BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

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

Direct Testimony

of

Seth Knight

on behalf of

Oklahoma Gas and Electric Company

January 16, 2018

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

A. My name is Seth Knight. My business address is 321 North Harvey, Oklahoma City, Oklahoma 73102.

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

A. I am employed by Oklahoma Gas and Electric ("OG&E" or "Company") a Senior Cost Analyst.

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

A. I received a Bachelor of Business Administration in Accounting from the University of Central Arkansas in 2005, and a Master of Business Administration in Finance from Oklahoma Christian University in 2016. I joined OG&E in March 2016 and I am currently a Senior Cost Analyst.

Prior to joining OG&E, I was employed by Chaparral Energy as a Financial Analyst IV from 2014 to 2016. I handled all aspects of budgeting, forecasting, and working on financial analysis of costs and revenue. From 2011-2014, I was employed by Select Energy Services. I held many roles ranging from Business Manager to Assistant Controller. I handled items such as: contract analysis and pricing, trend analysis, profit and loss analysis, and led the monthly accounting close process. I started my career with Stephens, Inc., a private investment banking firm headquartered in Little Rock, Arkansas, from 2006-2011 where I worked as an Accountant. My main duties were leading the monthly forecast and annual budget process. I also handled accounts payable and worked with financial statement and general ledger analysis.

In my current role, I attended New Mexico State University's Practical Regulatory Training for the Electric Industry in May 2016. I also represented the Company as a working member of EPRI's Understanding Electric Utility Customers program in February 2017. Finally, I attended the Electric Utility Consultants, Inc. ("EUCI") workshops for Cost-Of-Service and Rate Design for Electric Utilities in March 2017.

Q. **Have you previously testified before the Oklahoma Corporation Commission or any other regulatory commission?**

A. No, I request that my credentials be accepted at this time.

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

A. I sponsor the *pro forma* revenue and kilowatt hour ("kWh") sales adjustments to Schedule H of the Company's Application Package. These adjustments can be found in Section H, Schedule H-2 of that document.

Q. **Please list the *pro forma* adjustments that you are sponsoring.**

A. I am sponsoring twelve *pro forma* adjustments to the current Oklahoma jurisdictional revenues as reflected in Schedule H-2. These adjustments are summarized below in Table 1 – Adjustment Summary.

Table 1 – Adjustment Summary

	Adjustment	Amount
1	Unbilled, Provision For Rate Refund, & Over/Under Recoveries	($66,803,179)
2	Special Contracts	($5,605,451)
3	Day-Ahead Pricing	($2,585,049)
4	Manual Postings	($853,441)
5	Rider Revenues	($753,565,987)
6	Best Bill	$36,389
7	Renewable Energy Certificates	($2,070,048)
8	Customer Growth & Annualization	$27,066,698

9	Demand Programs Savings	($4,011,521)
10	Weather Normalization	$30,253,485
11	Free Service, LIAP, & Senior Citizen Discount	($5,315,176)
12	Rate Recalculation	$57,612,870
	TOTAL	**($725,840,411)**

Q. **Why is the Company proposing these adjustments?**

A. These adjustments to the Company's September 2017 Test Year information are intended to more accurately reflect base rate revenues and kilowatt hour sales for OG&E's Oklahoma customer groups as close as is reasonable possible to when new rates will go into effect, i.e. at the end of the *pro forma* period March 31, 2018. This is accomplished by:

First, OG&E removes any revenues and associated kWh sales that may have occurred during the test year, but are not related to any investment or expenses included in the cost of providing service as reflected in the Cost of Service Study ("COSS"). Such revenues include Fuel Adjustment Clause ("FAC") revenue, revenue from other riders and special contracts, as well as certain accounting adjustments. These steps are reflected in Adjustments #1 through #7 above.

Second, the Company adjusts these base rate revenues to reflect customer growth and annualization through the end of the *pro forma* period. These steps are reflected in Adjustment #8 (Customer Growth & Annualization) and #9 (Demand Programs Savings) in the table above.

Third, the Company normalizes the adjusted base rate revenues to reflect an average weather year as reflected in Adjustment #10.

Fourth, the Company adjusts revenue for Municipal Free Service, Low Income Assistance Program ("LIAP") credits and Senior Citizens Discount credits as reflected in Adjustment #11.

