

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR AN ORDER OF THE COMMISSION)
APPROVING THE COMPANY'S 2016 DEMAND)
PORTFOLIO AND AUTHORIZING RECOVERY OF)
THE COSTS OF THE DEMAND PROGRAMS)
THROUGH THE DEMAND PROGRAM RIDER)

CAUSE NO. PUD 201500247

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CORPORATION COMMISSION
OF OKLAHOMA

Rebuttal Testimony

of

Bryan J. Scott

on behalf of

Oklahoma Gas and Electric Company

October 9, 2015

Bryan J. Scott
Rebuttal Testimony

1 Q. **Would you please state your name and business address?**

2 A. My name is Bryan J. Scott. My business address is 321 N. Harvey Ave., Oklahoma
3 City, Oklahoma 73102.

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

6 A. I am the Director of Pricing and Load Analysis for Oklahoma Gas and Electric Company
7 (“OG&E” or “Company”).

8
9 Q. **What is the purpose of your rebuttal testimony?**

10 A. My testimony rebuts several objections raised by the Public Utility Division’s (“PUD”)
11 witness Kathy Champion related to the Company’s proposed changes to the Demand
12 Program Rider (“DPR”) and addresses Ms. Champion’s recommendations regarding cost
13 recovery for OG&E’s 2016 Demand Portfolio. I also explain why lost net revenues and
14 incentives associated with the IVVC program should be recovered.

15
16 DEMAND PROGRAM RIDER

17 Q. **Does Ms. Champion support the Company’s proposed modifications to the DPR?**

18 A. No. Ms. Champion recommends that recovery of lost net revenues (“LNR”) be delayed
19 until “after the Company has proven their performance and need.”¹ The Company has
20 proposed to include projected amounts for program costs, LNR, and incentives in the
21 initial determination of the DPR cost recovery rate.

22
23 Q. **On page 16, lines 14 and 15 of her responsive testimony, Ms. Champion states that
24 OG&E has proposed a significant change in the recovery of lost revenues and
25 shared benefits from actual performance to projected performance. Does Ms.
26 Champion accurately represent OG&E’s proposal?**

27 A. No. OG&E will only receive actual program costs, actual lost revenues, and actual
28 shared savings. OG&E proposes to include projected program costs, lost revenues, and

¹ Champion Responsive, p. 17, line 17
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1 shared benefits in the initial determination of the DPR and true-up of any under or over
2 collections of revenues.

3
4 **Q. What are the benefits to customers resulting from OG&E's proposal?**

5 A. OG&E's proposal minimizes the impact to customers by reducing carrying charges and
6 factor swings associated with the true-up. If OG&E did not include LNR and shared
7 benefits in the initial rider determination, the true-up amount would be unnecessarily high
8 and would include additional carrying charges on that balance.

9
10 **Q. Does OG&E's proposed recovery mechanism for LNR and incentives comply with
11 the Commission rules?**

12 A. Yes. The rule provides for recovery of actual incentives and LNR. In no event will
13 OG&E recover any amounts in excess of its actual incentives and LNR. The true-up
14 mechanism ensures that only actual costs are collected from customers. OG&E's
15 proposal ensures that only verified actual amounts for program costs, LNR, and
16 incentives are recovered with minimal factor changes for customers. Ms. Champion
17 appears to minimize the true-up mechanism, which has been an integral component of
18 OG&E's riders for many years.

19
20 **Q. Does a true-up component hold customers harmless?**

21 A. Yes. True-up mechanisms ensure that customers only pay actual costs. This mechanism
22 has been used in all demand program years since the inception of the Quick Start demand
23 programs. In addition, with concurrent recovery, the effect on over/under recovery is
24 greatly minimized, and carrying costs are reduced. Customers will pay less under
25 OG&E's proposal. The impact from Ms. Champion's position on the DPR and its annual
26 true up will be to ensure millions of dollars of under-recovery of allowable cost. This
27 under-recovery of costs will lead to much higher carrying charges and larger factor
28 swings which is why OG&E proposes concurrent recovery of LNR and incentives.
29 OG&E's proposal recognizes that LNR will be incurred when OG&E installs energy
30 efficiency measures and will be recovered through the DPR factor. The true-up ensures
31 that only the actual amounts will be paid by customers. Finally, Ms. Champion ignores

1 the interim adjustment mechanism of the DPR tariff. The interim adjustment mechanism
2 provides for a re-determination of the rider should DPR revenues exceed plus or minus
3 10% of expected revenues during any implementation cycle. The Company or the PUD
4 staff may propose an adjustment under this clause.

