calculation of the average daily balance of short-term debt. This results in an increase in revenue requirement of \$27,674.
9. The Settling Parties agree the Commission should approve the depreciation rates set forth in Agreement Attachment No. 2, which reflect the rates and parameters proposed in AOG’s Direct Exhibit DAW-1 Appendix A and Direct Exhibit DAW-1 Appendix C sponsored by AOG witness Dane A. Watson.

3. COST ALLOCATION AND RATES

A. The cost of service results and customer class allocation are presented in Agreement Attachment No. 1. The cost of service; customer class allocations; and rates reflect Staff’s Surrebuttal case recommendations with the following adjustments:

1. Account 376 (Mains) reflects the \$14,416,593 of reclassified transmission mains recommended by the AG and included in AOG’s Sur-Surrebuttal case;

2. CNG advertising expense in Account 908 is allocated based on revenues instead of customer counts;
3. Residential customer charge will increase 8% to \$10.70 which is slightly less than half of the increase of the class average of 16.4%;
4. Increase the current Demand Charge for the Large Business rate schedule from \$1.50 to \$3.00 per MCF of peak demand; and
5. Eliminate the separate Pooling Rate for the Medium and Large Business rate schedules and collect the cost through the Customer Charge, with a different customer charge for Sales and Transport customers, both existing and future.

4. TARIFFS

- A. The parties will file compliance tariffs consistent with the provisions of this Agreement and supporting testimony on or before June 13, 2014.
- B. AOG requests, and the other Settling Parties do not object to an order by the Commission approving the Agreement and compliance tariffs by July 25, 2014 and that the compliance tariffs become effective for bills rendered on or after August 1, 2014.

5. OTHER

- A. AOG will continue collecting the detailed data necessary to support a zero-intercept study.

6. RIGHTS OF THE PARTIES

- A. This Agreement is made upon the explicit understanding that it constitutes a negotiated settlement which is in the public interest. Nothing herein shall constitute an admission of any claim, defense, rule, or interpretation of law, allegation of fact, principle or method of ratemaking, or cost-of-service determination or rate design, or

terms or conditions of service, or the application of any rule, or interpretation of law, that may underlie, or be perceived to underlie, this Agreement.

B. This Agreement is expressly contingent upon its approval by the Commission without modification. The various provisions of this Agreement are interdependent and unseverable. The Settling Parties shall cooperate fully in seeking the Commission's acceptance and approval of this Agreement. The Settling Parties shall not support any alternative proposal or settlement agreement while this Agreement is pending before the Commission.

C. Except as to matters specifically agreed to be done or to occur in the future, no party shall be precluded from taking any positions on the merits of any issue in any subsequent proceeding in any forum. This Agreement shall not be used or argued as establishing precedent for any methodology or rate treatment in a future proceeding.

D. In the event the Commission does not accept, adopt, and approve this Agreement in its entirety and without modification, the Settling Parties agree that this Agreement shall be void and of no effect. In that event, however, the Settling Parties agree that: (1) no party shall be bound by any of the provisions or agreements herein contained; (2) all the Settling Parties shall be deemed to have reserved all their respective rights and remedies in this proceeding; and (3) no Settling Party shall introduce this Agreement or any related writing, discussions, negotiations, or other communications of any type in any proceeding.

E. This Agreement does not alter prior regulatory commitments of AOG.

Respectfully submitted,

ARKANSAS OKLAHOMA GAS
CORPORATION

By: /s/ Shannon Mirus
Shannon Mirus
ARKANSAS OKLAHOMA GAS
CORPORATION
General Counsel
P.O. Box 2414
Fort Smith, AR 72902-2414
T: (479) 783-3181, ext. 2212
F: (479) 784-2095
E: smirus@aogc.com

By: /s/ Lawrence Chisenhall, Jr.
Lawrence Chisenhall, Jr.
Chisenhall, Nestrud, and Julian, PA
400 West Capital Ave, Suite 2840
Little Rock, AR 72201
Phone: (501) 372-5800
lchisenhall@cnjlaw.com

