

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA 2014

COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR COMMISSION AUTHORIZATION OF A)
PLAN TO COMPLY WITH THE FEDERAL CLEAN) Cause No. PUD 201400229
AIR ACT AND COST RECOVERY; AND FOR)
APPROVAL OF THE MUSTANG MODERNIZATION)
AND COST RECOVERY)

RESPONSIVE TESTIMONY

of

DANIEL E. DAVIS

on behalf of

THE OKLAHOMA HOSPITAL ASSOCIATION

December 16, 2014

1 Q. **Please state your name, the position you hold, your employer, and business address.**

2 A. Daniel E. Davis. I am Chief Financial Officer of the OU Medical Center, located at
3 1200 Everett Drive, Suite 2E01, Oklahoma City, OK 73104.

4 Q. **Briefly summarize your education and professional qualifications.**

5 A. I hold a B.A. in Accounting, from the Southern Nazarene University and a
6 Masters in Business Administration from Harding University. I have been employed for
7 18 years as a CFO in a hospital administration setting.

8 Q. **Have you previously testified before the Commission?**

9 A. No. I have not testified before the Commission.

10

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

12 A. The purpose of my testimony is to respond to Oklahoma Gas and Electric Company
13 (“OG&E”) witness testimony regarding the customer bill impact resulting from the
14 proposed implementation of OG&E’s Environmental and Generation Plan (“EGP”) rider and changes to OG&E’s Fuel Cost Adjustment rider (“FAC”). My testimony will
15 address my assessment of the possible effects of the anticipated rate increase upon
16 operations at various-sized hospitals, such as those represented by the OHA. My
17 testimony will also include a request for a more equitable rate design for customers
18 designated as “GS”, “PL”, and “PL TOU” and a study to determine the feasibility for a
19 special and distinct customer and rate class for non-profit hospitals.
20

21 Q. **What is your understanding of OG&E’s request in this cause?**

22 A. OG&E is requesting a return on and recovery of certain capital investment associated
23 with its plan to comply with rules and regulations mandated by the Clean Air Act, more

1 specifically the Regional Haze Rule and the Mercury and Air Toxics Standards rule.
2 In addition, OG&E also is seeking a return on and recovery of capital investment related
3 to its plan to “modernize” its Mustang facility.

4 **Q. Is it your understanding that OG&E intends to recover the above-discussed costs**
5 **through a tracker mechanism, also known as a rider?**

6 A. Yes. My understanding is that use of a rider ensures OG&E will recover its costs
7 associated with the environmental compliance plan and Mustang modernization project
8 somewhat contemporaneously with expenditures in that regard. I also understand that the
9 rider contains a “true-up” provision which ensures that OG&E only recovers its actual
10 approved revenue requirement.

11 **Q. What is your understanding regarding the total cost associated with the**
12 **environmental compliance plan and the Mustang modernization plan?**

13 A. My understanding is that the costs associated with the environmental compliance plan
14 and the Mustang modernization plan is approximately \$1 billion. However, in addition to
15 the substantial capital costs of approximately \$1 billion, there are incremental and
16 recurring O&M costs. Thus, the total cost to customers of OG&E’s plans exceed \$1
17 billion.

18 **Q. Prior to the present Cause, were you familiar with OG&E’s Fuel Adjustment**
19 **Clause?**

20 A. No. My current knowledge of the FAC is based upon my reading of OG&E witness
21 testimony in this Cause.

1 Q. **And what is your understanding of how the FAC functions?**

2 A. My understanding is that the FAC is a rider that was previously established by this
3 Commission as a mechanism to mitigate the volatility of fuel costs. The purpose of the
4 FAC is to “smooth out” the costs associated with the purchase of fuel that was previously
5 recovered from base rates. These fuel costs are a “pass-through” to customers that
6 represents the actual costs of the fuel. That is, there is no mark-up or profit from these
7 purchases.

8 Q. **To your knowledge, what is the specific relief OG&E is requesting concerning the
9 FAC?**

10 A. OG&E’s environmental compliance plan includes conversion of certain coal units to
11 natural-gas-fired units. Thus, inherent in that conversion is a change of fuels to power
12 the plants. Also, certain commodities will be required for the operation of the planned
13 environmental control equipment that is to be installed at OG&E’s remaining coal-fired
14 and natural-gas-fired facilities. OG&E seeks to include the cost of these “consumables”
15 for recovery through the FAC.

