BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

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

FILED
MAY 16 2018
COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

RATE DESIGN

RESPONSIVE TESTIMONY

OF

KATHY CHAMPION

MAY 16, 2018

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INTRODUCTION

Q: Please state your name and your business address.

A: My name is Kathy Champion. My business address is Oklahoma Corporation Commission, Public Utility Division, Jim Thorpe Office Building, Room 580, 2101 North Lincoln Boulevard, Oklahoma City, Oklahoma 73105.

Q: Did you file Responsive Testimony in this Cause on May 2, 2018?

A: Yes. I filed testimony on May 2, 2018, in response to the Application filed by Oklahoma Gas and Electric Company ("OG&E" or "Company") for an Order of the Commission authorizing Applicant to modify its rates, charges, and tariffs for retail electric service in Oklahoma as filed in Cause No. PUD 201700496 related to the revenue requirement phase of this Cause.

PURPOSE

Q: What is the purpose of your Testimony in this phase of Cause No. PUD 201700496?

A: The purpose of this Rate Design Responsive Testimony is to present PUD's recommendations regarding the Company's recommendations to the following items:

- Green Power Rider
- Lighting tariffs
- Utility Solar Pilot Rider Military Base Credits
- Allowable Expenditures language (Section 408)
- Federal Tax Change and Production Tax Credit Rider
- Lost Revenues and Demand Program Rider Compliance Adjustments
- Revenue Allocation and associated Rate Design Changes

EXECUTIVE SUMMARY

On January 16, 2018, Oklahoma Gas and Electric Company ("OG&E" or "Company") filed its Application for an adjustment in its rates, charges, and tariffs for retail electric service in Oklahoma. The Public Utility Division ("PUD") reviewed the Application, Testimony of Company witnesses, and Company workpapers. PUD also issued data requests and reviewed associated responses. PUD also reviewed the data requests issued by intervenors, including the Attorney General, Oklahoma Cogeneration, LLC, and Oklahoma Industrial Energy Consumers, and the associated responses. PUD also held discussions with Company personnel at the Company's corporate office in Oklahoma City, Oklahoma.

After completing its review of the Rate Design and Cost of Service ("COS") areas in this Cause, PUD recommends that the Commission accept:

- the Company's proposed changes to the Green Power Rider, Lighting tariffs, and Military Base Credits;
- the change to the Utility Solar Power rider recommended by PUD to add this tariff as a permanent tariff offering;
- the Company's proposed change to language in the tariff regarding Allowable expenditures. This change provides that a calculation be made only when a change is proposed, instead of annually, but would add PUD's recommended language to allow 45 days for PUD to review before implementing change;
- the Tax Cuts and Jobs Act of 2017 rider (proposed as the Federal Tax Change and Production Tax Credit rider) for the Federal Tax Change and Amortization of the Regulatory Liability components as proposed by the Company, but include a separate factor development page that includes the total amount to be recovered as well as the factor development as recommended by PUD;
- removal of the Production Tax Credit from recovery as proposed by the Company within the proposed Federal Tax Change and Production Tax Credit rider;
- that if the Commission approves the Production Tax Credit true-up through a rider, the Commission should also accept PUD's recommended use of a separate rider for the Production Tax Credits;
- the Company's proposal for the Demand Program Rider to be adjusted with a final order in this Cause to remove the Integrated Volt Var Control ("IVVC") recovery; however, PUD recommends that the Commission also order OG&E to remove the lost revenues (and cumulative kWhs/kWs for the test year and prior years) to prevent double recovery of those revenues;

- PUD's recommended language related to the cumulative kWhs be added to the Demand Program Rider tariff;
- the revenue distribution for classes as recommended by PUD; and
- PUD's recommendation to adjust the variable charges (kWh and kW) to recover the adjusted revenues.

PUD believes these recommendations are fair, just, reasonable, and in the public interest.

PUD'S REVIEW PROCESS

Q: Please explain PUD's review process in this Cause.

A: PUD reviewed the Application, Direct Testimony of Company witnesses, schedules, workpapers, and sponsored exhibits filed by the Company. In addition, PUD reviewed OG&E's prior workpapers, testimony, and sponsored exhibits, along with Final Order No. 662059 in Cause No. PUD 201500273. PUD issued data requests and reviewed all responses provided by OG&E. PUD also reviewed the data requests issued by intervenors, including the Attorney General, Oklahoma Cogeneration, LLC, and Oklahoma Industrial Energy Consumers, and the associated responses. PUD also held discussions with Company personnel at the Company's corporate office in Oklahoma City, Oklahoma.

GREEN POWER RIDER

Q: What change has OG&E proposed for the Green Power Rider ("GPR")?

