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BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF THE OKLAHOMA GAS AND ELECTRIC COMPANY FOR APPROVAL OF A GENERAL CHANGE IN RATES, CHARGES AND TARIFFS	))))	DOCKET NO. 16-052-U

SURREBUTTAL TESTIMONY AND EXHIBIT OF DAVID E. DISMUKES, PH.D.

ON BEHALF OF

THE OFFICE OF ARKANSAS ATTORNEY GENERAL LESLIE RUTLEDGE

MARCH 30, 2017

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I. <u>INTRODUCTION AND QUALIFICATIONS</u>

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is David E. Dismukes. My business address is 5800 One Perkins Place Drive, Suite 5-F, Baton Rouge, Louisiana, 70808. I am the same person that prepared and pre-filed direct expert testimony on the behalf of the Consumer Utility Rate Advocacy Division ("CURAD") of the Office of Arkansas Attorney General ("the AG") on January 31, 2017.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to certain aspects of the rebuttal testimony provided by Oklahoma Gas and Electric ("OGE" or the "Company"), particularly those issues associated with the Company's proposed revenue allocations and rate design. The fact that I do not address a particular assertion does not necessarily indicated agreement.

II. <u>REVENUE ALLOCATION</u>

Q. DID THE COMPANY'S REBUTTAL TESTIMONY MODIFY ITS PROPOSED REVENUE ALLOCATION?

A. Yes. The Company now supports the Staff's proposed revenue distribution and rate design recommendations[1] given their similarity with those originally included in the Company's direct testimony. The Company states that the

[1] Rebuttal Testimony of Scott J. Bryan, 3:9.

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revenue allocations supported by Arkansas Valley Electric Energy Consumers ("ARVEC") could result in unwarranted larger increases to residential and general service classes.[2] The Company noted that my proposed revenue allocation would "overly restrict progress towards aligning prices with full [Cost of Service] ("COS"), thereby it is unlikely to ever achieve full COS."[3]

Q. PLEASE DESCRIBE STAFF'S PROPOSED REVENUE ALLOCATIONS.

A. Staff's proposed revenue allocations are based on its class COS study ("CCOSS") results utilizing a 19.5 percent increase in base rate revenues or 10.7 percent increase in base revenues if expiring riders are included in the overall increase calculation.[4] Staff then allocated this increase across all customer classes, tempering these increases upon three principles:

(1) No customer class should receive a rate decrease from current revenues, including base rates and the expiring rider revenues;

(2) Any revenue surplus attributable to the classes that have no change in current revenues will be used to limit the increase to the municipal pumping and athletic field lighting classes to 2.5 times the system average; and

(3) The remaining revenue surplus should then be distributed to the residential classes.[5]

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[2] Rebuttal Testimony of Scott J. Bryan, 3:11-13.
[3] *Id.*, 3:13-15.
[4] Direct Testimony of Matthew S. Klucher, 19:12-14.
[5] *Id.*, 19:20 to 20:6.

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Q. DO YOU AGREE WITH THE COMPANY'S CHARACTERIZATION OF YOUR REVENUE ALLOCATION RECOMMENDATIONS?

A. No. The Company claims that my proposals would be unlikely to ever achieve full COS.[6] However, as fully discussed in my direct testimony and acknowledged by the Company, my proposed revenue allocations would allow under-earning classes to receive increases greater than system average increase. The only limitation on my proposal is that this increase is capped to an increase that is less than 25 percent of the overall system average increase. Therefore, my proposed cap, applied to Staff's COS, would restrict the increase in rates for the athletic field lighting class to a 7.25 percent increase to rates.[7] Staff's cap of 2.5 times system average increase, would require that same class (athletic field lighting) to receive an increase of 17.4 percent, an amount inconsistent with the rate design principles of gradualism.[8] Furthermore, the Staff proposal would allocate an 11.9 percent[9] rate increase to residential customers, greater than my proposed 5.16 percent increase[10] which is more consistent with the principles of gradualism.

III. <u>RATE DESIGN</u>

Q. DO YOU HAVE ANY CONCERNS ABOUT THE COMPANY'S RATE DESIGN REBUTTAL?

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[6] Rebuttal Testimony of Scott J. Bryan, 3:15.
[7] Direct Testimony of Matthew S. Klucher, Exhibit MSK-3.
[8] *Id.*, Exhibit MSK-3.
[9] *Id.*, Exhibit MSK-3.
[10] Direct Testimony of David E. Dismukes, Exhibit DED-4

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A. Yes, particularly in those areas of the Company's rebuttal that discuss its proposed customer charges, the PL-TOU rate class changes, and the Company's proposed changes to its variable peak pricing ("VPP") rate schedule.

