BEFORE THE CORPORATION COMMISSION OF THE STATE 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	)	CAUSE NO. PUD 201800140
RATES, CHARGES, AND TARIFFS FOR RETAIL	)	
ELECTRIC SERVICE IN OKLAHOMA	)	

FILED
DEC 31 2018
COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

Direct Testimony

of

Seth Knight

on behalf of

Oklahoma Gas and Electric Company

December 31, 2018

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

A. My name is Seth Knight. My business address is 321 North Harvey, Oklahoma City, Oklahoma 73102.

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

A. I am employed by Oklahoma Gas and Electric ("OG&E" or "Company") as a Senior Cost Analyst.

Q. **Please summarize your educational background and professional qualifications.**

A. I received a Bachelor of Business Administration in Accounting from the University of Central Arkansas in 2005, and a Master of Business Administration in Finance from Oklahoma Christian University in 2016. I joined OG&E in March 2016 and I am currently a Senior Cost Analyst.

Prior to joining OG&E, I was employed by Chaparral Energy as a Financial Analyst IV from 2014 to 2016. I handled all aspects of budgeting, forecasting, and working on financial analysis of costs and revenue. From 2011-2014, I was employed by Select Energy Services. I held many roles ranging from Business Manager to Assistant Controller. I handled items such as: contract analysis and pricing, trend analysis, profit and loss analysis, and led the monthly accounting close process. I started my career with Stephens, Inc., a private investment banking firm headquartered in Little Rock, Arkansas, from 2006-2011 where I worked as an Accountant. My main duties were leading the monthly forecast and annual budget process. I also handled accounts payable and worked with financial statement and general ledger analysis.

In my current role, I attended New Mexico State University's Practical Regulatory Training for the Electric Industry in May 2016. I also represented the Company as a working member of EPRI's Understanding Electric Utility Customers program in February 2017. I also attended, the Electric Utility Consultants, Inc. ("EUCI") workshops for Cost-Of-Service and Rate Design for Electric Utilities in March

2017. Finally, I attended the National Association of Regulatory Utility Commissioners ("NARUC") Utility Rate School in October of 2018.

Q. **Have you previously testified before the Oklahoma Corporation Commission or any other regulatory commission?**

A. Yes. I submitted written testimony in OG&E's last general rate case Cause No. PUD 201700496 and submitted testimony to the Arkansas Public Service Commission in Docket No. 18-046-FR.

Q. **What is the purpose of your direct testimony?**

A. I sponsor the *pro forma* revenue adjustments to Schedule H of the Company's Application Package. These adjustments can be found in Section H, Schedule H-2 of that document.

Q. **Please list the *pro forma* adjustments that you are sponsoring.**

A. I am sponsoring twelve *pro forma* adjustments to the current Oklahoma jurisdictional revenues as reflected in Schedule H-2. These adjustments are summarized below in Table 1 – Adjustment Summary.

Table 1 – Adjustment Summary

	Adjustment	Amount
1	Unbilled, Provision For Refund, and Over/Under Recoveries	$116,860,252
2	Special Contracts	($1,838,785)
3	Day-Ahead Pricing	($6,848,337)
4	Manual Postings	($161,685)
5	Rider Revenues	($796,846,870)
6	Best Bill	$873
7	Renewable Energy Certificates	($2,824,345)
8	Customer Growth & Annualization	$15,494,496
9	Demand Programs Savings	($5,313,669)
10	Weather Normalization	($18,950,552)

11	Free Service, LIAP, & Senior Citizen Discount	($5,413,102)
12	Rate Recalculation	($16,294,244)
	TOTAL	**($722,135,967)**

Q. **Why is the Company proposing these adjustments?**

A. The adjustments I sponsor to the Company's September 2018 Test Year information are intended to eliminate non-base rate revenue, normalize and annualize test year revenue and to also reflect the level of kilowatt hour sales for OG&E's Oklahoma retail customer groups, at the end of the *pro forma* period March 31, 2019. The Company's revenue adjustment process generally involves five steps.

First, OG&E removes any revenues and where appropriate, associated kWh sales that may have occurred during the test year ended September 2018, that are not related to any investment or expenses included in the cost of providing service as reflected in the Cost of Service Study ("COSS"). Such revenues include Fuel Adjustment Clause ("FAC") revenue, revenue from riders other than the FAC and revenue from special contracts, as well as certain accounting adjustments. This step is reflected in Adjustments 1 through 7 in Table 1 above.

