BEFORE THE CORPORATION COMMISSION OF THE STATE 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 RATES, CHARGES, AND TARIFFS FOR RETAIL ELECTRIC SERVICE IN OKLAHOMA	))))))	CAUSE NO. PUD 201800140

Direct Testimony

of

Bryan J. Scott

on behalf of

Oklahoma Gas and Electric Company

December 31, 2018

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EXECUTIVE SUMMARY

The tariffed rates OG&E proposes in this Cause are based on a Cost of Service study the Company conducted for the test year ending September 30, 2018 and a Revenue Allocation process which spreads those costs among the customer classes in a manner consistent with the Company's methodology in prior rate cases. I believe this approach results in each customer class paying a fair share of the total cost of providing service. As compared to the rates currently in effect, the Company is requesting changes in aggregate, as follows.

- Total Oklahoma Retail: base rate increase of 4.4%, total increase: 8.8%;
- Total Residential: base rate increase of 7.8%, total increase: 12.2%;
- Small Commercial (GS, OGP, SPS, et al): base rate increase of 0.0%, total increase: 4.0%;
- Power and Light (PL, PLTOU): base rate increase of 0.3%, total increase: 4.7%;
- Large Power and Light (LPL, LPLTOU): base rate increase of 3.3%, total increase: 8.3%; and,
- Lighting (LM, OSL, LED): base rate increase of 7.3%, total increase: 8.4%.

OG&E reviewed the criteria for the new LPL standard tariff option approved in our previous rate case, and proposes to modify the qualification criteria for this option.

In summary, I respectfully recommend that the Commission:

1. Approve tariffs based on the Company's recommended Revenue Allocation for customer classes as described above and shown in Table 3 of this testimony; and
2. Approve the Company's proposed change to the qualification criteria for the LPL standard tariff.

QUALIFICATIONS, EXPERIENCE AND PURPOSE

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

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

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

A. I am employed by Oklahoma Gas and Electric Company ("OG&E" or "Company") as the Director of Pricing and Load Analysis. In that capacity, I am responsible for overseeing the development of rates for each of the services provided to our customers.

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

A. I graduated from the University of Tulsa with a Bachelor of Science degree in Economics. I began working at Public Service Company of Oklahoma ("PSO") in 1979 where I held various positions in its Rates Department. In 1994, I joined the Central and South West ("CSW") Rates Department as Manager of Pricing and Costing (CSW was the holding company for PSO at that time). In 1995, I became responsible for new pricing programs as Senior Project Manager for Pricing Development for CSW. In 2000, I became the Manager of Texas Retail Pricing for American Electric Power ("AEP") in preparation for the deregulated market in Texas (AEP assumed control of CSW in 2000). In 2002, I left AEP to become a consultant with B&B Consulting International and then with UtiliPoint International. I joined OG&E in March 2008. I have been involved with electricity pricing, costing, rate administration and regulatory issues for over 39 years.

Q. **Have you previously filed testimony before the Oklahoma Corporation Commission (the "Commission")?**

A. Yes. I have previously filed testimony on behalf of OG&E in Cause Nos. PUD 200800398, 200900230, 200900231, 201000037, 201100087, 201200134, 201400286, 201400307, 201500247, 201500273, 201600366, 201600441, 201700216, 201700496, 201800070, and 201800074. I have previously submitted testimony on behalf of PSO in proceedings before this Commission. I have also submitted testimony before the Arkansas Public

Service Commission, the Louisiana Public Service Commission, the Public Utility Commission of Texas, and the Federal Energy Regulatory Commission.

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

A. The primary purpose of my testimony is to support the allocation of the Oklahoma jurisdictional revenue requirement among customer classes as recommended by OG&E in this Cause. I also discuss changes to the qualification criteria for the LPL standard tariff.