Q. HAS THE COMPANY CHANGED ITS DIRECT TESTIMONY POSITION WITH REGARDS TO ITS PROPOSED INCREASES IN CUSTOMER CHARGES?

A. No. The Company rejects the customer charge proposals that both the Staff and I have offered, noting that its originally-proposed customer charges are more appropriate[11] and better aligns demand and energy charges with demand and energy-related costs.[12]

Q. DO YOU AGREE WITH THE COMPANY'S REBUTTAL ASSERTIONS REGARDING ITS CUSTOMER CHARGES?

A. No, I disagree with the Company that its proposed customer charges need to exactly match those customer-related costs that are included in its CCOSS. While costs can be instructive in establishing a baseline upon which prices may be set, they do not need to serve as the sole or exclusive basis for rates in order for them to be set optimally (*i.e.*, fixed charges do not need to strictly equal fixed costs, variable rates need not strictly equal variable costs).[13] Utilities operate in less than perfectly competitive markets and have cost-

[11] Rebuttal Testimony of Scott J. Bryan, 4:2-4.
[12] *Id.*, 4:3-5.
[13] See, Direct Testimony of David E. Dismukes, 71:18 to 72:5.

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characteristics that differ from competitive industries (*i.e.*, they are natural monopolies), which is a prime reason why these industries are regulated. As such, prices usually do not slavishly follow costs, but instead are usually set at levels that reflect willingness to pay. Regulation and regulatory policy have arisen over the past century to temper that ability to charge rates that strictly extract ratepayer consumer surplus with other public policy considerations.

Q. DO THE COMPANY'S CUSTOMER CHARGES ALREADY RECOVER A SIGNIFICANT SHARE OF THEIR CUSTOMER-RELATED COSTS?

A. Yes. The Company's current customer charges already recover a significant portion of commonly-recognized customer costs – over 75 percent for just about every customer class with the exception of the Time-of-Use Power and Light ("PL TOU") class.[14]

Q. ARE YOU AWARE OF ANY OTHER REGULATORY JURISDICTIONS THAT SET CUSTOMER CHARGES TO 100 PERCENT OF THEIR CUSTOMER-RELATED COSTS?

A. No. Very few state regulators set electric utility customer charges to levels that are 100 percent of their customer-related costs. To do so, in effect, would result in what is known as a "straight-fixed variable" ("SFV") rate design. According to a recent survey, there are only three states that currently have

[14] *Id.*, 74:18 to 75:9.

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such a rate design approved for an electric distribution utility. These states are Connecticut (Connecticut Light and Power), Oklahoma (Public Service Company of Oklahoma), and Wyoming (Rocky Mountain Power).[15] Further, the Oklahoma Corporation Commission ("OCC") recently issued an order that holds current residential customer charges for OG&E's Oklahoma service territory at $13 per month.[16] This is far less than OG&E's proposal to increase such charges to $26.54 per month based on alleged customer-related costs.[17] Indeed, in making its decision, the Oklahoma Administrative Law Judge ("ALJ") rejected a compromise proposal by OG&E to increase residential customer charges to only $20 per month, noting that even this compromise position "would be one of the highest customer charges in the nation."[18]

Q. ARE THE COMPANY'S CUSTOMER CHARGES SET TO CUSTOMER-RELATED COSTS ALONE?

A. No. The Company's proposals would set customer charges at levels that cover **BOTH** 100 percent of their customer-related costs **AND** a non-trivial share of the residential class's demand-related costs. This is simply not common practice among most utility regulators in the U.S., is inconsistent

[15] Mark Newton Lowry, *et al.* (November 11, 2015), "Alternative Regulation for Emerging Utility Challenges: 2015 Update," Edison Electric Institute, pp. 29-30.
[16] In the Matter of the Application of Oklahoma Gas and Electric Company for an Order of the Commission Authorizing Applicant to Modify its Rates, Charges, and Tariffs for Retail Electric Service in Oklahoma, Corporation Commission of Oklahoma Order No. 662059, Attachment 2, pp. 75-76.
[17] *Id.,* Cause No. PUD 201500273, Direct Testimony of William H. Wai, 8:14-16.
[18] *Id.*, Order No. 662059, Attachment 2, p. 78.

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with the rate design principles of fairness, equity and gradualism, and would result in customer charges (as I showed in my direct testimony) that would be orders of magnitude higher than comparable utilities in the south central part of the country. Thus, I continue to believe that there is no compelling cost or policy reason for adopting the Company's proposed increases to its customer charges.

Q. DISCUSS THE COMPANY'S PL-TOU RATE CLASS PROPOSALS.

A. The Company recommends that customers that take service on the PL-TOU-Demand and PL-TOU-Energy tariffs to be merged into a single PL-TOU rate.[19] ARVEC and Wal-Mart Stores Arkansas, LLC and Sam's West Inc. ("Walmart") request that the Commission deny the Company's proposed consolidation as moving away from cost of service.[20]

Q. DO YOU HAVE A POSITION REGARDING THE COMPANY'S PROPOSED CONSOLIDATION OF THE PL-TOU RATES?

A. No. Neither I nor the AGO has a position on the appropriateness of the Company's proposed consolidation of the PL-TOU-Demand and PL-TOU-Energy. The Company claims that I support the Company's recommendation to consolidate the two PL-TOU rates.[21] However, I did not discuss this in my direct testimony and my silence on the issue should not be interpreted as an agreement. The exhibit included in my testimony, with my proposed rates,

[19] Rebuttal Testimony of Scott J. Bryan, 8:19-20.
[20] *Id.*, 8:21-22.
[21] *Id.*, 8:19-20.