Second, the Company adjusts test year base rate revenues to reflect customer growth and annualization customer projections through the end of the March 2019 *pro forma* period. This step is reflected in Adjustment 8 (Customer Growth & Annualization) and 9 (Demand Programs Savings) in Table 1 above.

Third, the Company normalizes base rate revenues as adjusted in the first and second steps to reflect an average weather year. Adjustment 10 in Table 1 adjusts base rate revenues to reflect normal weather.

Fourth, the Company adjusts individual customer classes revenue to reflect the cost for Municipal Free Service and the impacts of Low Income Assistance Program ("LIAP") credits and Senior Citizens Discount credits. This is reflected in Adjustment 11.

Lastly, Company Adjustment 12 adjusts March 2019 *pro forma* test year revenues to reflect the base rate changes implemented July 1, 2018.

<u>**Adjustment 1**</u>

Q. **Please describe Adjustment 1 related to Unbilled Revenue, Provision for Refund, and Over/Under Recovery Amounts.**

A. This adjustment has three parts. The first is the removal of the accounting Unbilled Revenue adjustment and associated kWh. The second is the removal of the Provision for Refund. The final step is the removal of an over/under recovery of fuel and rider revenue collections. These three adjustments increase net Oklahoma jurisdiction *pro forma* revenue by $116,860,252.

Q. **Why is the removal of the Unbilled adjustment to revenue and kWh sales necessary?**

A. While all customers are billed for service in monthly increments, the dates that period starts and stops, or billing cycle, varies by customer group. The Unbilled revenue and kWh book balances are accounting entries that allow billing cycle books to be aligned with calendar month books. Since these book entries are not representative of actual billed sales, it is necessary to remove or add the entries to ensure rate design is performed on the actual billing units and revenues that occurred in the test year. This results in a $1,200,000 addition in revenues and an addition of 1,499,561 kWh.

Q. **Why is the removal of the Provision for Refund revenue necessary?**

A. Historical test year revenue refund provisions are not related to the *pro forma* test year. This entry has two parts. The first part eliminates the impact of refunding the remainder of interim rates collected through the PUD 201500273 Interim Rates Rider ("IR273). Secondly, the Company set aside revenues in the provision for refund account for the Tax Cuts and Jobs Act of 2017. Once a final order was granted in PUD 201700496, the Company used the same account to refund customers through the Federal Tax Change Rider ("FTC"). The IR273 revenues, FTC revenues (Adjustment 5A), and the Provision for Refund (Adjustment 1) are removed and replaced with an exact rate recalculation adjustment reflected in Adjustment 12. This Adjustment 1 results in a reduction of $4,307,103 in revenues.

Q. **Please explain why it is necessary to remove the over/under recovery of rider revenue.**

A. The over/under rider revenue recovery book balance for the test year includes accounting entries that reflect the difference between FAC revenues based on projections and the actual fuel expense experienced during the test year. Similarly, the rider collections over/under balances reflect the difference between rider revenue for the test year and actual annual revenue requirements. In the test year, there was a net over recovery of FAC and other rider revenues combined. This adjustment increases revenues by $111,353,149. The adjusted revenues for the FAC and other riders where the associated expenses are not included in the COSS are further addressed in Adjustment 5.

<u>Adjustment 2</u>

Q. **Please explain Adjustment 2 relating to Special Contracts.**

A. There are three special contracts that require an adjustment to revenues within Schedule H. In the filing, these confidential contracts are identified as Contracts T, O1, and O2, respectively. Adjustment 2 decreases net *pro forma* test year revenues related to these three contracts $1,838,785 and decreases *proforma* test year kWh by 98,412,708.

Q. **Please explain why the Special Contract T adjustment is necessary.**

A. The Special Contract T adjustment is required per Order No. 588610 in Cause No. PUD 201000194. In this order, the Commission found that the revenues related to Special Contract T shall be allocated to OG&E's Oklahoma retail customer classes using OG&E's distribution demand allocator, as determined in the Company's rate cases. The effect of this adjustment is to off-set the deficiency for each of the customer classes which reduces the revenue requirement to be recovered in base rates for each class.

