

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)
OF LOST NET REVENUES AND SHARED)
SAVINGS PURSUANT TO THE DEMAND)
PROGRAM RIDER OF OKLAHOMA GAS)
AND ELECTRIC COMPANY)

CAUSE NO. PUD 201500153



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CORPORATION COMMISSION
OF OKLAHOMA

REBUTTAL TESTIMONY OF

KATHY CHAMPION

JUNE 05, 2015

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PURPOSE

1 **Q: What is the purpose of your Rebuttal Testimony in this cause?**

2 **A:** The purpose of my testimony is to address the issues raised by Oklahoma Gas and
3 Electric's ("OG&E" or "Company") witnesses in their Responsive Testimony filed in
4 this Cause on May 13, 2015 and the Attorney General's witness Edwin Farrar filed
5 on June 2, 2015. Specifically, I will address the following issues:

- 6 • SmartHours program success – witness Angela Nichols;
- 7 • Calculation issues - witness Philip Bartholomew;
- 8 • Policy and definition issues – witness Don Rowlett;
- 9 • Lost Revenue recovery - witness Dr. Ahmad Faruqui.
- 10 • Lost Revenue recovery, Policy – witness Edwin Farrar.

ANGELA NICHOLS - PROGRAM SUCCESS

11 **Q: Does the Public Utility Division ("PUD") dispute the success of OG&E's**
12 **SmartHours program in terms of customer satisfaction and national**
13 **recognition as described in Ms. Nichols' Responsive Testimony?**

14 **A:** No, PUD commends OG&E on the successful implementation of its SmartHours
15 program. The SmartHours program has gained record numbers of participants and
16 has provided a verifiable reduction in on-peak demand.

17 **Q: Does PUD's application for clarification of the Demand Program Rider**
18 **("DPR") indicate PUD's dissatisfaction with the SmartHours program?**

19 **A:** No, again, PUD is very supportive of the SmartHours program just as it is of other
20 programs that show that they are cost beneficial. In review of the information
21 provided by OG&E, PUD has found the SmartHours program provides a benefit to

1 participating customers in controlling their costs, and to other customers through
2 the reduction in peak demand which results in a deferral of new investment or
3 purchases.

4 However, PUD has a responsibility to review the submission provided by
5 OG&E for cost recovery through its DPR for accuracy and adherence to OG&E's
6 Commission approved tariff. After a review of the submission, PUD may approve,
7 reject, or file a cause to resolve disputes. PUD filed this cause to resolve issues
8 which could not be solved after multiple discussions with the Company. However,
9 the dispute over cost recovery should not reflect negatively on the success of the
10 program or PUD's perception of the program. Also, this dispute has no impact on
11 the recovery of the program costs as approved in the SMART Grid rider related to
12 investments, expenses, and other program costs. PUD's application seeks to
13 clarify and/or make necessary tariff changes to resolve the recovery issues for
14 future submissions.

DONALD ROWLETT- POLICY AND DEFINITION ISSUES

15 **Q: On page four (4), lines 19 through 31 of his Responsive Testimony, Mr.**
16 **Rowlett states that OG&E reduced their lost net revenue ("LNR")**
17 **calculation from \$11.2 million to \$10 million for 2013, in acquiescence to**
18 **PUD's concerns. Are PUD and OG&E in agreement that the LNR submitted**
19 **by OG&E complied with their tariff?**

20 **A: No, while PUD and OG&E were able to agree to a number of items that needed**
21 **to be updated in the submission as it related to the Energy Efficiency ("EE") cost**

1 recovery, the parties were not able to agree on the SmartHours LNR. After
2 months of discussion between OG&E and PUD, the parties agreed to allow \$10
3 million for SmartHours LNR for the 2013 program year. PUD and OG&E reached
4 this agreement because of the need to begin recovery of the new DPR factors,
5 which were delayed from April until September, and to acknowledge the
6 Company had made claims in Security and Exchange Commission ("SEC") and
7 other financial reports about the LNR levels. However, as a part of that
8 agreement, the parties agreed to clarify the intent of the calculation on a going
9 forward basis. The parties then met several times and discussed several options
10 for correcting the recovery issue. Among the items discussed were the following:

- 11 • Revise the DPR to allow for the calculation used by OG&E;
- 12 • Modify the SmartHours prices to increase the lower cost hours and off-
13 peak prices to make the recovery revenue neutral; and,
- 14 • Revise the standard tariff prices to pick up revenue differences due to
15 customer's migrating to SmartHours tariffs.

16 The discussions also included creating a regulatory asset for the LNR to
17 be reviewed and recovered in the next base rate case. There were also
18 discussions centered on the 2013 stipulated rate case which did not occur as
19 required in the settlement agreements reached in Cause Nos. PUD 201000029,
20 PUD 201000037 and PUD 201000146 as many of these issues would have been
21 addressed in that rate case. All of the potential items discussed, to correct the
22 concerns, involved a change to one or more tariffs.

23 PUD and the Company could not identify a solution without a change in
24 tariffs; thus, PUD initiated this Cause to allow the Commission to approve the

1 necessary changes to the tariffs or determine the proper calculation of the LNR
2 and shared savings pursuant to the DPR.