ARKANSAS ATTORNEY GENERAL

By: /s/ Emon O. Mahony
Emon Mahony
Assistant Attorney General
emon.mahony@arkansasag.gov
323 Center Street, Suite 200
Little Rock, AR 72201
Phone: (501) 682-3625

GENERAL STAFF OF THE ARKANSAS
PUBLIC SERVICE COMMISSION

By: /s/ Fran C. Hickman Fran
C. Hickman
Fhickman@psc.state.ar.us
Ronna L. Abshure
rabshure@psc.state.ar.us
Staff Attorneys
1000 Center Street
P.O. Box 400
Little Rock, AR 72203-0400
(501) 682-5877

Docket No. 13-078-U – Order No. 7, Exhibit No. 1

APSC FILED Time: 6/4/2014 1:13:35 PM; Recvd 6/4/2014 1:11:21 PM; Docket 13-078-u-Doc 112 **Joint Exhibit**

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION)
OF ARKANSAS OKLAHOMA GAS)
CORPORATION FOR APPROVAL OF A) DOCKET NO. 13-078-U
GENERAL CHANGE IN RATES AND TARIFFS)

AGREEMENT ATTACHMENT NO. 1

Docket No. 13-078-U – Order No. 7, Exhibit No. 1

Arkansas Oklahoma Gas Corporation
Docket No. 13-078-U

Agreement Attachment No. 1

| Line No | Description | Total Company Pro Forma 1 | Residential 2 | Small Business 3 | CNG Station 4 | Medium Business 5 | Large Business 6 |
|---------|---|---------------------------|-----------------|------------------|---------------|-------------------|------------------|
| 1 | RATE BASE | | | | | | |
| 2 | GROSS PLANT IN SERVICE | \$ 120,261,513 | \$ 65,803,205 | \$ 28,866,378 | \$ 1,090,662 | \$ 1,913,059 | \$ 22,588,209 |
| 3 | LESS ACCUMULATED DEPRECIATION | \$ (66,462,204) | \$ (38,167,725) | \$ (15,286,200) | \$ (95,259) | \$ (1,022,255) | \$ (11,890,765) |
| 4 | NET PLANT | \$ 53,799,309 | \$ 27,635,480 | \$ 13,580,179 | \$ 995,403 | \$ 890,804 | \$ 10,697,444 |
| 5 | WORKING CAPITAL ASSETS | \$ 6,241,657 | \$ 3,595,037 | \$ 1,420,727 | \$ 18,152 | \$ 102,463 | \$ 1,105,278 |
| 6 | OTHER ITEMS | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 7 | TOTAL RATE BASE | \$ 60,040,966 | \$ 31,230,517 | \$ 15,000,906 | \$ 1,013,554 | \$ 993,267 | \$ 11,802,722 |
| 8 | NON-FUEL OPERATING REVENUES | | | | | | |
| 9 | RETAIL PRESENT RATE SCHEDULE REVENUES | \$ 21,656,770 | \$ 13,017,767 | \$ 4,661,577 | \$ 76,329 | \$ 347,766 | \$ 3,553,331 |
| 10 | OTHER OPERATING REVENUES | \$ 831,504 | \$ 750,141 | \$ 81,363 | \$ - | \$ - | \$ - |
| 11 | TOTAL OPERATING REVENUE | \$ 22,488,274 | \$ 13,767,908 | \$ 4,742,940 | \$ 76,329 | \$ 347,766 | \$ 3,553,331 |
| 12 | EXPENSES | | | | | | |
| 13 | OPERATION & MAINTENANCE EXPENSE | | | | | | |
| 14 | PRODUCTION | \$ 182,030 | \$ 71,296 | \$ 47,425 | \$ 175 | \$ 4,138 | \$ 58,997 |
| 15 | TRANSMISSION | \$ 748,763 | \$ 306,375 | \$ 204,114 | \$ 795 | \$ 24,979 | \$ 212,501 |
| 16 | DISTRIBUTION | \$ 4,000,695 | \$ 2,329,095 | \$ 1,048,304 | \$ 4,505 | \$ 62,219 | \$ 556,572 |