Q. **Please explain why the Special Contract O1 adjustment is necessary.**

A. The Special Contract O1 adjustment is required because the revenue from this customer is tied to investments and expenses not recovered in base rates, resulting in a decrease in test year billed kWh.

Q. **Please explain why the Special Contract O2 adjustment is necessary.**

A. The Special Contract O2 adjustment is required because this Renewable Energy Certificates ("REC") revenue benefits customers and is reflected as a reduction in the FAC and results in a decrease in test year revenues.

Adjustment 3

Q. **What is the adjustment made to the Day-Ahead Pricing?**

A. Adjustment 3 consists of two parts. The first removes all incremental and decremental revenue and kWh associated with the Day-Ahead Pricing[1] ("DAP") and Flex Price[2] ("Flex") tariffs participants from the test year. The remaining revenue is revenue that is only associated with the Customer Base Line ("CBL") portion of their bill. The second part adjusts for customers who either joined or left the Flex and DAP tariffs, during the test year. For customers that joined the rate, the Company removes actual billing units and replaces them with the CBL data for the months that they were not on the Flex or DAP rate. For customers that have left the rate, the Company removes the CBL data for the months that they were on the Flex or DAP rate and replaces them with their actual billing data. Both adjustments produce a revenue decrease of $6,848,337 and a sales decrease of 171,374,312 kWh to the Oklahoma jurisdiction.

Q. **Why are these adjustments appropriate?**

A. The costs associated with incremental and decremental kWh are based upon current system marginal costs and are therefore unrelated to embedded costs. In contrast, the CBL portion of the DAP and Flex billings are based upon standard rates and is included in the COSS and base rate design.

Adjustment 4

Q. **What are Manual Postings and why is the adjustment necessary?**

A. Manual postings are revenue credits entered into the billing system for non-typical customer specific issues. For example, these postings may be for customer refunds for burned out security lights that were not repaired for an extended time and billing was not

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[1] Tariff Sheet No. 33.00
[2] Tariff Sheet No. 34.00

temporarily halted, billing adjustments for metering issues, including tampering. These postings are manual revenue entries and do not correspond to an equivalent billing determinant adjustment. In total, for the test year, this adjustment resulted in an $161,685 reduction to revenues to the Oklahoma jurisdiction. Since these revenues are not considered an ongoing occurrence or are not tied to base rate revenue, Adjustment 4 removes the postings to reflect normal revenue levels.

Adjustment 5

Q. **Please explain Adjustment 5A – Rider Removal and Adjustment 5B - Fuel Adjustment Clause ("FAC") Revenues.**

A. Adjustment 5A removes all non-FAC rider revenue from the COSS, reducing test year revenues by $127,264,610. Adjustment 5B accomplishes the same purpose as 5A, but just separates out the FAC for materiality and transparency. The FAC adjustment reduces revenues by $669,582,260. The net effect of these two adjustments is a reduction to revenues of $796,846,870 and a reduction of 15,867,758 kWh.

Q. **Please explain why it is necessary to remove the revenue for riders that do not have expenses or plant included in base rates.**

A. Since the associated investment and expenses have not been included in the COSS, the rider revenues must be removed, consistent with the principle of matching costs with revenues.

Adjustment 6

Q. **What is the purpose of the adjustment for the Best Bill Provision?**

A. This adjustment removes booked credits from billed revenue associated with the best bill provision of various time-differentiated rate schedules. The Time of Use ("TOU") and Variable Peak Pricing ("VPP") tariffs all have a one-year best bill provision that guarantees participating customers be billed at either the time-differentiated rates as set forth in the enrolled tariff or at their previous tariff depending on which billing is in favor of the customer. The provision provides for the credit to be applied after one full year of participation in the elected tariff if their previous tariff would have been less over the entire year's billings. This adjustment increases the test year revenues by $873.

Q. **Please explain why this adjustment is necessary.**

A. These booked credits do not necessarily tie to specific test year billing unit adjustments, nor do they specifically indicate a rate change during the test year. Should a customer migrate back to the standard rate then the billing unit movement associated is accounted for in Adjustment 8.