3 **Q: What rules did PUD have concern with in making any settlement or**
4 **agreement with OG&E related to the tariff changes needed for the**
5 **SmartHours LNR?**

6 **A:** Specifically, PUD was concerned with OAC 165:35-5-1, which states:

7 165:35-5-1. Filing of rate schedules, contracts, agreements, and rules

8 (a) It shall be unlawful for a utility to furnish, charge for, or receive
9 payment for electric service, except strictly in accordance with a
10 tariff, special contract, or rate schedule approved by and on file
11 with the Commission.

12 (b) No jurisdictional tariff or rate schedule shall be instituted, added,
13 deleted, changed, closed, or discontinued except pursuant to
14 order of the Commission upon application, and after such notice
15 and hearing as may be ordered by the Commission.

16 In reviewing this submission, and after lengthy discussions with OG&E,
17 PUD recognized that the corrections needed to resolve the dispute between the
18 parties would require a tariff(s) change and that is not something that PUD is
19 authorized to do outside of an order of the Commission.

20 **Q: Did Mr. Rowlett raise concerns with the definition of embedded fixed costs**
21 **("EFC")?**

22 **A:** Yes, both Mr. Rowlett and Mr. Bartholomew disagree with PUD's interpretation of
23 the DPR tariff as it relates to the EFC definition. Mr. Rowlett states the DPR tariff
24 does not provide a mathematical definition or formula for calculating EFC. He
25 states the ambiguity is intentional to allow for flexibility in calculating the EFC for

1 multiple programs. However, the tariff does define EFC as embedded fixed cost
2 per kWh.

3 PUD's interpretation of the EFC is literal; the factor shall be developed
4 using the embedded cost from the embedded cost of service study. OG&E has
5 taken a liberal definition that has moved from embedded costs to rates. While
6 rates are based on embedded costs, they can vary from embedded costs for
7 many reasons.

8 Mr. Bartholomew states that OG&E uses prices in certain periods instead
9 of revenue requirement divided by kWhs. Using prices in place of embedded
10 costs for most customer classes, while not true to the tariff definition, is an
11 attempt to match the recovery of costs to the embedded cost of service study.
12 This is not true for the SmartHours program, especially concerning the Variable
13 Peak Price ("VPP") tariff. The VPP tariff uses stepped hourly prices, closer to
14 marginal costs, to gain a response from customers. These prices are not based
15 on embedded costs and do not meet the current definition of the DPR tariff.

16 One final item relating to the dispute on the EFC, this is the first year that
17 OG&E has calculated or submitted the LNR for the SmartHours programs. PUD
18 has not had the opportunity to review the calculation, or the impact of OG&E's
19 interpretation of the EFC and its proposed recovery from customers. Again, PUD
20 believes that OG&E's calculation, while appropriate for evaluating the
21 effectiveness of the program, is not allowed or appropriate under the current
22 tariff.

1 **Q: Does PUD have a recommendation regarding the EFC?**

2 **A:** Yes, PUD agrees the tariff does not provide sufficient information to define and
3 calculate the EFC component, and that the DPR tariff should be modified to
4 include a mathematic formula for calculating EFC. In acknowledging this
5 insufficiency, PUD does not believe that OG&E's LNR calculation is supported by
6 the tariff.

7 **Q: Did PUD recommend that OG&E split the SmartHours program into a**
8 **Demand Response program and an Energy Efficiency program to reduce**
9 **their LNR calculation?**

10 **A:** No, Mr. Rowlett misinterprets the reason for PUD's classification of the
11 SmartHours program as a hybrid – part EE and part Demand Response ("DR").
12 PUD agrees that SmartHours tariffs are included as DR programs. However, the
13 SmartHours program, as implemented by OG&E, includes more than just the
14 tariffs that implement different rates.

15 OG&E also provides education, installs a programmable thermostat, and
16 provides weatherization kits and sealing of the plenum of the Heating, Air and
17 Ventilation ("HVAC") systems for all SmartHours participants. The kits,
18 thermostats, and plenum sealing are not typically part of a DR program. Those
19 measures are typically included in EE programs, and specifically are included in
20 OG&E's Home Energy Efficiency Program ("HEEP").

1 In calculating the LNR for SmartHours, PUD used all of the energy
2 savings. PUD then split the total into DR, using the summer on-peak savings
3 and into EE, using all other savings. This was *only* intended to more accurately
4 report on the EE and DR aspects of the SmartHours programs, as required by
5 the Demand Program Rules¹, which states “Energy efficiency program results
6 and demand response program results will be reported separately”. However,
7 separating the EE and DR savings did highlight another concern of PUD, which
8 is the potential for double counting energy savings from customers participating
9 in both the EE programs and the SmartHours programs. PUD also revisited the
10 definition of demand response², which means any load management program in
11 which a utility offers electricity users payments or other inducement to reduce
12 their demand for electricity for *specified periods of time*.

