BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF	)	
OKLAHOMA GAS AND ELECTRIC COMPANY	)	
FOR AN ORDER OF THE COMMISSION	)	
AUTHORIZING APPLICANT TO MODIFY ITS	)	CAUSE NO. PUD 201700496
RATES, CHARGES, AND TARIFFS FOR RETAIL	)	
ELECTRIC SERVICE IN OKLAHOMA	)	

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Rebuttal Testimony

of

Gwin Cash

on behalf of

Oklahoma Gas and Electric Company

June 5, 2018

Q. **Would you please state your name and business address?**

A. My name is Gwin Cash. My business address is 321 North Harvey, Oklahoma City, Oklahoma, 73102.

Q. **Are you the same Gwin Cash that previously filed direct testimony in this proceeding?**

A. Yes.

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

A. My rebuttal testimony will address the following topics as discussed in the rate design testimony of PUD: the Utility Solar Program (“USP”), Federal Tax Change and Production Tax Credit Rider (“FTCPTC”), Allowable Expenditure reporting requirements, Demand Program Rider (“DPR”), and lost net revenues (“LNR”).

USP

Q. **Does PUD agree in total with the proposal of OG&E regarding the USP?**

A. No. PUD does not agree that the program should continue as a pilot and instead recommends that USP become a permanent tariff offering.[1]

Q. **Does OG&E agree with PUD’s position on the USP?**

A. The Company is agreeable to making the program a permanent tariff offering.

FTCPTC

Q. **What are PUD’s positions regarding OG&E’s proposed FTCPTC?**

A. PUD takes two positions on this rider that differ from the Company’s original proposal. First, PUD recommends the total amount of accumulated differed income tax liability in

[1] Responsive Rate Design Testimony of Kathy Champion, p. 8, lines, 7-9.

base rates and the total interim income tax refund be explicitly stated in the rider.[2] Second, PUD disagrees that the production tax credits ("PTC") should be included in the FTCPTC rider or any rider at this time.[3]

Q. **Does OG&E agree with PUD's first proposed revision to the proposed FTCPTC rider?**

A. Yes. The Company takes no issue with adding a level of transparency to this rider that lists the actual dollars that will flow through the mechanism.

Q. **Does OG&E agree with PUD's second proposed revision to the proposed FTCPTC rider?**

A. No. OG&E takes exception to the recommendation that a separate rider to recover PTC's is not appropriate at this time.

Q. **What is PUD's rationale for excluding PTC's from any rider at this time?**

A. PUD has established its own set of criteria for when recovery of any item is appropriate through a rider. It is PUD's position that riders should only recover items that are significant (OG&E interprets this to refer to the dollar amount) and for items that are caused by changes outside of the control of the utility.[4] While OG&E does not necessarily agree with the criteria established by PUD, the Company believes the recovery of PTCs is the perfect example of an item that fits PUD's own criteria.

Q. **What makes the recovery of PTC's fit the criteria of PUD for the use of a rider?**

A. As stated previously, the two criteria discussed by PUD in this Cause are significant (dollar amount) and outside of the utility's control. The PTCs clearly fit both of these criteria. The dollar amount involved in the retirement of PTCs is approximately $46 million[5]. This amount is significant by any standard. Also, the retirement of PTCs occur on a governmentally mandated timeline over which the Company has no control.

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[2] Responsive Rate Design Testimony of Kathy Champion, p. 12, lines 1-3.
[3] *Ibid*, lines 9-10.
[4] *Ibid*, p. 12, lines, 12-13.
[5] Test year total Company figure from the filed cost-of-service study.

In addition to meeting these criteria, addressing the PTCs at this time is also administratively efficient. Should the Commission adopt PUD's position, the Company and the parties would be required to address the expiring PTCs in multiple future rate cases. Even if this issue is only pushed to another rate case, that case would be the third time this issue would be litigated, even though the facts have not changed over time.

Q. **Subsequent to filing its Responsive testimony, has PUD indicated a willingness to support a PTC rider?**

A. Yes. In response to data requests, Witness Champion said PUD would support a stand-alone PTC rider. PUD's response is as follows:

> "PUD would support a PTC Rider that moves all of the PTCs from base rates into a separate rider. That would allow for the actual credits to be passed through to customers and the PTC Rider could expire when the PTCs expire. This method is reasonable and more transparent to all parties in contrast to leaving the PTCs in base rates and using a Rider to true-up the difference as proposed by the Company.[6]"

Q. **Can OG&E agree to a PTC rider in accordance with the method laid out in PUD's data request response?**

A. Yes. I have attached to this testimony, as Rebuttal Exhibit GC-1, a draft PTC tariff that is consistent with the statements of PUD in response to data requests. I have also attached, as Rebuttal Exhibit GC-2, a revised tariff (labeled FTC Rider) to reflect removal of PTC language from the Company's original FTCPTC rider proposal.