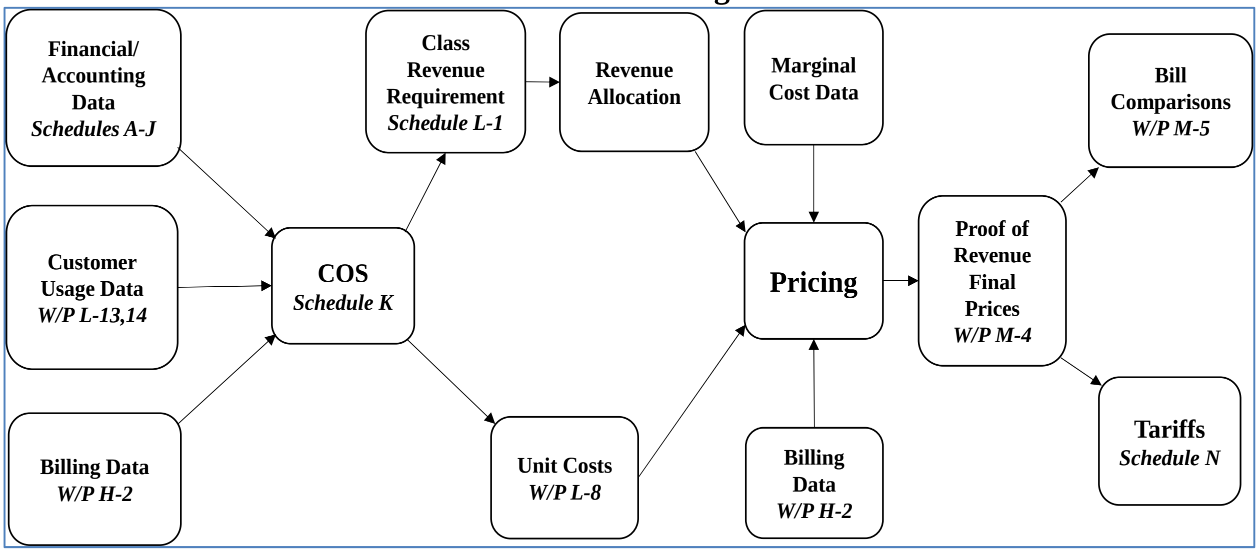
REVENUE ALLOCATION

Q. **What is revenue allocation and what role does it play in the development of proposed rates?**

A. In its simplest form, rate design is the process of pricing the services offered OG&E's customers so as to produce the revenues needed to pay for the costs of providing those services. That process begins with the identification of the costs assigned to each customer class in a Cost of Service Study ("COSS"); and revenue allocation is the process of adjusting results of the COSS to establish the target revenue requirement for each class or group of retail customers. The pricing process then establishes rates for each tariffed service so as to collect the targeted revenue requirement.

As can be seen in Chart 1 below, the Minimum Filing Requirements package for OG&E's Application in this Cause includes schedules and work papers which provide in detail the information the Company uses to develop the proposed rates for each of the tariffed services offered to our customers. As seen below, Revenue Allocation is one of the final, primary inputs which the Company considers when developing the pricing for those tariffs.

Chart 1. The Rate Design Process



Q. **What is the purpose of a Cost of Service Study?**

A. As mentioned earlier, COSS results are used to establish the amount of revenues that would be collected from each customer group or class if each class were to pay its full cost for receiving electric service. In those circumstances, the class' revenue requirement is described as being at 100% relative rate of return ("RROR") or at an equalized rate of return ("ROR"). OG&E Witness Satterwhite supports the company's COSS.

Q. **What were the results from the COSS for this Cause?**

A. Table 1 shows the results of the COSS found in Section K of the Company's filing package and depicts the revenue requirements, revenue deficiencies and percent increases which would provide a 100% RROR for each customer group or class.