| 17 | CUSTOMER ACCOUNTS | \$ 1,431,926 | \$ 1,274,395 | \$ 157,132 | \$ 25 | \$ 125 | \$ 249 |
| 18 | CUSTOMER SERVICES AND INFORMATIONAL | \$ 442,932 | \$ 378,168 | \$ 55,592 | \$ 178 | \$ 885 | \$ 8,109 |
| 19 | ADMINISTRATIVE AND GENERAL | \$ 9,489,391 | \$ 5,880,347 | \$ 2,193,636 | \$ 18,320 | \$ 160,270 | \$ 1,238,817 |
| 20 | TOTAL OPERATION & MAINTENANCE EXPENSE | \$ 16,295,737 | \$ 10,239,675 | \$ 3,706,204 | \$ 21,997 | \$ 252,615 | \$ 2,075,245 |
| 21 | DEPRECIATION & AMORTIZATION EXPENSE | \$ 4,071,740 | \$ 2,283,118 | \$ 980,333 | \$ 6,266 | \$ 63,662 | \$ 738,361 |
| 22 | TAXES OTHER THAN INCOME TAXES | \$ 1,281,139 | \$ 756,326 | \$ 301,146 | \$ 1,557 | \$ 20,762 | \$ 201,348 |
| 23 | INCOME TAXES | \$ (264,429) | \$ (118,255) | \$ (239,942) | \$ 8,231 | \$ (5,575) | \$ 91,112 |
| 24 | TOTAL EXPENSES | \$ 21,384,187 | \$ 13,160,865 | \$ 4,747,742 | \$ 38,051 | \$ 331,464 | \$ 3,106,066 |
| 25 | OPERATING INCOME | \$ 1,104,087 | \$ 607,043 | \$ (4,801) | \$ 38,279 | \$ 16,302 | \$ 447,265 |
| 26 | EARNED RETURN ON RATE BASE | 1.84% | 1.94% | -0.03% | 3.78% | 1.64% | 3.79% |
| 27 | COST OF SERVICE REVENUE REQUIREMENT | | | | | | |
| 28 | REQUIRED RETURN ON RATE BASE GIVEN EQUAL RATES OF RETURN | 6.18% | 6.18% | 6.18% | 6.18% | 6.18% | 6.18% |
| 29 | REQUIRED OPERATING INCOME (L7*L28) | \$ 3,710,532 | \$ 1,930,046 | \$ 927,056 | \$ 62,638 | \$ 61,384 | \$ 729,408 |
| 30 | INCOME DEFICIENCY / (SURPLUS) (L25-L29) | \$ 2,606,445 | \$ 1,323,003 | \$ 931,857 | \$ 24,359 | \$ 45,082 | \$ 282,143 |
| 31 | REVENUE CONVERSION FACTOR | 1.6164 | 1.6140 | 1.6181 | 1.6205 | 1.6205 | 1.6205 |
| 32 | REVENUE DEFICIENCY / (SURPLUS) (L30*L31) | \$ 4,212,963 | \$ 2,135,349 | \$ 1,507,877 | \$ 39,473 | \$ 73,054 | \$ 457,209 |
| 33 | RATE SCHEDULE REVENUE REQUIREMENT (L9+L32) | \$ 25,869,733 | \$ 15,153,116 | \$ 6,169,454 | \$ 115,803 | \$ 420,820 | \$ 4,010,539 |
| 34 | FUEL REVENUES @ PRESENT RATES | \$ 24,996,148 | \$ 14,429,175 | \$ 9,967,800 | \$ 86,613 | \$ 232,391 | \$ 280,170 |
| 35 | OTHER RIDERS @ PRESENT RATES | \$ 4,966,602 | \$ 1,883,603 | \$ 1,038,895 | \$ 6,463 | \$ 100,621 | \$ 1,937,020 |
| 36 | % INCREASE ON PRESENT RATE SCHEDULE REVENUE (L32/L9) | 19.45% | 16.40% | 32.35% | 51.71% | 21.01% | 12.87% |
| 37 | % INCREASE ON RATE SCH REV + FUEL REV (L32/(L9+L34)) | 9.03% | 7.78% | 10.31% | 24.23% | 12.59% | 11.93% |
| 38 | % INCREASE ON RATE SCH REV + FUEL REV + OTHER RIDER(L32/(L9+L34+L35)) | 8.16% | 7.28% | 9.62% | 23.30% | 10.73% | 7.92% |
| 39 | TOTAL REVENUE REQUIREMENT (L12+L39+L40+L41) | \$ 56,663,987 | \$ 32,216,035 | \$ 17,257,512 | \$ 208,878 | \$ 753,832 | \$ 6,227,729 |

