

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS & ELECTRIC COMPANY FOR)
AN ORDER OF THE COMMISSION) CAUSE NO. PUD 2023-000087
AUTHORIZING APPLICANT TO MODIFY ITS)
RATES, CHARGES, AND TARIFFS FOR RETAIL)
ELECTRIC SERVICE IN OKLAHOMA)

Responsive Cost of Service and Rate Design Testimony of Patrick Sullivan

On behalf of

AARP

May 3, 2024

1 **I. Background and Qualifications**

2

3 **Q. Please state your name, occupation, and business address.**

4 A. My name is Patrick Sullivan. I am a Manager with Sullivan Economic Consulting, LLC. My
5 business address is 2813 Van Hise Ave., Madison WI 53705.

6 **Q. On whose behalf are you testifying in this proceeding?**

7 A. I am testifying on behalf of AARP.

8 **Q. What is your educational and professional background?**

9 A. My current resume is attached as Exhibit 1. To summarize, I graduated from the University
10 of Wisconsin-Madison with a Bachelor of Science Degree majoring in economics. I
11 subsequently graduated from the Kelley School of Business at Indiana University with a
12 Master of Science degree majoring in finance. During my professional career, I have
13 provided financial, credit, regulatory, and economic analysis for a variety of commercial
14 and retail customers at Bank of America/Merrill Lynch, the Wisconsin Department of
15 Financial Institutions, Home Savings Bank, Bankers' Bank, and John Deere Financial. I
16 joined the Public Service Commission of Wisconsin (the "PSCW") in January 2015 as a
17 Public Utility Financial Analyst - Senior. I left the PSCW in May 2016 to work in the banking
18 industry and returned to the PSCW in May 2017, retaining my role as Public Utility
19 Financial Analyst - Senior. I was promoted to Public Utility Auditor-Advanced in October
20 2018, which was a role I served in until leaving the PSCW in July 2020. I began working
21 for WEC Energy Group, Inc. in March 2021 as a Project Specialist in the State Regulatory
22 Affairs Department. In my role as a Project Specialist, I have supported the preparation of

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1 cost-of-service studies for general rate case proceedings for electric and natural gas
2 utilities in Wisconsin. I have also supported the preparation of an integrated resource plan
3 for the Upper Michigan Energy Resources Corporation before the Michigan Public Service
4 Commission.

5 In March of 2023, I left WEC Energy Group, Inc. and, in June 2023, started Sullivan
6 Economic Consulting, LLC to provide regulatory accounting and financial analysis,
7 including revenue requirements, cost of service studies, and rate design.

8 I have completed training courses in public utility cost of service and rate design
9 at the NARUC Rate School in Clearwater, Florida, and the Michigan State University
10 Institute of Public Utilities Advanced Course on Cost Allocation and Rate Design. I am a
11 member of the Society of Utility and Regulatory Financial Analysts and Certified Rate of
12 Return Analyst (Member #894).

13 **Q. Have you testified in similar regulatory proceedings previously?**

14 A. I have provided testimony before the PSCW as a member of staff regarding revenue
15 requirement audits, capital structure, cost of capital, and fuel cost audits. During my time
16 at WEC Energy Group, Inc. I provided pre-filed testimony regarding the development of
17 the cost-of-service study for Minnesota Energy Resources Company's proceeding to
18 adjust natural gas rates.

19 **Q. Have you previously provided testimony in Oklahoma?**

20 A. No.

21 **Q. Do you request the Commission accept your credentials and recognize you as an**
22 **expert witness?**

1 A. I do.

2 **Q. How is your testimony organized?**

3 A. My testimony is organized into five sections and a conclusion:

4 I. Background and Qualifications

5 II. Purpose of Testimony

6 III. Class Cost of Service Study: Objectives, Background, and Company Proposals

7 IV. Class Cost of Service Study: Basic Customer Approach

8 V. Revenue Apportionment: Informed by Basic Customer Approach

9 VI. Rate Design

10 VII. Recommendations and Conclusion

11

12 **II. Purpose of Testimony**

13

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

15 A. I am testifying on issues regarding Oklahoma Gas and Electric's ("OG&E" or "Company")
16 embedded Cost of Service Study ("COSS") and rate design.

17 **Q. Please provide a brief summary of your recommendations in this proceeding.**

18 A. I will provide arguments for the OCC to consider the following two recommendations.

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1 First, the OCC should reject OG&E's proposed increase of the monthly fixed customer
2 charge from \$13 to \$21 in this proceeding.

3 Second, the OCC should consider a basic customer methodology for its deliberations on
4 revenue apportionment of any change in rates, especially, modifying the monthly fixed
5 customer charge for residential customers in this cause.

6 **Q. Please summarize your analysis regarding the COSS model relied upon by OG&E**
7 **in this case.**

8 A. OG&E's COSS continues to rely solely on a minimum system study to classify millions of
9 dollars in distribution system costs. In the past, AARP witnesses have noted multiple
10 concerns regarding the efficacy of allocating costs to customer classes in a reasonable
11 manner. The zero-intercept analysis used to estimate OG&E minimum system does not
12 rely on correct data, is based on incorrectly specified regressions, does not follow the
13 method outlined in the National Association of Regulatory Utility Consumers ("NARUC")
14 Electric Manual, or estimate the cost of the minimum system correctly.

15 My analysis provides a simplified basic customer approach with limited modifications to
16 the COSS model provided by OG&E in the minimum filing requirements. This simplified
17 base customer approach is adapted from the methodology utilized in rate case
18 proceedings before the PSCW. Exhibit 2 to this testimony is explanation of the basic
19 customer method utilized by the PSCW to inform revenue apportionment, in conjunction
20 with multiple COSS methodologies.

21 **Q. Why are the results of OG&E's minimum system study important?**

22 A. The results of OG&E's minimum system study incorporated into the COSS are used to
23 inform revenue apportionment and rate design.

1 **Q. How do you recommend the Commission deal with the shortcomings of OG&E's**
2 **minimum system study?**

3 A. I recommend the Oklahoma Corporation Commission ("Commission") rely on the
4 simplified basic customer COSS as discussed later in my testimony to inform revenue
5 apportionment and rate design in this case.

6 **Q. Please summarize your analysis regarding OG&E's proposed Residential rate**
7 **design.**

8 A. My analysis demonstrates that OG&E's proposed 61.5% percent increase in the customer
9 charge from \$13.00 to \$21.00 is unsupported and should be rejected by the OCC in this
10 cause.¹ First, the Company bases the magnitude of its proposed monthly customer charge
11 increase directly from the customer costs classified using the same minimum system study
12 AARP and other customer advocates have criticized in previous OG&E rate cases. The
13 modifications I propose for OG&E's COSS model provides a simplified basic customer
14 approach to allow for a reasonable starting point for designing rates given the previous
15 (and ongoing) concerns regarding OG&E's minimum system study. Second, my
16 suggested model more closely aligns the residential fixed customer charge to collect only
17 those costs that can be more directly attributed to a specific customer, such as meter and
18 billing costs, instead of shared distribution system costs. Lastly, I provide data and
19 analysis demonstrating that higher customer charges would be a shock to customers and
20 erode residential customers' ability to control the magnitude of their bills in the face of
21 inflationary pressures in the general economy.

¹ Cash, Direct at 13, Table 4.

1 **Q. What is your recommendation related to residential rate design?**

2 A. I recommend that the Commission reject OG&E proposed customer charge increase of
3 approximately 61.5% and instead maintain the current customer charges for each of
4 OG&E's residential tariffs.

5 **III. Class Cost of Service Study: Objectives, Background, and Company Proposals**

6
7 **Q. What is the purpose of a COSS?**

8 A. The purpose of a COSS is to decipher, with as much detail and accuracy as possible,
9 which customer class, or classes, caused the utility's various embedded costs associated
10 with providing service.

11 **Q. How is a COSS performed?**

12 A. A COSS has three general steps. First, costs are functionalized into various categories.
13 Second, costs are classified as energy, demand/capacity, or customer. Lastly, the costs
14 are allocated to the various customer classes using allocators related to energy,
15 demand/capacity, or customer characteristics.

16 **Q. How are costs functionalized?**

17 A. Public utilities are required to maintain records in accordance with the Uniform System of
18 Accounts as designated by the Federal Energy Regulatory Commission ("FERC"). These
19 accounts assign costs by various functions, such as generation, transmission, and
20 distribution. The purpose of functionalizing costs is to aid in determining which customers
21 are jointly or solely responsible for various costs.

1 **Q. How are costs classified?**

2 A. After a utility's costs are functionalized, they are then classified as either energy, demand,
3 or customer costs based on cost causation. Costs classified as energy costs are those
4 that fluctuate on a customer class's energy usage, measured in kilowatt-hours ("kWh").
5 Demand costs are those costs that fluctuate based on a customer class's contribution to
6 peak demand, measured in kilowatts ("kW"). Finally, customer costs are those required to
7 provide service to customers, regardless of whether the customers consume electricity or
8 not. Specifically, the NARUC Electric Manual defines a customer cost as "costs that are
9 directly related to the number of customers served."² In other words, the utility incurs
10 customer costs based directly on the *number* of customers on its system, rather than on
11 the amount of energy they consume or when they consume it.

12 **Q. How are costs allocated once they have been classified?**

13 A. Costs are allocated to customer classes based on each class's contribution to a particular
14 cost. For example, if the company spends the same amount of time and money on each
15 customer location, regardless of class, then it is appropriate to allocate that cost based on
16 the number of customer locations. This result stems from the fact that the number of
17 customer locations cause these costs to be incurred, rather than by a customer's electricity
18 consumption or any other factor.