Lastly, the Company recalculates revenues in the *pro forma* test year to reflect the changes in rates implemented May 1, 2017 in Adjustment #12.

With the exceptions of the Provision for Rate Refund in Adjustment #1, the customer growth in Adjustment #8 and the rate recalculation in Adjustment #12, each of these adjustments are consistent with the adjustments made by the Company and accepted by the Commission in OG&E's last rate case, Cause No. PUD 201500273.

Adjustment #1

Q. **Please describe Adjustment #1 related to Unbilled Revenue, Provision for Rate Refund[1], and Over/Under Recovery Amounts.**

A. This adjustment has three parts. The first is the addition of unbilled revenue and associated kWh. The second is the removal of the Provision for Rate Refund. The final step is the removal of an over/under recovery of fuel and rider revenue collections. The net of these three revenue adjustments results in a decrease of $66,803,179 to the Oklahoma jurisdiction.

Q. **Why is the addition of unbilled revenue and kWh sales necessary?**

A. While all customers are billed for service in monthly increments, the dates that period starts and stops, or billing cycle, varies by customer group. The unbilled revenue and kWh book balances are accounting entries that allow billing cycle books to be aligned with calendar month books. Since these entries are not representative of billed sales, it is necessary to remove or add the entries to ensure rate design is performed on the actual billing units and revenues that occurred in the test year. This results in a $1,600,000 addition in revenues and an addition of 62,275,618 kWh.

Q. **Why is the removal of the provision for rate refund revenue sales necessary?**

A. During the test year, the Company implemented interim rates associated with its request for a rate increase from Cause No. PUD 201500273. The Company utilized an Interim Rates Rider, IR273 to collect these interim rate revenues. The Company booked these revenues to a reserve account. This is reflected in the Company's books as the Provision

[1] This is a result of the statue that allows us to implement interim rates until a final order

for Rate Refund. Once a final order was granted in PUD 201500273, the Company used the same account to refund customers through the same Interim Rate Rider and Provision for Rate Refund. Both the IR273 revenues (Adjustment #5A) and the Provision for Rate Refund (Adjustment #1) are removed and replaced with an exact rate recalculation adjustment reflected in Adjustment #12. This Adjustment #1 results in a reduction of $12,346,571 in revenues. The rate refund had no impact on kWh sales during the *pro forma* test-year.

Q. **Please explain why it is necessary to remove the over/under recovery of rider revenue.**

A. The over/under rider revenue recovery book balance for the test year includes accounting entries that reflect the difference between FAC revenues based on projections and the actual fuel expense experienced during the test year. Similarly, the rider collections over/under balances reflect the difference between rider revenue for the test year and actual annual revenue requirements. In the test year, there was a net over recovery of FAC and rider revenues combined. This adjustment decreases revenues by $56,056,608.

<u>Adjustment #2</u>

Q. **Please explain Adjustment #2 relating to Special Contracts.**

A. There are four special contracts that require an adjustment to revenues within Schedule H. In the filing, these confidential contracts are identified as Contracts T, C, O1 and O2, respectively. Adjustments to these four contracts result in a net revenue decrease of $5,605,451 and a kWh decrease of 106,739,166.

Q. **Please explain why the Special Contract T adjustment is necessary.**

A. The Special Contract T adjustment is required per Order No. 588610 in Cause No. PUD 201000194. In this order, the Commission found that the revenues related to Special Contract T shall be allocated to OG&E's Oklahoma retail customer classes using OG&E's distribution demand allocator, as determined in the Company's rate cases. The effect of this adjustment is to off-set the deficiency for each of the customer classes which reduces the revenue requirement to be recovered in rates for each class.

Q. **Please explain why the Special Contract C adjustment is necessary.**

A. The Special Contract C adjustment is needed to move customers which were receiving service under the terms of this expired Special Contract to the standard rate class. This adjustment removes the Special Contract billing units and replaces them with billing units based on the newly established Customer Base Line ("CBL") for each of those customers on an ongoing basis.

Q. **Please explain why the Special Contract O1 adjustment is necessary.**

A. The Special Contract O1 adjustment is required because the revenue from this customer is tied to investments and expenses not recovered in base rates.

