

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 201500273
RATES, CHARGES, AND TARIFFS FOR RETAIL)
ELECTRIC SERVICE IN OKLAHOMA)

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CORPORATION COMMISSION
OF OKLAHOMA

Direct Testimony

of

Bryan J. Scott

on behalf of

Oklahoma Gas and Electric Company

December 18, 2015

1 QUALIFICATIONS, EXPERIENCE AND PURPOSE

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

3 A. My name is Bryan J. Scott. My business address is 321 N. Harvey Ave., Oklahoma
4 City, Oklahoma 73102.

5
6 Q. **By whom are you employed and in what capacity?**

7 A. I am employed by Oklahoma Gas and Electric Company (“OG&E” or “Company”) as the
8 Director of Pricing and Load Analysis.

9
10 Q. **Please summarize your educational qualifications and professional experience.**

11 A. I graduated from the University of Tulsa with a Bachelor of Science degree in
12 Economics. I began working at Public Service Company of Oklahoma (“PSO”) in 1979
13 where I held various positions in its Rates Department. In 1994, I joined the Central and
14 South West (“CSW”) Rates Department as Manager of Pricing and Costing. (CSW was
15 the holding company over PSO.) In 1995, I became responsible for new pricing
16 programs as Senior Project Manager for Pricing Development for CSW. In 2000, I
17 became the Manager of Texas Retail Pricing for American Electric Power (“AEP”) in
18 preparation for the deregulated market in Texas (AEP assumed control of CSW in 2000).
19 In 2002, I left AEP to become a consultant with B&B Consulting International and then
20 with UtiliPoint International. I subsequently joined OG&E in March, 2008. I have been
21 involved with electricity pricing, costing, rate administration and regulatory issues for
22 over 35 years.

23
24 Q. **Have you previously filed testimony before the Oklahoma Corporation Commission
25 (the “Commission”)?**

26 A. Yes. I have previously filed testimony on behalf of OG&E in Cause Numbers PUD
27 200800398, 200900230, 200900231, 201000037, 201100087, 201200134, 201400286,
28 201400307, and 201500247. I have previously submitted testimony on behalf of PSO in
29 proceedings before this Commission. I have also submitted testimony in various

1 proceedings before the Arkansas Public Service Commission, the Louisiana Public
2 Service Commission, the Public Utility Commission of Texas, and the Federal Energy
3 Regulatory Commission.
4

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

6 A. In the first part of my testimony, I will address the goals of OG&E's pricing approach
7 and the process the Company used to develop pricing. In the second part, I will describe
8 the revenue allocation proposed by OG&E.
9

10 **I. OG&E PRICING APPROACH**

11 **Q. Generally describe OG&E's approach to providing options to customers?**

12 A. OG&E's pricing approach or the goal for its pricing options is to offer meaningful
13 choices to customers while also collecting enough revenue to cover the cost of providing
14 electric service to the customers. Meaningful choices are plan options that offer distinct
15 differences for customers,¹ such as plans with prices that vary by time of day as
16 compared with plans that offers customers an energy price that does not vary by season
17 or usage amount.
18

19 **Q. How are the Company's costs to provide electric service incorporated in price
20 plans?**

21 A. The price development process or rate design, described by OG&E witness William Wai,
22 begins with the adjusted revenue requirement from the revenue allocation process,
23 described later in my testimony. The rate design process then adjusts individual prices
24 within the plan to collect the revenue requirement. The pricing plan terms and the pricing
25 plan structures² provide the differentiation that allows customers to select a plan that
26 works best for them.

¹ Offering price plans requires the utility to incur costs to support and maintain them. There is rarely a purpose to offering similar price plans to customers that offer no real distinction from each other. Inevitably, the majority of customers will subscribe to one plan over another; the utility must then decide if it makes business sense to continue offering the under-subscribed plans or if that plan should be withdrawn.

² For example, a time of use price plan or a three-part price plan that incorporates demand, energy, and customer charges.

1 Q. **What is the basis for OG&E’s understanding of customers’ preferences for pricing**
2 **plans?**

3 A. The Company recognizes that many of its customers want choices. The challenge in rate
4 design is that different customers want different features. OG&E researched customer
5 preferences and found that most customers surveyed prefer an alternative to the standard
6 pricing plan. Some customers are more interested in the lowest price available, while
7 others are more interested in convenience or certainty that the monthly bill will not
8 change. OG&E currently offers alternative pricing plans that provide customers with
9 more choices than just a traditional plan.

10
11 Q. **What specific pricing plans does OG&E’s anticipate offering its customers?**

12 A. Ideally, OG&E would offer customers a choice from at least three plans: (i) a standard or
13 default price plan, (ii) a price response plan, and (iii) a price security plan. In addition to
14 offering this basic set of plan choices to customers, OG&E would ideally offer additional
15 variations in plans to customers and keep those alternatives in the plan portfolio for as
16 long as warranted by customer response to those offers.

17
18 Q. **Please describe the standard or default price plan.**

19 A. The standard price plan will reflect OG&E’s allocated embedded costs by cost
20 classification. The standard price plan becomes the foundation for other price offerings.
21 As such, it is important that it establish accurate prices for each component of costs.

- 22 1. The energy or kWh charges should recover electricity supply costs such as fuel
23 costs and some recovery for production costs of electricity.
- 24 2. The monthly fee often referred to as a customer charge, should recover metering
25 costs, local distribution facilities, and customer billing and care costs.
- 26 3. The demand or kW charges should recover “wires” charges, i.e. transmission and
27 distribution system fixed costs.

28 The result is a three-part price plan that accurately recovers the utility’s costs to provide
29 electric service. OG&E witness Ahmad Faruqui further discusses the appropriateness of
30 the three part plan.

1 Q. **Please describe the price response plans.**

2 A. Price response plans, such as the Company's Variable Peak Pricing ("VPP") plan,
3 recognize the differences in electricity supply costs by time period. Price response plans
4 offer customers the opportunity to maximize the value they receive from electric service
5 by either reducing their usage during higher cost periods or by shifting usage to lower
6 cost periods. These plans offer the most value to customers who wish to adjust their use
7 of electricity to obtain the lowest bill possible.

8

9 Q. **Please describe the price security plans.**

10 A. Price security plans offer subscribers increased convenience or increased price and/or bill
11 certainty and recognize the increased risks to the Company of doing so. Some customers
12 place more value on price/bill certainty than on achieving the lowest bill possible.
13 OG&E enhances overall customer satisfaction by offering these customers options that
14 address their desire for convenience or price/bill certainty.