13 **Q: Does Mr. Rowlett address the concern raised by PUD of the double**
14 **counting that could occur because of the overlap in the EE and**
15 **SmartHours programs?**

16 **A:** Yes, Mr. Rowlett acknowledges the double counting is a real concern but states
17 that it is likely insignificant³. Mr. Rowlett does not provide an estimate of the
18 impact in energy savings due to the double counting.

¹ OAC 165:35-41-7(b)

² OAC 165:35-41-2

³ Rowlett Responsive Testimony Page 17, lines 16 through 20

1 **Q: Does PUD have a concern with OG&E customers participating in more than**
2 **one program?**

3 **A:** While PUD does not have issue with customers taking advantage of both
4 programs, PUD is concerned the Company is double counting the energy
5 savings and the lost revenues for those participants. For the EE programs, the
6 energy savings are captured using the deemed savings by measure and are then
7 included in the EE programs. For the SmartHours participants, OG&E is also
8 capturing energy savings for all hours in all months, which is counter to the
9 definition of demand response that requires a specified period. For those
10 participants in both programs, OG&E needs to adjust the savings so there is not
11 a double counting and over-statement of LNR. PUD is recommending that the
12 Commission order OG&E to provide documentation that the Company is not
13 double counting its savings and correct their future submissions to address this
14 overlap in participation.

15 **Q: Mr. Rowlett states that PUD's position of using a net to gross adjustment**
16 **factor to calculate LNR and shared savings is a departure from previous**
17 **PUD positions. Does PUD agree that its position has changed?**

18 **A:** No. First, the Commission's Demand Program Rules require a net to gross factor
19 be calculated as a part of evaluation, measurement, and verification ("EM&V")⁴.
20 It was reasonable for PUD to presume OG&E was calculating the net to gross

⁴ OAC 165:35-41-6(f)

1 factor and then using it to reflect the actual performance of their programs. In
2 PUD's review, it found that this was not the case.

3 OG&E is using the unadjusted savings to calculate their LNR and shared
4 savings. This overstates their revenues and ignores the reason the Demand
5 Program rules require the adjustment to be calculated.

6 PUD further found OG&E was not performing annual cost effectiveness
7 tests for their programs to calculate their shared savings. Again, this is also a
8 requirement of the Demand Program rules⁵. Instead, OG&E is using the actual
9 spending per program and deriving shared savings using the cost effectiveness
10 ("CE") factors developed to gain approval of their portfolios in Cause No. PUD
11 201200134. Those CE factors were estimates and the Demand Program rules,
12 and the DPR tariff, clearly delay recovery of lost revenues and shared savings so
13 that actual numbers can be used. By their calculation, using the CE estimates
14 developed for the portfolio, the Company assumes their programs will always
15 perform as estimated and therefore they earn based on that initial projection –
16 not on the actual performance of the programs.

17
18 **Q: Is PUD limited in its review to findings made, or findings omitted in**
19 **previous reviews?**

20 **A:** No, PUD and this Commission are not bound by omissions or submissions of
21 prior causes. This allows PUD to address issues as they are reviewed. PUD
22 has, in this review, identified new information and proposed corrections based on

⁵ OAC 165:35-41-5(c)

1 that information. Mr. Rowlett's statements would be understandable if PUD were
2 requesting OG&E to refund prior collections. However, this is simply not the
3 case as PUD is merely attempting to correct the problem rather than perpetuate
4 an unclear tariff.

5 The DPR and several other riders are submitted to PUD with 30 days to
6 review. This is a limited amount of time with a voluminous amount of information
7 to verify. Among the items to be reviewed are for the DPR are:

- 8 • 12 months of spending by each program;
- 9 • 12 months of revenues collected by class versus the class revenues
10 projected to be collected;
- 11 • The calculation of the new factors using the budget for the new year;
- 12 • The true-up between projected collections and actual collections;
- 13 • The cost effectiveness tests by program and for the Demand Program
14 portfolio;
- 15 • The actual performance of each program as compared to the projections
16 of performance, how many participants, rebates, appliances, etc.;
- 17 • The energy and demand savings achieved by program, which are also
18 compared to the projections of energy savings achievement;
- 19 • Tariff language and calculations;
- 20 • Previous orders; and,
- 21 • Commission rules.

22 While PUD attempts to review everything, given the limited time, it is
23 impractical to focus on every element during PUD's review cycle. PUD identifies
24 major drivers, changes in accounting, possible tariff changes, new data, etc., and
25 focuses on those. In this review, PUD focused on the calculation of the LNR
26 and shared savings for both the EE programs and for the SmartHours program.

27 PUD's review this year is not a departure from reviews in previous years;
28 it is part of PUD's ongoing review process. Further, PUD believes that its review
29 is an efficient and effective way to review this program within the limited 30 day

1 time period. If the Company's desire is for PUD to review the program in a
2 manner that touches all of the aspects, then PUD will gladly do so, but this will
3 require a longer review time. Therefore, PUD recommends that the Commission
4 order a change in OG&E's tariff that reflects the 60 day review as contemplated
5 in the Demand Program Rules⁶ instead of the 30 day review that PUD has
6 performed in the past.

