BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF	)	
OKLAHOMA GAS AND ELECTRIC COMPANY	)	
FOR AN ORDER GRANTING APPROVAL	)	CAUSE NO. PUD 201500274
OF NEW DISTRIBUTED GENERATION	)	
TARIFFS PURSUANT TO TITLE 17,	)	
SECTION 156 OF THE OKLAHOMA STATUTES	)	

Rebuttal Testimony

of

Roger D. Walkingstick

on behalf of

Oklahoma Gas and Electric Company

November 12, 2015

Q. **Would you please state your name and business address?**

A. My name is Roger Walkingstick doing business as RDSTICK Consulting, LLC. My business address is 13704 Oakhill Drive; Piedmont, Oklahoma 73078.

Q. **Did you file direct testimony in this Cause?**

A. Yes, I did.

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

A. I will rebut points raised by the two witnesses for The Alliance for Solar Choice ("TASC") and one witness for the Public Utility Division ("PUD"). The witnesses argue that there is no subsidy from Distributed Generation ("DG") customers to non-DG customers and assertion that the new rates are not fair or discourage customer choice. I will also refute the contention that a new cost of service ("COS") study is necessary and that the proposed demand charges are disfavored.

TASC – Justin Barnes

Q. **Mr. Barnes states that if the long-term costs avoided by DG are exceeding the compensation provided to DG customers, there is no subsidy (page 8 lines 15-20). Do you agree with Mr. Barnes that there is no subsidy?**

A. No. When looking at the cost used to set embedded rates, the costs are functionally classified into production, wires, customer and energy. OG&E's current non-demand classes only use energy and customer charges to recover the total cost to serve for those rate classes. Production ("generation") and wires ("T&D") costs as well as a portion of the customer charges are all collected in the energy component of OG&E's non-demand rates. Crediting DG customers the full energy rate overcompensates, or subsidizes, DG customers for the services they do not provide. This overcompensation includes a portion of the production and customer charge and all of the T&D costs contained in the current energy rate.

Q. **Does the rate design proposed by OG&E correct this overcompensation?**

A. Yes, it accomplishes this by putting the T&D charge in the demand rate, increasing the customer charge to the proper level and applying some of the production cost to the on-peak energy charge. The assertion that Mr. Barnes makes concerning the lack of proof of a subsidy, is completely unfounded.

Q. **Beginning on page 18, line 22 and continues to page 20, line 5, Mr. Barnes lists a number of perceived issues with OG&E's proposed rate design. Do you agree with his criticisms?**

A. No. Fundamentally, Mr. Barnes fails to recognize the subsidy issue that these proposed tariffs are addressing. Without the proposed tariff, non-DG customers are compensating DG customers by paying an energy rate that is greater than the value derived from the energy supplied by DG customers. He also incorrectly treats production costs essentially the same as transmission and distribution costs (i.e. the demand charges in the proposed DG tariffs). This results in DG customers totally escaping paying any portion of the wires costs that they impose on the system, both sending and receiving electric energy. Demand for T&D and demand for production are similar in definition but radically different in purpose. T&D demand is about delivery; generation is a product. That generation product is the power to move the car (work) but the T&D is the wheels to make the journey possible**.**

Q. **Is the subsidy issue addressed by Company's proposed tariff a new phenomenon?**

A. No. As discussed in my Direct Testimony, there is a subsidy from non-DG customers to customers that do have DG renewable resources. That subsidy has existed since day one of the incorporation of OG&E's net metering tariffs (as well as the tariffs of most companies) and the placement of the first DG customer on those tariffs.

Q. **Mr. Barnes states on page 4, lines 3-4 that TASC's purpose "is to encourage customer choice and fair rate setting practices." Do you believe OG&E's proposal meets these goals of fostering customer choice and establishing fair rates?**

A. Yes. Customers will continue to have the choice of installing DG or not. If they install

DG, they will have a choice among two options; the Renewable Power Purchase Option ("RPPO") rate or the Net Energy Billing Option ("NEBO") rate. The rate design options proposed by OG&E provide proper and fair cost signals to the customers by adhering to embedded costs and recognition of the regulatory theory of cost causation.

Q. **What is your next concern with Mr. Barnes' testimony?**

A. My next concern is with Mr. Barnes' conclusion that a minimum bill is a superior option to the proposed design.[1] He states that a minimum bill "allows customers to retain substantial control over their energy bills". In fact, OG&E's proposal includes both a time-of-use component which allows control over energy costs and demand charges which incent customers to shift load in order to lower the cost of their electricity. Both elements of OG&E's proposal are in alignment with E.O. 2014-07 and the Oklahoma First Energy Plan as mentioned by Mr. Barnes.