15

16 Q. **In this Cause, did OG&E incorporate a three part structure for all of its offerings to
17 residential and small commercial customers?**

18 A. No. Each price plan has a specific focus. The primary focus of the R-1 standard tariff, is
19 establishing prices that recover embedded costs for each aspect of electric service –
20 supply, delivery, and customer care; thereby necessitating the three part pricing structure.
21 The primary focus of the VPP tariff is to encourage subscribers to reduce usage at peak
22 times to delay the need to add production resources – a benefit to all customers. The
23 residential VPP customers respond well to the existing structure by significantly reducing
24 load during peak periods and the Cost of Service Study ("COSS") reflects that response
25 in the revenue requirement. In addition, for similar reasons OG&E chose not to
26 incorporate demand charges in its TOU rates for standard residential and small
27 commercial customers.³

³ OG&E has incorporated demand charges in its TOU rate offerings for DG customers. Those rate offerings have been proposed in Cause No. PUD 201500274 and are incorporated in this filing as well.

1 Q. **With demand billings, is there a reason for concern that residential customers will**
2 **establish an abnormally high demand after service restoration from a distribution**
3 **system outage?**

4 A. No, I don't believe so. OG&E conducted a study of customer demands for a large, total
5 electric apartment complex in downtown Oklahoma City. The apartment complex had an
6 outage for a few hours on June 18, 2015 and this affected 164 customers. The demands
7 for each of those customers were examined and compared to demands established at
8 other times during the month. No customer set a high demand for the month in the
9 intervals that immediately followed service restoration. If these customers had been
10 billed pursuant to a tariff with a demand charge, such as the one OG&E proposes, none of
11 these customers would have established a new high demand as a result of their equipment
12 restarting after the service outage.

13
14 Q. **Does OG&E offer reduced pricing to customers who may be affected by higher**
15 **fixed charges contained in three part pricing plans?**

16 A. Yes. OG&E offers a \$10 per month credit through the LIAP rider to its customers who
17 receive LIHEAP payments as qualified by the Oklahoma Department of Human Services.
18 Once a customer is deemed eligible, that customer will receive the LIAP rider credit on
19 its next 24 monthly bills. OG&E also offers a \$5 per month credit for the five summer
20 months of June through October to senior citizens, customers who are 65 years or older
21 and who subscribe to a TOU or VPP plan. In combination, eligible customers can
22 receive \$145 in bill credits annually. As of June 2015, OG&E has over 51,000 customers
23 receiving the LIAP credit and over 16,000 customers receiving the senior citizen credit.

24

25 PRICING PLAN RESEARCH

26 Q. **Please discuss the pricing plan research conducted for OG&E.**

27 A. OG&E retained Dr. Ken Deal of the firm *market POWER research, inc.* to conduct a
28 study of customers' preferences for pricing plans. The survey method employed was
29 Menu-Based Conjoint ("MBC") analysis.⁴ Simply put, conjoint analysis is a research

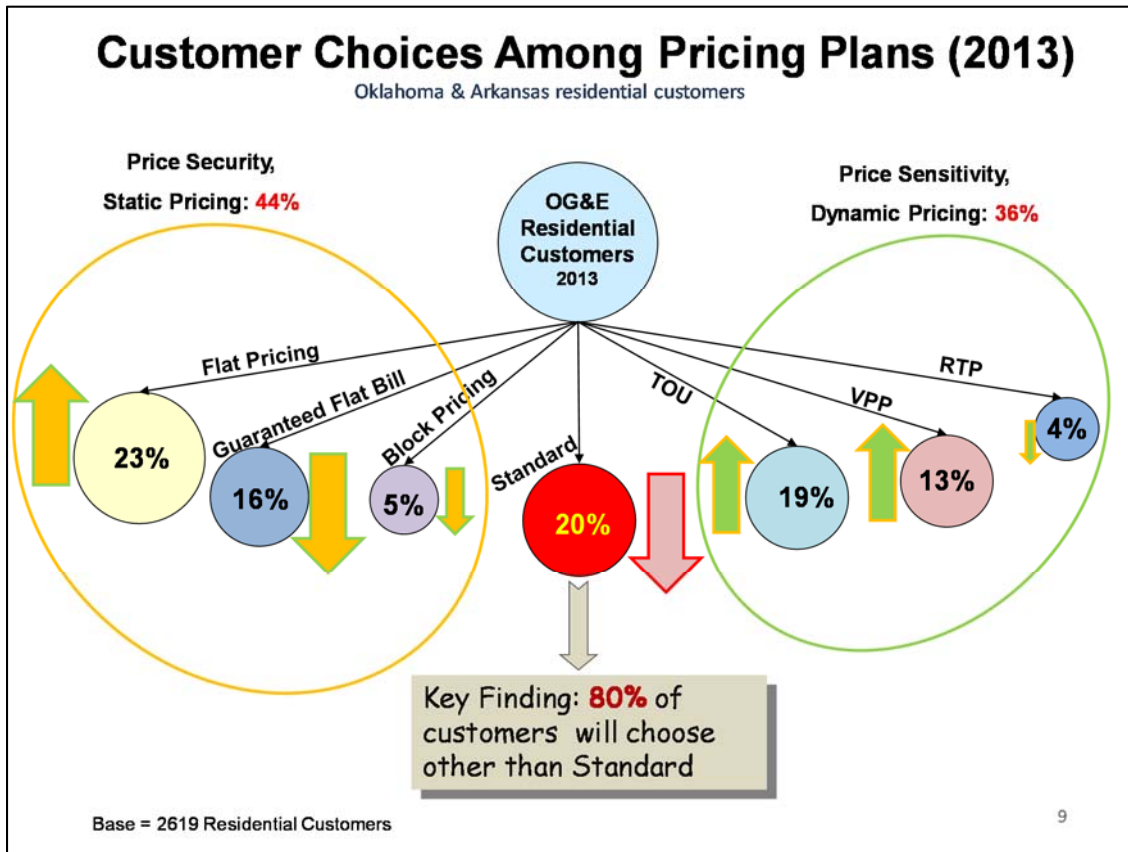
⁴ MBC is the newest advance in discrete choice conjoint experiments. MBC was developed so that respondents can make more than one choice on each choice screen, similar to ordering off a restaurant menu.

1 technique through which each respondent is presented with several sets of product
2 alternatives (in this case, pricing plans with corresponding price levels) and asked to
3 choose the one from each set that best suits their needs. The technique can be used to
4 determine how customers value different features that compose an individual pricing
5 plan. Statistical analysis of customer responses provides estimates of customers' shares
6 of preferences for a wide variety of tested pricing plans and pricing plan features. Since
7 OG&E desired to investigate the relationships among pricing plans and optional rates
8 (riders), MBC is the best design and analysis method.