PHILIP BARTHOLOMEW – LNR CALCULATIONS

7 **Q:** On page six (6), lines 16 through 30, and page 7, lines one (1) through four (4)
8 of Mr. Bartholomew's Rebuttal Testimony, he states that Ms. Champion has
9 doubled the energy savings provided by OG&E which incorrectly calculates
10 the LNR. Does PUD agree?

11 **A:** Yes, in developing a summary of the data provided by OG&E, PUD did
12 inadvertently double the energy savings in certain months.

13 **Q:** Does this error affect your recommendation for LNR recovery for
14 SmartHours?

15 **A:** Yes, in part. The error in the reported kWh savings will affect the total LNR, but it
16 does not affect the dispute about how the LNR should be calculated according to
17 the tariff. The error affects the total energy saved through the SmartHours program
18 and correcting the savings from 74 million kWhs to 39 million kWhs, lowers the
19 overall LNR calculation for the SmartHours program from \$4.9 million to \$4.3

⁶ OAC 165:35-41-7(d)(2)

1 million.

2 **Q: Does PUD agree with Mr. Bartholomew that his Direct Testimony in Cause**
3 **No. PUD 201200134 is proof that the calculation made in OG&E's**
4 **submission was adopted as a part of the Joint Stipulation and Settlement**
5 **agreement reached in that cause?**

6 **A:** No. Mr. Bartholomew did not present testimony supporting the Joint Stipulation
7 and Settlement Agreement in Cause No. PUD 201200134. Mr. Bartholomew's
8 Direct Testimony was not specifically adopted or referred to as a part of the
9 Settlement terms. In reviewing this DPR submission, PUD reviewed Order No.
10 605737, to which the Settlement is attached, and the tariff approved for use is
11 also attached to the Order. Order No. 605737 and the approved tariff govern
12 what PUD reviews and approves in the subsequent DPR submissions.

13 Mr. Bartholomew and Mr. Rowlett appear to confuse the positions of
14 parties in their direct testimonies and those agreed to as a part of the Settlement.
15 At the Commission, when a settlement is reached, the utility and PUD file
16 testimony supporting the stipulation. The utility and PUD file this testimony
17 because the settlement often results in a departure of the parties' position in their
18 pre-filed direct, responsive, and rebuttal testimony. Then at the Hearing on the
19 Merits for a cause, the utility and PUD provide oral testimony that supports the
20 language of the stipulation. The parties do not revert to their original filed
21 positions. Order No. 605737, does provide that OG&E will get LNR for their
22 SmartHours program, but it also provides OG&E will use the existing tariff

1 language to get that recovery.

2 At this point, OG&E has the DPR tariff to recover the LNR for SmartHours.
3 However, PUD does not believe that the language in the DPR tariff allows OG&E
4 to calculate the LNR as they have in their submission. While OG&E explained
5 the calculation of LNR in Mr. Bartholomew's Direct Testimony in Cause No. PUD
6 201200134, the approved DPR tariff does not include the language allowing
7 OG&E to interpret the EFC as they have in this submission. As stated
8 previously, while the Commission can modify the tariff or approve a settlement
9 reflecting changes to that tariff, neither PUD nor OG&E can make those changes
10 without an order of this Commission.

11 **Q: Were there other differences between the direct testimony presented in**
12 **Cause No. PUD 201200134, the Settlement attached to Final Order No.**
13 **605737, and the Company's current submission?**

14 **A:** Yes, there are many differences. Mr. Nicholas Fiegel, PUD's witness in Cause
15 No. PUD 201200134, in his responsive testimony supported no LNR or shared
16 savings for the SmartHours program. Mr. Bartholomew included references to
17 conversations with Mr. Fiegel, and to a statement in Mr. Fiegel's Summary of
18 Testimony as proof that Mr. Fiegel had changed his position or agreed with the
19 Company. That is not the case.

20 Mr. Fiegel's Summary, on Page one (1), paragraph three, he states the
21 following:

22 "As a result of my analysis, I found that the inputs used by the Company and the

1 corresponding results of the overall portfolio of programs to be reasonable. I also
2 found that the mechanism for calculating the shared net benefit and lost net
3 revenues is acceptable. However, PUD only recommends recovery of the lost
4 net revenue and shared net benefits and incentives for programs related to
5 energy efficiency. PUD believes that the two demand response programs are
6 effectively, Phase III of OG&E's Smart Grid application and does not recommend
7 lost net revenue and shared net benefits or incentives for these two programs. "

8 As stated above, Mr. Fiegel did not oppose LNR for EE programs or the
9 calculation of the same, but he opposed the LNR for SmartHours and therefore
10 did not offer an opinion on how it should be calculated.

11 Mr. Bartholomew also had differences between his direct testimony in
12 Cause No. PUD 201200134 and the information presented in OG&E's DPR
13 submission in this Cause. As an example, Mr. Bartholomew's projection of LNR
14 for SmartHours now appears to be lower, \$34 million over the period of 2013 to
15 2015. OG&E's current projections are closer to \$43 million.