19 **Q. How are the appropriate approaches to classification and allocation determined?**

20 A. Classifications and allocations are informed by cost causation. Cost causation is based
21 on the notion that the customer, or set of customers, that caused a certain cost should pay

² National Association of Regulatory Utility Commissioners, *Electric Utility Cost Allocation Manual*, at 20 (1992) (hereinafter "NARUC Electric Manual").

1 for the cost. To determine cost causation, analysts often rely on economic theory and
2 power system engineering considerations.

3 **Q. Can you describe the methods that you will focus on in this testimony?**

4 A. Yes. In this testimony I primarily discuss the method for classifying and allocating the costs
5 of the distribution system known as the basic customer approach. I have calculated a
6 simplified form of this approach for the OCC to consider in this proceeding.

7 **Q. What is the basic customer approach?**

8 A. According to the basic customer approach, only costs that can be traced to a specific
9 customer should be assigned as customer costs, because those are the only costs that
10 vary based on the number of customers in a class. With this methodology, the costs for
11 conductors and transformers cannot be attributed directly to a particular customer,
12 because adding one new customer to the existing system would not necessarily increase
13 these costs. Instead, the basic customer approach recognizes that the distribution system
14 is built to serve peak demand for all of the connected customers, and accordingly classifies
15 these costs as related to demand. As further described below, the basic customer
16 approach has been utilized by commissions to inform monthly customer charges for
17 residential customers.

18 **Q. What is the minimum system approach?**

19 A. The minimum system approach posits that the cost of capacity in the distribution system
20 are caused by peak demand and should be classified as a demand cost. Some of the
21 costs, however, are related to connecting a customer to the "minimum system," a
22 distribution system with little or no capacity. Because this fictitious minimum system has
23 no capacity, the cost to connect a customer should be the same and would vary based on

1 the number of customers in a class, and therefore it is argued that such demand costs
2 should be classified as a customer cost. The cost of the minimum system can be estimated
3 in several ways, including the minimum size and zero intercept methods.³

4 **Q. Have AARP witnesses identified concerns with OG&E's regression analyses to**
5 **estimate its minimum system study in previous rate cases?**

6 A. Yes. AARP witness Ron Nelson identified concerns regarding the statistical approach
7 using zero-intercept regression analyses in AARP's responsive cost of service and rate
8 design testimony in Cause No. PUD 2018-000140. Based on the Company's response to
9 Data Request AG 23-01 in the current proceeding, OG&E continues to support its
10 minimum system study with a zero-intercept study that was approved in Case No. PUD
11 201700496 and used in Case Nos. PUD 201800140 and 2021000164. Rather than
12 discuss the statistical concerns of the Company's method for completing its zero-intercept
13 study, which remain valid, I have instead completed a simplified basic customer
14 methodology COSS model based on the Company's COSS as discussed by Company
15 witness Ms. Maxey.

16 **Q. Which distribution classification approach do you think should be considered by**
17 **the Commission in this case?**

18 A. While there are arguments that support each of the approaches discussed above, I believe
19 that the basic customer approach I have adopted provides the Commission with additional
20 insights regarding how costs are caused by customers and would more accurately assign

³ As indicated in the NARUC Electric Manual, another approach is to classify and allocate distribution system costs as partially energy related. While the NARUC Electric Manual indicates that classifying the distribution system as energy is appropriate, it does not explicitly discuss a method for determining the portion related to energy. NARUC Electric Manual at 21, 34, 134, and 137.

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1 costs to cost causers. I recommend the Commission consider a COSS model that utilizes
2 the basic customer approach. I will discuss the basic customer adjustments I made to the
3 Company provided COSS model in more detail later in this testimony.

4 **Q. Does OG&E's proposal for allocation of wind production costs align with**
5 **reasonable cost causation principles to fairly allocate costs to customer classes?**

6 A. Yes. Based upon my review of Company Witness Maxey's testimony and the Company's
7 COSS model, the Company appears to be following the Southwest Power Pool ("SPP")'s
8 effective load carrying capacity ("ELCC") methodology to align cost recovery with current
9 capacity accreditation methodology. Additionally, OG&E's wind production allocation
10 methodology aligns with the Commission's Order No. 738571 in Case No. PUD 2022-
11 000093. This position is consistent with AARP's previously stated position which relied
12 upon ELCC methodology as used by SPP to support a blended allocation method in Case.
13 No. PUD 2022-000093.

14 **Q. Does OG&E's proposal to allocate transmission demand related costs via a twelve**
15 **coincident peak ("12CP") allocator reasonably allocate costs to customer classes?**

16 A. Yes. OG&E's proposal to align its methodology for transmission cost allocation to a 12CP
17 allocator in its Oklahoma retail jurisdiction is consistent with each of its other jurisdictions,
18 per Company Witness Maxey. Additionally, the proposed 12CP allocation methodology
19 aligns with how SPP assigns costs across its transmission system on a load ratio share
20 basis. Utilizing the proposed 12CP cost allocation methodology is consistent with SPP's
21 planning of the transmission system to allow customers within the SPP service territory to
22 access cost-effective power for each of the twelve months of the calendar year, not just at
23 the system peak or only during the summer months.

1 **IV. Class Cost of Service Study: Basic Customer Approach**

2

3 **Q. How would a COSS utilizing the basic customer approach differ from OG&E's**
4 **proposed COSS in this case?**

5 A. A basic customer COSS would differ in only one way from OG&E's minimum system
6 COSS; it classifies distribution system costs differently. Specifically, the basic customer
7 approach classifies FERC accounts 364-368 (referred to generally as "distribution
8 system") as 100 percent demand-related and FERC accounts 369-370 as customer-
9 related, whereas the minimum system approach most commonly classifies FERC
10 accounts 364-369 as both demand- and customer-related. OG&E's minimum system
11 COSS classifies meters and service lines, FERC accounts 369 and 370, as 100 percent
12 customer related and classifies transformers, poles, conductors and cables, FERC
13 accounts 364-368, as 27 to 75 percent customer- and 25 to 73 percent demand-related.⁴

14 **Q. Why is it appropriate to classify distribution system costs as 100 percent demand?**

15 A. There are two main reasons that cost analysts find it reasonable to classify the distribution
16 system as 100 percent demand costs. First, distribution system equipment will not be
17 designed or installed if it is incapable of serving peak demand reliably and safely. This
18 indicates that the cost of distribution equipment is caused by the requirement to meet peak
19 demand. As one analysis of cost of service methods put it: "The theoretical basis for [the
20 basic customer] approach is that the distribution system is sized to a certain capacity, that
21 capacity is available to the total population of customers served by a system, and any

⁴ See OG&E's response to Data Request AG 23-01(a)_Att1, specifically the "Summary" tab.

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1 capacity used by one customer is generally not available to another.”⁵ From an
2 engineering perspective, the distribution system is designed to meet localized peak
3 demand of a group of customers, and from an economic perspective demand reflects how
4 the system is utilized by customers. Therefore, all distribution costs are more properly
5 classified as 100% demand-related and not as customer-related.

6 A second, similar explanation is that demand costs are the fixed costs that the utility incurs
7 to be ready to provide service. According to Alfred Kahn, a distinguished regulatory
8 economist, demand costs are those caused by “the utility’s readiness to serve, on
9 demand. This readiness to serve is made possible by the installation of *capacity* . . . the
10 fixed, capital costs And the proper measure of that responsibility is the proportionate
11 share of each customer in the total demand placed on the system at its peak.”⁶ Said
12 another way, it is a customer’s demand that causes the fixed costs of the distribution
13 system, not simply the numerical addition of that customer to the system.

14 **Q. Do other regulatory commissions in the United States use the basic customer and**
15 **energy related approaches?**

16 A. Yes. In 2000, the Regulatory Assistance Project (RAP) estimated that approximately 30
17 electric utilities used methods that did not classify any portion of the distribution system
18 as a customer cost⁷, as opposed to the large percentage OG&E is proposing to allocate
19 as a customer cost in this case. I have also testified in a proceeding where a natural gas
20 utility claimed that 19 states utilized the basic customer or peak-and-average

⁵ Jim Lazar, *Cost Elements and Study Organization For Embedded Cost of Service Analysis: Applicable to the Tucson Electric Power Company* 19 (1992).

⁶ Alfred E. Kahn, *The Economics of Regulation: Principles and Institutions* 95 (1988) Vol. I.

⁷ See Fredrick Weston, The Regulatory Assistance Project, *Charging for Distribution Utility Services: Issues in Rate Design* at 29 (2000).

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1 approaches.⁸ This demonstrates that many Commissions use these methods to classify
2 and allocate both electric and natural gas distribution systems throughout the country.

3 **Q. Is the basic customer approach commonly used and supported by reliable**
4 **references?**

5 A. Yes. NARUC has two references that mention the approach.⁹ While the NARUC Electric
6 Manual's discussion of the basic customer approach resides within the marginal cost
7 section of the manual, a similar approach is applied to embedded COSSs throughout the
8 country, as I demonstrate below. In addition, Dr. James Bonbright discusses the basic
9 customer approach in *Principles of Public Utility Rates*.

10 **Q. Are you familiar with how the Commission in Wisconsin utilizes the minimum**
11 **system and basic customer approaches?**

12 A. Yes. I worked as a staff member for the Public Service Commission of Wisconsin for
13 approximately five years. I have also reviewed numerous documents filed and orders
14 issued in Wisconsin. I was responsible for coordinating multiple general rate case
15 proceedings for vertically-integrated, investor-owned utility rate cases in Wisconsin.
16 Accordingly, PSCW considers multiple cost of service study methodologies prior to
17 apportionment of revenues in a contested rate proceeding.

