

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR AN ORDER OF THE COMMISSION)
APPROVING THE COMPANY'S 2016 DEMAND) CAUSE NO. PUD 201500247
PORTFOLIO AND AUTHORIZING RECOVERY)
OF THE COSTS OF THE DEMAND PROGRAMS)
THROUGH THE DEMAND PROGRAM RIDER)
IN THE MATTER OF THE APPLICATION OF)

Testimony Summary of Bryan J. Scott

On July 1, 2015 Bryan J. Scott filed Direct Testimony and on October 9, 2015 filed Rebuttal Testimony in Cause No. PUD 201500247 on behalf of Oklahoma Gas and Electric Company ("OG&E").

Mr. Scott is the Director of Pricing and Load Analysis for OG&E and is responsible for managing the Pricing and Load Analysis teams. He has been involved with pricing, costing, rate administration and regulatory issues for over 34 years and has previously filed testimony before the Oklahoma Corporation Commission ("Commission"), as well as other jurisdictions.

Direct Testimony

Mr. Scott described the Company's proposed changes to the Demand Program rider ("DPR"), which is the tariff that allows OG&E to recover the program costs, lost net revenues ("LNR"), and incentives for the demand programs associated with this Comprehensive Demand Program filing. He also provided the cost recovery impact to customers that results from the implementation of the Comprehensive Demand programs proposed by the Company for 2016-2018. The existing DPR, last approved in PUD 201200134 was attached as Exhibit BJS-1. The DPR was initially proposed in PUD 200800059, the "Quick Start" proceeding. It was revised in PUD 200900200, OG&E's initial Comprehensive Demand Program filing, and then was modified in PUD 20120134 for changes to OG&E's Comprehensive Demand Portfolio.

OG&E needed to make changes to its rider to comply with changes to the Demand Program Rules that will become effective January 1, 2016. For example, separation of cost recovery for Demand Response Programs and Energy Efficiency Programs is now required since High-Volume Electricity Users ("HVEU") may selectively participate in Demand Response Programs or Energy Efficiency Programs or both programs. In addition, OG&E has reviewed the rider utilized by PSO to recover its demand program costs and proposes a modification to the

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DPR which mirrors PSO's approach. PSO uses two major classes, essentially Residential and Non-Residential, for cost recovery purposes, while the existing DPR for OG&E uses seven classes. OG&E believes PSO's approach is preferable and proposes only two major classes in the DPR, Residential and Non-Residential.

The ongoing costs for existing Demand Programs (2013-2015) will continue to be recovered utilizing the proposed DPR until those costs are included in base rate determinations in OG&E's next general rate case.

Mr. Scott summarized each section of the DPR below. The precise language is contained in the proposed DPR, Exhibit BJS-2.

- Effective In: The Oklahoma retail jurisdiction.
- Purpose: The purpose is to recover the Company's demand portfolio costs including LNR and incentives.
- Term: The revised DPR becomes effective with the billing month of January 2016 to coincide with the launch of the 2016-2018 Demand Portfolio.
- Applicability: The DPR applies to all rate classes, except Lighting classes and Special Contract rates. Specific portions of the DPR may not apply to High Volume Electricity Users ("HVEU") who have chosen to opt-out.
- High-Volume Electricity Users Optional Participation: HVEU may elect to not participate in some or all Demand Programs [see OAC 165:35-41-3 and OAC 165:35-41-4(b)(11)] and will not be charged any of those costs. This is known as opt-out. HVEU must submit notice to the Director of PUD and to the Company within 30 days after the Company receives approval of its Demand Portfolio of their intent to opt out. Generally, HVEU who do not initially opt out of the energy efficiency programs are not allowed to subsequently opt out during the three year Demand Portfolio period. Generally, HVEU who opt out of Energy Efficiency programs may opt back in by submitting notice to the Director of PUD and the Company any by paying up front the amount that they would have paid had they not opted-out initially. HVEU may opt out and opt back in to the Demand Response programs without penalty.
- Rate Formulas: The DPR includes two separate rates for each major class of customers. The first rate recovers the costs for the Demand Response Program ("DRP"). The second rate recovers the costs for the Energy Efficiency Program ("EEP"). The DRP rate and

EEP rate each have three major components to recover Program Costs, LNR, and Incentives, plus an over/under recovery balance term for true-up purposes and for any prior over/under recovery balances, and a carrying charge term for the over/under recover balances.

