

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
BRANDY L. WREATH, DIRECTOR OF THE)
PUBLIC UTILITY DIVISION, FOR)
DETERMINATION OF THE CALCULATION) CAUSE NO. PUD 201500153
OF LOST NET REVENUES AND SHARED)
SAVINGS PURSUANT TO THE DEMAND)
PROGRAM RIDER OF OKLAHOMA GAS)
AND ELECTRIC COMPANY)

Responsive Testimony
of
Donald R. Rowlett
on behalf of
Oklahoma Gas and Electric Company

May 13, 2015

Donald R. Rowlett
Responsive Testimony

1 Q. **Please state your name, by whom you are employed, business address and the**
2 **position you hold.**

3 A. My name is Donald R. Rowlett. I am employed by Oklahoma Gas and Electric Company
4 (“OG&E” or “Company”) and my business address is 321 N. Harvey, P.O. Box 321,
5 Oklahoma City, Oklahoma 73101. I hold the position of Managing Director of
6 Regulatory Affairs at OG&E.

7
8 Q. **Please state your educational qualifications and employment history with OG&E.**

9 A. I earned a Bachelor of Science degree in Business with an accounting emphasis (1980)
10 and a Masters in Business Administration (1992), from Oklahoma City University. In
11 1983, I became a Certified Public Accountant. Since joining OG&E I have served in a
12 number of accounting and finance roles including serving as the Company’s Chief
13 Accounting Officer from 1996 to 2005. For the last ten years I have led OG&E’s
14 development of regulatory policies and currently serve as Managing Director of
15 Regulatory Affairs. Prior to joining OG&E, I was employed by Arthur Andersen & Co.
16 for approximately nine years as a financial consultant and audit manager. During my
17 employment, I performed audits of financial statements in a variety of industries.
18 Additionally, I participated in the preparation of filings with the Securities and Exchange
19 Commission (“SEC”) and provided clients with guidance on the financial reporting
20 requirements of the SEC and Generally Accepted Accounting Principles (“GAAP”).

21
22 Q. **Have you previously filed testimony before the Oklahoma Corporation Commission**
23 **on behalf of OG&E?**

24 A. Yes, including most recently in Cause No. PUD 201400229, OG&E’s request for
25 approval of its 2014 Environmental Compliance Plan and Mustang Modernization Plan.
26 In addition to testifying before the Oklahoma Corporation Commission (“OCC” or
27 “Commission”), I have testified on behalf of the Company before the Arkansas Public
28 Service Commission and the Environmental and Public Works Committee in the United
29 States Senate regarding America’s Climate Security Act of 2007 (S. 2191).

1 Q. **What is the nature of the Public Utility Division’s (“PUD”) Application in this**
2 **cause?**

3 A. The PUD filed an Application on April 14, 2015, asking the Commission to determine
4 “the proper calculation methodology for lost net revenue” as that calculation is applicable
5 to the Company’s Demand Program, in particular to the SmartHours component of the
6 program. Staff’s request stems from a disagreement between Staff and the Company as
7 to the correct interpretation of the Demand Program Rider (“DPR”) tariff. That tariff was
8 first approved by this Commission in Cause No. PUD 200900200 and modified by the
9 Commission’s order in Cause No. PUD 201200134.

10
11 Q. **How significant is the disagreement between PUD and the Company?**

12 A. The Company believes the correct interpretation of the DPR tariff would recognize that
13 the success of the SmartHours program in 2013 resulted in \$11.2 million in lost net
14 revenue (“LNR”) for OG&E. Staff contends OG&E should recover only \$4.9 million,
15 however, as explained by Mr. Bartholomew in his testimony, if errors made by staff in
16 their calculation are corrected, this amount drops to \$4.3 million.

17
18 Q. **Will the Commission’s determination in this matter impact the LNR in the**
19 **remainder of the 2013-2015 Demand Program Cycle?**

20 A. Yes. The Company experienced a LNR impact of \$13.6 million for calendar year 2014.
21 Staff’s approach would limit recovery in a similar fashion to the 2013 calculation. Of
22 course, the LNR calculation for 2015 won’t be known until early 2016.