9
10 **Q. How did OG&E analyze customer preferences?**

11 A. In May 2013, OG&E received the results from its survey of over 2,600 residential
12 customers in Oklahoma and Arkansas. That research showed that about 4 out of every 5
13 OG&E residential customers would prefer a pricing plan other than the traditional
14 standard rate. As demonstrated in Chart 1, below, the residential customer preferences
15 can be grouped into three broad categories. 44% of those surveyed prefer the increased
16 price security provided by a fixed price or fixed bill approach. 36% of them prefer a price
17 response plan such as Time of Use or Variable Peak Pricing. Finally, only 20% of those
18 surveyed prefer the traditional standard plan.

Chart 1



1 The 2013 conjoint research is the second such research conducted by OG&E. OG&E
2 conducted a similar study in 2010 surveying approximately 1,400 residential customers.
3 The results from both studies are consistent.

4
5 Q. Does the Company expect customers will automatically participate at the levels
6 shown in the conjoint studies?

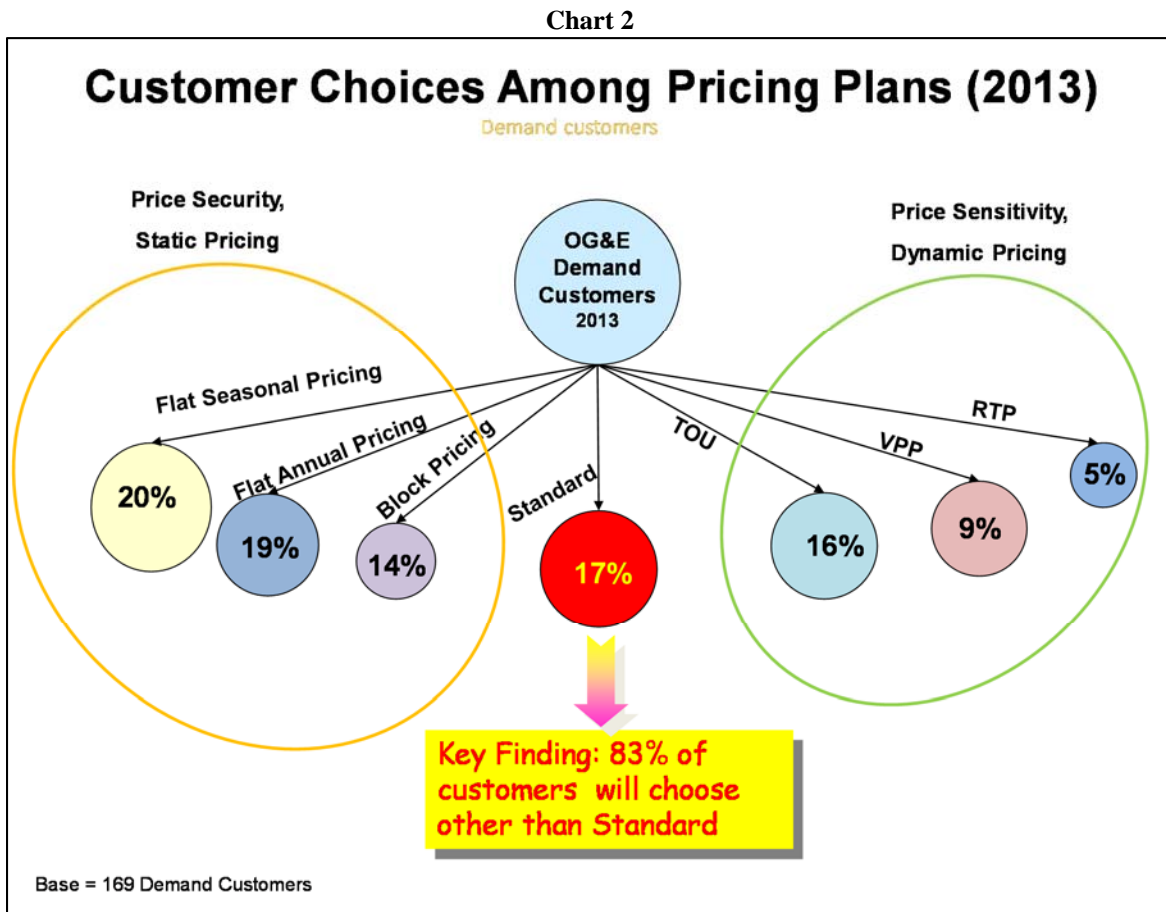
7 A. No. History shows us that OG&E's customers will not automatically gravitate to these
8 pricing plans. Customer education is the key to future success. Customer education
9 enables customers to select the plan that is right for them, and then, maximize their value
10 from that choice. OG&E has demonstrated it can explain complex plans (SmartHours,
11 denoted as VPP and TOU in Chart 1 above) to customers and help customers maximize
12 their value received from their selected plan. These choices also have resulted in reduced
13 costs for all customers by delaying the need to add generation resources to serve
14 customers.

1 Q. Did OG&E conduct a conjoint analysis survey for its Commercial and Industrial
2 (“C&I”) customers in 2013?

3 A. Yes. The research focused on the larger C&I customers; the pool of customers who
4 receive service under a tariff that currently incorporates a demand charge: the Power and
5 Light (“PL”, “PL-TOU”) and Large Power and Light (“LPL-TOU”) tariffs.
6

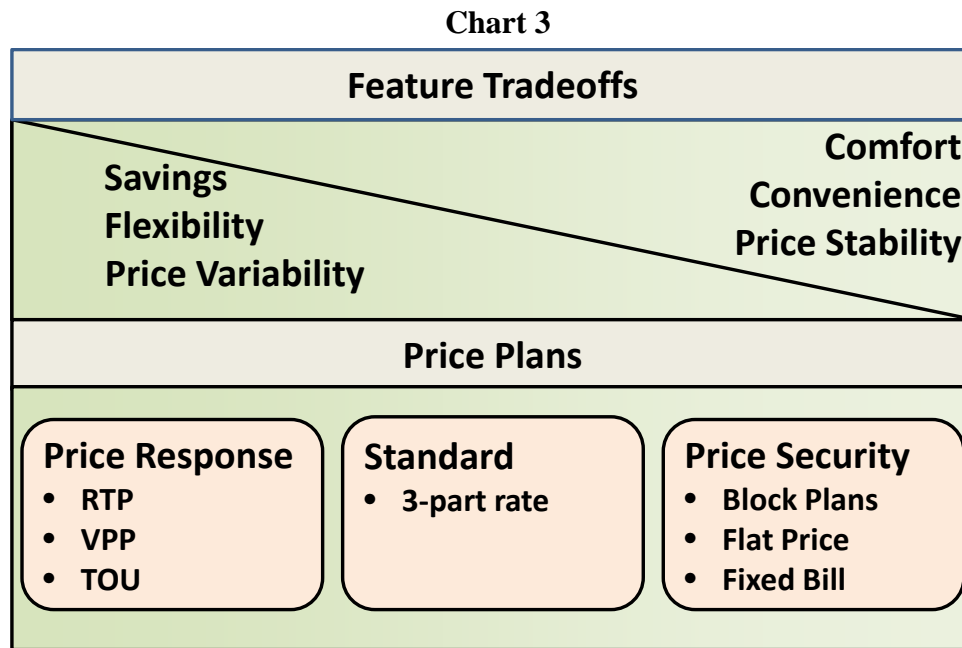
7 Q. Based on these survey results, are Commercial and Industrial customers’ desires for
8 various pricing plans similar to that of Residential customers?