- Annual Rate Re-determination: Each July 1, the Company will submit to the Director of PUD recalculated rates for DRP and EEP incorporating the over/under recovery balance and associated carrying charges. The recalculated rates will true-up recovery for the actual program costs, the actual incentives earned if any, and the recomputed lost net revenues. The revised rates for DRP and EEP will be implemented in the October billing month approximately 90 days after the July 1 filing.
- Interim Adjustment: If the over/under recovery balance exceed 10% of expected DPR revenues, then the Company or PUD Staff may propose an interim adjustment to the DRP and/or EEP rates.
- Attachment 1: The DPR rates for DRP and EEP for 2016, 2017, and 2018 will be listed for the Major Classes after final approval is received in this Cause. These rates will be established using the approved projected program costs, LNR, and incentives. These rates do not include any projected over/under recovery amounts for the 2016-2018 period, but will include ongoing collections for approved demand programs from the 2013-2015 period. Note that for the 2016-2018 program period, there are no proposed demand response programs.

The proposed DPR no longer uses a “prior period” in its cost recovery formulas. Instead, the projected amounts for program costs, LNR and incentives are included in the initial determination of the DPR cost recovery rate. Then, the re-determination process will compute an Over/Under recovery amount that will be added to the recovery rate.

The two Major Classes are Residential and Non-Residential.

- Residential: All customers billed under any residential tariff.
- Non-Residential: All customers billed under any General Service, Oil/Gas Production, Municipal Pumping, Public Schools, Power and Light, or Large Power and Light tariff.

The Major Classes do not include the Outdoor Security Lighting rate class, the Municipal Roadway and Area Lighting rate class, or any Special Contract rates. High Volume Electricity

Users who chose to opt-out will not be included in the appropriate Major Class for the computation of DRP or EEP rates.

Mr. Scott described the cost impact to the average Residential customer for each of the three years that the 2016-2018 Demand Portfolio programs would be in effect. Based on usage of 1,100 kWh per month for the typical residential customer, the monthly cost to residential customers is expected to be \$2.13 in 2016, \$2.29 in 2017 and \$2.46 in 2018. Each year is below the \$2.50 cap as required by the Demand Program Rules. The details of this calculation are found in Exhibit BJS-3. Table 1 shows the projected DPR residential rates and summarizes the impact by year to the typical residential customer's monthly bill.

Table 1. Portfolio Costs and Customer Impacts

		Residential - TOTAL		
Line	Description	2016	2017	2018
1	Program Cost	\$ 17,645,332	\$ 19,263,706	\$ 20,931,059
2	Lost Net Revenue	\$ 710,440	\$ 2,182,957	\$ 3,726,439
3	Incentive	\$ 2,265,178	\$ 2,403,320	\$ 2,680,037
4	Total Cost	\$ 20,620,950	\$ 23,849,984	\$ 27,337,535
5	kWh	9,101,833,181	9,238,362,686	9,376,940,132
6	Factor per kWh (4 / 5)	\$ 0.00227	\$ 0.00258	\$ 0.00292
7	Average Monthly Usage - Residential	1,100	1,100	1,100
8	Customer Impact (6 * 7)	\$ 2.49	\$ 2.84	\$ 3.21
9	Program Cost Customer Impact (1 / 5 * 7)	2.13	2.29	2.46
		Non Residential - TOTAL		
Line	Description	2016	2017	2018
10	Program Cost	\$ 14,973,790	\$ 15,211,406	\$ 15,132,938
11	Lost Net Revenue	\$ 558,610	\$ 1,665,636	\$ 2,700,826
12	Incentive	\$ 977,042	\$ 954,106	\$ 952,121
13	Total Cost	\$ 16,509,442	\$ 17,831,148	\$ 18,785,885
14	kWh	11,038,664,727	11,274,340,613	11,513,551,637
15	Factor per kWh (13 / 14)	\$ 0.00150	\$ 0.00158	\$ 0.00163
General Service Impact				
16	Average Monthly Usage - General Service	1,800	1,800	1,800
17	Customer Impact (15 * 16)	\$ 2.69	\$ 2.85	\$ 2.94
Power & Light Impact				
18	Average Monthly Usage - Power & Light	43,000	43,000	43,000
19	Customer Impact (15 * 18)	\$ 64.31	\$ 68.01	\$ 70.16