5
6 **Q. Have true-ups been approved by the Commission before to hold customers
7 harmless?**

8 **A.** Yes. This Commission has often agreed with OG&E that it is fair to customers to balance
9 costs with recovery and to the extent variances occur to re-determine rates. This has been
10 the procedure in Oklahoma for decades, beginning with the Fuel Cost Adjustment
11 (“FCA”) and extending through an additional ten (10) riders administered by the
12 Company. The following table lists these riders and their true-up cycle.

Table: List of Oklahoma Gas and Electric Tariffs and Riders with True-up Provisions

	Description	True-up Cycle
SHPR	System Hardening Program Rider	Annual
SR	Security Rider	Annual
FCA	Fuel Cost Adjustment Rider	Annual
RTSA	Renewable Transmission System Additions Rider	Annual
CCR	Cogen Credit Rider	Annual
DPR	Demand Program Rider (Current)	Annual
SCR	Storm Cost Recovery Rider	Annual
SGR	Smart Grid Rider	Annual
CR	Crossroads Rider	Annual
SPPCT	Southwest Power Pool Cost Tracker	Annual
STSA	SPP Transmission System Additions Rider	Annual

13 **Q. Why is it important to include projected program costs, LNR, and incentives and
14 the true-up mechanisms?**

15 **A.** It is important to incorporate concurrent recovery of LNR and incentives as the Company
16 immediately begins to lose money when program measures are installed. Once a measure
17 is installed at the customer’s premise, the measure begins saving energy for the customer

1 immediately. With these immediate customer savings, OG&E begins losing revenues
2 concurrent with those savings. These concurrent savings are also part of the shared
3 savings achieved and accrued by OG&E. Therefore, under Ms. Champion's proposal,
4 customers receive benefits immediately, but the Company has to wait 21 months before
5 compensation begins. Ms. Champion's proposal accepts the inclusion of projected
6 program cost with a true-up, but delays the recovery of any LNR and incentives.

7 OG&E's proposal is not unique and does not constitute an exceptional form of
8 recovery. OG&E has identified through an ACEEE publication² several jurisdictions that
9 permit concurrent recovery of incentives and LNR, including Louisiana. Arkansas
10 permits concurrent recovery of LNR.

11 OG&E believes this proposal is a reasonable balance of interests between the
12 Company and its customers. The proposal will allow PUD staff adequate time to review
13 the Company's EM&V reports without adversely affecting customers (incurring
14 unnecessary carrying charges) or OG&E (excessive delay in recovery of LNR, currently
15 projected at 21 months from installation of measures).

16
17 **Q. Has Ms. Champion interpreted Commission rules in the same manner as OG&E in**
18 **formulating her position on this issue?**

19 **A.** No. It appears that Ms. Champion is attempting to add additional conditions to LNR
20 recovery that do not currently exist. The rules do not require OG&E to demonstrate need
21 before receiving LNR. LNR and incentives are not described in the rules as an
22 exceptional form of recovery. Instead, LNR and incentives are recognized as
23 compensation to the utility for engaging in business practices that encourage customers to
24 use less of the utility's product and services. LNR restores the recovery of its fixed cost
25 necessary to serve customers between general rate reviews. Shared benefit incentives
26 provide encouragement for the Company and its shareholders to actively pursue energy
27 efficiency. Neither of these constitutes exceptional recovery.

² ACEEE, Balancing Interests: A Review of Lost Revenue Adjustment Mechanisms for Utility Energy Efficiency Programs, Report Number U114
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1 Q. **What modifications has Ms. Champion proposed to the DPR?**

2 A. Ms. Champion recommends modifying OG&E's DPR to include the cumulative energy
3 savings language and formula for calculating embedded fixed cost ("EFC") factor found
4 in PSO's tariff. Ms. Champion believes that OG&E's DPR is not as clear as PSO's
5 Demand Side Management Cost Recovery Rider regarding the use of cumulative kWh to
6 calculate lost net revenue and the method for determining the EFC. Additionally, she
7 recommends limiting lost net revenue recovery to the current portfolio period by adding
8 language to OG&E's DPR that would zero out the accumulated energy savings with the
9 next portfolio or final order in a rate case, whichever occurs first.³

10

11 Q. **What is your response to Ms. Champion's recommendation to modify OG&E's
12 DPR to include the language found in PSO's tariff?**

13 A. I have no objection to the DPR defining the term cumulative energy savings in the tariff.
14 As Ms. Champion notes on page 27, lines 1 to 2, OG&E will zero out accumulated
15 energy savings consistent with the timing of its general rate reviews.

16 Next, in responsive testimony, Ms. Champion recognizes that an open case⁴ exists
17 which seeks to clarify the definition of EFC.⁵ OG&E believes it is premature to attempt
18 to define embedded fixed cost in the absence of a final order in the pending case. (Note
19 that OG&E reserved the right to amend its application pending the outcome of this case⁶.)