16 Mr. Bartholomew's direct testimony in Cause No. PUD 201200134 also
17 stated the Company would use Dynamic Sampling in their evaluation of the
18 SmartHours program. Dynamic Sampling was to be used to determine a
19 baseline for standard tariff customers from a control group of non-participants
20 which would be compared to the new baseline for participating customers.
21 OG&E is not using Dynamic Sampling or a control group; instead they are using
22 participating customer's data before OG&E began the program and a statistical
23 analysis using the Difference of Differences calculations to determine the change

1 in load shapes.

2 Mr. Bartholomew also stated in his direct testimony in Cause No. PUD
3 201200134 one reason he used energy costs in all hours using actual prices, or
4 the now described EFC, was because OG&E expected customers would use
5 less in high cost hours and more in lower cost hours. OG&E now shows
6 customers are using less in all hours. Clearly the reduction in the off-peak usage
7 is not in response to a lower price, but perhaps in response to the additional EE
8 measures added to the program to entice participation.

9 While the testimonies filed before the stipulation in Cause No. PUD
10 201200134 present many different views, the resulting Settlement language in
11 that cause allows for recovery of all LNR associated with the SmartHours
12 program and requires the use of the language in the DPR tariff. PUD and OG&E
13 should both be bound by the DPR tariff. OG&E should be bound by the tariff with
14 its submissions and PUD should be bound by the tariff in its review. However, if
15 OG&E wants to make changes that would result in a departure from the tariff,
16 then it may do so with a filed application. Likewise, as contemplated by the
17 Demand Program rules⁷, PUD may open an investigation to inquire further into
18 the utility's Demand Programs Report, which PUD is doing with this cause.

19 **Q: What does the tariff include for the calculation of Lost Net Revenues?**

20 **A:** The approved DPR tariff, Sheet No. 51.72, displays LNR shall follow the formula
21 below:

⁷ OAC 165:35-41-7(d) (2).

1 PPLNR = PPTES * EFC + PPTDS * DC, where:

- 2 • Prior Period Lose Net Revenue ("PPLNR") is the revenues associated with
- 3 volumetric Prior Period Total Energy Savings ("PPTES") and Prior Period
- 4 Total Demand Savings ("PPTDS")
- 5 • PPTES = Prior Period Total Energy Savings
- 6 • EFC = Embedded Fix Cost per kWh
- 7 • PPTDS = Prior Period Demand Savings
- 8 • DC = Demand Charge reflected in current tariffs

9 As shown in the tariff, the LNR is determined by identifying the energy and
10 demand savings occurring because of the Demand Program, PPTES multiplied
11 by an EFC factor.

12 **Q: Please describe Mr. Bartholomew's interpretation of the EFC.**

13 **A:** In response to PUD's Direct Testimony in this cause regarding the calculation of
14 the EFC as embedded costs divided by total energy savings, Mr. Bartholomew
15 offered a different calculation, which he claims is a product of using the
16 distributed property of mathematics. His calculation is described as:

17 Total Energy Savings or

18
$$(\text{Baseline energy} - \text{actual energy}) * \text{EFC} = \text{LNR}.$$

19 He expands his formula, using what he claims to be the distributive property, to
20 be the same formula:

21
$$(\text{Baseline energy} * \text{EFC 1}) \text{ minus } (\text{actual energy} * \text{EF2}) = \text{LNR}$$

22 Mr. Bartholomew's interpretation of both the tariff and the distributive property are
23 in error. The distributive property would require the use of the same EFC for
24 both the Baseline energy and the Actual energy.

25 As an example:

1 Assume baseline energy = 100 kWhs; actual = 90 kWhs; EFC = \$0.10

2 Results: $(100-90) * \$0.10 = \1.00

3 In Mr. Bartholomew's example:

4 Assume: baseline energy = 100 kWhs; actual = 90 kWhs; EFC 1 = \$0.10;

5 EFC 2 = \$.09

6 Results: $(100* \$0.10) - (90*.09) = \$1.90.$

7 Clearly these formulas are not the same nor do they achieve the same
8 calculated LNR. The differences laid out above illustrate why PUD filed this
9 Cause and a determination of the proper calculation methodology of LNR and
10 shared savings pursuant to the DPR.

PHILIP BARTHOLOMEW AND AHMAD FARUQUI:

11 **Q:** Both Mr. Bartholomew and Dr. Faruqui took issue with PUD's statement
12 that DR programs are typically evaluated using peak hours, allowing one
13 hour ahead and two hours behind. Does the statement at issue affect your
14 calculation of LNR?

15 **A:** No. PUD's statement was used to highlight the purpose of DR programs, to gain
16 a response in certain hours, and that to evaluate the success of that response
17 one needs to review the hours related to the price signals, or peak hours. The
18 hours ahead and behind the SmartHours time frame are merely reviewed to
19 represent any pre-cooling or rebound which may occur after an event or high
20 price signal.

1 As stated previously, PUD did not limit its calculation of total energy
2 savings to just those high price hours. As stated in Ms. Champion's Direct
3 Testimony, PUD used the Total energy savings provided by OG&E as an output
4 of their statistical model to calculate the LNR.