9 A. Yes, although there are some differences in the price plans offered to them. As illustrated
10 in Chart 2, OG&E received survey responses from 169 Commercial and Industrial
11 customers. In the survey, 83% of these customers prefer other plans to their standard
12 plan.



1 Q. **How does OG&E apply the research results to its pricing approach?**

2 A. OG&E attempts to provide customers with meaningful choices. However, no one pricing
3 plan can meet all customers' needs. OG&E's strategy is to offer a portfolio of plans that
4 address the spectrum of customers' preferences for electricity pricing features. The
5 pricing plan map shown in Chart 3 demonstrates how a few basic pricing plans can
6 incorporate the trade-off of features preferred by customers.



7 Q. **Please explain how Chart 3 illustrates the trade-offs between plan features.**

8 A. The top rows of the chart shows the benefits for each pair of customer preferences. The
9 bottom row includes possible rate options designed to address the various combinations
10 of customer preferences. For example, the top row illustrates the trade-off between price
11 variability, on the left end of the row, and price stability on the right end. If maximum
12 price variability is the most important criteria to a customer the bottom row would
13 indicate that a Real Time Pricing option would be best suited for that customer. If a
14 customer wanted a balance of savings and comfort, Chart 3 indicates that a standard rate
15 design is the appropriate rate for that combination.

1 Q. **How could other options be incorporated into OG&E’s portfolio of pricing plans to**
2 **enhance customer value?**

3 A. Pricing plan options can be created or modified to achieve specific objectives that
4 respond to customer needs. For example, some customers want renewable power and
5 have a desire to express their environmental concerns beyond what other customers may
6 prefer. OG&E responded by offering the sale of renewable energy certificates (“RECs”)
7 to these customers⁵. In Cause No. PUD 201500340, OG&E is proposing a Community
8 Solar offering to assist customers who have renewable goals.

9 Other customers may want technology (hardware such as programmable
10 communicating thermostats (“PCTs”)) enabling them to participate more fully in price
11 response plans such as VPP. OG&E provides support for technology options through its
12 website, MyOGEPower.com, and has offered PCTs to customers enrolling in
13 SmartHours-VPP.

14 Through the use of these options, customers can tailor their service to maximize
15 the value of the pricing plan they select. Of course, OG&E’s Smart Grid platform is the
16 enabling technology that allows OG&E’s customers to take advantage of these options as
17 well as future options.

18
19 PRICING PLANS

20 Q. **Given the variety of customer needs and wants, how does OG&E prioritize the**
21 **development of its pricing plans?**

22 A. The current focus is pricing plans that support price response. The Company began with
23 these price plans because they support the 2020 Goal of not adding new incremental
24 fossil-fueled capacity, can be immediately beneficial to the participating customer, and
25 result in lower cost to all customers in the long-term. These price plans include the VPP,
26 TOU, RTP and Load Reduction tariffs.

27 Over time, OG&E will propose additional plans for customers. However, the
28 Company wants to ensure a quality presentation of plans to customers and does not want
29 to offer more plans than it can readily support, market, and implement. Charts 4 through

⁵ In August 2015, approximately 4,700 residential customers and approximately 200 customers in other classes were subscribed to purchase RECs.

1 7 show the current pricing plans offered to each customer group. As discussed in the
 2 section below Chart 7, the Company is proposing to eliminate the TOU-CP tariffs.