Mr. Scott also calculated the cost impact to the average General Service (“GS”) and Power & Light (“PL”) customer for each of the three years the 2016 Demand Portfolio. Table 1 also shows the projected non-residential rates and summarizes the impact by year to the typical GS and PL customer’s monthly bill. For GS customers based on typical usage of 1,800 kWh per month, the monthly cost is expected to be \$2.69 in 2016, \$2.85 in 2017 and \$2.94 in 2018. The monthly cost to the typical PL customer is expected to be \$64.31 in 2016, \$68.01 in 2017 and \$70.16 in 2018.

OG&E expects total demand and energy savings to be approximately 81.1 Megawatts (MW) and 240.0 Gigawatt-hours (GWh) in the third year of the comprehensive portfolio. Table 2 summarizes the savings in each year of the portfolio. Savings will continue to be experienced in subsequent years.

Table 2. Demand and Energy Savings Total

All Programs	Planned Demand Savings (MW)	Planned Energy Savings (GWh)
2016	29.2	80.0
2017	62.0	161.2
2018	81.1	240.0

Program Costs, as defined in the Demand Programs Rules (OAC 165:35-41-3), means the expenditures, including expenditures paid to a third-party to deliver a program, incurred by a utility to achieve capacity, energy, and peak demand savings through Demand Programs.

Lost Net Revenues, as defined in the Demand Programs Rules (OAC 165:35-41-3), means income from retail sale of electricity forgone by a utility directly resulting from the success of its demand portfolio, less expenses the utility was not required to pay by forgoing the sale.

Incentives, as defined in the Demand Programs Rules (OAC 165:35-41-3), means a sum of money a utility may be allowed to recover--in addition to program costs and lost net revenues.

Mr. Scott then explained why the Company should be allowed to recover Lost Net Revenue (“LNR”). Recovery of LNR removes the disincentive for utilities due to any financial losses as a result of implementation of Demand Programs. During OG&E’s last general rate

hearing, the Company set rates based on expected sales to customers. OG&E's Demand Program Portfolio activities will decrease expected sales to these customers. This results in a decrease in revenues. Recovery of these lost revenues allows the Company to offer Demand Programs without incurring a financial loss.

LNR is the income from the retail sale of electricity forgone by a utility resulting from implementation of its Demand Program portfolio. The income forgone is determined by taking the difference between revenues the utility would have received assuming no implementation of the Demand Program Portfolio and revenues the utility actually received after implementation of the Demand Program Portfolio.

Revenues the utility would have received assuming no implementation of the Demand Program Portfolio are calculated by multiplying the demand (kW) and energy (kWh) billing determinants that would have been consumed under applicable tariff rate(s) prior to subscription to the Demand Program Portfolio excluding customer charges and riders that have true-up mechanisms (e.g. Fuel Adjustment Clauses).

Revenues the utility actually received after implementation of the Demand Program Portfolio are calculated by multiplying the demand and energy billing determinants by applicable tariff rate(s) post subscription to the Demand Program Portfolio, excluding customer charges and riders that have true-up mechanisms (e.g. Fuel Adjustment Clauses).

Mr. Scott then listed the calculated the projected LNR for the next three years. The annual LNR for the proposed demand portfolio is estimated to be \$1,269,050, \$3,848,593 and \$6,427,265 for the years 2016, 2017 and 2018 respectively. The projected LNR amounts are determined on the assumption that OG&E achieves savings as planned. The amounts do not incorporate any general changes in rates and tariffs during the portfolio term. Exhibit BJS-4 shows the calculation of the LNR projections that will be included in the initial DPR rates for each calendar year.

Mr. Scott stated that the Company has not modified the calculation for LNR in its proposed DPR to incorporate any potential changes resulting from a final order in Cause Number PUD 201500153 since that case is unresolved. After a final order is issued in that Cause, the Company reserves the right to amend its application in the present Cause or revise the proposed DPR tariff.