23
24 Q. **What is the history of the DPR tariff?**

25 A. The Demand Program Rider (“DPR”) is the cost recovery mechanism for OG&E’s
26 demand side management programs. In January 2010, The Commission authorized
27 OG&E to implement a Demand Program for the three year period, 2010 through 2012. In
28 the same order, the Commission approved the DPR. The DPR tariff approved by the
29 Commission in 2010 established a process whereby the costs recovered through the rider
30 were determined every year based on the prior period lost net revenues, earned shared

1 savings and incentives, and a true up of any over or under recovery collections from that
2 prior year.

3 The DPR cost recovery for the initial year, 2010, was based on the over/under
4 recovery for the "Quick Start" Program OG&E had in place from July 2008 to December
5 2009; and the DPR rider life continued through 2013 in order to recover any revenues
6 owed the Company based on the expense of the program in 2012. It is useful to note that
7 the OG&E Demand Programs in 2008 through 2012 consisted exclusively of energy
8 efficiency programs.

9 In 2012, OG&E proposed implementing the next cycle of Demand Programs for
10 the period 2013 through 2015 as well as the extension of the DPR recovery mechanism.
11 For that next cycle of programs, OG&E modified the energy efficiency programs and, for
12 the first time, added demand response programs, including OG&E's SmartHours
13 program. The Commission's order in PUD 201200134 approved the programs proposed
14 by OG&E and the extension of the DPR rider through 2017. The new programs were
15 effective on January 1, 2013.

16
17 **Q. How did the disagreement between the Company and Staff which is the subject of**
18 **this proceeding arise?**

19 **A.** In 2014, consistent with the terms of the DPR, OG&E submitted to the PUD the costs
20 from the Demand Programs utilized by our customers in 2013 and asked that the DPR
21 rider factor for 2014 be adjusted so we could receive the under recovered balance from
22 2013 going forward. At that time, PUD raised questions concerning our calculations,
23 largely related to our calculation of \$11.2 million in lost net revenues ("LNR") for the
24 2013 Smarthours program. After considerable discussion with PUD, the Company agreed
25 to apply the LNR recommendation to only the 2013 summer months (June-October) and,
26 consistent with what we believed to be the acquiescence of PUD, adjusted the DPR factor
27 in January, 2015 to reflect a 2013 LNR amount of \$10.1 million. Staff subsequently filed
28 this application asking the Commission to address the appropriate definition of lost net
29 revenues. As I mentioned previously, Witness Champion believes the LNR amount
30 recoverable by the Company for 2013 should be \$4.9 million, or \$4.3 million if Staff's
31 errors are corrected.

1 Q. **Please list the witnesses who will be providing responsive testimony on behalf of**
2 **OG&E in this proceeding.**

3 A. Philip R. Bartholomew addresses the lost net revenue calculation for the Company's
4 demand response programs. Mr. Bartholomew submitted testimony in Cause No. PUD
5 201200134 supporting the DPR and the LNR projections. Mr. Bartholomew also
6 participated in discussions with PUD in that Cause where he provided and went over in
7 detail the lost net revenue calculation the Company would utilize for the SmartHours
8 program in its 2014, 2015 and 2016 submissions. Angela Nichols, Director of Marketing
9 for OG&E, discusses the success OG&E and its customers have had with the SmartHours
10 program and describes the benefits received by customers. Dr. Ahmad Faruqui, with the
11 Brattle Group, an internationally recognized demand pricing expert, describes the
12 appropriate procedure for calculation of lost net revenues for demand response programs
13 and concludes that the methodology applied by OG&E slightly understates the
14 appropriate recovery for the Company. Dr. Faruqui also discusses the success of
15 OG&E's Demand Response SmartHours program and provides a national perspective
16 regarding OG&E's programs.

17 My testimony provides the Company's position on the issues raised by PUD
18 witness Champion regarding lost net revenue calculations for the Company's SmartHours
19 energy demand response program and responds to the recommendations made by Ms.
20 Champion.

21
22 Q. **What are lost net revenues?**

23 A. Oklahoma Corporation Commission Rule OAC 165:35-41-3 "Definitions" section states
24 " 'Lost net revenue' means income from the retail sale of electricity forgone by a utility
25 directly resulting from the success of its demand portfolio, less expenses the utility was
26 not required to pay by forgoing the sales."