Docket No. 13-078-U – Order No. 7, Exhibit No. 1

APSC FILED Time: 6/4/2014 1:13:35 PM: Recvd 6/4/2014 1:11:21 PM: Docket 13-078-u-Do 113 **Joint Exhibit**

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION)
OF ARKANSAS OKLAHOMA GAS)
CORPORATION FOR APPROVAL OF A) DOCKET NO. 13-078-U
GENERAL CHANGE IN RATES AND TARIFFS)

AGREEMENT ATTACHMENT NO. 2

APSC FILED Time: 6/4/2014 1:13:35 PM: Recvd 6/4/2014 1:11:21 PM: Docket 13-078-u-Doc. 113

Arkansas Oklahoma Gas Corporation
Comparison of Depreciation Expense - Present Rates vs. Proposed
Depreciation Study as of August 31, 2012

| Account | Description | Surviving Balance 8/31/2012 | Present Rate | Annual Expense Present Rates | Proposed Rate | Annual Expense Proposed Rates | Difference |
|--|----------------------------------|--------------------------------|--------------|---------------------------------|---------------|----------------------------------|------------------|
| Transmission Plant | | | | | | | |
| 365.20 | Land Rights | 1,405,175 | 2.50% | 35,129 | 1.70% | 23,942 | (11,188) |
| 366.10 | Compressor Station Structures | 4,282 | 0.00% | 0 | 0.00% (1) | 0 | 0 |
| 366.20 | M&R Station Structures | 27,009 | 0.00% | 0 | 0.00% (1) | 0 | 0 |
| 367.00 | Mains | 18,328,113 | 2.51% | 460,036 | 1.90% | 348,957 | (111,079) |
| 369.00 | M&R Station Equipment | 3,730,665 | 2.68% | 99,982 | 1.98% | 73,920 | (26,062) |
| 370.00 | Telemetry Equipment | 94,885 | 3.06% | 2,903 | 6.77% | 6,428 | 3,524 |
| 370.10 | Telemetry Electronic Equipment | 279,379 | 3.06% | 8,549 | 21.53% | 60,148 | 51,599 |
| Sub-Total Transmission Plant | | 23,869,508 | | 606,599 | | 513,394 | (93,205) |
| Distribution Plant | | | | | | | |
| 374.20 | Rights-of-Way | 2,328,334 | 2.50% | 58,208 | 2.09% | 48,699 | (9,509) |
| 375.10 | Structures | 6,478 | 2.89% | 187 | 2.02% | 131 | (57) |
| 375.20 | Structures | 49,319 | 0.00% | 0 | 0.36% | 180 | 180 |
| 376.00 | Mains | 68,179,146 | 3.10% | 2,113,554 | 2.27% | 1,547,713 | (565,841) |
| 378.00 | General M&R Equipment | 4,667,312 | 4.18% | 195,094 | 3.13% | 145,995 | (49,099) |
| 378.10 | General M&R Electronic Equipment | 829,943 | 4.18% | 34,692 | 26.87% | 222,995 | 188,303 |