The first column is the customer group. The second column is the current revenue from each customer group after *pro forma* adjustments are made and also include fuel revenue and continuing rider revenues. These *pro forma* adjustments are described on Schedule H-2 of the Application package and discussed by OG&E Witness Seth Knight. The third column is the total proposed revenue, which also includes current fuel revenue and rider revenues. The proposed revenues represents the amount needed to fund the Company's costs of service when new rates become effective, assuming no changes to riders or fuel costs. The fourth column shows the difference between current revenues and proposed revenues at 100% RROR based on current rider and fuel revenues. The last column is the proposed percent change for each class or group of Oklahoma retail customers and represents the impact to customers' bills if all groups were taken to 100% RROR.

Table 1. Cost of Service Study Results

Class	Total Current Revenue	Proposed Total Revenue @ 100% RROR	Proposed Increase @ 100% RROR	% Change from Current Total Bill @ 100% RROR
RESIDENTIAL SERVICE	$ 787,409,965	$ 889,674,470	$ 67,281,514	8.5%
GENERAL SERVICE	$ 156,189,601	$ 162,293,022	$ (88,977)	-0.1%
PUBLIC SCHOOLS SM	$ 16,439,656	$ 19,866,927	$ 2,640,250	16.1%
OIL & GAS PRODUCTION	$ 18,627,649	$ 17,224,969	$ (2,014,651)	-10.8%
PUBLIC SCHOOLS LG	$ 12,768,480	$ 14,301,817	$ 957,719	7.5%
POWER & LIGHT	$ 446,705,057	$ 465,171,046	$ (781,670)	-0.2%
LRG. PWR & LGHT	$ 264,638,487	$ 286,141,015	$ 8,149,657	3.1%
MUNICIPAL PUMPING	$ 7,608,164	$ 7,476,200	$ (404,547)	-5.3%
MUNICIPAL LIGHTING S/L-5	$ 15,404,911	$ 18,204,852	$ 2,629,682	17.1%
SECURITY LIGHTING S/L-5	$ 18,854,442	$ 18,288,046	$ (778,200)	-4.1%
OKLA RETAIL JURISDICTION	**$ 1,744,646,412**	**$ 1,898,642,364**	**$ 77,590,777**	**4.4%**

Q. **Are these the revenue requirements OG&E utilized to price tariffs for the respective classes?**

A. No, as mentioned above, at times in the rate design process the revenue allocation process may result in a particular class' allocated revenues being set at an amount higher or lower than is required to pays its full cost of service as identified in the COSS.