20 OG&E believes its current practice is more accurate than Ms. Champion's
21 proposal to use averaged non-fuel, non-customer charge revenue to determine EFC.
22 OG&E offers sophisticated time differentiated tariffs to its customers and has received a
23 significant level of participation. Matching energy savings to seasonal and time-of-use
24 tariff prices is fair and reasonable since lost net revenues are directly tied to the effect of
25 monthly savings (energy and demand) and the prices from the tariffs to which customers
26 are subscribed. Ms. Champion's method for determining EFC is inappropriate for
27 OG&E.

³ Champion Responsive, p. 32 lines 6-10

⁴ Cause No. PUD 201500153

⁵ Champion Responsive, p. 24, lines 16-18

⁶ Scott Direct, p. 10, lines 1-6

1 LOST NET REVENUE RECOVERY ISSUES

2 Q. **Please explain Ms. Champion's proposal to limit lost net revenue recovery.**

3 A. Ms. Champion proposes that the cumulative energy savings should be set to zero when
4 the DPR is approved and not when new rates are placed into effect after a general rate
5 case.⁷ This defeats the entire purpose of lost net revenue recovery in between rate cases
6 and prematurely resets energy savings before OG&E resets base rates. OG&E will
7 continue to accumulate lost net revenues until new rates are implemented. Approving a
8 new set of demand programs does not eliminate or reduce those lost net revenues.

9
10 Q. **Does OG&E reset cumulative energy savings to zero?**

11 A. Yes, but that resetting of cumulative energy savings is always done in a rate case. In
12 OG&E's last rate case⁸, the Company received a final order in July 2012 and
13 implemented new rates at that time. This adjustment zeroed out the energy savings that
14 had accumulated from the beginning of the quick start demand programs (approximately
15 three years). Since then, OG&E has accumulated energy savings for 2012, 2013 and
16 2014. OG&E has now filed a notice of intent to file a new general rate case on or before
17 November 30, 2015. OG&E expects an order in that new rate case in 2016. Therefore, the
18 Company would reset energy savings in the DPR upon implementation of new rates,
19 based upon the pro forma adjustments included in its general rate case filing.

20
21 Q. **Do you support Ms. Champion's recommendation to add language to the DPR
22 limiting lost net revenue recovery?**

23 A. No. Ms. Champion's proposal to reset energy savings at the end of this current
24 proceeding would prematurely cut off the recovery of lost net revenues that actually will
25 continue to impact OG&E until the new rate case is concluded. This is contrary to the
26 concept of lost net revenues and would financially punish OG&E for encouraging
27 customers to use less energy than was assumed when setting rates in the previous rate
28 case. If LNR is zeroed out prematurely, the utility will lose significant dollars until an
29 order is received.

⁷ Champion Responsive, p. 29 lines 13

⁸ Cause No. PUD 201100087

1 Q. **Has OG&E accumulated an “excessive amount” of saved energy?**

2 A. Absolutely not. OG&E has adjusted rates every three or four years and the energy saved
3 along with the associated LNR has been reset. Our customers who have participated in
4 the Demand Programs continue to benefit from reduced energy consumption.

5
6 Q. **Do you agree with Ms. Champion that her recommended changes for lost net
7 revenue recovery should be made now?**

8 A. No. OG&E has filed its notice of intent to file a rate case on or before November 2015.
9 The Commission should allow energy savings to be reset at the conclusion of the rate
10 case.

11
12 Q. **Do you have a concern with Ms. Champion’s position that rulemakings should be
13 applicable retroactively?**

14 A. Yes. Ms. Champion proposes that the Commission initiate a rulemaking to consider her
15 suggestions regarding limiting lost net revenue recovery and notes in her testimony that
16 any rulemaking would occur after the approval of the Company’s recovery mechanism
17 for its Demand Portfolio. Ms. Champion recommends that “the Commission make the
18 rulemaking applicable to the current Demand Portfolio and corresponding recovery
19 mechanism.” The 2016 Demand Portfolio is the first three-year cycle of programs under
20 the new Demand Program rules. It is inappropriate to apply new conditions or initiate
21 further rule changes after the Company has filed its DPR case.

22

INCENTIVE RECOVERY ISSUES

23
24 Q. **What is the nature of Ms. Champion’s disagreement with OG&E’s proposal for
25 recovery of incentives?**

26 A. The nature of Ms. Champion’s disagreement with OG&E’s proposal for recovery of
27 incentives is two-fold. First, she disagrees with OG&E’s calculation and believes OG&E
28 is calculating incentives incorrectly. Second, she believes OG&E will not meet the
29 minimum 80% achievement threshold and earn the incentive. On this point, OG&E is
30 confident it will achieve its goals and earn an incentive.