⁸ *In the Matter of the Application of CenterPoint Energy Corp. d/b/a CenterPoint Energy Minnesota Gas for Authority to Increase Natural Gas Rates in Minnesota*, Docket No. G-008/GR-15-424, Rebuttal Testimony of Russell A. Feingold, at Schedule 3 (Dec. 18, 2015). Due to the time-intensive nature associated with a review of these estimates, I have not verified either of these estimates by assessing each Commission's order on the subject. I believe that it is reasonable to rely on CenterPoint Energy's survey as demonstrative that a minimum of 19 regulatory commissions use the Basic Customer or Peak-and-Average approaches, given that it was provided by a utility in opposition to those methods.

⁹ See National Association of Regulatory Utility Commissioners, *Electric Utility Cost Allocation Manual* (1992) [hereinafter NARUC Electric Manual]; see also National Association of Regulatory Utility Commissioners, *Gas Distribution Rate Design Manual* (1989) [hereinafter NARUC Gas Manual]. The NARUC Electric Manual methods discusses a method similar to the Basic Customer in the marginal cost section on pages 136–146. The NARUC Gas Manual discusses the Basic Customer approach on page 23.

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1 One of the methodologies considered by the PSCW from COSS models is a version of
2 the basic customer methodology that I have previously discussed in this testimony. I have
3 included as an exhibit to my testimony PS-1.0 a data request from PSCW Staff to
4 Wisconsin Power and Light Company to prepare multiple cost of service models including
5 a COSS utilizing the basic customer cost methodology in Docket Number 6680-UR-124.

6 **Q. Can you please provide a sampling of previous orders that you are aware of that**
7 **discuss the merits of the basic customer approach?**

8 A. Yes. First, the Illinois Commission has rejected the minimum system approach numerous
9 times and adopted the Basic Customer approach:

10 As it has in the past, see, e.g. Dockets 05-0597, 99-0121 and 00-
11 0802, the Commission rejects the minimum distribution or zero-
12 intercept approach for purposes of allocating distribution costs
13 between the customer and demand functions in this case. In our
14 view, the coincident peak method is consistent with the fact that
15 distribution systems are designed primarily to serve electric
16 demand.

17 The Commission believes that attempts to separate the costs of
18 connecting customers to the electric distribution system from the
19 costs of serving their demand remain problematic. We reject the
20 use of the MDS in this proceeding, and find that ComEd's ECOSS
21 was correct in not reflecting the MDS concept. Accordingly, the
22 Commission rejects the use of IIEC's COSS because it relies on the
23 use of MDS.¹⁰

24

25 The Illinois Commission in fact considered a method similar to the basic customer
26 approach and the minimum system approaches, and found the basic customer approach
27 to be more reasonable.

¹⁰ Final Order, *Commonwealth Edison Company Proposed General Increase in Electric Rates (Tariffs filed October 17, 2007)*, at 208 (Sep. 10, 2008), Docket No. 07-0566 (Illinois Commerce Commission).

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1 Iowa has made an approach similar to the basic customer approach in framing the legal
2 provisions in that state. Iowa law states that “[c]ustomer cost component estimates or
3 allocations shall include only costs of the distribution system from and including
4 transformers, meters and associated customer service expenses.”¹¹

5 The Idaho Commission moved from the minimum system approach to the basic customer
6 approach in 1998 because it found that the basic customer approach was a superior
7 methodology.¹²

8 The Arkansas Public Service Commission has also ruled against the minimum system
9 approach put forward by OG&E here in Oklahoma and for the basic customer approach
10 on numerous occasions as indicated by the following:

11 The Commission agrees with EAI, Staff and AG that accounts 364-
12 368 should be allocated to the customer classes using a 100%
13 demand methodology and find that AEEC and HHEG do not provide
14 sufficient evidence to warrant a determination that these accounts
15 reflect a customer component necessary for allocation purposes.¹³

16

17 **Q. Why is this information important for the Commission to consider?**

18

19 The context provided by these other regulatory commissions aids in establishing the
20 reasonableness of the basic customer approach for this Commission to consider it in this
21 proceeding. Although I have not conducted an exhaustive survey of all states, nor do I

¹¹ Iowa Admin. Code 199-20.10(2)(e).

¹² Order No. 28097, *In the Matter of the Application of the Washington Water Power Company (Now Avista Corporation dba Avista Utilities—Washington Water Power Division) For an Order Approving Increased Rates and Charges for Electric Service in the State of Idaho*, at 24–27 (July 29, 1999), Case No. WWP-E-98-11 (Idaho Public Utilities Commission).

¹³ Order, *In the Matter of the Application of Entergy Arkansas, Inc., for Approval of Changes in Rates for Retail Electric Service*, at 124–26 (Dec. 30, 2013) Docket No. 13-028-U (Arkansas Public Service Commission).

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1 constantly monitor each state for updates, I have provided condensed information from
 2 several commissions related to both vertically integrated and restructured electric utilities
 3 that support my recommendation to utilize the basic customer COSS for an electric utility.
 4 I recommend the Commission consider using the basic customer approach with the
 5 distribution accounts FERC account 364-368 (referred to generally as “distribution
 6 system”) to be classified as 100 percent demand-related for determining reasonable
 7 allocation of costs to customer classes.

8 **Q. Did you prepare an independent basic customer COSS?**

9 A. I did. I made modifications to the Microsoft Excel COSS model entitled “Okla PUD
 10 2023000087 to File” provided by the Company on its SharePoint site for this proceeding.
 11 I made five modifications to the “Cost of Service” tab of the aforementioned Excel-based
 12 COSS model provided by the company. Table 1 below reflects the modifications to
 13 allocation factors I made to OG&E’s COSS model.

14 Table 1:

	OG&E COSS Model Account Name	As Filed Allocator	Basic Customer Method Adjusted Allocator
GP75	ACCT 364 - POLES, TOWERS, & FIXTURES - OKLA. JURIS. (CUSTOMER RELATED)	DISTCUSTOK1	DISTDMDOK1
GP81	ACCT 365 - OVERHEAD CONDUCTORS & DEVICES - OKLA. JURIS. (CUSTOMER RELATED)	DISTCUSTOK2	DISTDMDOK1
GP87	ACCT 366 - UNDERGROUND CONDUIT - OKLA. JURIS. (CUSTOMER RELATED)	DISTCUSTOK3	DISTDMDOK3
GP92	ACCT 367 - UNDERGROUND CONDUCTORS & DEVICES - OKLA. JURIS. (CUSTOMER RELATED)	DISTCUSTOK4	DISTDMDOK3
GP97	ACCT 368 - LINE TRANSFORMERS - OKLA. JURIS. (CUSTOMER RELATED)	DISTCUSTOK5	DISTDMDOK2

15
 16 These adjustments to the distribution related plant account FERC accounts provide a
 17 reasonable approximation, in my opinion, of the basic customer method of OG&E’s
 18 revenue require as requested in its application.

19

1 **Q. Based on the modifications previously discussed, how do the simplified basic**
 2 **customer methodology COSS model results compare to the COSS as filed by**
 3 **OG&E?**

4 A. Once the five modifications noted in Table 1 were input into the Company's COSS, the
 5 results from model calculations were entered on Schedule L-1. I was not able to verify
 6 every calculation in the Excel Workbook provided by Company; however, the resultant
 7 Simplified Basic Customer methodology COSS model outputs appear consistent with my
 8 expectations. Table 2 below reflects customer class level revenue requirements and
 9 calculated revenue deficiencies as filed by OG&E:

10 *Table 2:*

Company's As-Filed COSS Outputs						
	Schedule	Column	Rows	Total Revenue Defieicy/(Surplus)	Total Revenue Requirement	Percent Change
Total Residential Service	L-1	45	40 to 42	\$160,494,539	\$807,543,969	24.8%
Total General Service	L-1	46	40 to 42	\$37,717,056	\$177,895,576	26.9%
Total Oil and Gas Production	L-1	47	40 to 42	\$897,761	\$13,053,053	7.4%
Total Public Schools Small	L-1	48	40 to 42	\$6,868,041	\$16,734,481	69.6%
Total Public Schools Large	L-1	49	40 to 42	\$5,215,593	\$15,964,123	48.5%
Total Power & Light	L-1	50	40 to 42	\$62,653,166	\$360,227,510	21.1%
Total Lrg. Power & Light	L-1	51	40 to 42	\$47,499,662	\$205,573,751	30.0%
Total Municipal Pumping	L-1	52	40 to 42	\$841,119	\$5,123,249	19.6%
Total Lighting Service	L-1	53	40 to 42	\$9,936,285	\$48,005,208	26.1%
Total Back Up & Maintenance	L-1	54	40 to 42	\$414,120	\$734,584	129.2%
Total Okla Juris	L-1	44	40 to 42	\$332,537,341	\$1,650,855,503	25.2%

11
 12 Table 3 below reflects the five modifications to the distribution plant related allocation
 13 factors for all plant related costs related to FERC accounts 364 to 368 to be allocated on
 14 100% distribution demand method.