27
28 Q. **What are Demand Response programs?**

29 A. OCC Rule OAC 165:35-41-3 provides the following definition " 'Demand response'
30 means any load management program in which a utility offers electricity users payments
31 or other inducement to reduce their demand for electricity for specified periods of time."

1 In its report to Congress in 2006, the Department of Energy (“DOE”) indicates there are
2 two types of Demand Response (“DR”) programs.¹

- 3 • Price-based demand response such as real-time pricing (RTP), critical-peak
4 pricing (CPP) and time-of-use (TOU) tariffs, give customers time-varying
5 rates that reflect the value and cost of electricity in different time periods.
6 Armed with this information, customers tend to use less electricity at times
7 when electricity prices are high.
- 8 • Incentive-based demand response programs pay participating customers to
9 reduce their loads at times requested by the program sponsor, triggered
10 either by a grid reliability problem or high electricity prices.

11
12 Based on the DOE’s definition, OG&E’s SmartHours is a price-based demand response
13 program. The SmartHours’ program uses both TOU and variable peak pricing (“VPP”)
14 tariffs that reflect the value and cost of electricity in different time periods.
15

16 **Q. Is the formula for LNR more extensive for Price-based Demand Response programs**
17 **than those used for energy efficiency programs?**

18 **A.** Yes, as testified to by Mr. Bartholomew in the Demand Programs Portfolio case², Price
19 Response (“PR”) programs have more calculation requirements than simple Energy
20 Efficiency programs. For example, PR programs have time-of-use periods during summer
21 months and varying prices within those periods. This aspect of the program requires
22 special handling for each price variance between the standard tariff and the SmartHours
23 tariffs. OG&E’s SmartHours tariffs have two time-of-use periods, off-peak hours and
24 peak hours, and peak hours are further sub-divided into four different price-day types
25 (low, standard, high and critical). This results in OG&E calculating LNR values for five
26 different iterations of the LNR formula.

¹ http://energy.gov/sites/prod/files/oeprod/DocumentsandMedia/DOE_Benefits_of_Demand_Response_in_Electricity_Markets_and_Recommendations_for_Achieving_Them_Report_to_Congress.pdf page 1 “Executive Summary

² Cause No. PUD 201200134, Phil Bartholomew Direct at p.9, ln. 21-27.

1 Q. **Does Staff's proposed methodology recognize this distinction?**

2 A. No. This distinction between energy efficiency programs and price response programs is
3 not recognized by staff in their proposed calculation methodology for LNR associated
4 with the SmartHours program.
5

6 Q. **Why is LNR a necessary component for the Utility's demand programs?**

7 A. LNR is designed to restore revenues lost as a result of customers participating in and
8 responding to SmartHours to the level approved by the Commission in the Company's
9 most recent general rate case. Demand Programs benefit the customer through lower
10 bills and avoided future generation. LNR incents the utility to encourage customers to
11 shift their energy demand. At the time of the next general rate case, when new rates are
12 approved, the reduced sales associated with the current demand programs are
13 incorporated in the computation of new rates, thereby resetting LNR to zero. OG&E
14 witnesses Bartholomew and Dr. Faruqui address the benefits and mechanics of LNR.
15

16 Q. **What is the issue with the LNR calculation in this cause?**

17 A. As I mentioned previously, the calculation of the appropriate LNR for the SmartHours
18 component of OG&E's demand portfolio is at issue. In OG&E's Demand Programs
19 portfolio, SmartHours customers switch rates from the standard rate to a SmartHours
20 rate³, which is generally lower than the standard rate. This pricing mechanism entices
21 customers to shift usage from peak periods to lower cost off-peak periods; and those
22 benefits are enhanced if customers accept a programmable communicating thermostat
23 ("PCT").⁴

24 Staff witness Champion calculates LNR only for a change in energy and omits the
25 first step of changing to a SmartHours rate. Consequently, witness Champion's
26 calculation understates the LNR impact on the Company.

³ Grant Direct, PUD 201200134, p. 6, ln 9-10.

⁴ Grant Direct, PUD 201200134, p. 7, ln 3-8.