<u>Adjustment 7</u>

Q. **Please explain the adjustment to remove Renewable Energy Certificate ("REC") revenue.**

A. This adjustment removes revenues booked as a result of REC sales from various wind resources to the wholesale market during the test year. The proceeds from these sales are booked into miscellaneous revenue each month and are then credited though rider mechanisms or retained by shareholders as directed in prior commission orders. For the test year, the total revenues decrease was $2,824,345.

<u>Adjustment 8</u>

Q. **What is the purpose of Adjustment 8 – Customer Growth & Annualization?**

A. This adjustment modifies revenue, kWh, kW, and customer counts to account for customers that have either left the system, are new to the system, migrated to another rate, or were re-billed in a month different than the month that usage occurred. For all classes combined, the adjustment results in a net revenue increase of $15,494,496 and a net sales increase of 343,250,387 kWh to the Oklahoma jurisdiction.

Q. **Please explain why this adjustment is necessary.**

A. Customer counts and consumption volumes vary month-to-month during the test year. Adjusting test year books to reflect *pro forma* customer counts and consumption volumes at test year-end captures any growth or decline in customer counts and consumption volumes for each rate class.

Q. **Did the Company use more than one method used for calculating this adjustment?**

A. Yes. For all customer classes at Service Level 1 through 4 and for the Large Power and Light customer class at Service Level 5 ("SL5"), adjustments were handled on a customer by customer basis based on knowledge obtained from existing and new customers. Because of the large number of customers receiving SL5 service in other classes, OG&E employed an average customer adjustment technique for the SL5 customers in those classes.

Q. **Please describe in further detail the average customer adjustment technique.**

A. OG&E used 60 months of customer data to determine a growth rate for each of the service level 5 classes to project customer count at the end of the *pro forma* period. Each SL5 class customer counts was independently analyzed to determine the method that best reflects the actual growth rate that each class is experiencing. For Residential, Oil & Gas Producers, and Municipal Pumping a linear customer growth trend of the 60 months of data was used. General Service and Power & Light were looked at in groups between system migrations. A growth rate was calculated for all periods and then an overall average growth rate was applied. For Public Schools Small and Large no growth was applied as these classes show little to no growth other than migration between the two tariffs. For the Residential VPP and General Service VPP classes we have observed customer attrition during the most recent 17 months. The growth rate was calculated over this 17 month period. This method captures customer growth through the end of the *pro forma* period using a known and measurable growth rate for each customer class. This adjustment resulted in a net revenue increase of $9,659,676 and a sales increase of 139,066,910 kWh.

Q. **Please describe in further detail the customer adjustments applied on a customer by customer basis.**

A. At test year-end, the sales associated with customers who switched rate classes during the test year were included in their new rate class for the entire test year. For those customers new to the system during the test year, *pro forma* sales are added to the months in the test year for which sales did not previously exist. These "annualized" sales were based on average customer sales similar in size to the customer being adjusted. This adjustment resulted in a net revenue increase of $6,271,503 and a sales increase of 203,657,877 kWh.

Q. **Please describe in further detail the large customer additions.**

A. This adjustment accounts for new customers which are expected to join the system. There is one customer to which this applies. Corresponding estimates of kWh, kW, On/Off Peak Data are added into the test year to account for this customer. This adjustment resulted in a net revenue increase of $40,997 and a sales increase of 525,600 kWh.

Q. **Please describe in further detail the customer adjustment for the customer migration for customer classes at SL5.**

A. OG&E periodically checks customer usage to determine if they are on the correct tariff applicable to their usage. This test year included a check in May 2018. If the customer's usage warrants a change in rate, then OG&E will migrate the customer to the applicable rate effective for the following month's billing. The largest of the migrations was between the General Service and Power and Light rate classes at SL5. There was a migration of 1,141 customers that moved from General Service to Power and Light. Also, 787 Power and Light customers migrated to General Service. Migration between Large and Small schools was also completed in May 2018. 16 Public Schools Large moved to Public Schools Small, and 63 moved from Public Schools Small to Public Schools Large. To account for these movements, actual kWh and kW if applicable were moved to the new rate code.

Q. **Were there any other specific customer migration issues that needed to be addressed?**

A. Yes. There was a large customer migration due to the Utility Solar Pilot that moved customers from the Public Schools Small standard rate to the Public Schools Small TOU rate. A manual migration was required to account for difference between the average usage of the existing and new solar customers. The effect of all the migration adjustments led to a net revenue decrease of $477,680.