Mr. Scott explained why the Company should receive incentives. Incentives recognize the opportunity lost to utilities when they redirect capital investment dollars to pay for Demand Programs. The inclusion of incentives offsets the return utilities would have received had the Company used the Demand Program Portfolio money to invest in other capital projects to meet customers' needs. They also recognize there may be additional risks by engaging in Demand Programs (i.e. changes in construction standards, customer adoption rates and preferences, etc.). Incentives also reward utilities for successfully implementing their Demand Portfolio and achieving their portfolio goals. Rule 165:35-41-8 states that a utility is eligible to receive an incentive if its Demand Portfolio achieves each of the following:

- (1) a minimum of 80% of the individual utility's goal ratio (Verified savings divided by the Projected savings); and
- (2) a total resource cost test benefit/cost ratio (TRC:B/CR) that is greater than one; and
- (3) a utility cost (UC) test benefit/cost ratio that is greater than 1.2.

Incentives for utilities are calculated by multiplying the goal ratio (verified savings divided by the projected savings) by the maximum incentive percentage of 15 percent of Net Benefit. In calculation of incentives, goal ratios higher than 100 percent shall be treated as 100 percent and goal ratios lower than 80 percent as 0 percent. The incentive for a Demand Portfolio is capped at 15 percent of Net Benefits. Net Benefits equal the difference between total benefits and total cost as calculated for cost effectiveness.

The Company calculated projected incentives for the three years of this proposed demand portfolio filing and the projected incentives are \$3,242,220, \$3,357,426 and \$3,632,158 for the years 2016, 2017 and 2018 respectively. OG&E calculated incentives only on the operations and maintenance ("O&M") portion of expenses. The calculation of projected incentives is detailed in Exhibit BJS-5.

Finally, Mr. Scott recommended that the Commission approve the Company's revised DPR tariff to recover program costs, lost net revenues, and incentives, and also recommended approval of the initial projections, as shown in Table 1, for the DPR rates.

Rebuttal Testimony

Mr. Scott's rebuttal testimony rebuts several objections raised by the Public Utility Division's ("PUD") witness Kathy Champion related to the Company's proposed changes to the Demand Program Rider ("DPR") and addresses Ms. Champion's recommendations regarding

cost recovery for OG&E's 2016 Demand Portfolio. He also explained why lost net revenues and incentives associated with the IVVC program should be recovered.

DEMAND PROGRAM RIDER

Ms. Champion did not support the Company's proposed modifications to the DPR. Ms. Champion recommended that recovery of lost net revenues ("LNR") be delayed until "after the Company has proven their performance and need."¹ The Company has proposed to include projected amounts for program costs, LNR, and incentives in the initial determination of the DPR cost recovery rate.

On page 16, lines 14 and 15 of her responsive testimony, Ms. Champion states that OG&E has proposed a significant change in the recovery of lost revenues and shared benefits from actual performance to projected performance. Ms. Champion did not accurately represent OG&E's proposal. OG&E will only receive actual program costs, actual lost revenues, and actual shared savings. OG&E proposes to include projected program costs, lost revenues, and shared benefits in the initial determination of the DPR and true-up of any under or over collections of revenues.

OG&E's proposal benefits customers by minimizes the impact to customers by reducing carrying charges and factor swings associated with the true-up. If OG&E did not include LNR and shared benefits in the initial rider determination, the true-up amount would be unnecessarily high and would include additional carrying charges on that balance.

OG&E's proposed recovery mechanism for LNR and incentives comply with the Commission rules. The rules provides for recovery of actual incentives and LNR. In no event will OG&E recover any amounts in excess of its actual incentives and LNR. The true-up mechanism ensures that only actual costs are collected from customers. OG&E's proposal ensures that only verified actual amounts for program costs, LNR, and incentives are recovered with minimal factor changes for customers. Ms. Champion appears to minimize the true-up mechanism, which has been an integral component of OG&E's riders for many years.

A true-up component holds customers harmless and ensures that customers only pay actual costs. This mechanism has been used in all demand program years since the inception of the Quick Start demand programs. In addition, with concurrent recovery, the effect on over/under recovery is greatly minimized, and carrying costs are reduced. Customers will pay

¹ Champion Responsive, p. 17, line 17
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less under OG&E's proposal. The impact from Ms. Champion's position on the DPR and its annual true up will be to ensure millions of dollars of under-recovery of allowable cost. This under-recovery of costs will lead to much higher carrying charges and larger factor swings which is why OG&E proposes concurrent recovery of LNR and incentives. OG&E's proposal recognizes that LNR will be incurred when OG&E installs energy efficiency measures and will be recovered through the DPR factor. The true-up ensures that only the actual amounts will be paid by customers. Finally, Ms. Champion ignores the interim adjustment mechanism of the DPR tariff. The interim adjustment mechanism provides for a re-determination of the rider should DPR revenues exceed plus or minus 10% of expected revenues during any implementation cycle. The Company or the PUD staff may propose an adjustment under this clause.

