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MAR 31 2016

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

IN THE MATTER OF THE)
APPLICATION OF OKLAHOMA GAS)
AND ELECTRIC COMPANY FOR AN)
ORDER OF THE COMMISSION)
AUTHORIZING APPLICANT TO)
MODIFY ITS RATES, CHARGES, AND)
TARIFFS FOR RETAIL ELECTRIC)
SERVICE IN OKLAHOMA)

CAUSE NO. PUD 201500273

RESPONSIVE RATE DESIGN TESTIMONY

OF

EDWIN C. FARRAR

ON BEHALF OF

E. SCOTT PRUITT,

OKLAHOMA ATTORNEY GENERAL

March 31, 2016

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INTRODUCTION

1

2 **Q: PLEASE STATE YOUR NAME.**

3 A: My name is Edwin Farrar.

4 **Q: BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR BUSINESS**
5 **ADDRESS?**

6 A: I am employed by the Office of the Attorney General of Oklahoma (“Attorney General”).
7 My business address is 313 NE 21st Street, Room 3073, Oklahoma City, Oklahoma
8 73105.

9 **Q: DID YOU PRE-FILE RESPONSIVE TESTIMONY IN THE REVENUE**
10 **REQUIREMENT PORTION OF THIS CAUSE?**

11 A: Yes. I pre-filed responsive testimony on March 21, 2016.

PURPOSE

12

13 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CAUSE?**

14 A: I am providing testimony to make certain recommendations with respect to Oklahoma
15 Gas and Electric Company’s (“OG&E’s” or “the Company’s”) time of use programs, its
16 proposal to implement demand charges, and its request to implement a prepaid electric
17 service option, referred to as “PayGo.”

TIME OF USE PROGRAMS

1
2 **Q: PLEASE DISCUSS OG&E'S TIME OF USE PROGRAMS FOR RESIDENTIAL**
3 **AND SMALL COMMERCIAL CUSTOMERS.**

4 A: OG&E has several time of use tariffs for its residential customers that were marketed
5 under the name "SmartHours" in the Company's 2013-2015 demand program.¹ These
6 optional tariffs have very high participation rates compared to similar programs offered
7 by other utilities,² and have resulted in a reduction in system peak demand and in total
8 energy consumption.³ While OG&E no longer includes these tariffs as a part of its
9 demand program, it has stated that it will continue to offer these tariffs to its customers.
10 These time of use tariffs bring in less revenue for OG&E than the standard service tariff
11 does. However, OG&E has not proposed in this case that it be able to recover its lost net
12 revenue from these time of use tariffs. I am concerned that with this loss of revenue as a
13 result of the success of the time of use tariffs, OG&E will not be able to promote these
14 tariffs to maintain the high participation rates in the future that they have previously
15 attained.

16 **Q: WHAT IS YOUR RECOMMENDATION TO MAINTAIN THE HIGH**
17 **PARTICIPATION RATES IN THE SMARTHOURS TARIFFS?**

18 A: I recommend that the Commission order OG&E to track the levels of customers
19 participating in the SmartHours tariffs, and allow the Company to either recover the lost

¹ See OKLA ADMIN. CODE §165:35-41et. seq. for the Commission's rules regarding electric utility demand programs.

² See Resp. Test. of Angela M. Nicoles, in Cause No. PUD 201500153, Table 1, at 4.

³ See Oklahoma Gas and Electric Company's 2015 Integrated Resource Plan, Table, at 23.

1 net revenues from increased participation, or to credit customers for reduced participation
2 in these tariffs.

3 **DEMAND CHARGES FOR SMALL CUSTOMERS**

4 **Q: PLEASE DISCUSS YOUR CONCERNS WITH OG&E'S PROPOSAL TO**
5 **IMPLEMENT DEMAND CHARGES FOR ITS RESIDENTIAL AND SMALL**
6 **COMMERCIAL CUSTOMERS.**

7 A: OG&E has proposed that demand charges be implemented for residential and small
8 commercial customers. I am concerned that implementation of a demand charge can
9 undermine the effectiveness of OG&E's time of use tariffs, which are used to shift power
10 consumption from peak periods to off-peak periods. My concern arises because OG&E
11 is proposing that the demand levels for these time of use tariffs be measured at any time,
12 and not just at the peak periods targeted by the Company's time of use rates.

