

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) CAUSE NO. PUD 201700496
RATES, CHARGES, AND TARIFFS FOR RETAIL)
ELECTRIC SERVICE IN OKLAHOMA)

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CORPORATION COMMISSION
OF OKLAHOMA

Rebuttal Testimony

of

Bryan J. Scott

on behalf of

Oklahoma Gas and Electric Company

June 5, 2018

Bryan J. Scott
Rebuttal Testimony

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

2 A. My name is Bryan J. Scott. My business address is 321 N. Harvey Ave., Oklahoma City,
3 Oklahoma 73102. My position is the Director of Pricing and Load Analysis.

5 **Q. Have you previously submitted testimony in this Cause?**

6 A. Yes. I submitted direct testimony on January 16, 2018 on behalf of Oklahoma Gas and
7 Electric Company (“OG&E” or “Company”).

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

10 A. The purpose of this testimony is to address issues raised by PUD Staff witness Kathy
11 Champion, AG witness Edwin C. Farrar, OIEC/OER witness Mark E. Garrett, Wal-Mart
12 witness Gregory W. Tillman, and FEA witness Michael P. Gorman. First, I will discuss
13 the revenue allocation among customer classes as proposed by the intervenors. Second, I
14 will present a revenue allocation proposal to be used if the Commission chooses to adopt
15 a revenue requirement different from that proposed by OG&E in direct testimony.
16 Finally, I will rebut proposed changes to tariff pricing offered by OIEC/OER Witness M.
17 Garrett.

OG&E’s Updated Revenue Allocation

20 **Q. Based on the Company’s post test year updates, what would OG&E’s revenue**
21 **allocation be?**

22 A. Table 1 shows OG&E’s proposed revenue allocation based on its updated revenue
23 requirement level of (\$4,400,184). OG&E would maintain its filed position to move
24 Security Lighting SL-5 to its full COS. The remaining difference is then applied equally
25 to GS Standard SL-5 and PL Standard SL-5 as OG&E’s COS shows these classes needed
26 the greatest decrease (other than OGP). This proposal is consistent with the original
27 proposal to minimize adjustments to current tariffs.

Table 1 – OG&E Updated Revenue Allocation

Customer Group	Total Current Revenue	Proposed Increase (Rate Design)	Proposed Final Revenue Requirement	Final Total Proposed % Change	Proposed Rate of Return	Proposed RRoR	Percent of Total COSS
RS	\$ 949,576,098	\$ -	\$ 949,576,098	0.0%	7.3%	94%	97.6%
GS	\$ 185,735,098	\$ (2,927,381)	\$ 182,807,717	-1.6%	8.5%	109%	103.6%
OGP	\$ 21,572,863	\$ -	\$ 21,572,863	0.0%	13.3%	172%	128.7%
PS-S	\$ 20,688,328	\$ -	\$ 20,688,328	-0.0%	5.5%	71%	87.8%
PS-L	\$ 14,299,143	\$ -	\$ 14,299,143	-0.0%	6.5%	84%	93.0%
PL	\$ 318,432,836	\$ (2,927,381)	\$ 315,505,455	-0.9%	8.4%	108%	103.5%
PL TOU	\$ 225,335,300	\$ -	\$ 225,335,300	-0.0%	8.2%	106%	102.6%
LPL TOU	\$ 339,988,079	\$ -	\$ 339,988,079	0.0%	8.1%	104%	101.7%
MP	\$ 9,163,543	\$ -	\$ 9,163,543	0.0%	9.0%	116%	106.5%
Lighting	\$ 37,331,332	\$ 1,454,578	\$ 38,785,910	3.9%	7.6%	98%	99.1%
Total Retail	\$ 2,122,122,620	\$ (4,400,184)	\$ 2,117,722,435	-0.2%	7.8%	100%	100.0%

Revenue Allocations Proposed by Others

Q. What revenue allocation methods are proposed by OIEC/OER Witness Garrett, Wal-Mart Witness Tillman, FEA Witness Gorman, AG Witness Farrar, , and PUD Witness Champion?

A. OIEC Witness M. Garrett requests the Commission bring all classes to their cost of service rates.¹ AG Witness Farrar recommends, that all customer classes share equally in the decrease in base rates.² Witness Gorman recommends that the Commission move each rate class closer to their cost of service.³ Wal-Mart Witness Tillman does not oppose the Company's proposed revenue allocation.⁴

In her Responsive Testimony, PUD Witness Champion establishes six criteria:

¹ Responsive Rate Design Testimony of Witness Mark E. Garrett, p. 15, lns. 2-4.