Chart 4

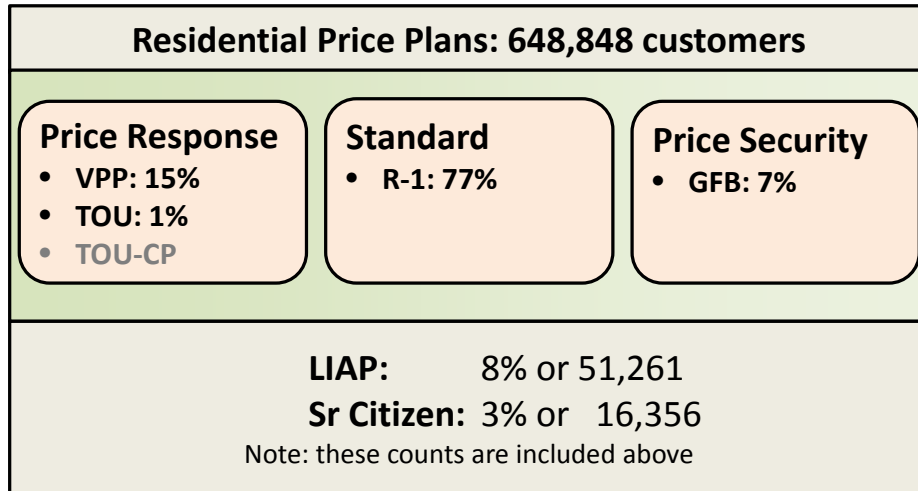


Chart 5

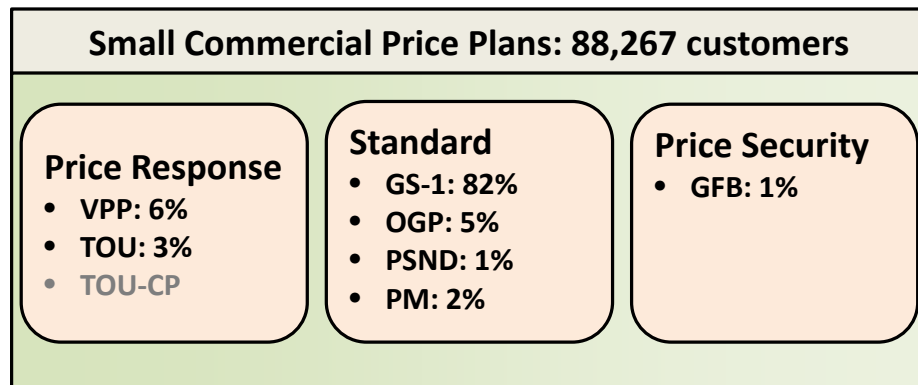


Chart 6

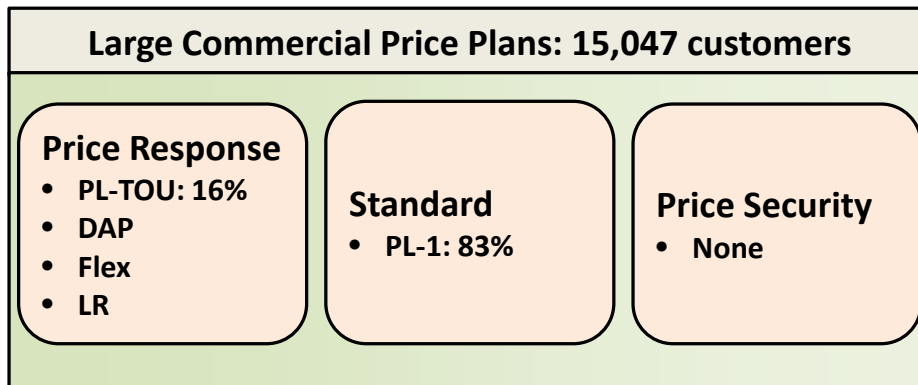
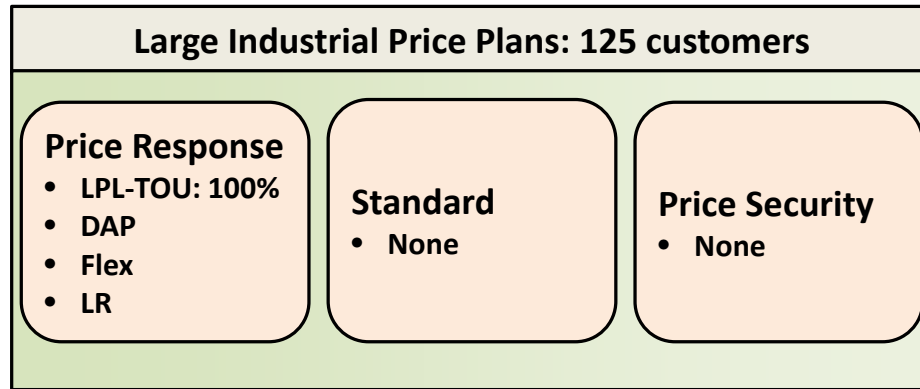


Chart 7



1 Proposed Additions and Terminations

2 Q. **Are any additional customer choices being proposed at this time?**

3 A. Yes, OG&E proposes to re-start its pre-pay billing option, known as Pay-As-You-Go
4 (“PayGo”), and to offer SmartMeter Opt Out options.

5
6 Q. **Please describe the PayGo option.**

7 A. The PayGo plan offers customers the choice of not providing a security deposit when
8 initiating service, but instead, using the deposit to pre-pay for service. When their
9 prepaid amount is consumed, subscribers must deposit additional funds for their service
10 or their service will be discontinued. Service can easily be re-established by simply
11 depositing more funds into their account. OG&E previously offered this bill payment
12 option as a proof of concept pilot concluding in 2012. The PayGo pilot was well received
13 by subscribers. The plan description is shown in Section 220 of OG&E’s Terms and
14 Conditions of Service.

15
16 Q. **Are PayGo participants required to subscribe to any particular pricing plan?**

17 A. No, they are not. PayGo is a bill payment option, not a pricing plan. Participants may
18 generally choose from any pricing plan available; some alternatives, such as net metering
19 tariffs, are not immediately available due to the added billing support complexity.
20 OG&E is simply offering this bill payment option as a voluntary alternative.

1 Q. **Do you address the SmartMeter Opt Out options?**

2 A. No, those options are discussed by OG&E witness Donald Rowlett and the corresponding
3 tariffs are included in Schedule N of the MFR package.
4

5 Q. **Is OG&E proposing to terminate any existing plans?**

6 A. Yes. OG&E proposes to terminate the TOU Critical Peak (“TOU-CP”) pilot plans. These
7 plans were TOU pricing plans that incorporated a price overcall provision, where OG&E
8 could post a higher peak period price when system conditions warrant a higher price.
9 While other price response plans such as the VPP and TOU plans have had significant
10 increases in customer participation, the TOU-CP plans have experienced declining
11 subscription. Because these TOU-CP customers have PCTs installed, OG&E proposes to
12 initially place TOU-CP customers on the VPP plan. Customers may then choose to
13 remain on VPP or select another plan.
14

15 Q. **For the Demand Program Rider (“DPR”), when will the reset for Lost Net Revenue
16 (“LNR”) occur as a result of this Cause?**

17 A. The DPR LNR resets as of December 31, 2015. The test year end for this case is June 30,
18 2015, OG&E included *pro forma* adjustments to December 31, 2015. Therefore, the
19 reset for the DPR for LNR calculations will occur once new rates are approved and
20 implemented. LNR incurred after December 31, 2015 will be recovered through the
21 ongoing DPR. Therefore, LNR incurred by the Company from January 2016 until the
22 final rates are implemented will be recovered through the DPR/LNR recovery
23 mechanism.
24

25 Q. **Did OG&E further review Distributed Generation (“DG”) issues in this Cause?**

26 A. Yes. OG&E further considered the items on the Commission Staff’s Checklist for
27 Distributed Generation Tariff Filings⁶ and reviewed the Company’s educational plan
28 regarding the proposed distributed generation (“DG”) tariffs.

⁶ Exhibit RDW-11 from the Direct Testimony of Roger D. Walkingstick filed on July 31, 2015 on behalf of OG&E in Cause No. PUD 201500274.

1 Q. **What consideration did OG&E give to the Commission Staff’s Checklist when**
2 **preparing its proposed DG rates in this Cause?**

3 A. OG&E established separate classes for DG customers in its COSS and identified the unit
4 cost by function. The proposed R-TOU-kW and COM-TOU-kW tariff prices were
5 updated based on the new COSS, as described by witness Wai. OG&E also proposed the
6 inclusion of demand charges in its standard rates as discussed by witnesses Faruqui and
7 Wai. These actions are consistent with the first two items on the checklist.