16 Q. **Have you reviewed Chart 4 on page 11 of Sheri Richard’s testimony, titled “EGP
17 Rider Billing Impact”?**

18 A. Yes, I have.

19 Q. **What does Chart 4 represent?**

20 A. According to the accompanying testimony, the chart represents the expected billing
21 impact to customers in the “Residential”, “General Service,” “Power and Light,” and
22 “Large power and Light” classes for the period 2015 through 2019.

1 Q. **Have you reviewed Chart 5 on page 12 of Sheri Richard’s testimony, titled “EGP**
2 **Rider and FAC Billing Impact”?**

3 A. Yes, I have.

4 Q. **What does Chart 5 represent?**

5 A. According to the accompanying testimony, Chart 5 represents the combined expected
6 billing impact to those same customers designated in Chart 4 for the EGP rider and the
7 FAC for the period 2015 through 2019.

8 Q. **Have you reviewed OG&E’s Response to OHA 1-1, attached to your testimony as**
9 **DED-1?**

10 A. Yes, I have.

11 Q. **According to OG&E’s Response to OHA 1-1, are any of the hospitals represented by**
12 **OHA designated as a customer class shown in Chart 4 and 5?**

13 A. Yes, OHA represents hospitals of various sizes, some of which are designated as GS, PL,
14 PL TOU, and LPL TOU.

15 Q. **According to Chart 5, discussed above, what is the range of anticipated rate**
16 **increases associated with OG&E’s request concerning the EGP rider and changes to**
17 **the FAC for GS, PL, and LPL customers?**

18 A. According to the figures shown on Chart 5, rate increases of 14.7% to 19.5% are
19 anticipated for those customers if this Commission approves OG&E’s request as
20 presented in its application and testimony in support of that application.

1 Q. **What effect will an increase in the rates for electric service of the magnitude shown**
2 **in Chart 4 and Chart 5 have upon hospitals such as are represented by OHA?**

3 A. The hospital industry in Oklahoma, including the OU Medical Center where I am
4 employed, is faced with many budgetary uncertainties. Current payment rate cuts to the
5 Medicaid program and State Employee Health insurance, along with a decision by our
6 state not to consider coverage options for the uninsured, plus the healthcare workforce
7 shortages in a highly competitive market, make this proposed rate increase a challenge.

8 For example, the incremental cost associated with the proposed rate increase will be
9 \$320,000 annually (based on a 16% increase) for the OU Medical Center. A rate increase
10 of that magnitude may have detrimental effects on the operations of many hospitals and
11 the services they provide.

12 Q. **Have you reviewed the chart included in OG&E's Response to OHA 1-3 (DED-2)?**

13 A. Yes, I have.

14 Q. **Does that chart provide information regarding the total cost of service percentage**
15 **for the various customer classes?**

16 A. Yes, it provides that information as well as information regarding total revenue, rate of
17 return, and relative rate of return for the various customer classes. According to the
18 response, this is the rate design that was adopted by the Commission in OG&E's last rate
19 case, PUD 201100087, and is currently in effect.

20

1 Q. **Based on the information provided in that response, what is the current rate design**
2 **concerning total cost of service as applies to classes designated as “GS”, “PL”, and**
3 **“PL TOU”?**

4 A. Since rates approved by the Commission in the last OG&E rate case went into effect,
5 customers designated as “GS” and “PL” are allocated 102.7% cost of service and
6 customers designated as “PL TOU” are allocated 104.3% cost of service.

7 Q. **And what is your understanding of the effect of this particular rate design and**
8 **allocation?**

9 A. My understanding is that customers designated as “GS” or “PL” are paying 2.7% more
10 than the actual cost for OG&E to provide service to that customer class. Likewise,
11 customers designated as “PL TOU” are paying 4.3% more than the actual cost for OG&E
12 to provide service to that customer class.