A: OG&E proposed a modification to tariff language related to the resource to be used to supply the GPR. Specifically, the Company has proposed that instead of continuing the current limitation to supply the GPR tariff only from the Sooner Wind Purchase agreement, any of the Company's wind resources should be allowed to supply the service related to the GPR.

Q: Does PUD agree with OG&E's proposed change to the GPR?

A: Yes. The current Sooner Wind Purchase agreement expires on September 27, 2018, and the proposed change will allow the GPR to continue to provide options to customers. In addition, the extension of the GPR to all of OG&E's wind resources may also allow for more participants as the subscription will not be limited to only one wind resource. PUD recommends that the Commission accept OG&E's proposed GPR revisions.

LIGHTING TARIFF CHANGES

Q: What changes has OG&E proposed to the Municipal Roadway and Area Lighting ("ML"), the Outdoor Security Lighting ("OSL"), and the LED Lighting tariffs?

A: First, OG&E proposes to close the ML and OSL tariffs to new subscribers or to new installations.

Q: Does PUD agree with OG&E's proposed adjustment?

A: Yes. With approval of the LED Lighting tariff in Cause No. PUD 201600366, OG&E provided information about the limited availability of certain High Pressure Sodium Vapor and Metal Halide fixtures due to the elimination of those fixtures by manufacturers and the switch by manufacturers to provide LED fixtures instead. OG&E introduced LED to allow a transition to the new technology using attrition to facilitate the migration of customers to the new tariff when adding or replacing existing fixtures with LED Light fixtures. Closing the ML and OSL tariffs to new subscribers and to new fixtures is another step to accomplish this technology transition by clearly signaling to customers that only the LED fixtures will be an option in the future.

Q: Has OG&E taken other steps to accomplish the transition to LED fixtures?

A: Yes. OG&E has also proposed adding additional fixtures to the LED tariff.

Q: Does PUD agree with the proposed closing of the ML and OSL tariffs and the proposed additions to the LED tariff?

A: Yes. PUD reviewed the calculations supporting the pricing for the additional LED fixtures, the Order from the LED cause,[1] and the proposed tariff changes. PUD recommends that the Commission accept OG&E's proposal to close the ML and OSL to new subscribers and to new fixtures and approve the changes to the LED lighting tariff.

UTILITY SOLAR PILOT

Q: What changes has the Company proposed to the Utility Solar Pilot tariff?

A: OG&E introduced the Utility Solar Pilot ("USP") tariff as a pilot program in Cause No. PUD 201500340, Order No. 651286. The USP pilot was proposed by OG&E and described by OG&E witness Gwin Cash[2] as a means to test the demand for this solar energy product. OG&E has proposed to extend the enrollment on the USP tariff to one year following a final order in this Cause. OG&E has proposed no changes in the USP price, except an update to reflect the capital structure, cost of equity and the Federal corporate income tax changes approved in this Cause.

[1] Cause No. PUD 201600366, Order No. 658806.
[2] Direct Testimony of Gwin Cash, Cause No. PUD 201700496, Page 10 lines 15-26.

Q: Does PUD agree with OG&E's proposed changes?

A: In part; PUD agrees that the pricing should be updated upon receipt of a final order to reflect the approved capital structure, cost of equity and Federal corporate income tax changes. However, PUD does not agree that a one-year enrollment extension to the USP pilot is in the best interest of customers.

Q: Why does PUD disagree with the one-year extension on enrollment to the USP pilot?

A: PUD does not believe that it is necessary to limit the enrollment of this USP pilot to just one additional year. Instead, PUD would propose that OG&E add this as a permanent tariff offering. OG&E offered the USP tariff to test the demand for this solar product. The USP tariff enrollment was fully subscribed in just weeks and currently has a waiting list of 3,171 customers. PUD believes that OG&E has proven the demand for this solar product offering and that it is appropriate to add it as a permanent offering instead of limiting its availability to just one additional year. Should OG&E add additional resources that require an update to the pricing, OG&E could file for an update to the pricing or language could be added in this Cause to allow for the pricing to be updated with a review by the Director of the Public Utility Division. Adding the USP as a permanent tariff provides certainty to customers that this offering will be continued and that their observed demand for this solar product offering will continue to be fulfilled.

MILITARY BASE CREDITS

Q: Please describe the Military Base Credits.

A: The Military Base Credit in the amount of $804,371 is divided among eligible military installations. The Credit is established by dividing the total kWhs for eligible accounts by the total Credit. The Credit is paid by all customers through a surcharge. In this Cause, OG&E proposed an update to the calculation of both the Credit and surcharge to reflect test year adjusted kWhs.

Q: Does PUD agree with the proposed changes to the Military Base Credits and surcharge?