Allowable Expenditure Formula

Q. **What is PUD's position regarding OG&E's proposed changes to the submission of its allowable expenditure formula?**

A. Currently the Company has an annual reporting requirement regardless if there is a change to the formula. The Company proposes to replace this with a requirement that information be submitted only when a change in the formula is proposed. PUD agrees that the change is necessary as it eliminates unnecessary reporting but makes one minor

[6] Response to OG&E-PUD 3-3.

modification to the timing for review of the submission. PUD requests the submission be 45 days prior to a change in the formula as opposed to the one month proposed by the Company.[7]

Q. **Does the Company agree with the minor modification proposed by PUD?**

A. Yes. OG&E agrees with the 45 day review period as proposed by PUD, provided that after that time period, absent a formal PUD objection, the updated formula will go into effect. I have attached, as Rebuttal Exhibit GC-3, the revised language to Section 408 of the Terms and Conditions adopting the 45 day request.

Effect and Timing of New Rates on LNR

Q. **Please summarize OG&E's understanding of PUD's contentions regarding how the implementation of new rates affects lost net revenues.**

A. PUD's position is that because new rates are designed to recover costs prospectively, once those new rates go into effect, it is impermissible for OG&E to recover uncollected lost net revenues through the DPR rider even though the company experienced the losses in periods prior to the implementation of new rates.[8] PUD's relies on the inclusion of the effect of DPR programs in the determination of *pro forma* test-year consumption levels to justify its position.

Q. **Does OG&E agree with this interpretation?**

A. No. New rates are designed, using an established level of recovery (*i.e.* the *pro forma* adjusted test year revenue requirement), to recover cost incurred **after** the new rates go into effect. However, the revised DPR rider which goes into effect at the same time is intended to recover two different categories of expenses, LNR expenses incurred **before** the new rates go into effect but which had not been recovered when the rates changed and incremental LNR expenses that will be incurred prospectively. The time lag between when OG&E actually experiences lost revenues and when the lost net revenue expenses

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[7] Responsive Rate Design Testimony of Kathy Champion, p. 10, lines 4-17.
[8] Responsive Rate Design Testimony of Kathy Champion, p. 16, lines, 6-7.

are certified for recovery through the DPR rider is the reason there is an unrecovered balance at the time new rates are implemented.

Q. **Besides the current tariff, is there another way to address the issue of unrecovered LNR at the time of new rates?**

A. Yes. The Commission could approve a concurrent cost recovery mechanism that compensates OG&E for all of the lost revenues it experienced prior to any change in rates. Commission approval of this type of cost recovery mechanism would eliminate PUD's timing concerns and would allow OG&E to be made whole as intended by the DPR rules and process.

Q. **What is the effect of the *pro forma* test-year consumption levels on LNR recovery?**

A. New rates are calculated based on updated consumption levels, the annualized *pro forma* test year adjusted sales volumes, which reflect the test year impact of energy efficiency measures, the same energy efficiency measures which caused the company to incur lost revenues prior to and during the test year. Resetting the kWh sales volumes on a going forward (after new rates go into effect) basis, insures that the energy efficiency measures which caused the company to experience lost revenues before new rates are implemented do not continue to accrue additional lost revenue expense going forward. That "reset" has nothing to do with the recovery of lost net revenue expense accrued while the prior rates were in effect.

Q. **Was PUD able to provide evidence to support its belief that lost net revenues from periods prior to new rates are included in new rates?**

A. No. The Company, in its rate case filing, specifically in its minimum filing requirements ("MFRs"), describes in detail the costs that comprise the Company's revenue requirement. OG&E, in a data request to PUD, OGE 3-9, asked PUD to identify any accounting data and/or the cost-of-service study information that identified lost net revenues as being included in the revenue requirement. PUD, in its response, was unable to identify any such information.

PUD instead attempted to explain its position by contending that the reduction to billing units, for test year DPR savings, includes recovery for all (prior and future) lost net revenues by providing a higher price for new rates. PUD is correct that reduced billing units could result in higher prices. However, as discussed above, these new prices are implemented based on a *pro forma* test year which does not include the level of cumulative lost sales established at the end of the test year. The reduction in billing units **do not remove any lost net revenues incurred prior to new rates**. The reduction in billing units, however, **does negate the need to accrue lost net revenues, prospectively**, for those cumulative lost sales established at the end of the test year.