15

1 *Table 3:*

Simplified Basic Customer Model COSS Outputs						
				Total Revenue	Total Revenue	Percent
	Schedule	Column	Rows	Deficiency/(Surplus)	Requirement	Change
Total Residential Service	L-1	45	40 to 42	\$151,540,941	\$798,590,371	23.4%
Total General Service	L-1	46	40 to 42	\$13,656,487	\$153,835,007	9.7%
Total Oil and Gas Production	L-1	47	40 to 42	\$136,097	\$12,291,388	1.1%
Total Public Schools Small	L-1	48	40 to 42	\$9,706,621	\$19,573,061	98.4%
Total Public Schools Large	L-1	49	40 to 42	\$7,801,409	\$18,549,939	72.6%
Total Power & Light	L-1	50	40 to 42	\$84,466,168	\$382,040,512	28.4%
Total Lrg. Power & Light	L-1	51	40 to 42	\$52,998,339	\$211,072,428	33.5%
Total Municipal Pumping	L-1	52	40 to 42	\$976,756	\$5,258,885	22.8%
Total Lighting Service	L-1	53	40 to 42	\$10,840,404	\$48,909,327	28.5%
Total Back Up & Maintenance	L-1	54	40 to 42	\$414,120	\$734,584	129.2%
Total Okla Juris	L-1	44	40 to 42	\$332,537,341	\$1,650,855,503	25.2%

2
 3 **Q. Can this basic customer methodology of the COSS be applied to any adjustments**
 4 **to the Company’s Pro-Forma revenue requirement?**

5 A. Yes. Any adjustments to the revenue requirement for Oklahoma retail jurisdiction can be
 6 reflected with this basic customer COSS model by making the five previously noted
 7 adjustments to allocate 100% of distribution plant costs in FERC account 364-368 via
 8 demand allocation factors. The results reflected in Table 3 are based solely on OG&E’s
 9 revenue requirement as filed for the Oklahoma retail jurisdiction.

10 **Q. What process do you recommend the Commission use for classifying distribution**
 11 **system costs?**

12 A. I recommend that the Commission use the basic customer approach to classify distribution
 13 system costs. Furthermore, I recommend that the results of the COSS using basic
 14 customer approach should be used to inform rate design and revenue apportionment.

1 **V** **Revenue Apportionment: Informed by the Simplified Basic Customer Approach**

2

3 **Q.** **How does the simplified basic customer methodology affect how proposed**
4 **revenues are calculated?**

5 A. To incorporate the results of the simplified basic customer methodology COSS model with
6 the revenue allocation process utilized by OG&E for its proposed rates. I first input the
7 results of the simplified basic customer methodology COSS model input the “Revenue
8 Allocation – 2023” Excel workbook provided by the company on its SharePoint site for this
9 proceeding on the “Sch L-1” tab. This step allowed for the revenues to be calculated in
10 the same manner that OG&E calculated its revenue allocation proposal with the only
11 difference being the basic customer COSS model, as summarized in Table 3, as the
12 reference point for allocating proposed increases in revenues.

13 **Q.** **What constraints were utilized to calculate the proposed revenue allocation based**
14 **on the basic customer methodology COSS model?**

15 A. I constrained the proposed revenue apportionment to limit cross subsidization between
16 customer groups and try to constrain the increase to any particular customer class within
17 reasonable parameters. I utilized the following constraints in performing the revenue
18 apportionment:

19 1) No customer group would be allocated a reduction in rates, regardless of the
20 size of the overall revenue increase requested by OG&E, regardless of the basic
21 customer COSS model output.

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2) No customer group would be subject to a rate increase that would result in the proposed revenues exceeding 105% of the revenue requirement, as calculated by the basic customer COSS model output.

3) Finally, I reallocated any reduction in proposed revenues resulting from constraints one and two based on the net subsidy as calculated by Column U on the "Oklahoma RevAlloc Detail" tab of the "Revenue Allocation – 2023" workbook provided by the Company. This step is intended to ensure that the overall revenue requirement is included in the proposed revenues, and to allocate any increases proportionally to those customer groups whose proposed revenues are calculated below the revenue requirement calculated in the basic customer COSS model.

Q. How does basic customer methodology revenue apportionment compare to OG&E's proposed revenue apportionment?

A. Table 4 displays the results of basic customer COSS methodology utilized as a basis for apportionment of OG&E's proposed revenue increase.

Table 4

Customer Group	<i>Proposed Revenue Increase</i>	<i>Proposed Base Rate Revenue</i>	<i>Base Rate % Increase</i>	<i>Proposed Rate of Return</i>	<i>Proposed Relative RoR</i>	<i>Percent of Total Cost of Service</i>
RESIDENTIAL	\$ 149,527,723	\$ 796,577,153	23.1%	7.83%	99.4%	100%
GENERAL SERVICE	\$ 20,968,718	\$ 161,147,238	15.0%	8.73%	110.9%	105%
OIL & GAS PRODUCTION	\$ 930,809	\$ 13,086,101	7.7%	9.04%	114.8%	105%
PUBLIC SCHOOLS SM	\$ 7,820,871	\$ 17,687,311	79.3%	6.28%	79.8%	90%
PUBLIC SCHOOLS LG	\$ 6,512,020	\$ 17,260,550	60.6%	6.74%	85.6%	93%
POWER & LIGHT	\$ 82,743,103	\$ 380,317,447	27.8%	7.80%	99.0%	100%
LRG. PWR & LGHT	\$ 52,322,743	\$ 210,396,832	33.1%	7.82%	99.3%	100%
MUNICIPAL PUMPING	\$ 945,472	\$ 5,227,602	22.1%	7.77%	98.7%	99%
LIGHTING	\$ 10,422,073	\$ 48,490,996	27.4%	7.76%	98.5%	99%
BACK UP & MAINTENANCE	\$ 343,810	\$ 664,275	107.3%	6.44%	81.7%	90%
OKLA RETAIL JURISDICTION	\$ 332,537,342	\$ 1,650,855,504	25.2%	7.88%	100.0%	100%

1 The revenue apportionment proposed in Table 4 resulted in a smaller variation of the
2 Proposed Rate of Return ("ROR") and Proposed Relative ROR between customer
3 classes. When compared to OG&E's apportionment proposal some customer classes
4 have been allocated a larger increase in base rate revenues due to the divergence of the
5 proposed rates from the basic customer COSS model outputs. These divergences were
6 mitigated by the allocation of an additional portion of the proposed revenue increases as
7 compared to the OG&E proposal.

8 **Q. Please summarize the results AARP's proposed revenue apportionment relative to**
9 **that the OG&E.**

10 A. Generally, the basic customer methodology COSS reduced the revenue requirements for
11 the residential and general service customer classes because the allocation of FERC
12 accounts 364-368 on a 100% distribution demand basis allocating a larger proportion of
13 the distribution related rate base to the non-residential and small business classes.
14 AARP's proposed revenue apportionment reduces the proposed revenue increases for
15 the residential and general service customer classes proportionally with the reductions
16 from the COSS model results subject to the constraints outlined on pages 20 and 21 that
17 governed the revenue apportionment methodology discussed herein. Accordingly, the
18 remainder of the OG&E's proposed increases were allocated to the remaining customer
19 classes excluding residential and general service classes.

20

21

22

1 **Q. Can the process for revenue apportionment set forth by AARP be utilized with**
2 **adjustments to the revenue requirement from intervenors responsive testimony?**

3 A. Yes. Any adjustments to the Oklahoma Retail Jurisdictional revenue requirements can
4 be flowed through the COSS model, as modified in this testimony, and allocated utilizing
5 the same constraints as previously discussed.

6 **VI. Rate Design**

7
8 **Q. How is this section of your testimony organized?**

9 A. This section of my testimony consists of some introductory materials followed by two
10 subsections. In Section VI.A, I discuss how maintaining the current residential monthly
11 customer charge appears reasonable given data provided in the Company's COSS model.
12 In Section VI.B, I discuss how high fixed monthly customer charges impede efficient
13 achievement of policy goals. I conclude with my recommendation that the Commission
14 reject the Company's proposal to significantly increase the monthly customer.

15 **Q. What is the purpose of this section?**

16 A. The issue covered in this section is the customer charges for the residential customer
17 classes.

18 **Q. What is OG&E recommending in this case for its residential customer charges?**

19 A. OG&E is proposing that all residential, including the standard, time-of-use ("TOU"), and
20 variable peak pricing ("VPP"), tariffs be increased from the current level of \$13 to \$21 per
21 month.

1 **Q. In general, do you find high fixed charges for residential customers to be**
2 **reasonable?**

3 A. No. I strongly believe that high fixed monthly charges are bad for customers and impede
4 the achievement of Oklahoma state policy goals. Increasing the customer charge provides
5 benefits to OG&E and its shareholders through less variable revenues and can lead to
6 increased future revenues for the Company, but these benefits do not outweigh all the
7 costs imposed on OG&E customers. Approving OG&E's proposal to almost double the
8 customer charge would be unfair to many customers served by the Company and would
9 be contrary to public interest.

10 **Q. Do you agree with OG&E's proposal to increase its fixed monthly residential**
11 **customer charge at \$21.00?**

12 A. No. I do not agree with OG&E's customer charge increase for multiple reasons. First,
13 OG&E's justification for the magnitude of its customer charge is directly related to the
14 results of its minimum system study, which does not provide a definitive unitary cost as
15 the Company asserts. Second, from a technical standpoint, OG&E's recommendation
16 does not reasonably align with cost causation when a basic customer methodology could
17 provide a more reasonable basis for calculating such a monthly charge. Third, excessive
18 fixed charges, in general, cause difficulty for customers.