A: Yes. PUD reviewed the test year adjusted kWhs and agrees that the increase in kWhs results in a change in the surcharge from $.000034 to $.000033. PUD also reviewed the decrease in the kWhs sales from the eligible military accounts which likewise resulted in an increase in the Credit from ($.001916) to ($.002230). PUD recommends approval of the proposed changes to the Military Base Credit tariff.

ALLOWABLE EXPENDITURE FORMULA

Q: What change has OG&E proposed for the Allowable Expenditure Formula language included in Section 408, Sheet 141 of the Company's Terms and Conditions?

A: OG&E has proposed that instead of providing the Allowable Expenditure Formula annually, as is currently required in the Terms and Conditions, the Company would only provide the Formula when they are proposing a change to the Formula.

Q: Does PUD agree with OG&E's proposed change to provide the Allowable Expenditure Formula only when the Formula changes, instead of by April 1 of each year?

A: While PUD does agree with the Company's proposal to file the Allowable Expenditure Formula only when the Company has made a change to the Formula instead of annually, PUD would modify the timeline suggested by the Company associated with a change in the Formula from:

> "This letter shall be sent to the Director of the Public Utility Division of the Commission no later than the first day of the month prior to the change of the formula";

to:

> "This letter shall be sent to the Director of the Public Utility Division of the Commission no later than 45 days prior to the change of the formula".

PUD believes that this recommendation both eliminates unnecessary reporting and also provides adequate time for PUD to receive and review the changes to the Allowable Expenditure Formula before its implementation. PUD recommends approval of this proposed change by the Company with the additional changes recommended by PUD.

FEDERAL TAX CHANGE AND PRODUCTION TAX CREDIT RIDER

Q: Please describe the Federal Tax Change and Production Tax Credit Rider ("FTCPTC") proposed by OG&E.

A: The FTCPTC rider proposed by OG&E includes three elements: (1) the Federal Tax Change ("FTC") factor; (2) the Amortization of the Regulatory Liability ("ARL") factor; and (3) the Production Tax Credit ("PTC") factor. Both the FTC and ARL factors as proposed were established to comply with Final Order No. 671982 of Cause No. PUD 201700569 and were a result of the Tax Cuts and Jobs Act of 2017 ("Tax Act").

The FTC factor proposes to capture the difference in the tax recovery of the previous corporate tax rate of 35% to the new corporate tax rate of 21% for the period from January 1, 2018, to the implementation of new rates with a Final Order in this Cause. The ARL factor is proposed to true-up the regulatory liability used to record the savings in Accumulated Deferred Income Tax ("ADIT") due to the reduced federal income tax rate from the amount included in base rates to the actual level of amortization reflected in the latest tax return. The PTC factor is proposed by the Company to true-up the Oklahoma jurisdiction amount of the Federal and State PTCs from the amount included in base rates to actual credits received by the Company.

Q: Does PUD agree with proposed FTCPTC rider?

A: As discussed in the testimony of PUD witness Zachary Quintero, PUD does agree with the FTC and ARL calculation and the factors proposed for recovery in the FTCPTC rider.

Q: Does PUD recommend any changes to the FTCPTC rider related to the FTC and ARL elements?

A: Yes. For transparency regarding the effect of the Tax Act, PUD would recommend that the amount of the ADIT liability ("ARL") included in base rates and the total income tax expense ("FTC") be specified in the rider. This could be a separate factor sheet that would show the amounts included in base rates, the adjustments needed to reflect actual tax from the latest tax return, and the difference to be recovered through the rider. This would require the Company to add language to the tariff to accomplish this additional disclosure for both the ARL and the FTC elements.

Q: What does PUD recommend for the PTC factor?

A: PUD does not agree that the PTC factor should be included for recovery in the same rider as the factors associated with the Tax Act.

Q: Why does PUD not agree with including the PTC within the same rider?

A: PUD has previously stated riders should only be granted in limited circumstances, when they are significant and caused by changes that are outside of the control of the utility. While the FTC and ARL represent changes that are proposed due to a mandated change, specifically the Tax Act, and are outside of the Company's control, the PTC factor does not meet these criteria.

The PTC has been included in base rates and adjusted with a change in base rates since first approved. OG&E did not propose a change to the PTC to include a true-up through rider recovery until the PTCs were set to expire and production might likewise be reduced. Customers have not been given the benefit of an annual true-up when there was the potential for production to be a higher level and the PTCs might have exceeded the amount in base rates. Instead, the PTCs were only adjusted during base rate reviews. Further, OG&E has indicated it will be filing another base rate review in late 2018, which gives OG&E another opportunity to adjust the PTCs included in base rates without the use of the rider true-up.

PUD recommends approval of only the FTC and ARL factors and that the PTC be removed from the proposed rider recovery. PUD also recommends the name of the rider be changed to the Tax Act Rider. Should the Commission decide to allow the PTC true-up, PUD would still recommend a separate rider to reflect the separate cause and unique timing of recovery needed for the PTCs.