Q. **Do you have other concerns with minimal bill?**

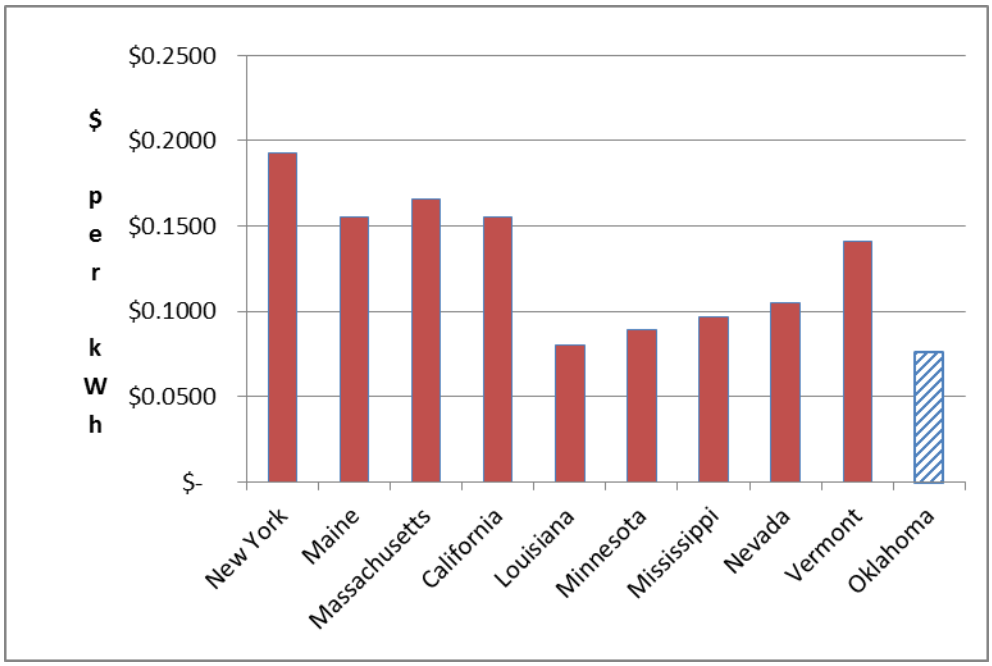
A. Yes. In my experience, the inclusion of a minimum bill creates as many problems as it solves. If the minimum bill is set high enough, it would address the Company's concern for cost recovery but it creates a situation where customers find it hard to understand the necessity for a payment when their usage is low.

Q. **Mr. Barnes continues on page 8 lines 23 through 26 that quantitative studies have already been done by other states and by inference that Oklahoma needs to make similar studies. Do you concur?**

A. No. The electric rates in Oklahoma are much less than most of the states listed by Mr. Barnes that have formally studied costs. In addition, such studies focus on long term benefits versus the actual embedded cost of service and has very limited value in this proceeding. As referenced by OG&E rebuttal witness Brown, useful quantitative studies are very expensive and the benefit, if any, in a state like Oklahoma is minimal.

[1] Page 5, line 17

Chart 1: Rates for States Doing Benefit Studies Compared to Oklahoma



Q. **How were Time of Use ("TOU") concepts incorporated into the proposed rate design in this Cause?**

A. Mr. Barnes complains that the Company failed to provide a TOU signal in the proposed demand rates. OG&E designs the T&D system to meet the individual demand requirements of all of its customers whenever they occur. A TOU signal in T&D demand rates would be inappropriate.

Q. **Does the Company's proposed rates for DG customers include TOU concepts for the energy component?**

A. Yes. In fact, much of the rate benefit to solar customers is derived from being compensated for any solar production in the On-Peak TOU period. Looking at my direct testimony on pages 14 and 15, and specifically at lines 13 through line 23 of page 15, it can be seen that TOU concepts are integral in the design of the TOU-kW rates.

Q. **Do you believe that Mr. Barnes' discussion on environmental costs, specifically carbon costs, should be addressed in the proposed DG tariff?** [2]

A. No, I believe that future carbon costs, if any, are highly speculative and it is improper to build such costs into current rates. In essence, future carbon costs are both unknown and unmeasurable and should not be included at this time.

Q. **Do you generally agree with Mr. Barnes that potential future benefits from DG resources should be included in calculation for current rates?**

A. No. As I explained in discussing environmental costs, from a rate making prospective it is improper to include any costs that is unknown and cannot be measured with any confidence. To do so would be akin to saying that you may need an item in the future, so go ahead and pay me now. In the future, rates will be adjusted based on costs that are appropriate for rate making purposes at that time.

Q. **When will this adjustment occur?**

A. The embedded costs of a utility are re-evaluated during general rate cases, adjusted for short term known events and used to set rates and tariffs to be applied to customers to use for cost recovery until such time as when the embedded costs are re-evaluated again in another general rate case.