Q. **Please explain why the Special Contract O2 adjustment is necessary.**

A. The Special Contract O2 adjustment is required because this Renewable Energy Certificates ("REC") revenue benefits customers and is reflected as a reduction in the FAC.

<u>Adjustment #3</u>

Q. **Why are these adjustments appropriate?**

A. The costs associated with incremental and decremental kWh are based upon current system marginal costs and are therefore unrelated to embedded costs. In contrast, the CBL portion of the DAP billings is based upon standard rates and should be included in the COSS and base rate design.

Q. **What is the adjustment made to the Day-Ahead Pricing?**

A. Adjustment #3 consists of two parts. The first removes all incremental and decremental revenue and kWh associated with the Day-Ahead Pricing[2] ("DAP") and Flex Price[3] ("Flex") tariffs participants from the test year. The remaining revenue is revenue that is only associated with the CBL portion of their bill. The second part makes adjustments for customers who either joined or left the Flex and DAP tariffs, during the test year. For customers that joined the rate, the Company removes actual billing units and replaces them

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[2] Tariff Sheet No. 33.00
[3] Tariff Sheet No. 34.00

with the CBL data for the months that they were not on the Flex or DAP rate. For customers that have left the rate, the Company removes the CBL data for the months that they were on the Flex or DAP rate and replaces them with their actual billing data. Both of these adjustments produce a revenue decrease of $2,585,049 and a sales decrease of 86,667,378 kWh to the Oklahoma jurisdiction.

Adjustment #4

Q. **What are Manual Postings and why is the adjustment necessary?**

A. Manual postings are revenue credits entered into the billing system for non-typical customer specific issues. For example, these postings may be for customer refunds for burned out security lights that were not repaired for an extended time and billing was not temporarily halted, or billing adjustments for metering issues. These postings are manual revenue entries and do not correspond to an equivalent billing determinant adjustment. In total, for the test year, this adjustment resulted in an $853,441 reduction to revenues to the Oklahoma jurisdiction. Since these revenues are not considered an ongoing occurrence or not tied to base rate revenue, Adjustment #4 removes the postings to reflect normal revenue levels.

Adjustment #5

Q. **Please explain Adjustment #5A – Rider Removal, Adjustment #5B – Riders Add Back, and Adjustment #5C - Fuel Adjustment Clause ("FAC") Revenues.**

A. Adjustment #5A removes all rider revenue, except the FAC revenues, from the COSS, reducing test year revenues by $102,881,508. Adjustment #5B reintroduces rider revenues and rider credits for riders that will have expenses or plant rolled into base rates in this filing. These adjustments take the associated revenue, and allocate it back to the classes. Adjustment #5B reduces test year revenues by $4,290,832. Adjustment #5C accomplishes the same purpose as #5A, but just separates out the FAC for materiality and transparency. The FAC adjustment reduces revenues by $646,393,648. The net effect of these three adjustments is a reduction to COSS revenues of $753,565,987.

Q. **Please explain why it is necessary to remove the revenue for riders that do not have expenses or plant included in base rates.**

A. Since the associated investment and expenses have not been included in the COSS, the rider revenues must be removed, consistent with the matching principle.

Q. **Please explain why it is necessary to recognize revenues for riders that have expenses or plant included in base rates or the FAC.**

A. *Pro forma* base rate revenues should align with investment and expenses included in the COSS and proposed revenues in Schedule M to ensure there is not a mismatch between costs and revenue. The riders for which Adjustment #5B is necessary are the Demand Program Rider (Integrated Volt-Var Control System), and the Cogen Credit Rider.

Adjustment #6

Q. **What is the purpose of the adjustment for the Best Bill Provision?**

A. This adjustment removes booked credits from billed revenue associated with the best bill provision of various time-differentiated rate schedules. The Time of Use ("TOU"), Variable Peak Pricing ("VPP"), and Critical Peak Pricing ("CPP")[4] tariffs all have a one year best bill provision that guarantees participating customers be billed at either the time-differentiated rates as set forth in the enrolled tariff or at their previous tariff depending on which billing is in favor of the customer. The provision provides for the credit to be applied after one full year of participation in the elected tariff if their previous tariff would have been less over the entire year's billings. This adjustment increases the test year revenues by $36,389.