DEMAND PROGRAM RIDER COMPLIANCE ADJUSTMENTS

Q: What has OG&E proposed for the Demand Program recovery in this Cause?

A: OG&E proposed two adjustments related to the Demand Program recovery. The first is an adjustment of approximately $2.8 million[3] to remove the IVVC investment from the Demand Program Rider ("DPR") into base rate recovery. This adjustment moves the capital investment from the rider recovery into plant in service.

Q: Does PUD agree with this adjustment?

A: Yes. However, PUD is concerned about correct implementation of the DPR adjustment. OG&E likewise proposed in Cause No. 201500273 to move approximately $1 million of

[3] 2017 Billing Factor workbook, 2017 Program cost worksheet, 2017 budget for IVVC.

administration expense into base rates. While OG&E did add $1 million to rate base to cover the cost of the DPR payroll expenses, it later decided not to remove those expenses from the Rider. Instead, in spite of PUD's objection,[4] OG&E increased the program budget for its commercial programs and continued to recover the $1 million both through the Rider and through the addition to base rates. PUD would recommend that OG&E provide as a part of its compliance tariff provision, proof that the rider recovery is reduced by the IVVC removal.

Q: Did OG&E propose any additional adjustments?

A: Yes. OG&E proposed an adjustment of $4 million to reflect the lost revenues included in the pro forma or 6-month post test year period. Although OG&E proposes a $4 million revenue adjustment, OG&E recommends no change in revenue recovery through the DPR to reflect the reduction in kWhs associated with lost revenues.

Q: Please explain lost revenues and its recovery through the DPR adjustment.

A: DPR lost revenues are the reduction in revenues caused by implementation of the Demand Programs. OG&E submits an estimate of the Demand Program savings with its annual true-up. By Commission rule,[5] the Demand Program savings estimate calculation must be reviewed and verified by an independent program evaluator. The need for the external evaluation and the additional time it takes to complete that evaluation, as well as PUD's review of the evaluations, resulted in the current timeline for submitting the Annual DP reports and the true-ups with both the calculation of Demand Program

[4] Data Response KJC 3-3, attachment KJC 3-3.
[5] Demand Program Rules, OAC 165:35:41.

Savings, or lost revenues, and the Company's Incentives lagging by 21 months.

Q: Please provide an example of the Demand Savings.

A: PUD has provided the following example that highlights typical customer participation in the Demand programs over four years. In the Demand Savings example:

- Customer A represents a typical customer and their usage with no change in consumption over a four-year period;
- Customer B shows that they implemented a Demand Program in May of 2015 and their load summary reflects that reduction from May 2015 forward;
- Customer C implemented a Demand Program in October 2016 and their load summary reflects that reduction from October 2016 forward;
- Customer D implemented a Demand Program in April 2017 and their load summary reflects that reduction from April 2017 forward; and
- The example shows Class as a total of all customers' consumption by year with the addition of both the total annual kWh savings and total calculated lost revenues and cumulative kWh savings and cumulative lost revenues over four years.

Demand Savings $0.10 per kWh

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total	Annual Savings	Cum Savings	Annual LR	Cum LR
Cust A	2015	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000	-	-	-	-
	2016	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000	-	-	-	-
	2017	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000	-	-	-	-
	2018	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000	-	-	-	-
Cust B	2015	1,000	1,000	1,000	1,000	900	900	900	900	900	900	900	900	11,200	800	800	$ 80	$ 80
	2016	900	900	900	900	900	900	900	900	900	900	900	900	10,800	1,200	2,000	$ 120	$ 200
	2017	900	900	900	900	900	900	900	900	900	900	900	900	10,800	1,200	3,200	$ 120	$ 320
	2018	900	900	900	900	900	900	900	900	900	900	900	900	10,800	1,200	4,400	$ 120	$ 440
Cust C	2015	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000	-	-	$ -	$ -
	2016	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	900	900	900	11,700	300	300	$ 30	$ 30
	2017	900	900	900	900	900	900	900	900	900	900	900	900	10,800	1,200	1,500	$ 120	$ 150
	2018	900	900	900	900	900	900	900	900	900	900	900	900	10,800	1,200	2,400	$ 120	$ 240
Cust D	2015	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000	-	-	$ -	$ -
	2016	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000	-	-	$ -	$ -
	2017	1,000	1,000	1,000	900	900	900	900	900	900	900	900	900	11,100	900	900	$ 90	$ 90
	2018	900	900	900	900	900	900	900	900	900	900	900	900	10,800	1,200	2,100	$ 120	$ 210
Class	2015	3,000	3,000	3,000	3,000	2,900	2,900	2,900	2,900	2,900	2,900	2,900	2,900	47,200	800	800	$ 80	$ 80
	2016	2,900	2,900	2,900	2,900	2,900	2,900	2,900	2,900	2,900	2,800	2,800	2,800	46,500	1,500	2,300	$ 150	$ 230
	2017	2,800	2,800	2,800	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	44,700	3,300	5,600	$ 330	$ 560
	2018	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	2,700	44,400	3,600	8,900	$ 360	$ 890

Q: Please describe the difference between PUD and OG&E on the resetting of lost revenues.