5 **Q: Dr. Faruqui and Mr. Bartholomew cite several studies related to cost**
6 **effectiveness as proof of their calculated lost revenues. Does PUD agree**
7 **with those citations as proof of their LNR?**

8 **A:** No. First, the citations provided are used to evaluate DR programs for cost
9 effectiveness, not cost recovery. PUD does not dispute how the energy savings
10 are calculated to evaluate the effectiveness of the SmartHours program.
11 However, cost effectiveness and cost recovery are very different items and to cite
12 the studies that discuss program evaluation as also supporting the Company's
13 proposed cost recovery is incorrect and misleading.

14 **Q: What are the differences between cost recovery and cost effectiveness?**

15 **A:** Cost effectiveness tests are used to evaluate the performance of a program.
16 They are used to determine what programs to include in a portfolio and, after
17 implementation, they are used to determine if they are performing as projected.

18 Cost recovery for DR programs represents how the Company recovers its
19 costs for implementing or managing its Demand Programs. How a company
20 recovers its costs, whether through a rider or base rates, and what items are
21 allowed to be included, as well as how those are calculated, are all issues related

1 to cost recovery. Clearly, cost recovery and cost effectiveness are not the same
2 and studies that direct cost effectiveness reviews do not direct how utilities are to
3 receive cost recovery.

4 As an example, when deciding to buy a new car, the items to consider
5 when making that decision are similar to the cost effectiveness tests. Do you buy
6 a new car or a used car? What are the maintenance costs for each car? What is
7 the projected gas mileage? All of those items are considered when deciding
8 whether to buy, as well as, what to buy. Those items can also be reviewed after
9 the purchase to see if the assumptions held up i.e., – is the car performing as
10 projected, actual gas mileage, actual maintenance costs, etc. Likewise, cost
11 effectiveness tests are used by the utility to project how programs will perform
12 and then help them to review their actual performance.

13 Once the decision on which car to purchase has been made, the next
14 decision becomes how to pay for the car. Does one use savings? Does one get
15 a loan from a bank? Does one trade in another car, etc.? The decision of how
16 to pay is similar to the cost recovery for a utility - how will the utility be
17 compensated for their expenditures and for lost revenues. In this case, the utility
18 has a rider or tariff that provides for cost recovery.

19 **Q: Does PUD have any evidence to support their claim that OG&E, and Dr.**
20 **Faruqui are incorrectly using the cost effectiveness literature to support**
21 **their cost recovery claims?**

1 **A:** Yes, in addition to the clear language included in the studies cited by OG&E
2 stating the studies govern cost effectiveness reviews of DR programs, PUD also
3 sought out the opinion of one of the authors cited by the Company. Tim Woolf
4 co-authored, "A Framework for Evaluating the Cost-Effectiveness of Demand
5 Response," February 2013, prepared for the Department of Energy and the
6 Federal Energy Regulatory Commission. In response to a question from PUD
7 about the purpose of his study, Mr. Woolf responded that his paper is intended to
8 address the cost effectiveness calculations, not cost recovery. He also stated,
9 "The Company has misrepresented the information in our report."⁸

10 **Q:** Does Dr. Faruqui offer any papers, tariffs, or other studies that support
11 *Cost Recovery* of LNR in the manner proposed by OG&E?

12 **A:** No, Dr. Faruqui states⁹ that he has reviewed literature about cost recovery and
13 that OG&E's recovery is supported by that literature, but he does not provide a
14 citation, tariff, or Commission order as proof of his claims.

15 **Q:** Does PUD have other issues with the testimony of Dr. Faruqui?

16 **A:** Yes, in addition to the confusion of the calculation of LNR as a measure of
17 program performance with the allowed cost recovery through the DPR tariff, PUD
18 has issues with several other items.

19 One issue PUD finds with Dr. Faruqui's testimony¹⁰ in which he states that

⁸ Exhibit KJC-1, Mr. Woolf's email 04/15/2015

⁹ Faruqui Responsive page 17, lines 14 through 17

¹⁰ Faruqui Responsive page 13, lines one (1) through eight (8)

1 the participants *may* change their load shape. He states this proof that PUD
2 needs to review both change in price and change in load.

3 The issue PUD has with the statement is that participants “may” change
4 their load. The purpose of the SmartHours program is demand reduction, for
5 participants to change their load, especially in the specific high price hours the
6 Company has targeted with their price signals. If customers do not change load
7 but are merely rewarded by switching to the SmartHours tariff, the switch does
8 not provide a system benefit, nor can it be cost effective. This can be a benefit to
9 the participants, but it will not benefit other customers who are being asked to
10 make up the difference in revenue recovery.

11 Further, the DP rules define lost revenues as “... income foregone...from
12 the *success* of its demand portfolio”.¹¹ Success for demand programs is not
13 merely having participants. Success should be reflected in their load shape,
14 through a reduction in the energy or peak demand, and not just through the
15 number of participants or the bill savings they have achieved by switching to a
16 different rate.

17 Next, Dr. Faruqui states if OG&E were to redesign their SmartHours tariff
18 to be revenue neutral or to recover their allocated revenue requirement, it could
19 result in price changes which would make the offer less attractive and cause
20 customers to leave the tariff. This implies participation at any cost is appropriate
21 and causes other customers to subsidize participation, either through shifting
22 costs to other rates or through OG&E’s proposed recovery in their LNR

¹¹ OAC 165:35-41-3

1 calculation. PUD disagrees with both premises.