Q. **Mr. Barnes states that this Cause is unneeded because he believes the appropriate venue for a final determination on tariff changes is a general rate case (page 14, lines 18-19). Do you concur with this statement?**

A. No. The Company is required by law to implement a DG tariff in order to remove the existing subsidies. The same statute grandfathered DG customers on our system prior to November 1, 2014, but also made DG customers coming on the system after that date subject to the new, unsubsidized tariff. In imposing these deadlines, the Legislature recognized the importance of sending proper pricing signals to prospective DG customers. Mr. Barnes will get the opportunity to review these issues as well in the next rate case if he chooses, but to disregard S.B. 1456 and its inclusion into law and the

[2] Responsive Testimony of TASC Witness Barnes, p.32, ln. 14-16.

mandates it establishes is not what OG&E chooses to do.

Q. **On page 16, lines 20-21, Mr. Barnes states that "mandatory demand rates on small customers are strongly disfavored nationally, and universally so in the residential context." Do you agree?**

A. No. While it is relatively early in the game, there are some who have already received approval and many more are in the process of discussing demand rates as a design choice. My research has found at least thirteen electric companies utilize a demand charge for residential customers. Rebuttal Exhibit RDW-1 summarizes the demand rates that I found. The demand based tariffs are considerably higher than those proposed by OG&E in term of unit (per kW) charges, but most of these rates include generation and production costs as well. Alabama Power and Dominion have demand charges for distribution but they include either summer and winter capacity or time-of-use rates.

Q. **Mr. Barnes claims that the inclusion of a demand charge will be a difficult concept for customers to grasp. What is your response to that assertion?**

A. I think Mr. Barnes underestimates the capabilities of OG&E's customers. Just a few short years ago, OG&E implemented the SmartHours program using the variable peak pricing ("VPP") tariff. It is a rate that intended to get customers to change their usage patterns based upon daily price signals and the education curve for the Company and our customers was steep. A few years later, SmartHours has been a wonderful success, with over 100,000 customers on the rate. The result has been that customers have changed their usage patterns and in the process, saved money, not just for themselves but for other customers as well.

TASC – Mark Garrett

Q. **Please address the first issue of concern in Mr. Garrett's Responsive Testimony.**

A. On page 7, line 3 Mr. Garrett states that the energy that DG customers produce greater than their monthly usage is kept by OG&E and sold at retail rates to other customers. Perhaps Mr. Garrett does not understand how the SPP IM market works. The Company does not keep or resell this energy. Instead, OG&E buys energy from the SPP IM and

DG produced kWhs simply reduce kWhs that would have otherwise been purchased in the IM. Admittedly, with less than 300 DG customers the impact is minimal but, contrary to Mr. Garrett's contention, the only effect is lower overall costs to all customers.

Q. **On page 9, lines 23 and 24, Mr. Garrett asserts that the proposed rate design is not cost based. What is your response?**

A. OG&E's proposed DG tariff is based on the cost of service study most recently approved by this Commission. This is the same cost of service study upon which all of the Company's other rates are based.

Q. **On page 14 Mr. Garrett claims the proposed rate design is inconsistent with the Company's positions in the 2011 rate case. Do you agree?**

A. No. In the 2011 rate case filing, Company witness Greg Tillman supported the SmartHours program and suggested that lower customer charges would incent greater participation in TOU-VPP rates and could help the Company manage growth in overall system demand. Mr. Tillman's proposal was not adopted by the Commission and the problem it was intended to address, system demand growth, is not currently an issue. In this Cause, OG&E is trying to address a different problem. By taking a unit pricing approach (energy, production, T&D demand, and customer charge) the Company is addressing elimination of the intraclass subsidy, as mandated by S.B.1456.

Q. **Do you have any other statements you would like to make with regard to Mr. Garrett's Responsive Testimony?**

A. Yes. Mr. Garrett and the other witnesses either state directly or imply that OG&E's customers are not capable of making informed decisions regarding demand tariffs. As a rule, DG customers are considerably bigger than the average customer. Most of these customers have invested between $12,000 and $20,000 on a 4 kW solar array or entered into long term lease agreements. In addition as I have already mentioned, approximately 100,000 OG&E customers have demonstrated their ability to understand complex rates.

Q. **Do you agree that insufficient evidence was provided by the Company in this cause?**

A. Not at all. There are almost 800,000 customers being billed based on rates from the data used by the Company in this Cause in preparing this Application. Customers are still being served and signed-up on those rates every day. Until such time as the Commission approves different cost of service elements, customers will continue using rates designed on the data that supported those rates. It would be improper to base the proposed rates on a COS upon which no other current rates are based.