Adjustment 9

Q. **What is the adjustment related to the Demand Programs Savings and explain why it is necessary?**

A. This adjustment decreases energy, demand, and revenue to account for lost sales resulting from energy efficiency measures implemented through the Demand Programs Rider through September 2018 and projected through March 2019. Since energy saved by customers implementing energy efficiency measures is cumulative and changes every month when new measures are implemented, it is necessary to adjust each month of the test year to March 2019 levels. Decreasing test year sales to the savings recognized at March 2019 allows revenue, energy, and demand to be representative of the expected levels of sales going forward. This adjustment results in a revenue decrease of $5,313,669 and a decrease of 144,651,221 kWh.

Adjustment 10

Q. **What is a weather normalization adjustment?**

A. A weather normalization adjustment changes revenue, energy, and demand to reflect normal weather in the test year. As part of this adjustment, the VPP class energy sales bands are also normalized. In this case this adjustment results in a revenue decrease of $18,950,552 and a decrease of 483,746,697 kWh to the Oklahoma jurisdiction.

Q. **Why are weather normalization adjustments necessary?**

A. The effects temperature has on heating and cooling loads in relation to electricity usage can cause significant annual revenue swings and cause test year revenue to differ from the expected revenue outcome for a normal year.

Adjustment 11

Q. **Please explain the revenue adjustment for Municipal Free Service, Low Income Assistance Program ("LIAP"), and Senior Citizen Discount.**

A. Several OG&E programs provide service to customers for free or at a discount. These programs include municipal lighting service provided at no cost as part of franchise agreements with certain municipalities, the LIAP discount, and the Senior Citizen

Discount. These programs create a revenue shortfall that is collected from other customers. This additional revenue should be removed from test-year revenues. The resulting adjustments decrease the *pro forma* test year revenues by $5,413,102.

Q. **Why is the Municipal Lighting portion of this adjustment proper?**

A. Book revenues and billing units in the Municipal Lighting class do not include portions associated with the granting of free service to certain municipalities as a condition of OG&E's franchise agreement. Consequently, it is necessary to add the missing fixtures, kWh, and revenue into the lighting class to ensure proper rate design and COSS assignment. The adding of these revenues and billing units can be seen in adjustment W/P H-2-8a where the book portions are removed, and total year-end levels are added back including the free service portions. If the revenues were not added, the Municipal Lighting class would show a deficiency commensurate with these revenues and all other Municipal Lighting customers would be solely responsible to pay for it. In order to recover the revenue recognized but not received by the Company, all classes other than lighting, are assessed a charge equal to the amount of revenue added. This process spreads franchise costs of free service to the other Oklahoma retail customers. This adjustment resulted in a $5,413,116 reduction to revenue.

Q. **Why are the LIAP and Senior Citizen Discount portions of this adjustment proper?**

A. Eligible low-income customers receive a $10 credit each month. Eligible senior citizen customers receive a $5 credit during the five summer months of June through October. These credits decrease book revenues. The recovery of these credits is distributed among all retail customer classes to ensure the Residential class does not solely bear the cost associated with providing this credit. The amount of the LIAP discount to be recovered from other customers is $4,828,227 and the Senior Citizen amount is $458,723.

Adjustment 12

Q. **Please explain the Rate Recalculation Adjustment.**

A. On June 19, 2018 the Company received the Final Order in Cause No. PUD 201700496, which resulted in new rates being implemented on July 1, 2018. This rate change, during the test year, necessitates the rate recalculation adjustment in order to reflect revenues consistent with prices in effect at the end of the test year. This adjustment reflects the final order decrease to base rates including the period October 1, 2017 through June 30, 2018. The resulting adjustment reduced $16,294,244 to *pro forma* revenues.

Q. **Please summarize the total *pro forma* revenue adjustments you are recommending?**

A. The total test year Oklahoma book revenue of $1,879,232,796 has been reduced by the adjustments I have discussed above by the amount of $722,135,967 resulting in adjusted Oklahoma base rate revenue of $1,157,096,829. The supporting calculations and spreadsheets for the above *pro forma* adjustments are found in Schedule H-2 of the Company's application.

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

A. Yes.