13 Q. **And to clarify, the OHA represents hospitals that are designated “GS”, “PL”, and**
14 **“PL TOU”?**

15 A. That is correct.

16 Q. **To your knowledge, has an OG&E representative ever visited one of OHA’s**
17 **member hospitals or OHA administrative offices to explain why certain hospitals**
18 **are paying rates that exceed the actual cost for OG&E to provide electric service to**
19 **that facility?**

20 A. To my knowledge, no such explanation has been provided our members.

21 Q. **What is OHA’s request in this Cause as concerns cost of service?**

1 A. OHA would request a more equitable rate design and allocation that does not result in
2 any of its member hospitals paying rates that represent more than 100% of the actual cost
3 of service.

4 Q. **Lastly, have you reviewed OG&E's Response to OHA 1-6?**

5 A. Yes, I have. In that response, OG&E states that it has not considered creating a separate
6 or distinct customer class for "not for profit" hospitals as defined by 17 O.S.
7 §139.102(17)). OG&E states in that regard: "Before it would consider offering such,
8 OG&E would need to see a difference in the cost to serve a for-profit hospital, a not-for-
9 profit hospital, and the cost to serve other end use customers served under the current
10 rates."

11 Q. **What is OHA's request in this Cause concerning a separate customer class for "not
12 for profit" hospitals?**

13 A. OHA would request that OG&E be ordered to conduct the type of study contemplated in
14 its response to OHA 1-6 to be completed in time for consideration at its next rate case.
15 OHA understands OG&E intends to file a rate case in 2015.

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

17 A. Yes, it does.

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Oklahoma Hospital Association
Data Request OHA-1
Cause No. PUD 201400229

- 1-1 Please identify the customer group and service level for each of the following entities at all of their locations that are served by OG&E:
- (a) Mercy Hospital Oklahoma City, Inc.
 - (b) St. Anthony Hospital
 - (c) OU Medical Center
 - (d) Norman Regional Health System

Response*:

- a) GS SL5, PL SL5, PLTOU SL5, LPLTOU SL3
- b) GS SL5, PL SL5, LPLTOU SL5
- a) PL SL3, PL SL5
- a) GS SL5, PL SL5, PLTOU SL5, LPLTOU SL5

Response provided by:	<u>Don Rowlett</u>
Response provided on:	<u>October 15, 2014</u>
Contact & Phone No:	<u>Sheri Richard 405-553-3747</u>

*By responding to these Data Requests, OG&E is not indicating that the provided information is relevant or material and OG&E is not waiving any objection as to relevance or materiality or confidentiality of the information or documents provided or the admissibility of such information or documents in this or in any other proceeding.

**Oklahoma Hospital Association
Data Request OHA-1
Cause No. PUD 201400229**

1-3 Please provide the current rate of return, or most recent available, associated with each customer group and/or service level identified in OG&E's response to Data Request No. 1, above.

Response*: The data for the rates from PUD 201100087, shown below, provides the most currently available data for the rates in effect today.

Compliance Revenue Allocation

OG&E

Revenue Allocation

TYE 12/31/10

Cause No. PUD 201100087

Customer Group	Equalized per COS Study		Per Final Order		
	Revenue	Total Revenue	Rate of Return	Relative RoR	Percent of Total Cost of Service
RS	\$ 785,462,777	\$ 770,162,744	7.73%	92.9%	98.1%
GS	\$ 159,293,698	\$ 163,671,665	9.11%	109.4%	102.7%
OGP	\$ 11,965,355	\$ 13,518,444	13.19%	158.5%	113.0%
PS-ND	\$ 18,725,629	\$ 18,422,893	7.85%	94.3%	98.4%
PS-D	\$ 9,773,810	\$ 10,009,025	9.14%	109.8%	102.4%
PL	\$ 250,673,397	\$ 257,405,235	9.28%	111.5%	102.7%
PL TOU	\$ 156,745,427	\$ 163,481,517	10.05%	120.7%	104.3%
LPL TOU	\$ 276,795,087	\$ 274,634,563	7.92%	95.2%	99.22%
MP	\$ 7,730,488	\$ 8,082,902	10.05%	120.7%	104.6%
ML	\$ 14,072,522	\$ 12,681,155	6.23%	74.8%	90.1%
OSL	\$ 19,969,792	\$ 19,137,838	7.47%	89.7%	95.8%
Total Retail	\$ 1,711,207,980	\$ 1,711,207,980	8.32%	100.0%	100%

Response provided by: Don Rowlett
 Response provided on: October 15, 2014
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