² Responsive Rate Design Testimony of Edwin C. Farrar, p. 4, ln. 10.

³ Responsive Testimony of Witness Michael P. Gorman, p. 4, lns. 26-27.

⁴ Responsive Testimony of Witness Gregory W. Tillman, p. 4, lns. 17-18.

1. No class (sub) class would receive an increase.
2. No sub class receives more than a 10% decrease.
3. The funds available from capping the decrease to 10% were used to offset the revenues caused by eliminating increase to any sub class.
4. Additional funds needed to offset class increases were distributed within the same class or service level. (Example VPP will not receive an increase which results in the Standard Residential class receiving of decrease.)
5. Sub classes for General Service, Oil and Gas Producers Public Schools, and Municipal Pumping were included in the cost of service for cost allocation purposes, but because they are summed together to establish prices, each of the sub classes received the same percent decrease.
6. The Power and Light (“PL”) backup class decrease was capped at the PL class average decrease. This was done to reflect the backup nature of the class, which does include a full cost allocation.⁵

With regard to Item #6, the Company believes Ms. Champion’s reference to PL SL-1 should be PL-TOU SL-1. Given PUD’s level of reduction in revenue requirements, OG&E generally agrees with PUD Witness Champion’s revenue allocation methodology⁶ incorporating the minor change to reference PL-TOU instead of PL.

Q. Does the Company have other considerations regarding the proposed revenue allocation?

A. If the Commission were to adopt a revenue requirement somewhat differing from PUD’s recommendation, the Company would maintain its support of a revenue allocation proposal consistent with the PUD methodology. Of course, some modifications could be needed to accommodate adjustments to the final amount, such as adjusting the level of the ten percent (10 %) decrease floor.

Q. How would you compare the revenue allocation recommendations offered by the parties?

A. Witness M. Garrett and Witnesses Farrar represent opposite ends of the spectrum of revenue allocation. Mr. Garrett recommends allocating revenue strictly based on the cost of service, whereas Mr. Farrar applies a uniform percentage adjustment. Both witnesses

⁵ Responsive Testimony of PUD Witness Kathy J. Champion, page 22, line 13 through page 23, line 12.

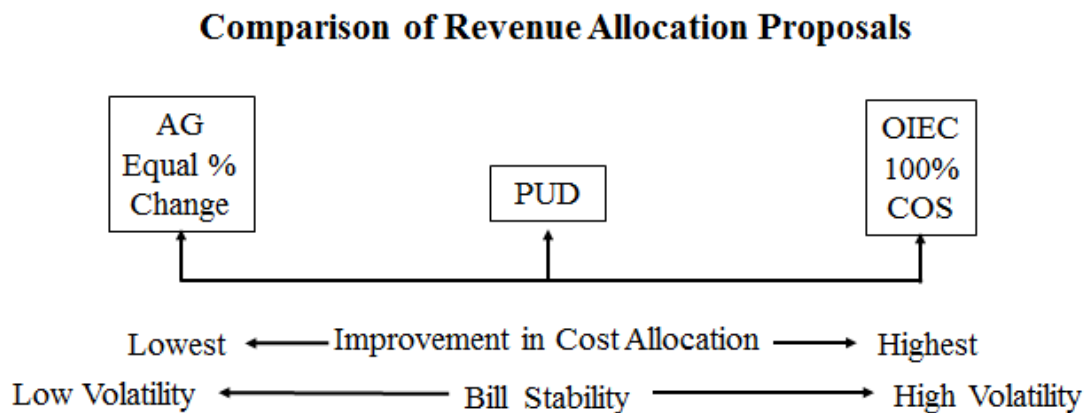
⁶ *Ibid*, Page 22-23, lines 12-13.

fail to acknowledge other rate-making objectives beyond the narrow interest of the customers they represent. PUD recognizes the need to pursue other objectives consistent with the public interest. For example, public schools could receive a sizable increase if the Commission were to follow Witness M. Garrett's suggestions.

Q. **Please put into perspective the revenue allocation proposals of the AG, PUD, and OIEC.**

A. Figure 1 illustrates a comparison of the revenue allocation proposals. The figure shows that while OIEC's proposal would result in strict COS cost allocation, it would also negatively impact classes such as Residential and Public School classes, which are currently at a Relative Rate of Return ("RROR") of less than 100 percent. By contrast, the proposal of the AG increases the differentials in RROR among the classes PUD's proposal allows for a middle ground in which consideration is given to both cost allocation and bill stability.