A: As stated by OG&E witness Gwin Cash, OG&E believes that new rates do not recover lost net revenues because rates recover costs prospectively. While he is correct that rates recover costs prospectively – that recovery includes all changes in consumption and the revenues and does include recovery of lost revenues that occurred before and during the test year.

Using the example, if the test year were January through December 2017, included in the test year is the current consumption of all customers – Customer A with no change in consumption and the new consumption of Customers B, C, and D. There is no calculation or estimate needed because test year 2017 reflects the current consumption and revenues for all customers. This would also match the books and records of the Company because the test year 2017 would have been what was billed to the customers. The annual Class consumption in 2017 is 44,700 kWHs which is calculated to be 3,300 kWhs less than it would have been if the customers had not participated in the Demand Programs.

As shown in this example, OG&E's kWhs for test year 2017 include the Demand Savings both in the kWh reduction and in the revenue reduction.

Q: How do new rates include recovery of the Demand Savings?

A: Once a revenue requirement is established, each class is allocated a portion of that revenue, and then prices are set using the billing determinants to recover that revenue. Using the following example, we show how prices are adjusted to pick up that additional revenue:

	RevReq	kWh	Price
2017 Actual	$ 4,470	44,700	$0.10
New Rates	$4,800	44,700	$0.11

As shown above, new rates use the actual consumption and the new revenue requirement to set rates. This reflects the recovery of the approved revenue requirement in the test year based on a review of all costs and actual revenues received.

Q: Please discuss the timing of implementing new rates and the timing of the DPR recovery.

A: OG&E is currently recovering the 2016 lost revenues (and prior years) through the DPR. Those were filed in June 2017, recovery began in October 2017, and recovery will be completed in September 2018. OG&E's test year is not January through December 2017 but instead is October 2016 through September 2017 which means that the DPR is currently recovering the lost revenues for part of OG&E's current test year – the months of October through December 2016.

If OG&E implements new rates in July 2018 (either by Order or using interim rates based on the 180-day option available to the Company), it will adjust prices to reflect new kWhs, and if it does not adjust the DPR, OG&E will be recovering the lost revenues through both base rates (new prices) and through the DPR. In other words, OG&E will be double recovering the lost revenues for 2016.

That is why PUD believes that with the tariffs submitted as a part of base rate compliance with a Final Order, OG&E should submit an update to remove all cumulative kWhs, not just from the cumulative kWh bucket, but also from the rider recovery. OG&E agrees that the cumulative kWhs are removed but believes that it does not need to adjust the revenues that were calculated using those kWhs until the next true-up goes into effect in October 2018.

As shown in PUD's Demand Savings example, the Class actual consumption includes all changes made in and prior to the test year. OG&E does not need to calculate lost revenues – there is no need to evaluate or verify the lost revenue calculations because the base rate filing includes customers' actual consumption. There is no need to estimate what happened in customers' homes due to Demand Program participation since their actual bills reflect what happened. Likewise, when OG&E implements new rates, the lost revenue adjustment will be included as a part of the adjusted prices going forward.

OG&E is currently calculating the 2017 true-up with its estimate of lost revenues. That true-up is to be filed in July 2018 and will go into effect in October 2018. If new rates go into effect in July 2018 or any time prior to October 2018, OG&E should remove its cumulative estimated kWhs, kWs, and revenues from the DPR. Or, if new rates are delayed and the 2018 true-up goes into effect with the estimated 2017 (and prior) cumulative demand savings, the DPR should only remain in effect until new rates are approved. Once a final order is issued in this Cause, the 2018 DPR lost revenue component should be adjusted to remove any cumulative kWhs, kWs, and associated revenues as a part of the rate case compliance.

In addition, if OG&E uses the post test year adjustment which would be for the months of April 2017 through March 2018, it will begin recovering part of 2018 lost revenues in July 2018. Any change in consumption for January through March 2018 is also reflected in the actual booked kWhs for the pro forma test year and will be used to set rates going forward. Instead of a 21-month delay, for the first quarter of 2018, OG&E will be delayed only by three months and should remove those months from recovery in the 2019 true-up.

Q: Please discuss how OG&E's position to not adjust the DPR recovery as a part of compliance would affect the revenue requirement approved with a Final Order issued in this Cause.