31

1 Q. **For what reasons does Ms. Champion object to OG&E's calculation methodology**
2 **for incentives?**

3 A. Ms. Champion disagrees with OG&E's calculation because it proposes to multiply the
4 Cost Effectiveness ("CE") ratios by the annual program budget. She states, "This
5 proposed calculation is incorrect for the following reasons:

- 6 • Using CE ratios from the proposed portfolio does not comply the Commission
7 rules which require the use of annual program performance;
- 8 • Use of the CE ratios from the proposed portfolio times the budget assumes that
9 the performance of the programs will never change; and
- 10 • The CE ratios can be higher or lower based the actual program performance.⁹"

11
12 Q. **Does using the CE ratios comply with Commission rules?**

13 A. Yes. The Commission rules state, "Net Benefit equals the difference between total
14 benefits and total costs as calculated for cost effectiveness."¹⁰ On the surface this would
15 seem to imply net benefit would be a dollar value. However, the Demand Program rules
16 also refer to the "California Standard Practice Manual"¹¹ which explains the net benefits
17 can be expressed as a ratio between total benefits and total costs, also known as a CE
18 ratio. Regardless of which way net benefits are calculated, if correctly applied, they will
19 yield the same value. I have applied the correct math in my calculation.

20
21 Q. **Does Ms. Champion accurately illustrate a calculation error in Table 5 of her**
22 **responsive testimony?**

23 A. No. Ms. Champion includes Table 5 in her responsive testimony to illustrate what she
24 believes is a calculation error when incentives are estimated based on the CE ratios times
25 the budget. Ms. Champion attempted to estimate shared savings based on cost
26 effectiveness ratios¹². In Table 5 she compared OG&E's shared savings calculation
27 ("OGE Calculation") to two of her own calculations, which she identifies as using
28 information provided by OG&E witness Melissa Culbertson. Ms. Champion's

⁹ Champion Responsive, p. 19, lines 10-14

¹⁰ OAC 165:35-41-3 Definitions

¹¹ OAC 165:35-41-3 Definitions

¹² Champion Responsive, p. 20, Table 5

1 calculation uses the TRC net cost instead of the actual total costs as prescribed by the
2 rules¹³ and used by the Company. This mistake caused Ms. Champion's calculations to
3 be invalid by estimating net benefits, or CE, to be either higher or lower than they would
4 normally be. Also, Ms. Champion failed to incorporate OG&E's proposal to receive
5 IVVC incentives on only the O&M portion of the program. This failure led to Ms.
6 Champion over-estimating the three year total expected incentive by \$3.6 million.

7
8 **LOST NET REVENUE AND INCENTIVES FOR IVVC**

9 **Q. How does the IVVC program incur lost net revenue?**

10 A. IVVC reduces customer energy consumption through voltage optimization. This
11 reduction in energy sales to the customer produces LNR. As explained by Witness
12 Killian, IVVC is a program that lowers voltage and is directly responsible for customers'
13 appliances and equipment utilizing less energy and saving customers money. The LNR
14 created by the reduction in energy usage should be recovered like any other energy
15 efficiency program.

16
17 **Q. Why is it appropriate for OG&E to recover incentives on the O&M portion of the**
18 **IVVC program?**

19 A. Like all DP programs, OG&E may request incentives¹⁴ for successful implementation of
20 their Demand Portfolio. IVVC is a part of OG&E's Demand Portfolio and as such the
21 Company should be allowed incentives for successful implementation. It is inappropriate
22 to selectively choose which programs are eligible for an incentive outside what is
23 provided in the rules. OG&E receives a return on invested capital for IVVC. As a result,
24 OG&E proposes to receive an incentive based only upon the IVVC program O&M.
25 Therefore, I proposed in my direct testimony that a fixed incentive (15%) applied to non-
26 capitalized expenses (annual O&M portion of the project) is an appropriate incentive for
27 IVVC.

¹³ OAC 165:35-41-3 Definitions of Net Benefits

¹⁴ OAC 165:35-41-8 Incentives

1 Q. **Have you identified examples where recovery of lost net revenue or incentives was**
2 **allowed for an IVVC program?**

3 A. Yes. FirstEnergy received Lost Distribution Revenue for its Volt Var Optimization
4 program¹⁵.

5

6

CONCLUSION

7 Q. **What are your recommendations to the Commission?**

8 A. I recommend that the Commission reject PUD's proposal to modify OG&E's DPR (p. 34
9 lines 10-13) because OG&E's DPR formulation as proposed is consistent with
10 Commission rules. I also recommend that the Commission reject PUD's proposal to limit
11 recovery of LNR (p. 34 lines 14-16). Finally, I recommend that any decision to initiate a
12 rulemaking to introduce a revenue cap alternative to LNR be postponed until the current
13 rules have been in existence at least one demand portfolio cycle.

14

15 Q. **Does this conclude your testimony?**

16 A. Yes.

¹⁵ Case No. 09-1820; Finding and Order June 30, 2010
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