13 **Q: HOW WOULD A DEMAND CHARGE BASED ON USAGE MEASURED**
14 **DURING AN OFF-PEAK PERIOD UNDERMINE OG&E'S TIME OF USE**
15 **RATES?**

16 A: OG&E's time of use rates offer customers an opportunity to save a significant amount on
17 their electric bills by electing to obtain service under the Company's time of use tariffs.
18 To obtain the greatest savings under these tariffs, customers need to reduce their electric
19 service usage during weekday summer afternoons between 2:00 pm and 7:00 pm, a five-
20 hour period. Some customers shift their usage to off-peak periods to accomplish that

1 objective. However, a customer who shifts his load to an off peak period to save money
2 under the SmartHours tariff could experience less savings under OG&E's proposed
3 demand charge, which is based on usage measured during an off-peak period. While the
4 demand charges are based on transmission and distribution costs, and the time of use
5 rates are aimed to reduce production demand, the combination of the two charges can
6 provide conflicting price signals to customers.

7 **Q: WHAT IS YOUR RECOMMENDATION REGARDING THE DEMAND**
8 **CHARGES FOR TIME OF USE CUSTOMERS?**

9 A: First, I recommend that a reduced tariff rate be implemented during this proceeding, as
10 discussed by Attorney General witness James W. Daniel. Second, I recommend that
11 demand be measured only during peak usage periods during the summer months, when
12 the time of use rates are applied for customers participating in those programs. Finally, I
13 recommend that OG&E monitor the impact of the demand charges on the participation
14 levels in the Company's time of use tariffs, and provide annual reports on that impact to
15 the Public Utility Division of the Commission and to the Office of the Attorney General.

16 **PREPAID SERVICE**

17 **Q: HOW WILL OG&E's PAYGO PROGRAM OPERATE?**

18 A: To implement PayGo, OG&E proposed amendments to Section 220 of its Terms and
19 Conditions of Service Tariff (hereinafter "PayGo Tariff"). The PayGo Tariff originated
20 as a pilot program in 2012, as discussed in the March 31, 2016 Responsive Testimony of

1 James W. Daniel. Pursuant to OG&E's current proposed PayGo Tariff, standard rates
2 would apply, prorated to a daily basis when necessary. In the event of a \$0 or negative
3 balance, a customer would be disconnected, and would not receive a paper copy of a
4 notice of disconnection at the customer's home. Some customers, including customers
5 with medical necessities, would be prohibited from participating in PayGo. Specifically,
6 OG&E's PayGo Tariff reads as follows:

7 **220 RESIDENTIAL CUSTOMER PREPAY BILL PROVISION**

8
9 Residential customers that are taking service where the supporting
10 technology and infrastructure are available may request to participate in
11 the Prepay Bill program. Customers residing at duplexes or apartment
12 houses that are served under one meter are excluded from participating in
13 the Prepay Bill program. Customers with medical necessities for service
14 are prohibited from participation. Customers choosing to participate in the
15 Prepay Bill program are excluded from subscribing to the Net Energy
16 Billing Option of the Standard Purchase Agreement, to the Green Power
17 Wind Rider, and the Community Solar Program. Zero or negative balance
18 disconnects scheduled to occur during weather moratoriums, after 5 p.m.
19 on weekdays, on Saturday or Sunday will not be disconnected and instead
20 rescheduled for the next business day. Customers can re-activate electric
21 service by adding funds to their account. Additional fees, including
22 reconnect and disconnect, will not be charged to customers except where
23 required by third party pay agents. The customer's standard rates will
24 apply, prorated to a daily basis when necessary, and security deposits will
25 not be required. Customers will not have the option of the AMB payment
26 plan. Under this provision OG&E will not leave a paper copy of the
27 notice of disconnection at the premise. Customers may exit at any time
28 with no exit fee and all standard terms and conditions with [sic] then
29 apply.
30

