

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

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)

CAUSE NO. PUD 201500273

FILED
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CORPORATION COMMISSION
OF OKLAHOMA

Rebuttal Testimony

of

David Smith

on behalf of

Oklahoma Gas and Electric Company

April 11, 2016

David Smith
Rebuttal Testimony

1 Q. **Please state your name and business address.**

2 A. My name is David Smith. My business address is 321 N. Harvey, Oklahoma City,
3 Oklahoma 73102.

4
5 Q. **By whom are you employed and in what capacity?**

6 A. I am employed by Oklahoma Gas and Electric Company (“OG&E” or “Company”) as
7 Senior Costing Analyst.

8
9 Q. **Did you file direct testimony in this cause?**

10 A. Yes.

11
12 Q. **What is the purpose of your testimony?**

13 A. My rebuttal testimony supports OG&E’s classification of and resulting allocation of its
14 distribution plant costs in its cost of service studies (“COSS”) and discusses the positions
15 of other parties in this case. Specifically, I will discuss or rebut certain arguments
16 regarding the use of the Company’s zero-intercept study as filed that was used to classify
17 and allocate distribution plant costs for FERC Accounts 364-368. I will also discuss FEA
18 witness Michael Gorman’s concern about the cost of service study’s allocation of costs to
19 service levels 1 and 2 for the LPL-TOU class.

20
21 Q. **Generally, how does OG&E classify distribution plant costs in its COSS?**

22 A. OG&E classifies distribution plant costs as either demand related or customer related
23 depending on the FERC account. As shown below, FERC accounts 360-362 are
24 considered demand related. Accounts 364-368 are considered both demand and customer
25 related and are classified based on the zero-intercept methodology as supported by the
26 NARUC Cost Allocation Manual. The cost allocation approved in Cause No. PUD
27 200800398 was based upon using the zero-intercept methodology and is consistent with
28 OG&E’s previous rate case. The remaining distribution plant accounts are considered

1 customer related. Additionally, distribution O&M accounts are classified in the same
2 manner as their underlying plant accounts.

Table 1 Classification by FERC Account

OG&E Distribution Plant Description	FERC Acct	Classification
Land and Land Rights	Acct 360	Demand
Structures & Improvements	Acct 361	Demand
Station Equipment	Acct 362	Demand
Poles, Towers, & Fixtures	Acct 364	Demand/Customer
OH Conductors & Devices	Acct 365	Demand/Customer
UG Conduit	Acct 366	Demand/Customer
UG Conductor & Devices	Acct 367	Demand/Customer
Line Transformers	Acct 368	Demand/Customer
Services	Acct 369	Customer
Meters	Acct 370	Customer
Installations on Customer' Premises	Acct 371	Customer
Street Lighting & Signal Systems	Acct 373	Customer

3 Q. **Please discuss PUD witness Jeremy Schwartz's issues with the zero-intercept study,**
4 **which is sometimes referred to as a minimum intercept study.**

5 A. Witness Schwartz's direct testimony states that "PUD recommends OG&E perform an
6 updated Minimum Intercept study before proposing any change to the base service charge
7 of any class of customers in future causes filed before this Commission. PUD notes that
8 the Company has invested heavily in plant accounts since the last study and such an
9 outdated study does not give the support necessary to differentiate, accurately, between
10 customer and demand costs or to support additional modifications to the fixed cost
11 recovery components."

12
13 Q. **Does OG&E agree to update the zero-intercept study as suggested by Mr.**
14 **Schwartz?**

15 A. Yes. OG&E agrees to update its zero-intercept study before its next base rate case as
16 reflected in its response to data request PUD JKS 2-2. However, OG&E does not agree
17 with Mr. Schwartz's assertion that the zero-intercept study is "outdated" due simply to
18 the fact that distribution plant costs have increased since the study was conducted in
19 2008.

1 Q. **Why do you disagree with Mr. Schwartz's position that OG&E's study costs are**
2 **outdated?**

3 A. OG&E believes that the zero-intercept study conducted in 2008 is still relevant today
4 particularly for the relationship of how the associated costs should be classified in
5 determining the demand and customer percentages from the study. Nothing in the
6 Company's construction standards, distribution operations or design of its system
7 suggests this relationship is materially different today. Mr. Schwartz mistakenly believes
8 that increased investment drives a need to update the zero-intercept study. However, the
9 amount of plant does not drive the need for a new study.

10

11 Q. **Are there other parties in this case that took issue with OG&E's classification of**
12 **distribution plant?**

13 A. Yes. AG witnesses James Daniel and Kevin Mara, and TASC witness Mark Garrett are
14 recommending that OG&E disregard its zero-intercept study results and allocate all
15 associated distribution costs using a demand only allocator.