1 Q. **What specific issues does Ms. Champion raise in her testimony?**

2 A. Ms. Champion raises four issues with regards to the calculation of LNR for OG&E's
3 SmartHours programs and describes them as:

- 4 1. "Calculation inconsistent with the DPR tariff
- 5 2. Proposed lost net revenue recovery period not limited to peak hours
6 (SmartHours)
- 7 3. Double counting customers and
- 8 4. Lost revenues versus. Revenue Difference"⁵

9

10 Q. **What is the Company's response to the assertion that OG&E's calculation is**
11 **inconsistent with the DPR tariff?**

12 A. OG&E disagrees with Ms. Champion's assertion. The Company's calculation is
13 consistent with the DPR tariff and is the calculation methodology presented in Cause No.
14 PUD 201200134. As Dr. Faruqui testifies, it is also the appropriate calculation
15 methodology for an effective demand response program.

16 The application of embedded fixed cost ("EFC"), as that term is used in the DPR
17 tariff, is where the Company and Staff diverge in the interpretation of the tariff. The EFC
18 term in the DPR tariff sheet 51.72 is defined as "embedded fixed cost per kWh". The
19 EFC term is treated as a generic term and therefore not defined mathematically, since it is
20 used to calculate LNR for many different programs authorized for recovery by the
21 Commission. OG&E witness Bartholomew addresses this fully in his direct testimony
22 filed in PUD 201200134. In his responsive testimony for this proceeding, he explains in
23 detail how the Company's LNR calculation is consistent with the DPR tariff for the
24 Demand Response SmartHours program, and that the calculation complies with Order
25 605737.

26 Ms. Champion introduced an alternate definition⁶ for the EFC term that is
27 inconsistent with the methodology described in Cause No. PUD 201200134. The
28 definition proposed by Ms. Champion is not supported by the DPR tariff, Commission
29 rules, or Dr. Faruqui's "best practices" methodology. Ms. Champion then discards her

⁵ Champion Direct at p. 6, ln. 5-10.

⁶ Champion Direct at p.7, ln. 9-11.

1 alternate EFC definition in her calculation of SmartHours LNR and substitutes yet a third
2 definition. This new EFC definition is also contrary to the methodology described in
3 Cause No. PUD 201200134, Commission rules, and Dr. Faruqui's recommended
4 methodology. This EFC issue is addressed in more detail by OG&E Witness
5 Bartholomew.

6 OG&E's methodology is consistent with the methodology used in PUD
7 201200134, the Commission definition of LNR, and industry best practices; and also
8 achieves a fair and reasonable result.

9
10 **Q. What is OG&E's response to Staff's concern related to peak hours and the**
11 **proposed LNR recovery for SmartHours?**

12 **A.** It is difficult to determine what specific concern Witness Champion is addressing under
13 the testimony heading which references LNR and peak hours. However, OG&E has two
14 fundamental concerns with the approach she describes under that heading. First and
15 foremost, the calculation for LNR during the periods Ms. Champion arbitrarily designates
16 "peak hours" and ignores the incentive value provided to customers during all other
17 hours, resulting in a much lower LNR.

18 Second, Ms. Champion's categorization of the SmartHours program as part
19 demand response program and part energy efficiency savings is inconsistent with
20 industry standards: the Department of Energy ("DOE"), in their 2006 report to Congress,
21 defines a dynamic pricing program (e.g. the SmartHours VPP tariff) as a demand
22 response program; Attachment 1 2010 Demand Response Cost Effectiveness Protocols,
23 clearly defines price response programs, like OG&E's SmartHours, as a demand response
24 program. OG&E witness Dr. Faruqui also addresses this issue in his testimony as well as
25 her method of calculation.

26 Ms. Champion's contends that the separation of the SmartHours program into
27 energy efficiency and demand response categories is required by the Demand Programs
28 rules.⁷ She then uses this separation to support the computation of a lower LNR.

⁷ Champion Direct at p.9, ln. 7-22.