A: The Commission, with a rigorous review of all costs and revenues provided by all parties to this Cause, will establish a revenue requirement with its final order. For example, if the Commission were to approve PUD's recommendation, it would result in a decrease of $42 million to the Company's revenue requirement. That recommendation was made considering all revenues, fuel and non fuel. With a final order, OG&E would adjust its base rates to include this reduction to revenues and update tariffs to reflect prices as a part of the final order compliance.

However, if OG&E does not also remove the lost revenues from the DPR with a final order, the DPR will include lost revenues of approximately $7 million (2016 lost revenues). This means that customers will not receive a full $42 million decrease; they will only realize a $35 million decrease. PUD believes that the final revenue requirement should be inclusive of all changes and not further eroded by the Company's misinterpretation of the lost revenue adjustment.

Q: Does PUD recommend changes to the DPR tariff?

A: Yes. The following language is currently included in the DPR tariff related to the cumulative DPR savings:

CUMULATIVE SAVINGS: The energy and demand savings used in the Lost Net Revenue calculation will accumulate until base rates are implemented based on a Final Order in any subsequent general rate case. Once a change in base rates occurs, the Lost Net Revenue associated with the energy and demand savings will once again start accumulating.

PUD recommends modifying this to:

> CUMULATIVE SAVINGS: The energy and demand savings used in the Lost Net Revenue calculation will accumulate until base rates are implemented based in a Final Order in any subsequent general rate case. Once a change in base rates occurs, the Lost Net Revenue associated with the energy and demand savings *will be removed from recovery through the DPR and start accumulating with the savings achieved post approved test year.*

PUD believes that this change will clarify that not only are accumulated kWhs reset with a Final Order but that the revenues associated with those cumulative kWhs also be removed.

Q: Please summarize PUD's recommendation regarding the Demand Program recovery.

A: PUD agrees with the approximate $2 million IVVC removal from the DPR and inclusion in base rate recovery. PUD agrees with the $4 million adjustment to reflect lost revenues through the pro forma period. However, PUD strongly disagrees with the Company's proposal to not adjust the DPR to reflect removal of the cumulative revenues immediately upon receipt of a final order. Regardless of the timing of the final order in this Cause, OG&E should be ordered to adjust the DPR recovery to remove the IVVC recovery and to remove all cumulative kWh/kW savings and associated revenues through the approved test year period. PUD also recommends the language proposed by PUD be added to the DPR tariff to clarify how the DPR should be updated upon receipt of a final order.

REVENUE ALLOCATION AND RATE DESIGN RECOMMENDATIONS

Q: Please describe PUD's revenue allocation included in the COS.

A: As described in testimony of PUD witness Jason Chaplin, PUD's proposed revenue distribution results in the goal of moving rate classes to equalized relative rates of return. Because PUD's recommended revenue requirement resulted in an overall reduction to rates of approximately $42 million, the effect of moving classes is less impactful, with most classes receiving a decrease and still moving toward equalized rates of return.

The following chart highlights the movement to parity with PUD's recommended revenue distribution:

Customer Group	Current Rate of Return	Current Relative RoR	PUD Proposed Rate of Return	PUD Proposed RRoR
RS	7.3%	93%	7.2%	100%
GS	8.9%	114%	7.3%	102%
OGP	13.3%	170%	8.3%	115%
PS-S	5.6%	71%	5.4%	76%
PS-L	6.5%	83%	6.5%	91%
PL	8.8%	112%	7.2%	100%
PL TOU	8.2%	105%	7.3%	102%
LPL TOU	8.1%	103%	7.1%	100%
MP	9.0%	115%	6.6%	92%
Lighting	6.6%	85%	6.6%	92%
Total Retail	7.8%	100%	7.1%	100%

Q: What was the process PUD used to establish the proposed revenue allocation included in the COS?

A: PUD's process used to establish the proposed revenue distribution was:

1) No class (sub class) would receive an increase.
2) No sub class receives more than a 10% decrease.

3) The funds available from capping the decrease to 10% were used to offset the revenues caused by eliminating increases to any sub class.

4) Additional funds needed to offset class increases were distributed within the same class or service level. (Example – Residential VPP will not receive an increase which results in the Standard Residential class receiving less of a decrease.)

5) Sub classes for General Service, Oil and Gas Producers, Public Schools, and Municipal Pumping were included in the cost of service for cost allocation purposes, but because they are summed together to establish prices, each of the sub classes received the same percent decrease.

6) The Power and Light ("PL") backup class decrease was capped at the PL class average decrease. This was done to reflect the backup nature of the class, which does include a full cost allocation.