16

17 Q. **Is Mr. Garrett's position on behalf of TASC inconsistent with his recommendation**
18 **while testifying for OIEC/OER?**

19 A. Yes. Mr. Garrett, as witness for OIEC and OER seems to support OG&E's cost of
20 service allocations, on pages 12 and 13 of his direct testimony, which implies that his
21 clients OIEC and OER have no issue with the zero-intercept study as filed by OG&E.

22

23 Q. **Are there any additional cost of service issues with AG witness Daniel's testimony**
24 **that you wish to address?**

25 A. Yes. There are substantial differences between AG witnesses Farrar and Mr. Daniels
26 testimony in both impact and consistency. These differences are systemic and call serious
27 questions as to Mr. Daniel's espoused savings related to his recommendation to classify
28 accounts 364-368 as 100% demand. For example, the below table highlights some of the
29 caution and concern regarding Mr. Daniel's COSS class savings impacts when his input

1 values are vastly different from that of AG's witness Farrar's recommended accounting
2 adjustments.

Table 2 – Examples of Inconsistencies

Item/Exhibit Ref.	AG Witness Farrar	AG Witness Daniel	Difference
Okla. Juris Rate Base: ECF-1, pg 1, ln. 13 <u>vs.</u> JWD-1, pg 2, col. C ln 21	\$ 4,180,355,597	\$4,146,940,588	\$ 33,415,009
Okla. Juris Tot Acum Depr: ECF-1 pg 3, ln. 2 <u>vs.</u> JWD-1, pg 2, col. C, ln 15	\$ 3,306,120,181	\$3,303,386,516	\$ 2,733, 665
Okla. Juris Plant hld Future Use: ECF-1, pg 11, ln 2 <u>vs.</u> JWD-1, pg 2, col. C, ln 18	\$ (1,079,239)	+ 1,079,239	\$ 2,153,478 200% reversal

3 These vast differences draw much suspicion as to how Mr. Daniel arrived at his COSS
4 savings impacts.

5

6 **Q. What is your recommendation regarding classification of distribution plant in this**
7 **cause?**

8 A. My recommendation is for this Commission to accept OG&E's zero-intercept study as
9 filed and allow OG&E until its next base rate case to either update the study or propose
10 other alternative methodologies that meet acceptable cost allocation theory.

11

12 **Q. Do you agree with Mr. Gorman's assertion that production demand and**
13 **transmission demand is not significantly different?**

14 A. No. Mr. Gorman asserts on page 13 that there is not a significant cost difference for both
15 production and transmission service for LPL-TOU SL-1 and SL-2 customers. As shown
16 in the below excerpt from these L W/P's, Mr. Gorman's assertion is not founded for there
17 are clear and significant differences between the two service levels for production and
18 transmission demand costs.

Table 3 - W/P L-8.1, L-8.2, & L-8.3

LINE NO.	DESCRIPTION	69	70
		LRG. PWR & LGHT TOU S/L-1	LRG. PWR & LGHT TOU S/L-2
UNIT COST ANALYSIS			
<u>CLASSIFICATION BREAKDOWN</u>			
<u>DEMAND COMPONENT</u>			
1	Production Demand	\$11,060,815	\$53,449,134
2	\$/kW	\$8,3958	\$6,9419
3	\$/kWh	\$0.0154	\$0.0131
4	\$/Customer/Month	\$115,216.83	\$79,537.40
5	Transmission Demand	\$3,293,231	\$16,308,161
6	\$/kW	\$2.4997	\$2,1181
7	\$/kWh	\$0.0046	\$0.0040
8	\$/Customer/Month	\$34,304.49	\$24,268.10

1 Q. Are the demand billing units for LPL-TOU service levels 1 and 2 in WPs L-8.1, L-
2 8.2 and L-8.3 correct?

3 A. Yes. Mr. Gorman's assertion that they are not correct is unfounded. However, in
4 reviewing the Company's filed WPs L-8.1, L-8.2 and L-8.3, it was discovered that some
5 billing demands for other classes or service levels were inadvertently left unedited.
6 Therefore, I have revised and distributed WPs L-8.1, L-8.2 and L-8.3 showing the correct
7 billing demands for those other classes and service levels. However, LPL-TOU SL-1 and
8 SL-2 are not impacted by this update.

9
10 Q. Does OG&E utilize the demand billing units to develop the demand allocation
11 factors?

12 A. No. Mr. Gorman appears confused as to how the demand allocation factors are
13 developed. The Company's COSS demand units are a result of the test year load analysis.
14 However, billing demands as described on page 7 and 8 in the rebuttal testimony of
15 OG&E witness William Wai are derived differently by using accounting records with
16 required adjustments. As such, billing demands and test year load study demands are not
17 the same.

18
19 Q. Does this complete your rebuttal testimony?

20 A. Yes.