19 **A. *OG&E's minimum system study is not a valid justification to increase***
20 ***customer charges***
21

22 **Q. What factors does the Company claim to consider when designing rates?**

23 A. The Company claims that its "proposed prices are intended to reflect a balance between
24 embedded cost, marginal cost, customer preference, and recovery of the proposed

1 revenue requirement without undue impacts on customers.”¹⁴ The Company goes on to
2 state that “Marginal costs are used to set rates that promote more efficient use of
3 resources.”¹⁵

4 **Q. What costs do the Company base the increased customer charge on?**

5 A. The Company bases its customer charge proposal on unit costs from its embedded
6 COSS.¹⁶

7 **Q. Are the unit costs that the Company uses as a basis for the customer charge the
8 same as marginal costs?**

9 A. No. The Company’s customer-related unit costs are simply embedded customer costs
10 from its COSS. Marginal customer costs are completely different and would not include
11 many of the costs that OG&E includes in its estimate of embedded customer costs.

12 **Q. How do marginal and embedded customer costs differ?**

13 A. The estimate of marginal and embedded costs differs in many ways. Often a primary
14 difference is that primary and secondary distribution system costs are not included in an
15 estimate of marginal customer costs, while some utilities, such as OG&E, include these
16 costs in embedded customer costs.

17 **Q. With respect to the customer-related component of costs, do you believe the
18 customer costs estimated using the zero-intercept analysis provides a reasonable
19 estimate of the average customer’s cost of service?**

¹⁴ Cash, Direct at 6.

¹⁵ Cash, Direct at 7.

¹⁶ Cash, Direct at 9.

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1 A. No. In fact, OG&E's minimum system analysis is likely to allocate portions of the
2 distribution plant on a per customer basis when in reality the utility is not making
3 investment decisions regarding the portions of the distribution system, specifically those
4 portions included in FERC accounts 364 to 368, when these investments are designed to
5 serve the peak load on the distribution system not solely on per customer basis.
6 Accordingly, this misclassification of the distribution system costs as customer related
7 costs likely skews the analysis provided by OG&E to support a monthly fixed customer
8 charge that does not reasonably align with cost causation principles.

9 **Q. Would the COSS based on the basic customer approach classify the same amount**
10 **of costs as customer-related?**

11 A. No. A basic customer COSS would classify fewer costs as customer-related and would
12 therefore lead to a lower customer charge, based on the approach utilized by the
13 Company. The Excel Workbook entitled "Unit Cost WP", upon inspection, included hard-
14 coded figures from the Company's COSS model and could not be relied upon to accurately
15 flow the basic customer methodology modifications, as previously discussed, data to
16 arrive at reliable result.

17 **Q. Did OG&E's COSS Excel Workbook provide any additional information regarding**
18 **unit costs that might be applicable to the calculation of a reasonable fixed customer**
19 **charge based on a basic customer methodology?**

20 A. No. OG&E's COSS Excel Workbook as provided on the SharePoint Site for the proceeding
21 reflects a breakdown of customer costs on a per-customer per-month basis.¹⁷ The per

¹⁷ This information resides in the hidden tab referred to as "UNBUNDLED" in cells E1122, E1123, E1124, and E1128. While the numbers appear to be derived from revenue estimates, they should mirror the costs closely. Based on the information that OG&E provided, a direct comparison cannot be made.

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1 customer per month costs for standard residential service is broken down as \$1.60 for
2 customer distribution line transformers, \$1.21 customer service investment, \$2.26 for
3 customer meter investment, and \$5.12 for other customer investment. The total per
4 customer per month cost, as an approximation for a simplified basic customer study, is
5 \$10.19 per standard residential customer per month. This means that OG&E's proposed
6 customer charge increase of \$8 would not appear to be reasonably supported by data
7 provided in the Company's own cost of service study work papers.

8 **Q. Given that OG&E utilizes the basic customer COSS in Arkansas, what is the**
9 **residential customer charge?**

10 A. OG&E's Arkansas standard residential customer charge remains at \$9.75 per month.¹⁸

11 **Q. Has the OCC recently taken action to reduce modifications to fixed customer**
12 **charges?**

13 A. Yes. The OCC issued its Order No. 738226 in Case No. PUD 2022-000093 where the
14 OCC approved a reduction in Public Service Company of Oklahoma's residential fixed
15 customer charge from \$21 per month to \$17 per month, in conjunction with a non-
16 unanimous Joint Stipulation and Settlement Agreement.

17

18 **B. *High customer charges impede achievement of policy goals***

19

20 **Q. How do high customer charges impede customer interests?**

¹⁸ See <https://www.oge.com/wps/wcm/connect/ce6ffbe0-ea07-4c6b-b442-6c948ef35a4b/3.0+R-1.pdf?MOD=AJPERES&CACHEID=ROOTWORKSPACE-ce6ffbe0-ea07-4c6b-b442-6c948ef35a4b-INweHB2>

1 A. Increasing monthly fixed residential customer charges reduces the price signal for
2 customers to conserve energy to reduce their monthly bills. As customers' bills are less
3 dependent on volumetric electricity consumption charges, the proper price signals for
4 customers to engage in energy efficiency programs initiated by state and federal
5 policymakers can be become muted.

6 **Q. Do customers prefer high customer charges?**

7 A. No. While the Company notes that one of its objectives is to design rate "that meet
8 customers' pricing preferences,"¹⁹ many residential customers do not like high customer
9 charges and many consumer advocates oppose increases in the fixed charge, such as
10 the National Association of State Utility Advocates ("NASUCA").²⁰

11 **Q. Why could OG&E's proposal to increase the residential fixed customer charge**
12 **adversely affect residential customers?**

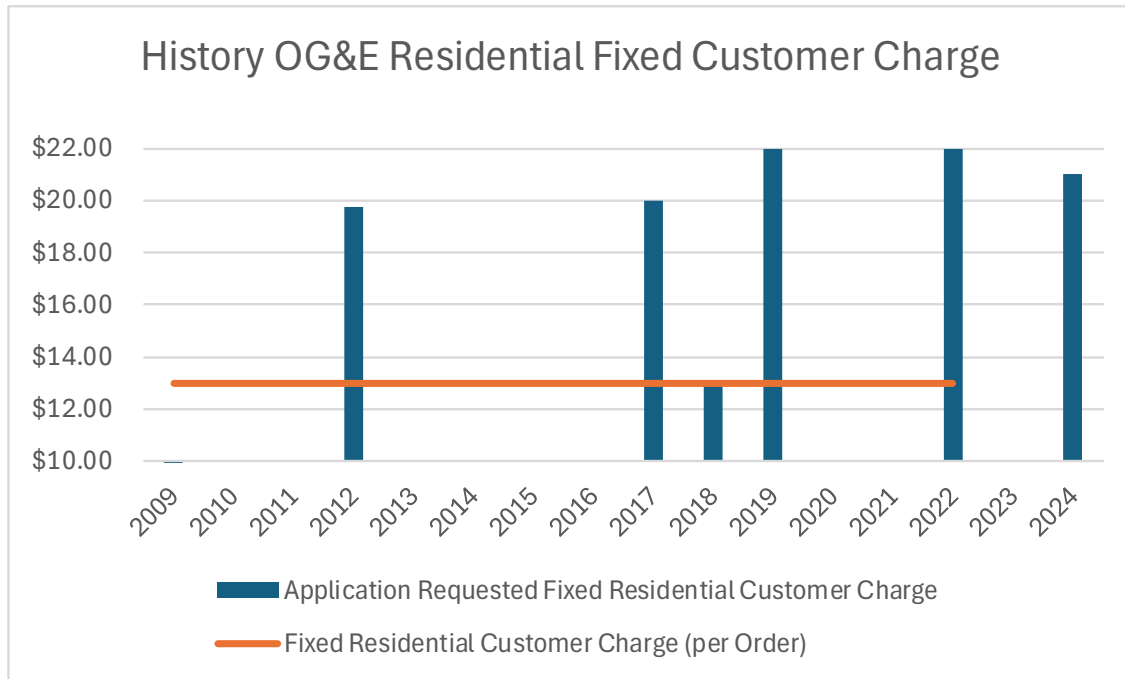
13 A. OG&E residential customers have experienced stability in the monthly fixed customer
14 charge since approximately 2009. Please see the chart below which reflects the
15 Commission authorized standard residential customer fixed customer charges requested
16 by OG&E in its previous proceedings and those fixed customers charges included in each
17 proceeding's order.

18 *Chart 1*²¹

¹⁹ Cash, Direct at 5.

²⁰ See [Customer Charge Resolution- 2015-1 - NASUCA](#).

²¹ Sourced from ALJ Reports and Orders from previous OG&E rate case proceedings before the OCC.



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The chart above reflects both customers' current embedded assumptions for the fixed monthly charge they have grown used to for at least a decade. Furthermore, OG&E has been requesting to increase this charge to nearly \$20 per customer per month since 2012. Whether these requests to increase the monthly residential fixed customer charges have been rejected by the OCC or removed from the proceeding in conjunction with a settlement, it appears that OG&E has not provided a compelling justification to increase how the customers' pay their bills.

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Furthermore, any of OG&E's requests to significantly increase the monthly fixed customer charges would likely have shocked many of its customers' once updated rates were put into effect, because customers are likely anchored to the current fixed customer charge of \$13 per month. I recommend that it is reasonable to keep the monthly fixed customer charge at its current \$13 per month level, should the OCC determine any increase is

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1 reasonable, it is highly recommended that any increase to the fixed customer charge be
2 limited to avoid shocking customers.