2 Finally, PUD believes Dr. Faruqui's suggestion that no change be made to
3 the SmartHours tariffs because of the large participation, is not how regulated
4 rates are set. Rates are not established purely based on how many participants
5 utilities can get; rather they are based on the costs allocated to each class.
6 Customers are likely to migrate to a rate that will save them money. That is why
7 is important for the Company to set rates based on the actual cost to serve
8 customers so they do not encourage customers to change rates just to receive a
9 savings – unless they are also required to adjust their behavior.

10 PUD finds that given the significant participation in the SmartHours
11 programs, the best solution for truly evaluating the effectiveness of the
12 SmartHours program is with a general rate case. In a rate case, the new load
13 shape for the SmartHours participants, and for the remaining standard tariff
14 customers, could be used to correctly, and more accurately, allocate costs and
15 determine the revenue requirement. This would allow OG&E to accurately price
16 the SmartHours tariff and eliminate the need for LNR, and the potential for
17 creating a subsidy between participants and non-participants.

COST OF SERVICE EVALUATION VERSUS LOST REVENUES CALCULATION

18 **Q: Mr. Rowlett took exception to Ms. Champion's testimony about whether**
19 **complying with the tariff causes OG&E a "real" loss. Why does PUD hold**
20 **that to evaluate the effect of the "rate change" component of OG&E's LNR**
21 **calculation one must evaluate other factors?**

1 A: As stated in Ms. Champion's direct testimony, the setting of rates is handled in a
2 base rate case. The recovery, or projected recovery of rates, is established
3 through the revenue assigned to all classes and is to be recovered through all
4 rates and riders.

5 In the process of reviewing options to correct the LNR calculation issue,
6 OG&E provided a powerpoint presentation, LNR Recovery Alternatives bjs edits
7 02172014. On page 3, they identified "Alternative Case 3": Transfer over-
8 recovery balance from SmartHours rider and the Crossroads rider to DPR –
9 which reduces the DPR LNR recovery by \$11.6 million.

10 Both the SmartHours Rider and the Crossroads Rider were supposed to
11 be closed with the filing of the 2013 base rate case – which the Company
12 committed to file in several settlements and that are a part of final Commission
13 Order in Cause Nos. PUD 201000029 (Order No. 576595), PUD 201000037
14 (Order No. 577371), and PUD 201000146 (Order No. 583894). OG&E still has
15 not filed a 2013 base rate case and several issues, including some presented in
16 this Cause, persist because the rate case has not been filed.

17 This suggestion shows that OG&E recognizes there are many items that
18 could be considered in determining whether the Company would see a real loss
19 in overall recovery due to just the calculation of this item. OG&E recognizes
20 some riders have over-recovered, and PUD holds that other items, total revenue
21 recovered from other customers, cost reductions, etc. are also items that should
22 be factored into whether this interpretation results in a real loss to OG&E.

23 While the LNR may not provide all of the revenue the Company would

1 prefer to receive, the LNR as calculated by PUD does not put the Company at
2 risk or deny them from earning their authorized return.

EDWIN FARRAR- LOST REVENUE RECOVERY, POLICY

3 **Q: What are the issues PUD has with the testimony of the Attorney General's**
4 **witness Edwin Farrar?**

5 **A:** PUD disputes several issues raised by Mr. Farrar. First, as stated previously,
6 PUD disagrees with OG&E on the allowed calculation of the LNR through the
7 tariff. Mr. Farrar appears to agree with the Company's calculation¹² and opposes
8 PUD's interpretation. For reasons already addressed, PUD is opposing Mr.
9 Farrar's interpretation of the tariff.

10 Second, while Mr. Farrar agrees that the revenue loss associated with
11 the rate change component of the SmartHours program was not addressed in
12 Cause 201200134, he still holds that the final order allows for all lost revenues to
13 be recovered. Again, while PUD acknowledges the Company may be
14 experiencing a revenue loss due to the change in rates, PUD still holds that the
15 tariff does not allow for this recovery. The tariff allows for total energy savings to
16 be multiplied by the EFC. This does not include recovery of the revenue claimed
17 by either OG&E or Mr. Farrar.

18 Third, Mr. Farrar points to a previous Cause, PUD No. 200900200, in
19 which David W. Smith provided testimony on behalf of PUD supporting LNR for
20 Energy Efficiency programs as proof that PUD has now changed their position.

¹² Farrar Rebuttal testimony, page 4 lines six through lines 12

1 This is simply not a meaningful comparison. Mr. Smith did support LNR, Ms.
2 Champion supports LNR – the difference is not in whether the Company should
3 receive LNR but how it should be calculated.

4 Fourth, Mr. Farrar points to future decisions about recovery of LNR for
5 SmartHours and recommends the Commission allow LNR either through a rider
6 or through recovery of inducements. PUD has concerns that increasing the
7 program costs, by claiming all rate and load shape change revenue losses are
8 inducements, will increase the cost of the programs to a point where they will no
9 longer be cost effective. However, that discussion is best handled in future
10 dockets with evidence to be weighed by all parties.