True-up mechanisms have been approved by the Commission before to hold customers harmless and the Commission has often agreed with OG&E that it is fair to customers to balance costs with recovery and to the extent variances occur to re-determine rates. This has been the procedure in Oklahoma for decades, beginning with the Fuel Cost Adjustment ("FCA") and extending through an additional ten (10) riders administered by the Company. The following table lists these riders and their true-up cycle.

Table: List of Oklahoma Gas and Electric Tariffs and Riders with True-up Provisions

	Description	True-up Cycle
SHPR	System Hardening Program Rider	Annual
SR	Security Rider	Annual
FCA	Fuel Cost Adjustment Rider	Annual
RTSA	Renewable Transmission System Additions Rider	Annual
CCR	Cogen Credit Rider	Annual
DPR	Demand Program Rider (Current)	Annual
SCRR	Storm Cost Recovery Rider	Annual
SGR	Smart Grid Rider	Annual
CR	Crossroads Rider	Annual
SPPCT	Southwest Power Pool Cost Tracker	Annual
STSA	SPP Transmission System Additions Rider	Annual

Mr. Scott explained why it is important to include projected program costs, LNR, and incentives and the true-up mechanisms. It is important to incorporate concurrent recovery of LNR and incentives as the Company immediately begins to lose money when program measures are installed. Once a measure is installed at the customer's premise, the measure begins saving energy for the customer immediately. With these immediate customer savings, OG&E begins losing revenues concurrent with those savings. These concurrent savings are also part of the shared savings achieved and accrued by OG&E. Therefore, under Ms. Champion's proposal, customers receive benefits immediately, but the Company has to wait 21 months before compensation begins. Ms. Champion's proposal accepts the inclusion of projected program cost with a true-up, but delays the recovery of any LNR and incentives.

OG&E's proposal is not unique and does not constitute an exceptional form of recovery. OG&E has identified through an ACEEE publication² several jurisdictions that permit concurrent recovery of incentives and LNR, including Louisiana. Arkansas permits concurrent recovery of LNR.

OG&E believes this proposal is a reasonable balance of interests between the Company and its customers. The proposal will allow PUD staff adequate time to review the Company's EM&V reports without adversely affecting customers (incurring unnecessary carrying charges) or OG&E (excessive delay in recovery of LNR, currently projected at 21 months from installation of measures).

Ms. Champion interpreted Commission rules in a different manner than OG&E in formulating her position on this issue. It appears that Ms. Champion is attempting to add additional conditions to LNR recovery that do not currently exist. The rules do not require OG&E to demonstrate need before receiving LNR. LNR and incentives are not described in the rules as an exceptional form of recovery. Instead, LNR and incentives are recognized as compensation to the utility for engaging in business practices that encourage customers to use less of the utility's product and services. LNR restores the recovery of its fixed cost necessary to serve customers between general rate reviews. Shared benefit incentives provide encouragement for the Company and its shareholders to actively pursue energy efficiency. Neither of these constitutes exceptional recovery.

² ACEEE, Balancing Interests: A Review of Lost Revenue Adjustment Mechanisms for Utility Energy Efficiency Programs, Report Number U114
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Ms. Champion recommended modifying OG&E's DPR to include the cumulative energy savings language and formula for calculating embedded fixed cost ("EFC") factor found in PSO's tariff. Ms. Champion believed that OG&E's DPR is not as clear as PSO's Demand Side Management Cost Recovery Rider regarding the use of cumulative kWh to calculate lost net revenue and the method for determining the EFC. Additionally, she recommends limiting lost net revenue recovery to the current portfolio period by adding language to OG&E's DPR that would zero out the accumulated energy savings with the next portfolio or final order in a rate case, whichever occurs first.³

Mr. Scott responded to Ms. Champion's recommendation to modify OG&E's DPR to include the language found in PSO's tariff by stating that he had no objection to the DPR defining the term cumulative energy savings in the tariff. As Ms. Champion noted on page 27, lines 1 to 2, OG&E will zero out accumulated energy savings consistent with the timing of its general rate reviews.