3 **Q. How could higher fixed charges adversely affect residential customers in today**
4 **elevated inflationary environment?**

5 A. Inflation in the general economy in the United States has remained elevated since the
6 country emerged from the COVID-19 pandemic beginning in early 2021, with energy-
7 related inflation peaking in June 2022 and remaining elevated as of this writing. The United
8 States Federal Reserve has increased the Federal funds short-term borrowing rate
9 aggressively starting in 2022 because inflationary pressures remain above its targeted 2%
10 annual rate.

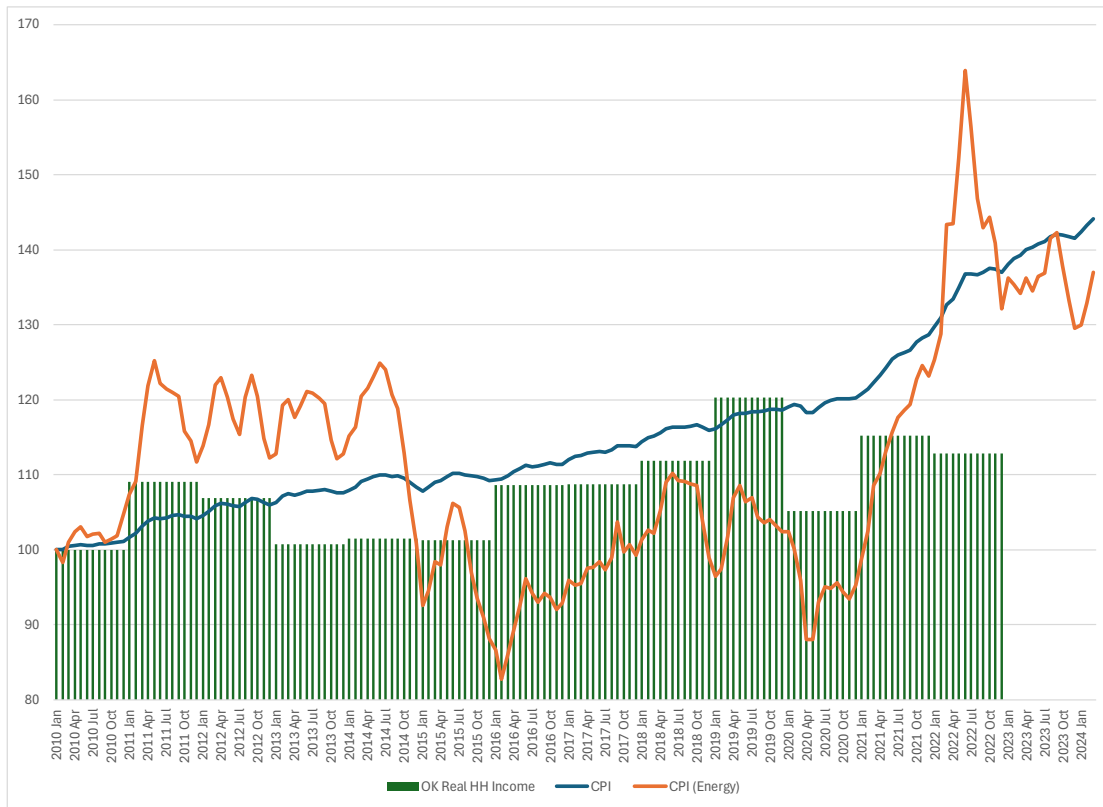
11 These inflation pressures have had significant impact on residential customers facing
12 increasing energy bills across the United States. Chart 2, below, contains the Bureau of
13 Labor Statistics monthly All items in U.S. city average series, Consumer Price Index for
14 All Urban Consumers (CPI-U) which is the blue more stable line. The orange more volatile
15 line is the Bureau of Labor Statistics monthly energy in U.S. city average, Consumer Price
16 Index for All Urban Consumers (CPI-U). Finally, the green bars along the bottom of the
17 chart reflects Real Median Household Income in Oklahoma sourced from the Federal
18 Reserve Bank of St. Louis, FRED data base. Each of the three series has been index to
19 100 starting with January 2010.

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1 *Chart 2*



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The median household income in Oklahoma has not kept pace with generalized price increases across the economy nor have they kept pace with energy inflation on average across the country. Oklahoma residential electricity customers are having their household budgets strained by increasing costs, and these customers will be less able to withstand the shock of increasing the fixed component of their electricity bills. Should the OCC find it reasonable to maintain the fixed residential customer charges at \$13.00 per month, this will allow the median Oklahoma household an opportunity to conserve on their energy bills and save money by reducing their energy consumption in response to more effective volumetric price signals.

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1 **Q. Will OG&E have the opportunity to recover its revenue requirement if the proposed**
2 **customer charge increase is rejected?**

3 A. Yes. Rates are designed to recover OG&E's revenue requirement in a rate case. If the
4 Commission rejects the proposed increase in the customer charge, then an offsetting
5 amount is collected through the volumetric rate and can then be collected from customers
6 based on how much electricity the customer consumes. Moving cost recovery from fixed
7 charges into volumetric charges will be revenue neutral to OG&E.

8 **Q. Do you have a recommendation for the Commission regarding the residential**
9 **customer charge?**

10 A. Yes. I recommend that the Commission reject the Company's proposal to significantly
11 increase the customer charge and maintain the current customer charge for all residential
12 tariffs.

13 VII. **Recommendations and Conclusion**

14

15 **Q. Please summarize your analysis of the COSS that OG&E relied on in this case.**

16 A. OG&E's COSS model relies on an inconclusive minimum system study to classify
17 distribution system costs occurring in FERC accounts 364-368. The analysis I provide
18 demonstrates that OG&E's COSS relies on a minimum system study to classify and
19 allocate distribution system costs which do not align with the "Unbundled" tab in the
20 Company's COSS model Excel Workbook. Furthermore, the simplified basic customer
21 analysis demonstrates simple adjustments to the Company's filed COSS model can
22 improve the alignment of customer costs with how those costs are created, and
23 consequently price services reasonably for customers.

1 **Q. What is your recommendation regarding OG&E's proposed COSS?**

2 A. Given that OG&E's minimum system study has not been successful in persuading the
3 OCC and intervening parties that it provides sufficient evidence to increase the residential
4 monthly fixed customer charges in the Company's last three cases, I recommend that the
5 results of a COSS using basic customer approach should be used to inform rate design
6 and revenue apportionment.

7 Additionally, to increase transparency and allow for stakeholders to evaluate OG&E's
8 modeling, I recommend that the Commission order OG&E to engage with stakeholders
9 prior to its next rate case to determine a reasonable basic customer COSS models
10 methodology, as well as other methodologies prior to the contested proceeding. Once the
11 preferred COSS model methodologies have been identified the Company should file its
12 next rate case with multiple stakeholders agreed-upon COSS models to improve the
13 record evidence from which the OCC makes its determination.

14 **Q. Please summarize your analysis of OG&E's proposed customer charge increase.**

15 A. OG&E's proposed customer charge is based off the customer costs classified using its
16 minimum system study which has been sufficient to support an increase in OG&E's fixed
17 customer charge in its three most recent proceedings. It would appear that OG&E's own
18 cost of service model Excel workbook offers reasonable evidence that would support a
19 residential fixed customer charge remaining at its current levels as previously discussed.
20 OG&E has not provided new or compelling evidence to reasonably support the recovery
21 numerous costs, such as secondary distribution system costs, through the customer
22 charge. Only customer-specific costs should be recovered through the customer charge,
23 which would be significantly less than what OG&E has proposed.

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1 **Q. What is your recommendation regarding the residential fixed monthly customer**
2 **charge?**

3 A. I recommend that the Commission reject OG&E's proposal to increase the residential
4 customer to \$21. Instead, I recommend that the Commission maintain the \$13 customer
5 charge for all Residential tariffs.

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

7 A. Yes.

8

I state, under penalty of perjury under the laws of the state of Wisconsin, that the foregoing is true and correct to the best of my knowledge and belief.

DocuSigned by:

D5CF780CF93F465...
Patrick Sullivan
May 3, 2024

Patrick Phillip Sullivan

608-571-3268

pp.sullivan@sullivanconsultingwi.com

EDUCATION

Master of Science

Corporate Finance, Kelley School of Business (Kelley Direct Program), Indiana University- Bloomington, May 2009

Bachelor of Science

Economics, University of Wisconsin-Madison, August 2006

Guest Lecture and Teaching Experience

University of Wisconsin - Milwaukee for Dr. Kevin Spellman's Investment Management Certificate Program

April 2010 - Discussion of Investment and Financial Services Industry

October 2011 - Lecture on financial institution analysis and investment decision-making

Madison College - Business and Applied Arts Department

Fall 2015 - Instructor - Financial Life Skills Online Course

Spring 2016 - Instructor - Financial Life Skills Online Course

Fall 2016 - Instructor - Financial Life Skills Online Course

Wisconsin Public Utility Institute - Energy Utility Basics Course

October 2017 - What Drives Utility Stock Prices

Michigan State University - Institute of Public Utilities - Annual Regulatory Studies Program

August 2018 - Regulatory Finance

EMPLOYMENT OVERVIEW

Economic Consulting Experience

Manager and Owner

Sullivan Economic Consulting, LLC, Madison, WI

June 2023 - Present

- The sole-member, manager, and consultant at Sullivan Economic Consulting, LLC which provides tailored consulting services for regulated utility companies, utility regulators, community banks, and law firms in a clear, concise, and efficient manner.
- The Sullivan Economic Consulting, LLC provides utility related consulting services within its circle of competence of regulatory accounting, regulatory ratemaking, cost of service study analysis, analysis of pricing of utility offerings, and utility company cost of capital and capital structure.
- The Sullivan Economic Consulting, LLC provides banking related consulting services within its circle of competence of estate and trust accounting, loan underwriting and review, loan portfolio testing, and loan portfolio review.