Q. **Under PUD's interpretation of the timing of how LNR resets, what would drive the Company's ability to recover test year LNR incurred prior to new rates?**

A. The primary driver would be the timing of the implementation of new rates. According to PUD's view, the sooner that new rates are implemented, the sooner the recovery of LNR experienced during the test year via the DPR is stopped. PUD also believes the longer it takes to implement new rates, the longer it will take to stop the recovery of test year LNR via the DPR. Therefore, more LNR is recovered through the DPR. Following PUD's logic, if a scenario existed where there was a very lengthy delay from the Application to the implementation of new rates, all test year LNR could be recovered through the DPR; but if there was a settlement which allowed rates to go into effect quickly, OG&E would be unable to recover those same lost revenues.

Q. Should the length of time it takes to process a rate case impact the Company's recovery of lost net revenues?

A. No, the amount of time it takes to process a rate case should have no impact on whether the Company has earned and should recover all, some, or no LNR for a given period.

Impact on Commission Ordered Revenue Requirement

Q. **Does PUD contend that the calculation of LNR would affect the revenue requirement determined by the Commission?**

A. Yes. PUD argues that the approximately $42 million reduction in revenue requirement they recommend would be reduced to $35 million if the DPR is approved as proposed by OG&E.[9] In essence, PUD is claiming that OG&E would be over compensated by $7 million annually.

Q. **Does OG&E agree with this contention?**

A. No. PUD's position ignores the fact that due to the Company's implementation of its DPR portfolio, it experienced the actual loss of (using PUD numbers) $7 million dollars in revenues. Because of accrual based accounting principles, acceptance of PUD's recommendation would mean that the Company earned $7 million dollars less than it accrued for the period **prior to new rates going into effect.**

The Company believes PUD witness Champion's testimony on this issue mischaracterizes the impact of the Company's interpretation of LNR. The statements made in this section of witness Champion's testimony incorrectly associates the LNR disagreement to the most visual outcome of a rate case.

In addition, witness Champion's contention ignores the process which leads up to OG&E's recovery of that $7 million. Ms. Champion has agreed that there is a 21 month lag in recovery for the DPR, but persists in arguing that there is a period prior to and inclusive of the test year (12-months) or *pro forma* test year (18-months) in which the Company would have to forego lost revenues, even though they were incurred and should be recovered, as provided in Commission rule, through the DPR.

Revised DPR tariff

Q. **Did Ms. Champion sponsor any revisions to the DPR tariff?**

A. Yes. Ms. Champion proposes a change to the definition of Cumulative Savings[10] that adopts an LNR timing reset consistent with the PUD current position.

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[9] Responsive Rate Design Testimony of Kathy Champion, p. 20, lines 11-16.
[10] *Ibid*, p. 21, lines 4-9

Q. **Does the Company agree with this revision?**

A. No. Ms. Champion's position causes accrued lost net revenues to not be recovered and the Company cannot support this position in any way. However, since Ms. Champion strongly supports an LNR reset that occurs at the same time that new rates go into effect, the Company can support a revision to the DPR tariff that requires the reset to coincide with new rates. This revision would allow for the recovery of projected lost net revenues concurrent with the accrual of lost net revenues. The projected lost net revenues would be subsequently trued-up to Verified (evaluation, measurement, & verification[11]) LNR. I have attached to this testimony a revised DPR tariff allowing for projected LNR[12].

DPR Payroll Expense

Q. **Please summarize PUD's position on the removal of DPR payroll expenses from the DPR after Cause No. PUD 201500273.**

A. PUD witness Champion alleges the Company chose to add approximately $1 million in DPR payroll expenses to base rates without removing the same payroll recovery from the DPR revenue requirement.[13]

Q. **Does OG&E agree with the PUD allegation on this issue?**

A. No. There is absolutely no merit to this allegation. The allegation is based on rate case compliance tariffs submitted to the PUD at the conclusion of the Company's last rate case. OG&E notified[14] PUD on the morning of April 3, 2017 that it had uploaded compliance tariffs to a shared network site, making them available for review by the PUD. This set of compliance tariffs included an update to the DPR tariff[15] for removal of payroll expense of approximately $1 million. PUD rejected the update to the DPR tariff, but for reasons that had nothing to do with payroll expense.

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[11] Defined in OAC 165:35-41-3
[12] Rebuttal Exhibit GC-4
[13] Responsive Rate Design Testimony of Kathy Champion, p. 14, lines 1-3.
[14] Rebuttal Exhibit GC-5.1
[15] Rebuttal Exhibit GC-5.2

Q. In April of 2017, did the Company and PUD engage in discussions to clear up the issues which caused PUD to reject the updated DPR tariff?