Next, in responsive testimony, Ms. Champion recognizes that an open case⁴ exists which seeks to clarify the definition of EFC.⁵ OG&E believes it is premature to attempt to define embedded fixed cost in the absence of a final order in the pending case. (Note that OG&E reserved the right to amend its application pending the outcome of this case⁶.)

OG&E believes its current practice is more accurate than Ms. Champion's proposal to use averaged non-fuel, non-customer charge revenue to determine EFC. OG&E offers sophisticated time differentiated tariffs to its customers and has received a significant level of participation. Matching energy savings to seasonal and time-of-use tariff prices is fair and reasonable since lost net revenues are directly tied to the effect of monthly savings (energy and demand) and the prices from the tariffs to which customers are subscribed. Ms. Champion's method for determining EFC is inappropriate for OG&E.

LOST NET REVENUE RECOVERY ISSUES

Ms. Champions proposed to limit lost net revenue recovery and proposed that the cumulative energy savings should be set to zero when the DPR is approved, instead of at the time

³ Champion Responsive, p. 32 lines 6-10

⁴ Cause No. PUD 201500153

⁵ Champion Responsive, p. 24, lines 16-18

⁶ Scott Direct, p. 10, lines 1-6

when new rates are placed into effect after a general rate case.⁷ This defeats the entire purpose of lost net revenue recovery in between rate cases and prematurely resets energy savings before OG&E resets base rates. OG&E will continue to incur and accumulate lost net revenues until new rates are implemented. Approving a new set of demand programs does not eliminate or reduce those lost net revenues.

Mr. Scott stated that OG&E does reset cumulative energy savings to zero, but that resetting of cumulative energy savings is always done in a rate case. In OG&E's last rate case⁸, the Company received a final order in July 2012 and implemented new rates at that time. This adjustment zeroed out the energy savings that had accumulated from the beginning of the quick start demand programs (approximately three years). Since then, OG&E has accumulated energy savings for 2012, 2013 and 2014. OG&E has now filed a notice of intent to file a new general rate case on or before November 30, 2015. OG&E expects an order in that new rate case in 2016. Therefore, the Company would reset energy savings in the DPR upon implementation of new rates, based upon the pro forma adjustments included in its general rate case filing.

OG&E does not support Ms. Champion's recommendation to add language to the DPR limiting lost net revenue recovery. Ms. Champion's proposal to reset energy savings at the end of this current proceeding would prematurely cut off the recovery of lost net revenues that actually will continue to impact OG&E until the new rate case is concluded. This is contrary to the concept of lost net revenues and would financially punish OG&E for encouraging customers to use less energy than was assumed when setting rates in the previous rate case. If LNR is zeroed out prematurely, the utility will lose significant dollars until an order is received.

OG&E has absolutely not accumulated an "excessive amount" of saved energy. OG&E has adjusted rates every three or four years and the energy saved along with the associated LNR has been reset. OG&E customers who have participated in the Demand Programs continue to benefit from reduced energy consumption. OG&E does not agree with Ms. Champion that her recommended changes for lost net revenue recovery should be made now. OG&E has filed its notice of intent to file a rate case on or before November 2015. The Commission should allow energy savings to be reset at the conclusion of the rate case.

⁷ Champion Responsive, p. 29 lines 13

⁸ Cause No. PUD 201100087

OG&E strongly disagrees with Ms. Champion's position that her proposed rulemaking results should be applicable retroactively. Ms. Champion proposes that the Commission initiate a rulemaking to consider her suggestions regarding limiting lost net revenue recovery and notes in her testimony that any rulemaking would occur after the approval of the Company's recovery mechanism for its Demand Portfolio. Ms. Champion recommends that "the Commission make the rulemaking applicable to the current Demand Portfolio and corresponding recovery mechanism." The 2016 Demand Portfolio is the first three-year cycle of programs under the new Demand Program rules. It is inappropriate to apply new conditions or initiate further rule changes after the Company has filed its DPR case.