1 The contention that a separation of energy efficiency savings from demand
2 response savings for a program is required by the rules is not accurate. The reference is
3 to Commission rule 165:35-41-7 “Reporting”

4 (a) *Each utility shall report by June 1 of each year on the performance of energy*
5 *efficiency and demand response programs for the preceding program year*
6 *and cumulative program performance.*

7 (b) *Energy efficiency program results and demand response program results will*
8 *be reported separately.*

9 The intent of this rule is simply to classify a program as either energy efficiency or
10 demand response and report the required information accordingly. The rule does not
11 require utilities to subdivide each program into energy efficiency and demand response
12 components. OG&E notes that energy efficiency programs provide some level of demand
13 reduction and demand response programs are likely to have an energy conservation
14 impact.

15
16 **Q. What is OG&E’s response to the issue that OG&E is double counting customers?**

17 **A.** OG&E understands the issue posed by PUD witness Ms. Champion that the Company is
18 double counting the energy savings and the lost net revenues for those customers that
19 participate in SmartHours in addition to one or more Energy Efficiency program. OG&E
20 believes the potential for double counting does not significantly impact the 2013 LNR but
21 may be of consequence in 2014. The staff witness correctly states that OG&E has agreed
22 to address this issue in the future.⁸

23
24 **Q. What is OG&E’s response to the issue that lost net revenues and revenue difference**
25 **are not the same?**

26 **A.** OG&E believes that revenue differences and lost net revenues are the same in this
27 context. Commission rules define LNR as the income foregone by the utility due to the
28 success of its demand portfolio programs. Income is the residual after expenses are
29 subtracted from revenues. Since fixed costs (expenses) do not change as a result of
30 demand program, “income foregone” is mathematically the difference in revenue.

⁸ Champion Direct at pg. 10, ln. 4-12.

1 OG&E witness Bartholomew, addresses the issue that they are the same concept and that
2 revenue difference is the computation that was utilized in the workpapers supporting
3 Cause No. PUD 201200134. OG&E witness Dr. Faruqui also addresses this issue in his
4 testimony. The “revenue difference” calculation is the proper method for computing lost
5 net revenues.
6

7 **Q. Staff witness Ms. Champion has requested a change to the timing of the annual**
8 **submission process. Does OG&E object to this change?**

9 A. OG&E is willing to discuss the most efficient process for submitting information to the
10 Commission. The current approved process for submission of the DPR factor update is
11 OG&E submits revised factor and supporting documentation before March 1 of each year
12 with the revised factor to become effective April billing.⁹ The Evaluation, measurement,
13 and verification (“EM&V”) of the Demand Programs is performed by a third party and
14 the report is submitted to PUD staff by June 1 of each year. As a result, OG&E submits
15 projected components where needed to comply with April 1 factor update filing date.
16 OG&E revises the factor and incorporates a true up for the actual data in the next factor
17 update submission. Customers are protected in this process through the true-up
18 provisions and through a carrying charge applied to any balance.
19

20 **Q. Does OG&E have a concern regarding Ms. Champion’s application of net-to-gross**
21 **factors and current TRC ratio to the Company’s energy efficiency programs?**

22 A. Yes, Ms. Champion’s recommendation is inconsistent with the Staff position over the life
23 of the energy efficiency programs. However, it is also consistent with the language of the
24 2016 Demand Program rules. OG&E voluntarily adopted this change in the calculation of
25 the factor update implemented for January 2015 billings.

⁹ DPR tariff sheet 51.76, Annual Redetermination.

1 Q. **In summary, does OG&E agree with Ms. Champion's interpretation of the DPR**
2 **tariff?**

3 A. No. Ms. Champion has interpreted the DPR tariff incorrectly. Her claim that she follows
4 the industry standard practice¹⁰ is refuted by Dr. Faruqui who provides testimony that
5 shows OG&E's LNR calculation is the industry approved method.

6 Q. **Do you believe that the Company is following the DPR tariff when calculating LNR?**

7 A. Yes. OG&E is following the tariff and the methodology submitted in Cause No. PUD
8 201200134. The Company's methodology is consistent with the Commission rules and
9 industry standard practices for demand response programs.

10

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

12 A. I recommend that the Commission reaffirm OG&E's SmartHours LNR calculation
13 methodology as consistent with the DPR tariff and reject Ms. Champion's
14 recommendations.

15

16 Q. **Does this complete your testimony?**

17 A. Yes.

¹⁰ Kathy Champion Direct, page 9, lines 2-6.