RECOMMENDATION

11 **Q: Please summarize PUD's recommendation.**

12 **A:** PUD reiterates our recommendation that the Commission accept PUD's
13 recommendation that the Company use actual net energy savings in their
14 calculation of LNR and Shared Savings for their DPR programs. If actual data is
15 not available in March, then PUD recommends the DPR true-up be moved to
16 June to accommodate the use of actual data. The Company has not provided
17 evidence that this is not a reasonable recommendation or that is not in the public
18 interest.

19 In addition, PUD recommends the Commission accept the LNR calculation
20 and tariff interpretation by PUD. PUD recommends that the EFC calculation be
21 limited to the embedded cost from the base rate case, and/or from the tariff prices

1 resulting from embedded costs. PUD also recommends the existing DPR tariff be
2 modified to clarify the EFC definition and that the EFC include a mathematical
3 calculation of the same.

4 PUD also recommends the Commission accept the recommendation that
5 OG&E should track participants separately in both the EE and DR programs to
6 isolate the savings of each program and prevent double counting of savings.

7 PUD recommends that the Commission order a change in OG&E's tariff
8 that reflects the 60 day review as contemplated in the Demand Program Rules¹³
9 instead of the 30 day review that PUD has performed in the past.

10 Finally, PUD recommends the Commission accept the recommendation that
11 OG&E, in its next rate case, resolve the additional revenue loss issue, if any, in the
12 future rate design for the SmartHours tariffs.

I state under penalty of perjury under the laws of Oklahoma that the foregoing is true and correct.



(Signature)

June 5, 2015 Oklahoma City, Oklahoma

¹³ OAC 165:35-41-7(d)(2)

Oklahoma Gas and Electric Company ("OG&E") Cause No. PUD 201500153

LIST OF EXHIBITS

KJC -1

Tim Woolf Affidavit

KJC-2

OG&E Presentation of Alternatives page 4

Exhibit KJC-1 – Mr. Woolf Email 04/15/2015

From: [Tim Woolf](#)
To: [Kathy Champion](#)
Cc: [Fairo Mitchell](#); [Tonya Hinex-Ford](#)
Subject: RE: Corporation Commission OGE spar over SmartHours
Date: Wednesday, April 15, 2015 12:18:02 PM
Attachments: [Woolf_CCA_Webinar_RE_Cost-Effectiveness_041515_04.pptx](#)

Ms. Champion,

The Company is apparently referring to the report that I authored for Department of Energy and Federal Energy Regulatory Commission, "A Framework for Evaluating the Cost-Effectiveness of Demand Response," February 2015. The purpose and scope of this report was to provide guidance on evaluating the cost-effectiveness of demand response programs. The report addressed the standard tests that are used in the US to review the cost-effectiveness of energy efficiency and demand response, including the Ratepayer Impact Measure test. The RIM test includes estimates of the lost revenues from energy efficiency and demand response programs.

Our report does not address whether or how utilities should recover the lost revenues from energy efficiency or demand response programs. Therefore, one should not draw any inferences from that report about whether or how utilities should recover lost revenues from energy efficiency or demand response programs. In sum, the Company has misrepresented the information in our report.

In addition, our report includes the discussion on the RIM test in order to be comprehensive and to remain policy neutral. In many other forums, I have criticized the use of the RIM test for the purposes of evaluating energy efficiency programs. Attached is a slide deck that provides one example. Note slide 6.

I hope this is helpful.

Best,

Tim

From: Kathy Champion [mailto:K.Champion@occcemail.com]
Sent: Monday, April 13, 2015 4:49 PM
To: Tim Woolf
Cc: Fairo Mitchell; Tonya Hinex-Ford
Subject: Corporation Commission OGE spar over SmartHours

Mr. Woolf,

Here is the local article in which one of our utilities refers to your paper, "A framework for evaluating the Cost-effectiveness of demand response" dated February 2015 as defense for their request to include "lost revenues" due to customers migrating from a standard tariff to their Variable peak pricing program as a part of the Demand program cost recovery.

As I mentioned on our call, my reading of your paper indicated you intended to include lost revenues

Alternative 4: Utilize Residential Customer Over-Recovery of Crossroads and SmartGrid riders to offset LNR

- 2014 Crossroads rider Residential over-recovery: \$4.9M
- 2014 SmartGrid rider Residential over-recovery: \$6.7M
- Residential balance transfer: \$11.6M... \$4.2M thru DPR2
- DPR2 increase of 0.0441¢ per kWh
- R-1 avg. monthly bill impact: 0.44% increase to \$113.25

POSITIVE
ENERGY
TODAY

OG&E

CERTIFICATE OF SERVICE

This is to certify that on June 5, 2015, a true and correct copy of the above and foregoing, was sent via electronic mail and/or United States Postal Service, postage fully prepaid thereon to the following interested parties:

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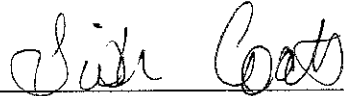
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