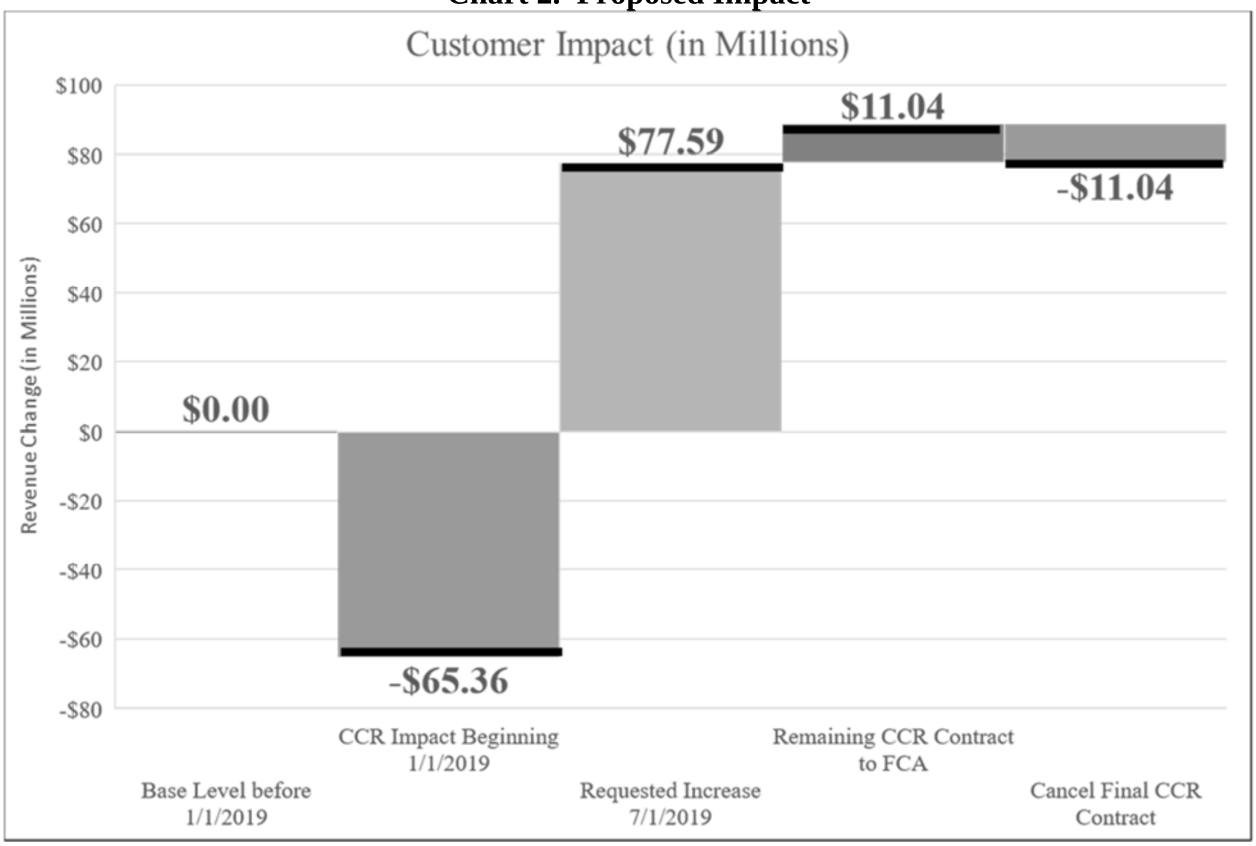
Q. **What are the considerations in the revenue allocation process?**

A. From OG&E's perspective, the preference is to set each class' revenue requirement as close as possible to a target RROR of 100%. We believe that ultimately each customer group should pay the full cost for its electric service. However, external or unusual circumstances are legitimate considerations in the allocation of revenue recovery to each class and the Company pricing proposals have historically been reflective of other circumstances. In this Cause, OG&E proposes to limit class increases to twice the Oklahoma retail jurisdiction average. Classes that should receive a decrease did not receive a change to their revenue requirement; those decreases were used to offset other classes' increases.

Q. **Please describe the total impact proposed by the Company in this case.**

A. As shown in Chart 2, OG&E's customers will see a base rate change of approximately $77.59 million. However, the impact calculation for the proposed rates includes the annualized effects of the termination of the Company's two (2) cogeneration contracts, one which expires on January 15, 2019 and the other which expires on August 31, 2019. I have provided an illustration (Chart 2, below) to graphically depict those effects.

Chart 2. Proposed Impact



Q. **Please briefly describe the information reflected in Chart 2.**

A. Payments for the fixed cost portions of these contracts are embedded in current base rates. Because of the those terminations, starting January 1, 2019, the annualized credit passed on to customers through the Company's Cogen Credit Rider ("CCR") will increase from approximately $6 million to approximately $71.36 million. That additional credit (bill reduction) of $65.36 million annually is the first effect shown. Next is shown the increase the Company is requesting as compared to the revenue produced by current base rates. The CCR rider is expected to be closed at the same time as the implementation of new rates. The remaining amount of unpaid Cogen payments, if any, for the period between implementation of new rates and expiration of the second Cogen contract, will be rolled into the Company's Fuel Cost Adjustment ("FCA"). The remaining annual Cogen payment is shown to be approximately $11.04 million. The treatment of the CCR and potential utilization of the FCA is discussed further by OG&E Witness Gwin Cash.