Q. **Please explain why this adjustment is necessary.**

A. These booked credits do not tie to specific billing unit adjustments, nor do they specifically indicate a rate change during the test year. Should a customer migrate back to the standard rate then the billing unit movement associated is accounted for in Adjustment #8.

[4] The CPP rate is no longer a tariff but was included in this adjustment because it still existed in the Test Year

<u>Adjustment #7</u>

Q. **Please explain the adjustment to remove Renewable Energy Certificate ("REC") revenue.**

A. This adjustment removes revenues booked as a result of REC sales from various wind resources to the wholesale market during the test year. The proceeds from these sales are booked into miscellaneous revenue each month and are then credited though rider mechanisms or retained by shareholders. For the test year, the total revenues decrease was $2,070,048.

<u>Adjustment #8</u>

Q. **What is the purpose of Adjustment #8 – Customer Growth & Annualization?**

A. This adjustment modifies revenue, kWh, kW, and customer counts to account for customers that have either left the system, are new to the system, migrated to another rate, or were re-billed in a month different than the month that usage occurred. The adjustment results in a net revenue increase of $27,066,698 and a net sales increase of 642,373,670 kWh to the Oklahoma jurisdiction.

Q. **Please explain why this adjustment is necessary.**

A. Customer counts and consumption volumes vary month-to-month during the test year. Adjusting test year books to reflect customer counts and consumption volumes at test year-end captures any growth or decline in customer counts and consumption volumes for each rate class.

Q. **Is more than one method used for calculating this adjustment?**

A. Yes. For all customer classes at Service Level 1 through 4 and for the Large Power and Light customer class at Service Level 5 ("SL5"), adjustments were handled on a customer by customer basis based on knowledge obtained from existing and new customers.
Because of the large number of customers receiving SL5 service in other classes, OG&E employed an average customer adjustment technique for the SL5 customers in those classes.

Q. **Please describe in further detail the average customer adjustment technique.**

A. In this case OG&E used 60 months of customer data and applied a linear trend for each of the service level 5 classes to project customer count to the end of the *pro forma* period. The Company takes this growth and applies an average kWh per customer in order to annualize test year revenues and billing units to establish minimum levels of customer usage on a prospective basis. This method varies from PUD 201500273. In PUD 201500273 we didn't apply a growth adjustment we used actual data from the month of August 2015 which is what we had available at the time of filing. This revised method captures customer growth through the end of the *pro forma* period using a known and measurable growth rate for each customer class that was projected. This adjustment resulted in a net revenue increase of $13,834,613 and a sales increase of 258,645,594 kWh.

Q. **Please describe in further detail the customer adjustments applied on a customer by customer basis.**

A. At test year-end, the sales associated with customers who switched rate classes during the test year were included in their new rate class for the entire test year. For those customers new to the system during the test year, *pro forma* sales are added to the months in the test year for which sales did not previously exist. These "annualized" sales were based on average customer sales similar in size to the customer being adjusted. This adjustment resulted in a net revenue increase of $9,310,777 and a sales increase of 210,127,330 kWh.

Q. **Please describe in further detail the large customer additions.**

A. This adjustment accounts for new customers which are expected to join the system. There are a total of eight customers to which this applies. Corresponding estimates of kWh, kW, On/Off Peak Data are added into the test year to account for these customers joining the system. This adjustment resulted in a net revenue increase of $3,502,549 and a sales increase of 165,740,952 kWh.

Q. Please describe in further detail the customer adjustment for the General Service and Power and Light customer classes at SL5.

A. OG&E periodically checks customer usage to determine if they are on the correct tariff applicable to their usage. This test year included checks in November 2016 and May 2017. If the customer's usage warrants a change in rate, then OG&E will migrate the customer to the applicable rate. The largest of the migrations was between the General Service and Power and Light rate classes at SL5. There was a migration were 1,752 customers in November 2016 and 824 in May 2017 that moved customers from General Service to Power and Light. Also, 600 Power and Light customers migrated to General Service in November 2016 and an additional 280 migrated in May 2017. To account for these movements, actual kWh and kW if applicable were moved to the new rate code.

Q. Were there any other specific customer migration issues that needed to be addressed?

A. Yes. There were two additional migrations that needed to be considered. First there was an entry made to move CPP customers to VPP due to the closing of the CPP tariff. Next there was a large customer migration from Municipal Pumping – TOU SL5 to Municipal Pumping Standard SL5 and in Public Schools. The effect of all the migration adjustments led to a net revenue increase of $418,759 and a sales increase of 7,859,795 kWh.