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was simply a reflection of the Company's original proposal, not an acceptance of that proposal. Indeed Exhibit DED-9 shows that PL-TOU-Demand customers will see very large increases in summer on-peak energy rates – over 1000 percent for all service levels – information that is also supported in part by Wal-Mart in this proceeding.[22] The Company has provided little evidence in this proceeding to support such a drastic change being proposed.

Q. WHAT IS THE COMPANY'S PROPOSAL WITH REGARDS TO THE R-VPP RATE CLASSES?

A. The Company continues to support its proposed changes to the VPP bands outlined in its Direct Testimony.[23] The Company argues that, contrary to my assertions that the Company had not provided support for its proposal, on October 10, 2016, the Company offered explanations and support through a response to Staff discovery.[24] The Company states that if it does not readjust the VPP tiers, the tier prices will have to readjust significantly to recover a revenue deficiency.[25]

Q. HAVE YOU REVIEWED THE REFERENCED SUPPORT PROVIDED BY THE COMPANY THROUGH DISCOVERY?

A. Yes. My statement that the Company did not provide any support for its change was in reference to support provided in its case-in-chief, and not

[22] Direct Testimony of Steve W. Chriss, p. 8, Table 1.
[23] Rebuttal Testimony of Scott J. Bryan, 10:3-4.
[24] *Id.*, 11:29 to 12:1.
[25] *Id.*, 12:1-3.

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through later discovery filings. Indeed, I referenced the information provided through discovery in my Direct Testimony.[26] The analysis provided by the Company is nothing more than an examination of the Company's summer 2015 daily average peak prices, grouped in stratifications of 10, 30, 36, and 10 days corresponding to the Company's low, standard, high, and critical thresholds.

Q. DO YOU SEE ANY ISSUES WITH THE COMPANY'S ANALYSIS?

A. Yes. The analysis provided is solely for 2015, meaning that the Company proposes changes in its VPP bands based only on the usage patterns and market behavior of one single year. There is no evidence in the record that 2015 represents a normal year sufficient to base a significant rate design change.

Q. HAVE YOU PERFORMED ANY ANALYSIS OF 2015 WEATHER COMPARED TO AVERAGE WEATHER?

A. Yes, and this comparison is provided in DED-R-1. DED-R-1 compares Cooling Degree Days ("CDD") for the four summer months of 2015, to 30 year average weather values published by the National Oceanic and Atmospheric Administration ("NOAA"). The comparison shows that the summer of 2015 in the Company's service territory had a total of 1,901 CDDs, compared to a 30 year average of 1,734 CDDs. However, of the 167 CDD difference between

[26] Direct Testimony of David E. Dismukes, 81:3-6.

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2015 and the 30 year average, 157, or over 94 percent, is from warmer than normal temperatures in June and September, the first and last month of the summer period, respectively. This means that summer of 2015 had a lower variance, or more stable, cooling requirements then the 30 year average.

Q. WHAT ARE YOUR RECOMMENDATIONS WITH REGARDS TO THE COMPANY'S PROPOSE CHANGES TO THE VPP BANDS?

A. My analysis shows that, just based on weather, the summer of 2015 is not representative of weather normal conditions. The Company claims that it must modify the VPP rate or else encounter significant revenue short-falls. I simply do not believe that the Company has provided enough information about the nature of its specific changes in this proceeding. An appropriate recalibration of the VPP rate would require greater analyses of historical market conditions over several years, not just a single year and I continue to recommend the Commission reject the Company's proposal to significantly change the bands for its R-VPP and GS-VPP rates at the current time.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY FILED ON MARCH 30, 2017?

A. Yes.

Comparison of Summer 2015 Cooling Degree Days with NOAA 30-Year Normals

Witness: Dismukes
Docket No. 16-052-U
Exhibit DED-R-1

	2015 CDD	NOAA 30-Year Normals	Deviation from Normal	Percent Deviation
June	474	385	89	23%
July	606	536	70	13%
August	470	530	-60	-11%
September	351	283	68	24%
Total	**1901**	**1734**	**167**	**10%**
Standard Deviation	**104.18**	**122.23**	**-18.05**	**-15%**

Source: National Climatic Data Center ("NCDC"), National Oceanic and Atmospheric Administration ("NOAA")

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CERTIFICATE OF SERVICE

I, Shawn McMurray, hereby certify that on March 30, 2017, I filed a copy of the foregoing utilizing the Commission's Electronic Filing System, which caused a copy to be served upon all parties of record via electronic mail.

/s/ Shawn McMurray
Shawn McMurray