Q. **What were the results from the Company's revenue allocation process?**

A. Table 2 shows the results of the revenue allocation process and includes the RROR for each rate class. These results are also shown in Schedule M and associated Schedule M work papers of the Application package.

Table 2. Proposed Revenue Allocation

Class	Total Current Revenue	Proposed Increase	Proposed Rider Changes	Proposed Total Revenue	Proposed Total Bill Impact	Proposed ROR	Proposed RROR
RESIDENTIAL SERVICE	$ 787,409,965	$ 61,103,098	$ 34,982,991	$ 883,496,055	12.2%	7.3%	97.7%
GENERAL SERVICE	$ 156,189,601	$ -	$ 6,192,398	$ 162,381,999	4.0%	7.5%	100.2%
PUBLIC SCHOOLS SM	$ 16,439,656	$ 1,461,604	$ 787,021	$ 18,688,281	13.7%	6.1%	80.6%
OIL & GAS PRODUCTION	$ 18,627,649	$ -	$ 611,971	$ 19,239,620	3.3%	11.5%	153.6%
PUBLIC SCHOOLS LG	$ 12,768,480	$ 862,865	$ 575,618	$ 14,206,963	11.3%	7.3%	97.7%
POWER & LIGHT	$ 446,705,057	$ 2,924,391	$ 19,247,658	$ 468,877,107	5.0%	7.8%	103.1%
LRG. PWR & LGHT	$ 264,638,487	$ 8,737,872	$ 13,352,871	$ 286,729,230	8.3%	7.6%	101.0%
MUNICIPAL PUMPING	$ 7,608,164	$ -	$ 272,582	$ 7,880,746	3.6%	9.4%	124.9%
MUNICIPAL LIGHTING	$ 15,404,911	$ 2,500,948	$ 272,582	$ 18,076,118	17.3%	7.3%	97.7%
SECURITY LIGHTING	$ 18,854,442	$ -	$ 211,805	$ 19,066,246	1.1%	8.6%	114.2%
OKLA RETAIL JURISDICTION	**$ 1,744,646,412**	**$ 77,590,778**	**$ 76,405,175**	**$ 1,898,642,365**	**8.8%**	**7.5%**	**100.0%**

Q. **Were the allocated revenues identified in Table 2 used to establish the prices in the proposed tariffs?**

A. Yes. The results from the final revenue allocation establish the target revenue for the rate design sponsored by Witness William Wai.

TARIFF CHANGES

Q. **Did OG&E complete the rate design related actions ordered by the Commission in the previous Cause?**

A. Yes. OG&E completed all applicable requirements. In particular, OG&E reviewed the criteria for the new LPL standard tariff option, requested in the settlement negotiation process and approved in our previous rate case[1]. However, since the tariff has only been available since July 2018 and removing time differentiated prices can affect customer behavior, the Company proposes to approach expansion of that option with caution. Since customers could choose to opt back to the LPL-TOU tariff and receive a reduced bill, OG&E simply proposes to limit expansion to the LPL Standard tariff as an option at this time. Currently, the LPL standard tariff option is only available to SL1 and SL2 customers with annual kWh usage greater than 500,000,000 kWh. The LPL standard tariff option will now be available to LPL SL1 and SL2 customers with an annual kWh usage greater than 150,000,000 kWh and an annual load factor of 70% or higher. OG&E Witness Wai will discuss the impact of the LPL standard tariff option in his direct testimony.

RECOMMENDATIONS

Q. **Please summarize your recommendations to the Commission.**

A. I respectfully recommend that the Commission:

1. approve tariffs based on the Company's recommended Revenue Allocation for customer classes as described above and shown in Table 2 of this testimony; and
2. approve the Company's proposed change to the LPL standard tariff.

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

A. Yes.

[1] See Order No. 679358 in Cause No. PUD 201700496, page 12.