Q. **Ms. Champion on page 7 of her testimony states that the PUD checklist was not a requirement, yet it appears that the checklist has been used by her and others as a requirement. Do you agree?**

A. I agree with Ms. Champion that it is not a requirement. It is certainly not anywhere in the statute or in the Commission rules. In reality much of what was on the list was used in the development of the proposed rates. As I have discussed, it is true that a new cost of service study was not used to set these rates. If a new cost of service study had been created, that would have required an extraction of DG customers from the classes they are currently in and then not only new rates for DG customers would be required, but new rates for customers left in the rates they were extracted from may also require new rates.

Q. **What about some of the other items of the checklist that were not used?**

A. Some of the items were extensive studies concerning safety/reliability, avoided grid support, line-loss reduction, environmental benefits, benefits study, energy efficiency, and projected lost revenue. All of these items have very limited value, if any. In fact, some of these items are negative values.

Q. **Is the current level of DG operationally significant?**

A. It is clearly not significant. DG generation in total is approximately 1.6 MW which is about one-seventh of the capacity of just one of OG&E's 1,079 distribution circuits. These DG customers are not on just one circuit, they are scattered across all of OG&E's

circuit across the state. If you placed one DG customer on each circuit, there would still be over 800 circuits without a DG customer. If the average residential DG customer has a maximum generation of approximately 4 kW out of an individual circuit that has 10,000 kW or 10 MW (at unity Power Factor) of load, it cannot be considered to be significant.

Q. **On page 14 of Ms. Champion's testimony she states her concerns of the introduction of demand charges onto customers that have never been under demand charges as an issue. She also has stated that OG&E has not proposed any education programs to address that void in customer education. How would you respond to her statements?**

A. OG&E has not prepared an in-depth educational program for these customer because there is likely less than thirty customers that will be affected and those customers will receive individual instruction and education to help them understand the changes associated with the new DG rates. As more and more customers are exposed to demand rates, broad educational programs will be developed, just like TOU, VPP, and CPP. OG&E knows that it can address these concerns.

Q. **On page 15 of Ms. Champion's testimony, she reflects that all customers will not be able to manage their demand. What is your response to this statement?**

A. Based on 23 years of experience, I am confident that customers can learn and OG&E will help them learn. The modern customer is much more sophisticated than Ms. Champion is giving them credit for being. They manage their mobile devices, banking accounts, thermostats, home protection systems, etc. in a myriad of ways and I have no doubt that they will be able to manage this program as well. Customers are resilient and are educable. We will help them get to where they need to go.

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

A. Yes, it does.

Oklahoma Gas & Electric Company
Summary of Approved Residential Demand Rates

State	Company	Source	Tariff Schedule	Rates
AL	Alabama Power	APSC Docket # U-5024	Rate RTA	$1.50 per kW-mo.
AK	Alaska Electric Light & Power		Rate 10-D	$11.11 per kW-mo. (Winter) $6.72 per kW-mo. (Summer)
AZ	Arizona Public Service		Rate ECT-2	$13.50 per kW-mo. (Summer) $9.30 per kW-mo. (Winter)
CO	Xcel PS Colorado		Schedule RD	$6.59 per kW-mo. (Winter) $8.57 per kW-mo. (Summer)
GA	Georgia Power		Schedule TOU-RD-2	$6.53 per kW-mo.
KY	Kentucky Utilities	KYPSC 2014-00371	Residential Time-of-Use Demand	$13.05 per kW-mo. (On-Peak) $3.70 per kW-mo. (Off-Peak)
KY	Louisville Gas & Electric	KYPSC 2014-00372	Residential Time-of-Use Demand	$12.38 per kW-mo. (On-Peak) $3.25 per kW-mo. (Off-Peak)
NC	Dominion Resources	Docket No. M-100, Sub 138	Schedule 1P-TOU	$4.87 per kW-mo. (Winter) $8.32 per kW-mo. (Summer)
NC	Duke Energy	Docket No. E-7, Sub 1026	Schedule RT	$3.88 per kW-mo. (Winter) $7.77 per kW-mo. (Summer)
SC	Duke Energy	SCPSC Docket No. 2015-237-E, Order No. 2015-542	Schedule R-TOUD-34A	$3.89 per kW-mo. (Winter) $5.20 per kW-mo. (Summer)
SD	Black Hills Power	http://www.blackhillspower.com/rates	Rate RD	$8.10 per kW-mo.
VA	Dominion Resources	https://www.dom.com/library/domcom/pdfs/virginia-power/rates/residential-rates/schedule-1s.pdf?la=en	Schedule 1S-Demand TOU	Distribution $1.612 per kW-mo. Generation $2.334 per kW-mo. (Winter) $4.070 per kW-mo. (Summer)
WY	Black Hills Power	http://www.blackhillspower.com/rates	Rate RD	$8.25 per kW-mo.