A. Yes. The Company and PUD engaged in multiple discussions over the course of April 2017 regarding PUD's concerns about LNR issues. In fact, on the morning of April 24, the Company submitted a revised compliance DPR tariff[16] following a discussion that Company members had with PUD members on the morning of April 20, 2017. This second revised tariff added clarification language regarding LNR treatment in future rate cases.

Q. What was PUD's response to the Company's revised compliance DPR submission?

A. PUD provided its own redline edit of the DPR tariff[17] that reversed the Company's revisions to the LNR language and instead changed the tariff's TERM language to defer the LNR issue to the annual filing of July 1, 2017.

Q. And how did the Company response to the Staff's revisions?

A. The Company did not agree with PUD's edits and explained[18] that those edits did not capture the spirit of the April 20 discussion between the Company and PUD staff.

Q. What ultimately was the result of the DPR tariff issue in Cause No. PUD 201500273?

A. PUD stamped approved all tariffs except the DPR but allowed existing DPR rates to continue.[19] The previously approved DPR tariff remains in effect.

Q. At any point compliance tariff approval discussions, did the PUD raise the payroll expense issue and/or propose an adjustment to the DPR rates for payroll expense?

A. At no point did PUD object to any adjustment, or lack thereof, due to payroll expense. The Company did in fact submit a DPR tariff with payroll expense excluded. As I have

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[16] Rebuttal Exhibit GC-5.3-4.
[17] Rebuttal Exhibit GC-5.5-8.
[18] Rebuttal Exhibit GC-5.9-13.
[19] Rebuttal Exhibit GC-5.14.

described, the only issue of disagreement was LNR and that issue alone is the reason why PUD did not stamp the compliance DPR tariff approved.

Q. **Has PUD subsequently acknowledged the allegation that the Company did not submit a compliance DPR tariff with payroll expense removed as false?**

A. Yes. Subsequent to filing its testimony, PUD acknowledged in response to data requests[20] that the Company did propose to remove approximately $1 million in payroll from the DPR calculation to coincide with moving that amount into rate base. PUD's response to the same data request in fact indicates that the amount was not removed from rider recovery because PUD disagreed with the DPR compliance tariff, but suggests the payroll cost issue was a consideration in why they chose not to approve it initially. OG&E disagrees with this mischaracterization of the facts on this issue and would like to be clear that the Company did in fact propose to remove the amount in question from the DPR calculation.

Q. **Since the DPR rates continued in effect when new rates went into effect, did the Company continue to collect payroll expense through the DPR rider and through base rates at the same time?**

A. No. Even though the DPR factors were not adjusted downward for the removal of payroll expense, the Company adjusted its tracking of actual DPR revenue requirement, beginning May 1, 2017, to preclude the recovery of any DPR payroll expense. Consequently, any over collection was negated during the true-up for the next annual factor re-determination submitted on July 1, 2017, to be in effect by October 1, 2017.

Q. **Has the Company provided any assurance to PUD that payroll expense is no longer being tracked in the DPR revenue requirement?**

A. Yes. The Company, on April 27, 2018, in its response to PUD's 14th set of data requests, KJC-3, provided an explanation of how that was accomplished. The Company explained that beginning May 1, 2017, identifiers in OG&E's accounting system that book DPR

[20] Response to OG&E-PUD 3-5.

costs and were used previously to track payroll expense were discontinued. This made it impossible to record DPR-related payroll expense separately and include it in DPR revenue requirement.

Q. **How did PUD respond to the information provided on April 27, 2018?**

A. PUD did not discuss the matter further with OG&E. However, despite having this information, PUD chose to allege the Company failed to remove payroll expense when they submitted their COS/Rate Design responsive testimony on May 16, 2018.

Recommendation

Q. **Please summarize OG&E's recommendation.**

A. OG&E recommends the Commission adopt the following:

- The Company's solar tariff, the USP rider, continue as a permanent subscription offering, moving it out of pilot status.
- The Company's revised FTCPTC rider, now the FTC rider, including the PUD recommended transparency revisions;
- The Company's proposed PTC rider that will credit to customers all PTCs, necessitating their complete removal from base rates;
- The Company's proposed change to the Allowable Expenditure reporting requirement language of Section 408 of its Terms and Conditions, adopting the PUD request for 45 day notice;
- The Company's revisions to the DPR allowing for recovery of projected LNR;
- That the Company's position is correct regarding the timing of the LNR reset when new rates go into effect; and
- That the PUD position is incorrect regarding the timing of the LNR reset when new rates go into effect.

Q. **Does this conclude your Rebuttal Testimony?**

A. Yes.