8
9 Q. **Did the Company review other checklist items proposed by PUD Staff?**

10 A. Yes. The Company reviewed all of the remaining eight checklist items. However,
11 OG&E identified no additional information beyond the responses provided by witness
12 Walkingstick in Cause No. PUD 201500274. For a detailed discussion of these items,
13 please see Direct Exhibit BJS-1, which is an excerpt from the direct testimony of
14 Company witness Roger D. Walkingstick in Cause No. PUD 201500274.

15
16 Q. **What is OG&E’s educational plan to explain DG tariffs to customers?**

17 A. OG&E proposes the same educational plan that was previously proposed in Cause No.
18 PUD 201500274, which is to contact each of the approximately fifteen affected DG
19 customers individually to explain the tariffs.

20
21 **II. REVENUE ALLOCATION**

22 Q. **How are the Cost of Service Study results used in the rate design process?**

23 A. The COSS establishes the amount of revenues that should be collected from each
24 customer group or class if each class were to pay its cost for receiving electric service.
25 When the class revenue requirement matches the cost of service, the class’ revenue
26 requirement is considered to be at 100% relative rate of return (“RROR”) or equalized
27 rate of return (“ROR”).

28 Q. **Has the Company prepared a COSS for this Cause?**

29 A. Yes. Chart 8 shows the results of the COSS which depicts the revenue requirements,
30 revenue deficiencies and percent increases which would provide a 100% RROR for each
31 customer group or class.

1 The first column is the customer group. The second column is the current revenue
2 from each customer group and is from Schedule H-2, discussed by OG&E witness Gwin
3 Cash. These revenues include fuel revenue and continuing rider revenues. The third
4 column is the total proposed revenue including fuel revenue and rider revenues. The
5 fourth column shows the net proposed increase and includes the results from offsets to
6 changes in fuel cost or rider amounts and the effects from elimination of riders. The last
7 column is the net proposed percent change from Oklahoma retail customers and
8 represents the net impact to customers' bills.

Chart 8. COSS Results

Revenue Allocation - COSS Results				
(1) Customer Group	(2) Total Current Revenue	(3) Total Proposed Revenue	(4) Net Proposed Increase	(5) Net Proposed % Change
RS	\$ 851,089,149	\$ 919,908,737	\$ 68,819,589	8.1%
GS	\$ 160,706,813	\$ 177,261,617	\$ 16,554,804	10.3%
PL	\$ 275,909,489	\$ 287,514,966	\$ 11,605,477	4.2%
PL TOU	\$ 195,003,103	\$ 186,772,748	\$ (8,230,355)	-4.2%
LPL TOU	\$ 296,502,780	\$ 292,043,020	\$ (4,459,760)	-1.5%
OGP	\$ 20,766,095	\$ 17,353,984	\$ (3,412,111)	-16.4%
PS-ND	\$ 18,894,844	\$ 24,979,394	\$ 6,084,551	32.2%
PS-D	\$ 12,892,656	\$ 15,112,427	\$ 2,219,772	17.2%
MP	\$ 8,348,644	\$ 7,726,709	\$ (621,935)	-7.4%
ML	\$ 14,346,075	\$ 17,410,878	\$ 3,064,803	21.4%
OSL	\$ 20,185,811	\$ 20,982,544	\$ 796,734	3.9%
Total Retail	\$ 1,874,645,458	\$ 1,967,067,024	\$ 92,421,567	4.9%

9 **Q. Are these the revenue requirements OG&E will utilize for its rate design proposal?**

10 **A.** Not in all cases. At times, a particular class' allocated revenues may be set at an amount
11 slightly higher or lower than is allocated in the COSS. The process of adjusting the

1 COSS results to determine the target revenue requirement for each class is the revenue
2 allocation process.

3
4 **Q. What are the primary considerations in the revenue allocation process?**

5 A. A primary concern in the revenue allocation, from OG&E's perspective, is to set each
6 class' revenue requirement as close as possible to a target RROR of 100%. In other
7 words, each customer group should pay the full cost for its electric service. However,
8 external or unusual circumstances may also be considered in the allocation of revenues to
9 each class. Consequently, when moving classes toward their allocated cost of service, the
10 Company must also incorporate allowances for these circumstances in its pricing
11 proposals.

12 **Q. Were there any unusual circumstances considered during the revenue allocation
13 process for this case?**

14 A. Yes. The Public School Non-Demand ("PS-ND")⁷ class revenue requirement and the
15 associated time differentiated tariffs ("PSND-TOU", "PSND-VPP"), as determined by
16 the COSS, would have caused pricing for these groups to increase to a level above that of
17 the equivalent General Service tariffs. Some of the revenue requirement for PS-ND was
18 transferred to the General Service ("GS") class. The pricing for the PS-ND tariffs were
19 set at the equivalent GS tariff level and the balance of the COSS revenue requirement
20 was collected from the GS customer group.

21 The Public School Demand ("PS-D") customer group, including PSD-TOU, had a
22 similar result in the COSS, in that the prices would exceed the prices for the equivalent
23 PL tariffs. The pricing for the PS-D tariffs were set at the equivalent PL tariff level and
24 the balance of the COSS revenue requirement was collected from the PL customer group.

25
26 **Q. Did the final revenue allocation achieve the goal of each customer group paying the
27 full cost of their electric service?**

28 A. No. Chart 9 shows the results of the revenue allocation process and includes the RROR
29 for each rate class as well as the percent of the total cost of service included in the final

⁷ The PS-ND tariffs have been renamed PS-Small and the PS-D tariffs have been renamed PS-Large.

1 revenue requirement. The results in Chart 9 are the target increases for each customer
 2 class. Note that the proposed prices produce slightly different amounts than the target
 3 revenues. The results are shown in Schedule M, supported in the direct testimony of
 4 OG&E witness Wai. This difference is a result of the amount of increase the Company
 5 was able to assign to the Public School classes. Specifically, the Company is not able to
 6 raise Public School prices above that of the GS and PL tariff prices. Other differences
 7 are due to rounding and are within the design limits for price changes.