Public Utility Regulatory Experience

Project Specialist - State Regulatory Affairs

WEC Energy Group, Inc.

March 2021 - March 2023

- Supported the preparation of Michigan Integrated Resource Plan filing, worked with internal and external subject matter experts to complete filing. Prepared updated tariffs for Michigan Public Service Commission approval.
- Supported the preparation and filing of Wisconsin utilities cost of service studies for a general rate case filing.
- Prepared periodic reports for management analyzing utility rates across the upper Midwest.

- Prepared multiple regulatory filings for securities issuance authorization before the Public Service Commission of Wisconsin.
- Performed multiple ad hoc analysis projects for management ranging from levelized recovery of undepreciated plant balances to customer analysis for new renewable generation programs.

Public Utility Auditor - Advanced

Public Service Commission of Wisconsin

May 2017 - July 2020

- Actively participated in rate case proceedings regarding accounting topics and development of the utility revenue requirement. This role required auditing operating and capital budgets for highly complex public utility companies.
- Provided expert witness testimony on the rate of return, accounting, and economic topics.
- Worked on the core team of staff leading the Commission's fact-finding and outreach efforts on grid modernization.
- Led work on Investor-Owned Utilities (IOUs) annual report technology upgrade for the Department of Energy Regulation.
- Worked on Wisconsin's first settled general rate case under a new settlement statute as the lead auditor and case coordinator when the docket was completed.
- Operated as the lead auditor for a team of auditors completing audits of public utility holding companies as required by statute and preparing a Legislature report.
- Led the audit team for Wisconsin's two largest IOUs first-rate case audit after their merger.
- In October 2018, I was promoted to a Public Utility Auditor - Advanced from a Public Utility Financial Analyst - Senior.
- Resigned to stay at home to watch my young daughters and help my elder daughter with her remote kindergarten.

Public Utility Financial Analyst - Senior

Public Service Commission of Wisconsin

January 2015 - May 2016

- Reviewed, analyzed, and presented applications from Wisconsin's Investor IOUs for authorization to issue debt, hybrid, preferred, and equity securities to the appointed Commissioners.
- Actively participated in rate case proceedings, reviewed authorized rates of return for IOUs, and presented testimony.
- Developed and maintained a database for financial models to forecast changes in credit ratings for IOUs.
- Maintained staff econometric models for presentation in rate case proceedings.
- Provided expert witness testimony on Rate of Return and Economic topics.

Commercial Banking/Internal Audit Experience

Commercial Credit Analyst

Bankers' Bank

May 2016 - May 2017 (Limited Part-Time until November 2020)

- Actively underwrote new money, renewal, and annual review credit requests to requisite approval authority based on the Bank's policies.
- Responsibility for assessing the credit quality of Bank Holding Company, Commercial Real Estate, Agricultural, Director/Officer, and Commercial & Industrial credit requests and annual reviews.
- Underwrote and risk-rated over \$100MM of credit requests.
- Completed an annual stress test of the Bank's entire commercial real estate loan portfolio for presentation to the Bank's Board of Directors.
- Reviewed and interpreted GAAP financial statements, tax returns, and personal financial statements daily and drafted credit presentations for approval.
- Reviewed commercial real estate, residential real estate, and bank stock appraisals to ensure conformity with the Bank's policies.

Credit Analyst

John Deere Financial

September 2014 - January 2015

- Reviewed and decided new credit applications for consumer, agricultural, and commercial unsecured lines of credit.
- Had personal unsecured lending authority of \$50,000.
- Reviewed and decided existing accounts for lines of credit increases or reductions.
- Worked with John Deere Dealers to provide adequate financing for creditworthy borrowers at the point of sale for the purchases of parts, services, and implements. Review and adjust poor performing accounts.
- Worked with a goal of 70 customers and dealer/channel contacts daily.
- Operated within banking laws of the United States and Canada.

Commercial Credit Analyst/Internal Auditor

Home Savings Bank

May 2013 - March 2015 (September 2014-March 2015 part-time)

- Underwrote all inbound commercial credit applications for a fifty-million-dollar loan portfolio.
- Personally, wrote credit underwriting and presentation procedures.
- Rewrote commercial loan policy for Board of Director's approval.
- Implemented a new quantitative credit rating matrix for individual notes.
- Personally originated one million dollars in commercial real estate transactions.
- Personally developed and implemented an annual review process for commercial credits.
- Directly interacted with FDIC Examiners during loan review.
- Developed and implemented quantitative risk assessment for internal audit procedures.
- Implemented an internal audit calendar that reviews all functional aspects of the bank.
- Personally completed internal audits and presented internal audit memos to the Board of Directors.

Healthcare IT/Start-Up Business Experience

Executive Sales Manager

Marshall Reinardy LLC d/b/a CenterX

April 2012 - May 2013

- Responsibility for business development activities for a high growth healthcare software company. - Developed an internal client relationship management wiki page and associated procedures.
- Identified target markets and tailored materials to inform them about CenterX products.
- Developed leads from multiple data sources.
- Drafted client communications and managed relationships with potential customers.
- Drafted and implemented a marketing plan for the organization.

Financial Institution Regulatory Experience

Financial Examiner

Wisconsin Department of Financial Institutions, Madison, WI

April 2011-April 2012

- Examined internal financial statements of state-chartered banks in Wisconsin.
- Reviewed loan files for Commercial, Multi-Family and Agricultural loans and recommended risk ratings.
- Audited financials to ensure compliance with state and federal regulations for safety and soundness.
- Assessed management effectiveness and oversight of bank assets.
- Educated bankers on current regulations and compliance issues.

Financial Services Industry Experience

Licensed Life Insurance Agent and Owner

Sullivan Life Insurance Agency (NPN# 21057864), Madison, WI

January 2024 - Present

- Provides customized life insurance recommendations for clients in Wisconsin.
- Supports independent financial advisors, accountants, and law firms with recommendations for utilizing life insurance policies in estate and business planning for their clients in Wisconsin.

Financial Advisor

Johnson- Manchester Group, Merrill Lynch, Madison, WI

November 2008 - April 2011

- Traded over 200 discretionary client accounts with assets in excess of 80 million dollars.
- Executed trades in domestic and international equities, exchange-traded funds, fixed income products, and options.
- Created a tactical asset allocation portfolio and an income portfolio to help meet clients' retirement funding needs.
- Documented and maintained a service model for a six-person team to manage over 200 client relationships and provide the highest level of service to each household.
- Managed the implementation of the service model of an advisory team with revenues of 2 million dollars annually.

Client Associate

Johnson Manchester Group, Merrill Lynch, Madison, WI

December 2006-November 2008

- Implemented modeling a process for a financial advisory group to manage the profitability of existing client relationships.
- Developed, optimized, and monitored trading algorithms used to implement a proprietary ETF portfolio.
- Analyzed multiple hedge fund products and presented my recommended funds to ultra-high-net-worth clients.
- Created a quantitative model for market direction used to optimize client cash levels.

Intern

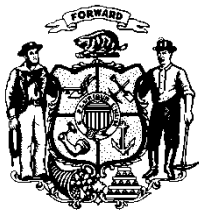
Global Private Client Group, Merrill Lynch, Madison, WI

September 2006-November 2006

- Trained in mutual fund due diligence and portfolio construction.
- Maintained a database of investment managers.
- Made proposals to senior advisors to implement changes to existing client portfolios.
- Created investment manager proposals for multiple prospective clients.

Professional Associations/Designations

- Wisconsin Life Insurance Intermediary License (NPN# 11405346)
- Member National Association of Business Economists and passed the Certified Business Economist ® exam in November 2022.
- Certified Rate of Return Analyst Designation issued by the Society of Utility and Regulatory Financial Analysts (member #894)
- Enrolled Agent #00119149, Enrolled to Practice Before the Internal Revenue Service
- FDIC Corporate University - Intro to Bank Examination School
- Wisconsin Bankers Association - Intro to Commercial Lending
- Wisconsin Bankers Association - Commercial Lending School
- Vice-Chair - National Association of Regulatory Utility Commissions - Staff Subcommittee for Accounting and Finance - From April 2018 and resigned July 2020
- MSU-IPU Advanced Course: Cost Allocation and Rate Design, November 2022
- NARUC Rate School – Clearwater, FL – Completed, October 2017



Public Service Commission of Wisconsin

Rebecca Cameron Valcq, Chairperson
Tyler Huebner, Commissioner
Summer Strand, Commissioner

4822 Madison Yards Way
P.O. Box 7854
Madison, WI 53707-7854

Public Service Commission of Wisconsin
RECEIVED: 8/7/2023 11:45:01 AM

August 7, 2023

VIA ELECTRONIC RECORDS FILING SYSTEM

Mr. Harvey Dorn
Wisconsin Power and Light Company
4902 North Biltmore Lane
Madison, WI 53718

Re: Application of Wisconsin Power and Light Company for Authority to Adjust Electric and Natural Gas Rates 6680-UR-124

Dear Mr. Dorn:

Public Service Commission (Commission) staff is reviewing the April 28, 2023 application of Wisconsin Power and Light Company (applicant) for authority to adjust electric and natural gas rates and needs additional information to process the application. Please provide responses within seven days of the completion of Commission staff's test-year revenue requirements. If an extension is needed to provide adequate responses, please contact me immediately.