The Class summary results of PUD's revenue distribution are:

PUD Summary of Revenue Distribution

Line No.	Class	OKLA RETAIL JURISDICTION	RESIDENTIAL SERVICE	GENERAL SERVICE	GENERAL SVC STANDARD	GENERAL SVC TOU	OIL & GAS PRODUCTION	OIL & GAS PROD STANDARD
1	Cur Rev	1,180,006,911	595,372,455	126,010,295	111,369,293	5,527,897	10,583,287	9,248,214
2	Fuel Revenues	804,506,975	288,712,238	50,281,403	42,377,391	2,537,572	9,427,934	8,129,639
3	Non-Fuel Revenues	137,608,733	65,491,405	9,443,400	7,960,492	461,396	1,561,642	1,341,169
4	Total Current Revenues	2,122,122,619	949,576,098	185,735,098	161,707,177	8,526,866	21,572,863	18,719,023
5	TOTAL DEFICIENCY / (SURPLUS)	(42,051,450)	(4,282,831)	(11,098,156)	(11,245,787)	(271,780)	(2,624,279)	(2,138,898)
6	Total Percent Change	-2.0%	-0.5%	-6.0%	-7.0%	-3.2%	-12.2%	-11.4%
7	Current Precent of COSS	102.0%	100.5%	106.4%	107.5%	103.3%	113.8%	112.9%
	Proposed Rev							
8	Proposed Fuel Revenues	804,506,975	288,712,238	50,281,403	42,377,391	2,537,572	9,427,934	8,129,639
9	Proposed Non-Fuel Revenues	137,608,733	65,491,405	9,443,400	7,960,492	461,396	1,561,642	1,341,169
10	TOTAL DEFICIENCY / (SURPLUS)	(42,051,450)	(4,282,831)	(10,207,968)	(9,946,429)	(261,539)	(2,156,500)	(1,871,700)
11	Proposed Allocated Rev	2,080,071,169	945,293,267	175,527,130	151,760,748	8,265,327	19,416,363	16,847,323
12	Proposed % Change	-2.0%	-0.5%	-5.5%	-6.2%	-3.1%	-10.0%	-10.0%
13	Proposed ROR	7.1%	7.1%	7.3%	7.4%	7.2%	8.3%	7.9%
14	Proposed RROR	100.0%	100.0%	102.0%	103.3%	100.5%	115.4%	109.9%
15	% of Total Cost of Service	100.0%	100.0%	100.5%	100.9%	100.1%	102.5%	101.6%

Line No.	Class	OIL & GAS PROD TOU	PUBLIC SCHOOLS SM	PUBLIC SCHOOLS SM - STANDARD	PUBLIC SCHOOLS SM-TOU	PUBLIC SCHOOLS LG	PUBLIC SCHOOLS LG-STANDARD	PUBLIC SCHOOLS LG-TOU
1	Cur Rev	1,335,073	11,445,288	2,764,434	3,080,623	7,538,987	2,259,945	5,279,042
2	Fuel Revenues	1,298,294	7,787,869	1,575,179	1,975,893	5,718,881	1,451,786	4,267,095
3	Non-Fuel Revenues	220,473	1,455,171	290,239	364,739	1,041,275	267,119	774,156
4	Total Current Revenues	2,853,840	20,688,328	4,629,852	5,421,255	14,299,143	3,978,850	10,320,293
5	TOTAL DEFICIENCY / (SURPLUS)	(485,381)	1,150,700	(119,083)	(40,304)	287,283	(279,939)	567,221
6	Total Percent Change	-17.0%	5.6%	-2.6%	-0.7%	2.0%	-7.0%	5.5%
7	Current Precent of COSS	120.5%	94.7%	102.6%	100.7%	98.0%	107.6%	94.8%
	Proposed Rev							
8	Proposed Fuel Revenues	1,298,294	7,787,869	1,575,179	1,975,893	5,718,881	1,451,786	4,267,095
9	Proposed Non-Fuel Revenues	220,473	1,455,171	290,239	364,739	1,041,275	267,119	774,156
10	TOTAL DEFICIENCY / (SURPLUS)	(284,800)	(108,544)	(100,836)	(7,708)	0	0	0
11	Proposed Allocated Rev	2,569,040	20,579,784	4,529,016	5,413,547	14,299,143	3,978,850	10,320,293
12	Proposed % Change	-10.0%	-0.5%	-2.2%	-0.1%	0.0%	0.0%	0.0%
13	Proposed ROR	11.6%	5.4%	7.3%	7.3%	6.5%	9.6%	5.5%
14	Proposed RROR	161.8%	75.5%	101.7%	102.6%	91.2%	133.6%	76.6%
15	% of Total Cost of Service	108.5%	94.2%	100.4%	100.6%	98.0%	107.6%	94.8%