31 **Q: WHAT ARE THE BENEFITS OF OG&E's PREPAID SERVICE PROPOSAL?**

32 **A:** According to a June 22, 2011 presentation by OG&E concerning its PayGo pilot, benefits
33 of the program include: allowing customers to make as many payments as necessary

1 throughout the month, no deposits or disconnect/reconnect fees, and customers will be
2 able to pay off a portion of their arrears while maintaining electricity service.⁴

3 As indicated in a 2015 Report from the United States Department of Energy (hereinafter
4 “DOE Report”), prepay plans also benefit utilities.⁵ One reported benefit is receiving
5 fewer adversarial calls from customers.⁶ This reduction in calls may be due to the fact
6 that prepay customers typically receive increased notifications concerning their electricity
7 usage, perhaps resulting in a better understanding of the link between their electricity
8 usage and their electric bills. This is in contrast to standard post-pay service, for which
9 customers receive a lump sum bill at the end of the month, and as a result, may be
10 surprised, confused, and/or skeptical of the size of their bills.

11 Another benefit prepay plans offer to utilities is the recovery and reduction of consumer
12 debt.⁷ Many prepay programs allow customers who owe prior balances to maintain
13 electric service while paying down past debt. According to the DOE Report, prepay
14 programs have proven to be effective debt recovery tools for utilities. For example, Tri-
15 State Electric Membership Corporation, an electric cooperative in the Southeast United
16 States, reduced effective residential bad debt from \$44,259 in 2011 to \$1,135 in 2013, a

⁴ *Pay-As-You-Go Pilot*, Presentation by OG&E, June 22, 2011, Slides 2-3, available at <http://www.occeweb.com/pu/Prepayment%20Project/OG&E%20Presentation%206.22.11.pdf>.

⁵ See *Bridging the Gaps on Prepaid Utility Service*, United States Department of Energy, Office of Electricity Delivery and Energy Reliability, Sept. 2015 (“DOE Report”), attached hereto as Exhibit ECF-1.

⁶ *Id.* at 11.

⁷ *Id.*

1 97% decrease.⁸ Salt River Project, a government-owned utility in Arizona, recovered
2 more than \$20 million of outstanding bad debt.⁹

3 **Q: WHAT CONCERNS HAVE BEEN RAISED BY CONSUMER ADVOCATES**
4 **CONCERNING PREPAID ELECTRIC SERVICE PROGRAMS ACROSS THE**
5 **UNITED STATES?**

6 A: As indicated in the DOE Report, consumer advocates have raised a number of concerns
7 about how well prepay programs serve customers. One significant concern is that prepay
8 programs bypass traditional notice requirements for disconnection of service, such as by
9 physical mail, or posting final notices at customers' households. Paula Carmody, former
10 President of the National Association of State Utility Consumer Advocates, commented
11 as follows:

12 Advocates consider prepay an inferior service. Those on prepay are losing
13 access to consumer protections that other customers have. . . . There
14 hasn't been sufficient substantiation of the benefits to customers in prepay
15 plans, in light of the risk of loss of consumer protections. And there has
16 not been enough discussion of these issues when structuring these
17 programs.¹⁰

18 Another concern with prepay programs is that they may be marketed more heavily to low
19 income customers, who may be most susceptible to disconnection. As stated in the DOE
20 Report:

21 For some consumers, prepay may seem like it is the only option, rather
22 than a choice. Since prepay helps utilities recover outstanding balances,
23 they are willing to wave [sic] large deposits or other fees that are

⁸ *Id.*
⁹ *Id.*
¹⁰ *Id.* at 14.