Adjustment #9

Q. What is the adjustment related to the Demand Programs Savings and explain why it is necessary?

A. This adjustment decreases energy, demand, and revenue to account for lost sales resulting from energy efficiency measures implemented through the Demand Programs Rider through September 2017 and projected through March 2018. Since energy saved by customers implementing energy efficiency measures is cumulative and changes every month when new measures are implemented, it is necessary to adjust each month of the test year to March 2018 levels. Decreasing test year sales to the savings recognized at March 2018 allows revenue, energy, and demand to be representative of the expected levels of sales going forward. This adjustment results in a revenue decrease of $4,011,521 and a decrease of 116,092,299 kWh.

Adjustment #10

Q. **What is a weather normalization adjustment?**

A. A weather normalization adjustment changes revenue, energy, and demand to reflect normal weather in the test year. In this case this adjustment results in a revenue increase of $30,253,485 and an increase of 672,942,451 kWh or approximately 2.71 percent to the Oklahoma jurisdiction.

Q. **Why are such adjustments necessary?**

A. The effects temperature has on heating and cooling loads in relation to electricity usage can cause significant annual revenue swings and cause test year revenue to differ from the expected revenue outcome for a normal year.

Adjustment #11

Q. **Please explain the revenue adjustment for Municipal Free Service, Low Income Assistance Program ("LIAP"), and Senior Citizen Discount.**

A. Several OG&E programs provide service to customers for free or at a discount. These programs are free municipal lighting service for franchised municipalities, the LIAP discount, and the Senior Citizen Discount. These programs create a revenue shortfall that is collected from other customers. This additional revenue should be removed from test-year revenues. The resulting adjustments decrease the test year revenue by $5,315,176.

Q. **Why is the Municipal Lighting portion of this adjustment proper?**

A. Book revenues and billing units in the Municipal Lighting class do not include portions associated with the granting of free service to certain municipalities where OG&E has a franchise agreement. Since these portions are not included, it is necessary to add the missing fixtures, kWh, and revenue into the lighting class to ensure proper rate design and COSS assignment. The adding of these revenues and billing units can be seen in adjustment W/P H-2-8a where the book portions are removed and total year-end levels are added back including the free service portions. If the revenues were not added, the Municipal Lighting class would show a deficiency commensurate with these revenues and all other Municipal Lighting customers would be solely responsible to pay for it. In order to recover the revenue recognized but not received by the Company, all classes other than lighting, are assessed a charge equal to the amount of revenue added. This process spreads the cost of free service to the other Oklahoma retail customers. This adjustment resulted in a $5,315,181 reduction to revenue.

Q. **Why are the LIAP and Senior Citizen Discount portions of this adjustment proper?**

A. Eligible low-income customers receive a $10 credit each month. Eligible senior citizen customers receive a $5 credit during the five summer months of June through October. These credits decrease book revenues. The recovery of these credits is distributed among all retail customer classes to ensure the Residential class does not solely bear the cost associated with providing this credit. Both the credits and the distributed recoveries are backed out to restore base rate revenue.

Adjustment #12

Q. **Please explain the Rate Recalculation Adjustment.**

A. On March 20, 2017 the Company received the Final Order in Cause No. PUD 201500273, which resulted in new rates being implemented on May 1, 2017. This rate change, during the test year, necessitates the rate recalculation adjustment in order to reflect revenues consistent with prices in effect at the end of the test year. This adjustment reflects the final order increase to base rates including the period October 1, 2016 through April 30, 2017, riders rolled in to base rates in PUD 201500273 and the expiration of production tax credits which expired in early 2017. The resulting adjustment added $57,612,870 to *pro forma* revenues.

Q. **Please summarize the total *pro forma* revenue adjustments you are recommending?**

A. The total test year Oklahoma book revenue of $1,914,483,078 has been reduced by the adjustments I have discussed above by the amount of $725,840,411 resulting in adjusted Oklahoma base rate revenue of 1,188,642,667. The supporting calculations and spreadsheets for the above *pro forma* adjustments are found in Schedule H-2 of the Company's application.

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

A. Yes.