Chart 9. Proposed Revenue Allocation

Revenue Allocation		Proposed Allocation for Rate Design					
(1) Customer Group	(2) Total Current Revenue	(3) Total Proposed Revenue	(4) Revenue Change	(5) Total Proposed % Change	(6) Proposed Rate of Return	(7) Proposed RRoR	(8) Percent of Total Cost of Service
RS	\$ 851,089,149	\$ 907,276,771	\$ 56,187,623	6.6%	7.7%	95%	98.1%
GS	\$ 160,706,813	\$ 180,954,418	\$ 20,247,606	12.6%	8.6%	107%	102.7%
PL	\$ 275,909,489	\$ 292,454,643	\$ 16,545,154	6.0%	8.6%	106%	102.7%
PL TOU	\$ 195,003,103	\$ 195,003,103	\$ 0	0.0%	9.5%	118%	107.8%
LPL TOU	\$ 296,502,780	\$ 291,655,156	\$ (4,847,625)	-1.6%	8.1%	100%	99.7%
OGP	\$ 20,766,095	\$ 20,766,095	\$ 0	0.0%	15.1%	186%	135.7%
PS-ND	\$ 18,894,844	\$ 19,957,168	\$ 1,062,324	5.6%	3.6%	44%	72.4%
PS-D	\$ 12,892,656	\$ 13,821,879	\$ 929,223	7.2%	6.0%	74%	87.2%
MP	\$ 8,348,644	\$ 8,348,644	\$ (0)	0.0%	10.9%	134%	114.9%
ML	\$ 14,346,075	\$ 15,846,603	\$ 1,500,528	10.5%	5.2%	65%	89.5%
OSL	\$ 20,185,811	\$ 20,982,544	\$ 796,734	3.9%	8.1%	100%	100.0%
Total Retail	\$ 1,874,645,458	\$ 1,967,067,025	\$ 92,421,567	4.9%	8.1%	100%	100.0%

8 **Q. How are the allocated revenues utilized to establish the prices in the proposed**
 9 **tariffs?**

10 **A.** The results from the final revenue allocation establish the target revenues for rate design
 11 as reflected in Schedule M-4 of the Application package and sponsored by witness Wai.

12
 13 **Q. Does OG&E’s proposal move customers closer to the COSS, as shown in Chart 8?**

14 **A.** Yes. Although OG&E has proposed the above alternative to the full COSS, OG&E still
 15 supports the goal of moving each class to its full cost of service as shown in Chart 8.

1 Moving to each class paying their full cost of service is important because it allows
2 customers to make better decisions. Without cost based prices, customers will be led to
3 make poor choices regarding long term investments. OG&E's proposal is a step in the
4 correct direction but does not yet eliminate all cross class subsidies.

5

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

7 A. Yes.

1 Q. **Would you expect similar results for a commercial customer?**

2 A. Yes, typical commercial customers are about 50% larger than a typical residential
3 customers but the impact to commercial customers is similar.

4
5 Q. **Will the DG customer be billed the demand associated with their customer usage or
6 the demand associated with their maximum generation production?**

7 A. If information is available for both the maximum customer demand and the maximum
8 generation demand, the maximum value shall be used for billing.

9
10 Q. **Are there any other tariff changes that will be required to incorporate the proposed
11 tariffs?**

12 A. Yes, the standard purchase agreement (“SPA”) will require minor revisions to the
13 references of applicable tariffs (Exhibit RDW-10). The first update to the SPA is in
14 Article II, part A. that provides the rate options for a DG customer. For Option 3, a note
15 has been added stating that Option 3 is closed to new subscribers as of November 1,
16 2014. A fourth Option has been added to provide the NEBO-kW rate schedule. Also, a
17 fifth Option has been added to provide the RPPO rate schedule. The second update to the
18 SPA is that Article II, part D regarding reading meters and invoicing the Company is
19 being eliminated.

20

21 *VII. Addressing Issue Checklist*

22

23 Q. **Are you aware of certain issues that have been brought to the attention of the
24 Commission staff by interested parties?**

25 A. Yes, I am aware of certain issues brought forth to the Commission staff. I have attached
26 the checklist of the concerns raised as Exhibit RDW-11.

27

28 Q. **Please describe the first issue listed on Checklist for DG Tariff Filings.**

29 A. The first issue addresses the class cost of service study (“COSS”), including computing
30 unit costs by function, and incorporating a separate class for DG customers in the COSS.

1 OG&E computed unit costs by function for this filing using the compliance COSS from
2 the 201100087 rate case. Since DG customers on OG&E's system are captured within
3 the existing residential rate class, the unit cost for that class can be used to price DG
4 service. A separate class within the COSS for DG customers is not needed at this time.
5 OG&E will consider incorporating DG subclasses within its next COSS.

6
7 **Q. Does OG&E need a new COSS to price the proposed tariffs?**

8 A. No. The proposed tariff is intended to be a companion tariff to the currently effective
9 residential and general service tariffs. It is appropriate to establish the proposed DG
10 tariffs based on the same COSS used to establish the existing tariffs. When OG&E
11 submits its next general rate case, a new COSS and revised tariffs for all classes including
12 DG will be submitted.

13
14 **Q. Please describe the second issue: Governor's Order 2014-07.**

15 A. The Order stated that time of use rates, demand rates and minimum bills and unbundled
16 rates should all be considered before increasing fixed monthly charges. OG&E believes
17 all of these concerns have been considered and addressed in the tariffs that have been
18 proposed. OG&E's proposal incorporates a time of use structure, a demand rate, and is,
19 for all practical purposes, unbundled by functional cost component.

20
21 **Q. Please describe the third issue: Metering.**

22 A. Since OG&E has AMI installed for all customers, extensive metering information is
23 available to support the proposed tariff designs. AMI metering provides interval data as
24 well as demand data on all OG&E customers. Requiring metering of the DG gross output
25 is desirable (and is a requirement for most QF facilities), but is not a requirement that
26 must be met for NEBO customers or addressed in this Cause. A separate meter for DG
27 customer's facility gross output would provide additional information that the customer,
28 the Company and the Commission could use to evaluate the performance of the specific
29 DG facility. However, not having a separate meter for all DG customers does not keep
30 the proposed tariffs from meeting the needs set out in designing rates and rendering an
31 appropriate customer bill.

1 Q. **Please describe the fourth issue: Additional Cost of DG Interconnection.**

2 A. I believe the current interconnection agreement is sufficient to address the cost concerns
3 of safety and reliability. If a customer's facility requires additional investment by the
4 Company to accommodate interconnection, the DG customer is responsible for paying
5 the additional cost of interconnection⁴. If a DG facility connection is made by a customer
6 to the OG&E system without notification, OG&E has the obligation to immediately
7 disconnect that customer until the connection is compliant and an interconnection
8 agreement has been executed.

9
10 Q. **The fifth issue addresses how the proposed rate design in this Cause will impact
11 other customers. Please explain how OG&E's proposal affects other customers.**

12 A. In the short term, since fifteen DG customers will be affected by the tariff proposals I
13 have submitted, the impact of reducing other customers' bills will be minimal. In the
14 long term, the proposed tariffs should minimize any subsidy related to new DG
15 customers.