| 379.00 | City Gate M&R Equipment | 31,837 | 0.00% | 0 | 0.00% (1) | 0 | 0 |
| 380.00 | Services | 15,087,429 | 6.89% | 1,039,524 | 6.56% | 989,749 | (49,775) |
| 381.00 | Meters | 4,236,821 | 3.31% | 140,239 | 2.57% | 109,010 | (31,229) |
| 381.10 | Meters - Electronic | 57,400 | 3.31% | 1,900 | 11.23% | 6,443 | 4,543 |
| 381.20 | Meters - ERTs | | | | 5.00% (2) | | |
| 382.00 | Meter Installations | 3,484,550 | 2.67% | 93,037 | 2.62% | 91,466 | (1,571) |
| 383.00 | House Regulators | 1,687,526 | 0.19% | 3,206 | 2.43% | 40,930 | 37,724 |
| 385.00 | Industrial M&R Equipment | 852,603 | 3.91% | 33,337 | 2.75% | 23,475 | (9,862) |
| 385.10 | Electronic Meters | 135,466 | 12.13% | 16,432 | 2.99% | 4,054 | (12,378) |
| Sub-Total Distribution Plant | | 101,634,164 | | 3,729,409 | | 3,230,839 | (498,570) |
| General Plant-Depreciated | | | | | | | |
| 389.20 | Land Rights | 154 | 2.50% | 4 | 7.59% | 12 | 8 |
| 390.00 | Structures and Improvements | 3,150,382 | 4.50% | 141,767 | 4.54% | 143,071 | 1,304 |
| 391.0X | Office Equipment - Furniture | 621,518 | 4.85% | 30,144 | 2.58% | 16,065 | (14,078) |
| 391.0X | Office Eqpt - Electronic Eqpt. | 445,129 | 4.85% | 21,589 | 4.20% | 18,705 | (2,884) |
| 391.1X | Computer Equipment | 2,231,000 | 12.13% | 270,620 | 10.11% | 225,509 | (45,111) |
| 392.00 | Transportation Equipment | 4,109,469 | 4.47% | 183,693 | 6.75% | 277,523 | 93,830 |
| 393.00 | Stores Equipment | 63,100 | 9.52% | 6,007 | 1.75% | 1,103 | (4,904) |
| 394.10 | Shop Equipment | 1,152,737 | 2.52% | 29,049 | 3.21% | 37,029 | 7,980 |
| 394.20 | Tools and Work Equipment | 3,679,636 | 4.51% | 165,952 | 4.67% | 171,676 | 5,724 |
| 397.00 | Communication Equipment | 786,167 | 5.65% | 44,418 | 6.11% | 48,014 | 3,595 |
| Sub-Total General Plant-Depreciated | | 16,239,292 | | 893,243 | | 938,707 | 45,464 |
| Total Plant Depreciation Study | | 141,742,964 | | 5,229,252 | | 4,682,941 | (546,311) |
| | Known Change Ret | 792,127 | | | | | |
| | Intangible | 9,589 | | | | | |
| | Land | 536,174 | | | | | |
| | Total Plant In Service | 143,080,853 | | | | | |
| | GL | 143,080,854 | | | | | |
| | Difference | | | | | | -1 |