1 associated with traditional services. Advocates argue that utilities try to
2 entice consumers into prepay – through the waving of these fees – rather
3 than offering other payment methods. DEFG [a management consulting
4 firm specializing in energy] reports that prepay plans historically have
5 skewed toward low-income, younger, Hispanic, and immigrant
6 consumers. For many years, advocates have expressed suspicion that
7 prepay is marketed to those groups in particular. Advocates also express
8 concern that prepay is really a collections program designed to handle
9 slow-paying consumers, rather than a true service option for all
10 consumers.¹¹

11 Because electric service is considered an “essential” service, especially with respect to
12 heating and cooling, consumer advocates worry about deemphasizing the critical nature
13 of disconnecting electric service.

14 **Q: WHAT COMMISSION RULES EXIST TO PROTECT CUSTOMERS WITH**
15 **RESPECT TO DISCONNECTION OF SERVICE?**

16 A: In acknowledgment of the fact that electric service is an essential service, the
17 Commission’s rules impose a number of requirements on utilities prior to disconnection.
18 For example, ten days’ written notice is typically required prior to disconnection for
19 nonpayment of a bill (OKLA ADMIN. CODE §165:35-21-20(b)). In addition, a utility must
20 generally post written notice at a customer’s home at least 24 hours prior to an impending
21 disconnection (*Id.* §165:35-21-20(a)).

22 Further, the rules either prohibit or delay disconnection when the outside temperature is
23 freezing (*Id.* §165:35-21-10(c)(1)) or very hot (*Id.* §165:35-21-10(c)(2)); when a
24 customer has applied for and is awaiting financial assistance from a government or social
25 service agency (*Id.* §165:35-21-10(d)); when a customer requests a deferred payment

¹¹ *Id.* at 15.

1 agreement (*Id.* §165:35-21-10(e)); and when a resident in the customer's household is
2 dependent on life-sustaining equipment, which equipment is electric (*Id.* §165:35-21-
3 10(f)).

4 **Q: FROM WHICH RULES DOES OG&E SEEK A WAIVER WITH RESPECT TO**
5 **ITS PAYGO PROGRAM?**

6 A: OG&E has not identified any rules from which it will seek a waiver.

7 **Q: WHAT ARE YOUR CONCERNS WITH OG&E'S PROPOSED PAYGO**
8 **PROGRAM?**

9 A: Prepaid electric service programs, such as PayGo, deserve careful review from regulators.
10 At this time, I am aware of a relatively small number of investor-owned utilities that have
11 commission-approved prepay programs. One concern with PayGo is that it may diminish,
12 not strengthen, the overall goal of *uninterrupted* electric service for customers. For
13 instance, Oklahoma Electric Cooperative, which has a well-established prepay program,
14 reported disconnection rates in 2013 of 43% for its prepay customers.¹²

15 Another concern with PayGo is that it will require the removal of certain Commission
16 protections with respect to disconnections. While OG&E has not formally requested
17 waivers from any rules, its PayGo Tariff states that disconnection will occur without a
18 disconnection notice being posted at a customer's household, as would normally be
19 required pursuant to OKLA. ADMIN. CODE §165:35-21-20 ("Notice of Disconnection of
20 Service"). That rule requires, among other things, ten days', written notice prior to

¹² *Id.* at 9.

1 disconnection for nonpayment of a bill, and further requires a utility to post written notice
2 at a customer's home at least twenty-four hours prior to an impending disconnection. If
3 OG&E seeks waiver of any of the Commission's disconnection rules, it will be important
4 that PayGo customers fully understand how notification of impending disconnection will
5 change, and that the customer will be assuming a greater level of responsibility to avoid a
6 service disruption. Moving from the standard, traditional method of notifying customers
7 prior to disconnection, including both mailed and on premise notification, to electronic
8 and telephonic notification, represents a shift in notification policy. Some states have
9 indicated concern about moving toward electronic and telephonic notification. In
10 rejecting a proposed prepay program, the California Public Utilities Commission stated as
11 follows:

12 . . . We also take note of Consumer Groups' logical inference that,
13 depending on the communications means chosen (e.g., text message,
14 automated phone message, or e-mail), customers on the proposed Prepay
15 Program might receive no advance notice of termination at all since
16 customers who are behind on their electric bills may also [sic] behind on
17 their internet or phone bills. We find that such an outcome is unacceptable.