16
17 Q. **The sixth concern relates to lost revenue. Please explain how OG&E's proposal
18 addresses this issue.**

19 A. Because of the small number of affected DG customers (15 as of July 31, 2015), no lost
20 revenue calculation was made. OG&E will address the lost net revenue issue in a future
21 proceeding if needed.

22
23 Q. **Did you review the potential benefits listed as item number 8 on the checklist?**

24 A. Yes. After reviewing the checklist, OG&E believes the list of benefits have already been
25 considered and where appropriate recognized in our proposal.

26
27 Q. **Please discuss how you evaluated the benefits listed on the checklist.**

28 A. OG&E has addressed the list as follows:

29 a) OG&E's avoided energy costs is the SPP integrated market price for energy.

⁴ 165:35-29-2(c)

- 1 b) OG&E's avoided generating capacity cost is addressed in OG&E's most recent
2 Integrated Resource Plan (2014 IRP Update). OG&E files its avoided capacity cost
3 with the Arkansas Public Service Commission by June 30th of every even numbered
4 year. An informational copy is provided to the Oklahoma Corporation Commission
5 staff.
- 6 c) T&D line loss reduction has already been recognized and is reflected in retail rates.
7 OG&E's most recent approved line loss study was performed on a 2012 annual
8 period.
- 9 d) Environmental compliance benefits (and costs of compliance) are already
10 incorporated in OG&E's capacity and energy costs. OG&E's future capacity and
11 energy will incorporate all required environmental compliance costs. Therefore, the
12 payments made to DG customers already include environmental benefits. There is no
13 additional environmental compliance benefit.
- 14 e) OG&E believes any benefits from avoided purchased power risk are insignificant
15 since avoided energy is available at the SPP market price. Power resources must
16 compensate for the intermittent nature of wind and solar resources. Since the wind
17 doesn't always blow and the sun doesn't always shine on the earth's surface, other
18 resources are required to supplement solar and wind resources.
- 19 f) Regarding recognition of grid benefits or additional grid costs, OG&E has determined
20 that benefits or costs are specific to each individual distribution circuit. OG&E
21 believes it is inappropriate to provide a generic distribution circuit benefit to DG
22 customers.
- 23 g) OG&E acknowledges there is economic benefit in growth but OG&E doubts that the
24 benefit changes whether it is provided from OG&E supplied generation versus
25 anything provided from distributed generation.

26
27 Q. **Please further discuss the avoided line losses.**

28 A. OG&E recognizes that line losses (whether at transmission, distribution, or at secondary
29 voltages) are occurrences that exist on the network and should be considered in rate
30 design. That is exactly what occurs in the rate making process. When power is displaced

1 at a specific point on the system by a new generation source, what is delivered by the
 2 new source of power equals what is being displaced. It doesn't matter how far the power
 3 had to come to reach that point of delivery, it only matters that it is being compensated
 4 correctly at the delivery point. That occurs when service level rates are adjusted to reflect
 5 differences of voltage levels in rates. The following illustration demonstrates the
 6 difference in pricing at various service points on the OG&E system:

- 7 • Transmission Service Level 1 (above 50 kV) - \$.035
- 8 • Distribution Service Level 3 (above 2 kV) - \$.036
- 9 • Distribution Secondary Service (SL 5 below 2 kV) - \$.037

10 If a customer can take service at any one of these points of delivery, they pay the price
 11 that is set for that specific point. So if their DG generation occurs at Service Level 5,
 12 they are compensated at SL 5 pricing; not at some other pricing point.

13
 14 **Q. Please address the ninth issue, the effect of net exported kWh.**

15 **A.** OG&E addresses this issue through its QF and RPPO tariffs. Customers, who expect to
 16 sell their output to OG&E, should subscribe to the QF and RPPO tariffs and not the
 17 NEBO tariffs. Net metering has never been about building private generation that
 18 exceeds a customer's expected usage. OG&E offers other programs to address a DG
 19 customer's desire to sell kWh to the network: those programs are the QF riders.

20 However, to address the "effect" of net exported kWh, I have prepared Exhibit
 21 RDW-12 to reflect an estimate of the effect of net exported kWh for OG&E's Oklahoma
 22 NEBO customers that produce more kWh than they use. OG&E reviewed the data from
 23 its existing NEBO customers. Existing DG NEBO customers (approximately 68
 24 customers) have over produced around 133,500 kWh a year for the last two years.
 25 Nearly a quarter of these kWh are associated with one customer. These uncompensated
 26 kWh were estimated to be worth between \$.05 per kWh to \$.07 per kWh. For the
 27 analysis, the uncompensated value per kWh of the exhibit was modeled at \$.065 per
 28 kWh. This produces a yearly value of \$8,700 not received by the DG customers.
 29 However, I also calculated the excess compensation received by these same customers
 30 from the net metering. I calculated excess compensation to be \$.09 per kWh minus the

1 estimated benefit of \$.065 per kWh which results in an excess value of \$.025 per kWh.
2 When this \$.025 per kWh is applied to an average customer's estimated kWh usage, the
3 customer excess compensation approaches \$320 annually per customer. Multiplying
4 \$320 times 68 customers equals about \$21,700 per year of excess compensation. If the
5 "excess compensation" of \$21,700 is compared to the "benefit not received" of \$8,700,
6 the result is still favorable to the 68 customers of over \$13,000 per year.

7 These customers may choose between the NEBO and QF tariffs. If they desire to
8 be paid for every kWh that they produce, they should choose the QF tariff or the new
9 RPP0 tariff.

10
11 **Q. Item 10 of the checklist refers to the benefits to safety/reliability due to DG. Do you**
12 **believe there are benefits to safety due to DG?**

13 A. No. While new DG installations are required to meet certain standards set by the
14 Standard Purchase Agreement and the National Electric Code (as enforced by the City or
15 state) for DG installations behind the meter; some DG installations long term operational
16 worthiness may suffer degradation. While some DG customers may have a robust
17 routine of maintenance service and care, I believe others may not. This lack of
18 maintenance and care by some DG customers may actually have some level of
19 detrimental impact on safety. To the extent that recommended maintenance practices are
20 not performed, some of the older installations may have some operational safety
21 concerns.

22
23 **Q. What is your opinion on reliability benefits?**

24 A. I do not believe that a blanket endorsement or rejection concerning the benefits of
25 reliability can be made about DG installations without a thorough investigation of each
26 DG installation and its impact on the specific utility distribution circuit in which the DG
27 installation is placed.

28 Based on the above, I believe it is inappropriate to include a blanket benefit in any
29 evaluation for either safety or reliability.