(1) For the following fully accrued accounts, a whole life rate is proposed if additional investment is added to this account.

| | | |
|--------|-------------------------------|-------|
| 366.10 | Compressor Station Structures | 3.03% |
| 366.20 | M&R Station Structures | 3.03% |
| 379.00 | City Gate M&R Equipment | 3.70% |

(2) Account 381.20 is a new account. Rate being proposed is a whole life rate based on a 20 SQ with 0% net salvage.

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ARKANSAS OKLAHOMA GAS CORPORATION

Comparison of Mortality Characteristics

Depreciation Study as of August 31, 2012

| Line No. | Acct Nbr | Account Description | Existing | | | Proposed | | | Change | |
|----------|----------|----------------------------------|----------|-------|-------------|----------|-------|-------------|--------|-------------|
| | | | Life | Curve | Net Salvage | Life | Curve | Net Salvage | Life | Net Salvage |
| | | I. INTANGIBLE | | | | | | | | |
| 1 | 301.0 | Organization | | | | | | | | |
| 2 | 302.0 | Franchises | | | | | | | | |
| | | II. TRANSMISSION | | | | | | | | |
| 3 | 365.1 | Land | | | | | | | | |
| 4 | 365.2 | Land Rights | 40 | n/a | 0% | 51 | S4 | 0% | 11 | 0% |
| 5 | 366.1 | Comp. Sta. Struct. | 30 | R2.5 | 5% | 33 | R1.5 | 0% | 3 | -5% |
| 6 | 366.2 | M & R Structures | 30 | R2.5 | 5% | 33 | R1.5 | 0% | 3 | -5% |
| 7 | 367.0 | Mains | 37 | L1.5 | -7% | 45 | R2.5 | -2% | 8 | 5% |
| 8 | 369.0 | M & R Equipment | 23 | R1 | 30% | 27 | R1 | 20% | 4 | -10% |
| 9 | 370.0 | Telemetry Equipment | 16 | L0.5 | 27% | 14 | R2 | 3% | -2 | -24% |
| 10 | 370.1 | Telemetry Electronic Equipment | 11 | R1.5 | 3% | 8 | R3 | 0% | -3 | -3% |
| | | III. DISTRIBUTION | | | | | | | | |
| 11 | 374.1 | Land | | | | | | | | |
| 12 | 374.2 | Land Rights | 40 | n/a | 0% | 50 | S4 | 0% | 10 | 0% |
| 13 | 375.1 | Structures | 37 | R2 | -7% | 43 | R3 | -3% | 6 | 4% |
| 14 | 375.2 | Structures | 37 | R2 | -7% | 43 | R3 | -3% | 6 | 4% |
| 15 | 376.0 | Mains | 38 | L3 | -23% | 45 | R2.5 | -19% | 7 | 4% |
| 16 | 378.0 | General M&R Equipment | 17 | S6 | 5% | 29 | R5 | 8% | 12 | 3% |
| 17 | 378.1 | General M&R Electronic Equipment | 11 | R1.5 | 3% | 8 | R3 | 0% | -3 | -3% |
| 18 | 379.0 | City Gate M&R Equipment | 27 | L1.5 | 0% | 27 | L0 | 0% | 0 | 0% |
| 19 | 380.0 | Services | 43 | R2.5 | -151% | 48 | S4 | -182% | 5 | -31% |
| 20 | 381.0 | Meters | 29 | R5 | 9% | 33 | R1.5 | 0% | 4 | -9% |
| 21 | 381.1 | Meters - Electronic | 11 | R1.5 | 3% | 8 | R3 | 0% | -3 | -3% |
| 22 | 382.0 | Meter Installations | 35 | R2 | 2% | 41 | R3 | -9% | 6 | -11% |
| 23 | 383.0 | House Regulators | 21 | S6 | 40% | 36 | R1.5 | 4% | 15 | -36% |
| 24 | 385.0 | Industrial M&R Equip. | 21 | L1 | 10% | 25 | L0 | 11% | 4 | 1% |
| 25 | 385.1 | Electronic Meters | 11 | R1.5 | 3% | 8 | R3 | 0% | -3 | -3% |
| | | IV. GENERAL | | | | | | | | |
| 26 | 389.1 | Land | | | | | | | | |
| 27 | 389.2 | Land Rights | 40 | n/a | 0% | 50 | S4 | 0% | 10 | 0% |
| 28 | 390.0 | Struct. and Improvements | 30 | R4 | 2% | 32 | L4 | -10% | 2 | -12% |
| 29 | 391.0 | Furniture and Equip. | 11 | R1.5 | 3% | 25 | R4 | 0% | 14 | -3% |
| 30 | 391.0 | ElectronicOff Equip. | 11 | R1.5 | 3% | 11 | R3 | 0% | 0 | -3% |
| 31 | 391.1 | Computer Equip. | 11 | R1.5 | 3% | 7 | R4 | 0% | -4 | -3% |
| 32 | 392.0 | Transportation Equip. | 9 | L0 | 12% | 11 | L2.5 | 10% | 2 | -2% |
| 33 | 393.0 | Stores Equipment | 19 | S5 | 0% | 27 | S6 | 0% | 8 | 0% |
| 34 | 394.1 | Shop Equipment | 14 | L0 | 25% | 26 | R4 | 15% | 12 | -10% |
| 35 | 394.2 | Tools and Work Equip. | 14 | L0 | 25% | 20 | R1.5 | 1% | 6 | -24% |
| 36 | 397.0 | Communications Equip. | 17 | R2 | 1% | 18 | S6 | 1% | 1 | 0% |