The applicant's responses should include the original numbers and items below and be followed by the responses. Please upload the response and any supporting documentation directly to the Commission's [Electronic Records Filing](#) (ERF) system under the docket number 6680-UR-124 and using the document type Data Request/Response. When uploading the document, the ERF description must be "Response-Data Request-PSC-Meulemans-2." Commission staff will continue review of the application once responses are received.

- PSCW-TCM-2.1:** Provide summary and detail results, including functionalized cost analysis, for all electric cost-of-service study (COSS) models filed in the direct testimony of Mr. Dorn, incorporating Commission staff's adjusted audit numbers for the 2024 and 2025 test years.
- PSCW-TCM-2.2:** Provide the results for the Basic Customer Cost Methodology for Electric, as outlined in the attachment, incorporating Commission staff's adjusted audit numbers for the 2024 and 2025 test years.
- PSCW-TCM-2.3:** Provide the results for the Basic Customer Cost Methodology for Natural Gas, as outlined in the attachment, incorporating Commission staff's adjusted audit numbers for the 2024 and 2025 test years.

Mr. Harvey Dorn
Docket 6680-UR-124
Page 2

PSCW-TCM-2.4: Provide summary and detail results of a customer oriented natural gas COSS, traditionally known as COSS A for the 2024 and 2025 test years. The applicant's base COSS and COSS A generally use the same data and supporting materials with the primary difference being in the classification of FERC Account 376 Distribution Mains, and associated Operations and Maintenance (O&M) expense, and Commission staff would expect them to incorporate the following adjustments as well as Commission staff's adjusted audit numbers.

- a. Classification of Distribution Mains (Account 376) and associated O&M expense as customer-, commodity- and demand related. The ratio of customer classified costs may be determined using the company's base methodology. Commission staff would expect the remainder of Distribution Mains costs to be classified as commodity and demand costs based on an average and excess method, with the portion classified as commodity related determined based on test year average demand.

PSCW-TCM-2.5: Provide summary and detail results of a commodity oriented natural gas COSS, traditionally known as COSS B for the 2024 and 2025 test years. The applicant's base COSS and COSS B generally use the same data and supporting materials with the primary difference being in the classification of FERC Account 376 Distribution Mains, and associated O&M expense, and Commission staff would expect them to incorporate the following adjustments as well as Commission staff's adjusted audit numbers.

- a. Classification of Distribution Mains (Account 376) and associated O&M expense as commodity- and demand related. Commission staff would expect distribution Mains costs to be classified as commodity and demand costs based on an average and excess method, with the portion classified as commodity related determined based on test year average demand.
- b. Classification and allocation of other Distribution costs consistent with the Basic Customer Cost Methodology.
- c. Classification and allocation of Customer Accounts Expense and Customer Service and Informational Expenses consistent with the Basic Customer Cost Methodology. For the purposes of this proceeding, Account 904, Uncollectible Accounts, may be allocated using the applicant's base COSS methodology.
- d. Classification of Indirect and General Plant as commodity related, with these costs allocated on total throughput.
- e. Classification of Administrative and General (A&G) Expense as commodity related, with these costs allocated on total throughput.

Mr. Harvey Dorn
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- PSCW-TCM-2.6:** Provide in an Excel format with formulas intact and incorporating Commission staff's adjusted audit numbers, the workbooks used to prepare:
- a. Ex.-WPL-Dorn-1
 - b. Ex.-WPL-Dorn-2
 - c. Ex.-WPL-Cole-1
 - d. Ex.-WPL-Cole-2

In order to receive notification of official correspondence (i.e. data requests, notices, final decisions, etc.), individuals must subscribe to the Utility ID or this PSC Docket. To subscribe, go to the Commission's [ERF](#) system. For help subscribing, go to [Subscribing to Dockets](#).

Thank you for your attention to this data request. If you have any questions, please contact me at the phone number or e-mail below.

Sincerely,



Tyler Meulemans
Rates Supervisor
Division of Energy Regulation and Analysis

TCM:arw:dsa DL:01959536

Attachment

Basic Customer Cost Methodology

For any electric or natural gas class cost allocation employing the “Basic Customer Cost” methodology, only the following utility accounts (and their directly related tax expense) may be classified as customer-related or varying and allocated on the basis of the number of utility customers. Only these customer-classified costs may be used as the cost basis for determining monthly fixed charge rates (e.g. “Customer,” “Grid Connection”) for residential and small commercial customers. All other utility costs are to be allocated on a volumetric basis, whether demand or commodity (kWh or therm), or on the basis of test year revenue, unless otherwise specified.

<p>Electric Plant Distribution Plant (ex acct. 373) 369 Services 370 Meters 371 Installations on Customers’ Premises 372 Leased Property on Customers’ Premises</p> <p>Electric Expense Distribution Expenses (ex acct. 585, 596) 586 Meter expenses 597 Maintenance of Meters</p>	<p>Natural Gas Plant Distribution Plant 380 Services 381 Meters 382 Meter installations 383 House Regulators 384 House Regulator Installations 385 Industrial measuring and regulating station equipment 386 Other Property on Customers' Premises</p> <p>Natural Gas Expenses Distribution Expenses 876 Measuring and regulating station expenses-Industrial 878 Meter and House Regulator Expenses 879 Customer Installation Expenses 890 Maintenance of measuring and regulating station equipment-Industrial 892 Maintenance of Services 893 Maintenance of Meters and House Regulators</p>
<p>Customer Accounts Expenses 901 Supervision 902 Meter Reading Expenses 903 Customer Records and Collection Expenses 905 Miscellaneous Customer Accounts Expenses</p> <p>Customer Service and Informational Expenses 907 Supervision 908 Customer Assistance Expenses 909 Informational and Instructional Advertising Expenses 910 Miscellaneous Customer Service and Informational Expenses</p>	

CERTIFICATE OF SERVICE

I hereby certify that on the 3rd day of May, 2024 a true and correct copy of the above and foregoing was electronically served via the Electronic Case Filing System to those on the Official Electronic Case Filing Service List, to include the following persons:

<p>Mark Argenbright Fairo Mitchell Mike S. Ryan Michael L. Velez Natasha Scott Justin Cullen Fario Mitchell E.J. Thomas PO Box 52000 Oklahoma City, OK 73152 Mark.Argenbright@occ.ok.gov Fairo.Mitchell@occ.ok.gov Michael.ryan@occ.ok.gov Michael.velez@occ.ok.gov Natasha.scott@occ.ok.gov Justin.cullen@occ.ok.gov Fario.Mitchell@occ.ok.gov Ej.Thomas@occ.ok.gov PUDEnergy@occ.ok.gov Oklahoma Corporation Commission</p>	<p>Leslie R. Newton Ashley N. George Thomas A. Jernigan Ebony Payton Rafael A. Franjul 139 Barnes Drive, Suite 1 Tyndall AFB, FL 32403 Leslie.newton.1@us.af.mil Ashley.george.4@us.af.mil Thomas.jernigan.3@us.af.mil Ebony.payton.ctr@us.af.mil Rafael.franjul@us.af.mil Federal Executive Agencies</p>
<p>Paul D. Trimble Jeremy E. Melton 5510 N. Francis Avenue Oklahoma City, OK 73118 ptrimble@trimblelawgroup.com jmelton@trimblelawgroup.com CMC Steel Oklahoma</p>	<p>A. Chase Snodgrass K. Christine Chevis Ashley N. Youngblood 313 NE 21st Street Oklahoma City, OK 73105 Chase.Snodgrass@oag.ok.gov Christine.Chevis@oag.ok.gov Ashley.youngblood@oag.ok.gov Utility.regulation@oag.ok.gov Oklahoma Attorney General's Office</p>
<p>Rick D. Chamberlain P.O. Box 21866 Oklahoma City, OK 73156 Rick@chamberlainlawoffices.com Walmart, Inc.</p>	<p>Jack Fite 9520 N. May Ave., Suite 211 Oklahoma City, OK 73120 jfite@wgcflaw.com Public Service Company of Oklahoma</p>

<p>J. David Jacobson JACOBSON & LAASCH 212 East Second Street Edmond, Oklahoma 73034 (405) 341-3303 Jdj8788@aol.com The Petroleum Alliance</p>	<p>William Humes Harrison Burton humeswl@oge.com burtonhl@oge.com reignfor@oge.com Oklahoma Gas & Electric</p>
<p>Jack G. Clark Clark, Wood & Patten, P.C. 3545 NW 58th Street, Suite 400 Oklahoma City, OK 73112 cclark@cswp-law.com Oklahoma Gas & Electric Shareholders Assn.</p>	<p>Ronald E. Stakem Cheek & Falcone, PLLC 6301 Waterford Blvd., Suite 320 Oklahoma City, OK 73118 rstakem@cheekfalcone.com jhenry@cheekfalcone.com</p>
<p>Thomas Schroedter D. Kenyon Williams Hall, Estill, Hardwick, Gable, Golden & Nelson, PC 521 East 2nd Street, Suite 1200 Tulsa, OK 74120 tschroedter@hallestill.com kwilliams@hallestill.com Oklahoma Industrial Energy Consumers</p>	<p>J. Eric Turner Derryberry & Naifeh, LLP 4800 N. Lincoln Blvd. Oklahoma City, OK 73105 (405) 528-6569 eturner@derryberrylaw.com asinger@derryberrylaw.com Oklahoma Association of Electric Cooperatives</p>

Adam J. Singer
 Adam J. Singer