INCENTIVE RECOVERY ISSUES

Ms. Champion disagrees with OG&E's proposal for recovery of incentives. The nature of Ms. Champion's disagreement with OG&E's proposal for recovery of incentives is two-fold. First, she disagrees with OG&E's calculation and believes OG&E is calculating incentives incorrectly. Second, she believes OG&E will not meet the minimum 80% achievement threshold and earn the incentive. On this second point, OG&E is confident it will achieve its goals and earn an incentive.

Ms. Champion disagrees with OG&E's calculation for incentives because it proposes to multiply the Cost Effectiveness ("CE") ratios by the annual program budget. She states, "This proposed calculation is incorrect for the following reasons:

- Using CE ratios from the proposed portfolio does not comply the Commission rules which require the use of annual program performance;
- Use of the CE ratios from the proposed portfolio times the budget assumes that the performance of the programs will never change; and
- The CE ratios can be higher or lower based the actual program performance.⁹"

However, the Commission rules state, "Net Benefit equals the difference between total benefits and total costs as calculated for cost effectiveness."¹⁰ On the surface this would seem to imply net benefit would be a dollar value. However, the Demand Program rules also refer to the "California Standard Practice Manual"¹¹ which explains the net benefits can be expressed as a

⁹ Champion Responsive, p. 19, lines 10-14

¹⁰ OAC 165:35-41-3 Definitions

¹¹ OAC 165:35-41-3 Definitions

ratio between total benefits and total costs, also known as a CE ratio. Regardless of which way net benefits are calculated, if correctly applied, they will yield the same value. Mr. Scott applied the correct math in his calculations.

Ms. Champion includes Table 5 in her responsive testimony to illustrate what she believes is a calculation error when incentives are estimated based on the CE ratios times the budget. Ms. Champion attempted to estimate shared savings based on cost effectiveness ratios¹². In Table 5 she compared OG&E's shared savings calculation ("OGE Calculation") to two of her own calculations, which she identifies as using information provided by OG&E witness Melissa Culbertson.

Ms. Champion's calculation uses the TRC net cost instead of the actual total costs as prescribed by the rules¹³ and used by the Company. This mistake caused Ms. Champion's calculations to be invalid by estimating net benefits, or CE, to be either higher or lower than they would normally be. Also, Ms. Champion failed to incorporate OG&E's proposal to receive IVVC incentives on only the O&M portion of the program. This failure led to Ms. Champion over-estimating the three year total expected incentive by \$3.6 million.

LOST NET REVENUE AND INCENTIVES FOR IVVC

IVVC reduces customer energy consumption through voltage optimization. This reduction in energy sales to the customer produces LNR. As explained by Witness Killian, IVVC is a program that lowers voltage and is directly responsible for customers' appliances and equipment utilizing less energy and saving customers money. The LNR created by the reduction in energy usage should be recovered like any other energy efficiency program.

It is appropriate for OG&E to recover incentives on the O&M portion of the IVVC program. Like all DP programs, OG&E may request incentives¹⁴ for successful implementation of their Demand Portfolio. IVVC is a part of OG&E's Demand Portfolio and as such the Company should be allowed incentives for successful implementation. It is inappropriate to selectively choose which programs are eligible for an incentive outside what is provided in the rules. OG&E receives a return on invested capital for IVVC. As a result, OG&E proposes to receive an incentive based only upon the IVVC program O&M. Therefore, OG&E proposed in

¹² Champion Responsive, p. 20, Table 5

¹³ OAC 165:35-41-3 Definitions of Net Benefits

¹⁴ OAC 165:35-41-8 Incentives

direct testimony that a fixed incentive (15%) applied to non-capitalized expenses (annual O&M portion of the project) is an appropriate incentive for IVVC.

OG&E also identified examples where recovery of lost net revenue or incentives was allowed for an IVVC program. FirstEnergy received Lost Distribution Revenue for its Volt Var Optimization program¹⁵.

CONCLUSION

In conclusion, Mr. Scott recommended that the Commission reject PUD's proposal to modify OG&E's DPR (p. 34 lines 10-13) because OG&E's DPR formulation as proposed is consistent with Commission rules. He also recommend that the Commission reject PUD's proposal to limit recovery of LNR (p. 34 lines 14-16). Finally, he recommend that any decision to initiate a rulemaking to introduce a revenue cap alternative to LNR be postponed until the current rules have been in existence at least one demand portfolio cycle.

¹⁵ Case No. 09-1820; Finding and Order June 30, 2010
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