18 . . .¹³

19 The possibility of increased disconnections may raise health and safety concerns. For
20 instance, while OG&E's PayGo Tariff states that customers with life threatening
21 conditions may not enroll, it will be difficult for OG&E to identify customers who may
22 develop conditions while already participating in the program, or whose sick family
23 members move in with them after the customer is already participating. For this reason,

¹³ See Order No. 14-01-002 at 54, *Applic. of San Diego Gas & Elec. Co. (U902E) for Authority to Update Marginal Costs, Cost Allocation, and Elec. Rate Design*, Public Utilities Commission of the State of California (Decision Addressing the Application and the Motions to Adopt Partial Settlements) (issued Jan. 23, 2014), relevant portion attached hereto as Exhibit ECF-2.

1 it is important that all PayGo customers understand how disconnection notification
2 procedures will operate under PayGo.

3 **Q: WHAT ARE YOUR RECOMMENDATIONS WITH RESPECT TO OG&E'S**
4 **APPLICATION?**

5 A: I recommend that the Commission include the following provisions in the approval of the
6 PayGo program:

7 (1) Customers should face no barriers if they wish to switch back to standard, post-
8 pay service. Switching back to standard service should not require the customer to pay
9 fees. If a customer still has arrears when switching back to standard service, or must pay
10 a deposit, then OG&E should be required to offer a reasonable payment plan to assist the
11 customer to transition back to standard, post-pay service.

12 (2) If a customer chooses to discontinue PayGo, OG&E should be required to refund
13 any positive prepay balance to the customer (or to the energy assistance program, if
14 applicable) within ten business days.

15 (3) As part of the enrollment process, OG&E should be required to obtain a
16 customer's acknowledgement of the following statement:

17 "The continuation of your electric service under PayGo depends on you
18 prepaying for service, and if your balance falls below \$0, your service may
19 be disconnected with notice by electronic means only. In the event of
20 impending disconnection, no notice will be posted at your home, as is
21 normally required for standard billing. You may switch back to standard
22 billing at any time, without any fees."

23

1 (4) OG&E should be required to track and report, at minimum, the following
2 information to the AG and the Commission's Public Utility Division ("PUD") on an
3 annual basis: (a) program costs and savings to the Company, including customer debt
4 recovery/reduction, (b) frequency and duration of all disconnections, and (c) income
5 information concerning all PayGo customers.

6 (5) The preceding requirements should be included in OG&E's PayGo Tariff, in
7 addition to the following information: (a) the initial account balance required to initiate a
8 PayGo account; (b) the minimum threshold account balance at which customers will be
9 affirmatively notified by OG&E of their account level; (c) the manner by which
10 customers will be affirmatively notified by OG&E of a low account balance (text, email,
11 letter, etc.); and (d) the manner by which OG&E will collect arrears from customers
12 enrolled in PayGo.

13 (6) OG&E should consider additional options for its standard, post-pay customers,
14 including text and email notifications, to assist them to better understand the link between
15 their behavior and their energy bills.

16 (7) OG&E should be required to identify in this Application which Commission rules
17 with which it intends not to comply in order to implement PayGo, and to request a waiver
18 from such rules.

19 (8) Two years after the final order is issued in this Cause, OG&E should be required
20 to file an application with the Commission seeking Commission review of PayGo, and
21 Commission approval to maintain the program.

1 **Q: DOES YOUR TESTIMONY ADDRESS ALL ISSUES IN THIS CAUSE?**

2 A: No, it does not. I will review issues raised by other parties to this Cause and reserve the
3 right to address those issues in rebuttal testimony.

4 **Q: DOES THIS CONCLUDE YOUR TESTIMONY?**

5 A: Yes, it does.