Line No.	Class	POWER & LIGHT	PWR & LGHT STANDARD	PWR & LGHT TOU	LRG. PWR & LGHT TOU	MUNICIPAL PUMPING	LIGHTING SERVICE
1	Cur Rev	268,439,743	163,928,536	104,511,208	126,414,668	4,145,640	30,056,548
2	Fuel Revenues	235,059,691	131,246,609	103,813,082	196,634,857	4,294,256	6,589,846
3	Non-Fuel Revenues	40,268,701	23,257,691	17,011,010	16,938,554	723,648	684,938
4	Total Current Revenues	543,768,136	318,432,836	225,335,300	339,988,079	9,163,543	37,331,332
5	TOTAL DEFICIENCY / (SURPLUS)	(19,691,974)	(13,649,163)	(6,042,811)	(6,195,288)	(377,824)	780,919
6	Total Percent Change	-3.6%	-4.3%	-2.7%	-1.8%	-4.1%	2.1%
7	Current Precent of COSS	103.8%	104.5%	102.8%	101.9%	104.3%	98.0%
	Proposed Rev						
8	Proposed Fuel Revenues	235,059,691	131,246,609	103,813,082	196,634,857	4,294,256	6,589,846
9	Proposed Non-Fuel Revenues	40,268,701	23,257,691	17,011,010	16,938,554	723,648	684,938
10	TOTAL DEFICIENCY / (SURPLUS)	(18,465,397)	(13,390,718)	(5,074,679)	(6,195,288)	(494,601)	(140,321)
11	Proposed Allocated Rev	525,302,739	305,042,118	220,260,621	333,792,791	8,668,942	37,191,011
12	Proposed % Change	-3.4%	-4.2%	-2.3%	-1.8%	-5.4%	-0.4%
13	Proposed ROR	7.2%	7.2%	7.3%	7.2%	6.6%	6.6%
14	Proposed RROR	101.2%	100.4%	102.5%	100.0%	92.1%	91.7%
15	% of Total Cost of Service	100.2%	100.1%	100.4%	100.0%	98.7%	97.6%

Q: What rate design changes does PUD recommend for the revenue requirement established in this Cause?

A: PUD recommends that any change in base rates be accomplished through the variable charges. For non-demand customers that would be changes to the kWhs charges; for demand customers PUD recommends changing both the kWh and kW charges.

RECOMMENDATION

Q: What is PUD's overall recommendation?

A: After completing its review of the Rate Design and Cost of Service ("COS") areas in this Cause, PUD recommends that the Commission accept:

- the Company's proposed changes to the Green Power Rider, Lighting tariffs, and Military Base Credits;
- the change to the Utility Solar Power rider recommended by PUD to add this tariff as a permanent tariff offering;
- the Company's proposed change to language in the tariff regarding Allowable expenditures. This change provides that a calculation be made only when a change is proposed, instead of annually, but would add PUD's recommended language to allow 45 days for PUD to review before implementing change;
- the Tax Cuts and Jobs Act of 2017 rider (proposed as the Federal Tax Change and Production Tax Credit rider) for the Federal Tax Change and Amortization of the Regulatory Liability components as proposed by the Company but include a separate factor development page that includes the total amount to be recovered as well as the factor development as recommended by PUD;
- removal of the Production Tax Credit from recovery as proposed by the Company within the proposed Federal Tax Change and Production Tax Credit rider;
- that if the Commission approves the Production Tax Credit true-up through a rider, the Commission should also accept PUD's recommended use of a separate rider for the Production Tax Credits;
- the Company's proposal for the Demand Program Rider to be adjusted with a final order in this Cause to remove the Integrated Volt Var Control ("IVVC") recovery; however, PUD recommends that the Commission also order OG&E to remove the lost revenues (and cumulative kWhs/kWs for the test year and prior years to be prevent double recovery of those revenues;
- PUD's recommended language related to the cumulative kWhs be added to the Demand Program Rider tariff;
- the revenue distribution for classes as recommended by PUD; and
- PUD's recommendation to adjust the variable charges (kWh and kW) to recover the adjusted revenues.

PUD believes that the recommendations made in this Testimony are fair, just, reasonable, and in the public interest.

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

Kathy Champion

State of Oklahoma
County of Oklahoma

Subscribed and sworn to before me this 16th day of May, 2018

TISH R. COATS
NOTARY
16005761
EXP. 06/13/20
PUBLIC
STATE OF OKLAHOMA

Tish R. Coats
NOTARY PUBLIC

(Seal, if any)

PUD Manager
Title

My Commission Number: 16005761

My Commission Expires: June 13, 2020

CERTIFICATE OF SERVICE

I, the undersigned, do hereby certify that on the 16th day of May, 2018, a true and correct copy of the above and foregoing was sent **electronically**, addressed to the following:

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