Figure 1



Q. **Does OG&E support moving toward COS in this Cause?**

A. Yes. However, other considerations need to be taken into account. As I noted in my Direct Testimony, OG&E believes it is best to propose minimal changes to the tariffs that were implemented on May 1, 2017. OG&E has historically supported movement towards COS and, given different circumstances, the Company will continue to do so in the future. However, there are legitimate discussions to be had about what factors go into

1 developing proper cost allocation. The COSS results can change over time, OG&E is
2 well aware that, as customer classes change how they use energy, it changes how costs
3 are divided among customer groups. Likewise, if the Commission were to determine that
4 a change in allocation methodology was appropriate, that action can have a significant
5 impact on whether or not a class is perceived to be paying full COS.

6
7 **Q. Could you please provide an example of a change in customer class behavior that**
8 **could significantly affect the COS results?**

9 A. Yes. A recent example would be the Residential SmartHours customers. These
10 approximately 100,000 customers use about 1 kW to 1.5 kW less than Standard
11 Residential during the time of the peak.

12
13 **Q. Could you please provide an example of a change in cost allocation methodology**
14 **that could significantly affect the COS results?**

15 A. Yes. Examples include: allocating transmission plant using the current 4CP verses a
16 12CP allocation methodology, or a change from the currently approved method for
17 allocating Company owned wind resources verses the methodology applied to OG&E's
18 wind assets in its Arkansas jurisdiction. Generically, either of these changes would
19 likely increase costs to the LPL-TOU class and reduce costs to the residential class. Note
20 that the purposes of these examples is only to illustrate the impact of COSS changes upon
21 class RRORs; no change to the allocation methodologies is proposed.

22 23 **Tariff Changes**

24 **Q. Does PUD agree with the tariff changes proposed in your Direct Testimony?**

25 A. Yes. PUD Staff witness Champion agreed with OG&E's proposal to change the
26 language in the Green Power Wind Rider ("GPWR")⁷ and to the Company's proposal to
27 close the Municipal Lighting and Outdoor Security Lighting tariffs to new subscription.⁸
28 PUD supports the Company's changes to its LED tariff⁹. PUD Staff also addresses other

⁷ Responsive Rate Design Testimony of Kathy Champion, p. 6, lns. 3-7.

⁸ *Ibid.*, p. 7, lns. 7-10.

⁹ *Ibid.*, p. 7-10.

1 Company tariffs, which are addressed by the Rebuttal Rate Design Testimony of
2 Company witnesses Cash and Rowlett.

3
4 **Q. What changes were proposed by OIEC Witness M. Garrett?**

5 A. Witness M. Garrett proposes that an additional LPL tariff be offered to customers that
6 eliminates time of use pricing.

7
8 **Q. Do you agree with the proposal by OIEC witness Garrett?**

9 A. No, I do not recommend it at this time. OG&E has previously offered such tariffs to LPL
10 customers, but customers unanimously chose the LPL-TOU tariff. Therefore, the
11 Company withdrew the LPL Standard tariff in Cause No. PUD 200500151 and the LPL
12 Levelized tariff in Cause No. PUD 200800398 since no LPL customers subscribed to
13 those tariffs.

14 In general, a LPL standard tariff that does not incorporate time-differentiated
15 pricing will tend to be less economically efficient and not as well aligned with the
16 Company's cost of providing electric service.

17
18 **Q. Is OIEC witness Garrett's testimony consistent with recommending a Standard**
19 **LPL rate?**

20 A. No. Speaking to the objective of rate design, Mr. Garrett states:

21 [...]rates that are not cost based tend to promote inefficiencies.

22 These inefficiencies occur when prices are set below cost for
23 certain customers. Artificially lower rates tend to cause the
24 subsidized customers to increase consumption of energy based on
25 incorrect price signals.¹⁰

26 If the Commission were to adopt a Standard LPL tariff structure, LPL customers could
27 lose any incentive to invest in energy efficiency measures that would reduce their usage
28 during on-peak time periods (June-September, Monday-Friday, 2pm-7pm). For these
29 reasons, I recommend rejection of this proposal at this time.

¹⁰ Responsive Testimony of Witness Mark E. Garrett, p. 8, lns. 10-13.

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RECOMMENDATIONS

Q. Please summarize your recommendations to the Commission.

A. I recommend that the Commission:

1. Reject the Revenue Allocations recommended by AG Witness Farrar OIEC/OER Witness M. Garrett, and other intervening parties;
2. Accept the PUD proposal, with the slight modification proposed by the Company, for an alternative revenue allocation process if an overall revenue requirement different than the revenue requirement proposed and updated by the Company is adopted by the Commission;
3. Reject the OIEC/OER proposal to introduce a LPL standard tariff.

Q. Does this conclude your rebuttal testimony?

A. Yes.