BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF PUBLIC UTILITY DIVISION SEEKING DETERMINATION OF THE CALCULATION OF LOST NET REVENUES AND SHARED SAVINGS PURSUANT TO THE DEMAND PROGRAM RIDER OF OKLAHOMA GAS AND ELECTRIC COMPANY	))))))	CAUSE NO. PUD 201 500153

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CORPORATION COMMISSION
OF OKLAHOMA

DIRECT TESTIMONY
OF
Kathy Champion

April 14, 2015

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INTRODUCTION

Q: Please state your name and your business address.

A: My name is Kathy Champion. My business address is the Jim Thorpe Office Building, Room 580, 2101 North Lincoln Boulevard, Oklahoma City, OK.

Q: Please state your educational background and professional experience.

A: See my curriculum vitae, attached as Exhibit KJC-1.

Q: What is your occupation and who employs you?

A: I am employed by the Public Utility Division (PUD) of the Oklahoma Corporation Commission (OCC or Commission) as a Public Utility Rate Analyst.

Q: How long have you been so employed?

A: I have been employed with the Commission since July 2013.

Q: What are your duties and responsibilities with the PUD?

A: My principal responsibility is to audit and analyze utility's applications, reports, financial records and all workpapers to ensure PUD makes an accurate recommendation. My primary responsibilities are related to EE programs and policies and Cost of Service and Rate Design reviews for both electric and gas utilities.

Q: Have you previously testified before this Commission and were your qualifications accepted?

A: Yes. I have testified before the Commission, and my qualifications have been accepted.

PURPOSE

Q: What is the purpose of your testimony in this cause?

A: The purpose of my testimony is to present PUD's recommendation concerning the calculation of Lost Net Revenues (LNR) associated with the implementation of Oklahoma Gas and Electric Company's (OG&E or Company) Smart Hours programs and the LNR being recovered through its Demand Program Rider (DPR).

REVIEW PROCESS

Q: What was PUD's review process in this cause?

A: PUD reviewed the annual true-up submission provided by the Company for their DPR as required by Order 605737, PUD Cause 201200134. PUD also reviewed the settlement agreement approved in the Cause along with the Application and testimony filed by both the Company and PUD. In addition, PUD also reviewed the Demand Program Tariff and the Commission Rules on Demand Programs[1]. PUD also requested and reviewed additional information provided by the Company and held discussions with Company personnel.

[1] OAC 165: Chapter 35, Subchapter 41 Demand Programs.

OVERVIEW OF DEMAND PROGRAM RIDER AND LOST NET REVENUE CALCULATION

Q: Please describe the OG&E's Demand Program Rider (DPR).

A: OG&E's DPR is used to recover the cost of its Demand Programs including both its Energy Efficiency ("EE") programs and its Demand Response ("DR") programs - the SmartHours programs and the Integrated Voltage Variance Control (IVVC) program. The DPR was originally approved in PUD Cause No. 200800059 with the most recent modifications approved in PUD Cause No. 201200134, which added the recovery for the SmartHours and IVVC programs. The DPR is approved with the filing of the Demand Program Portfolio, which occurs every three years as provided in OAC 165:35-41-4, of the Demand Program Rules. As approved, the DPR includes an annual true-up and review by the PUD. The current DPR has essentially three cost recovery components:

- program costs,
- LNR,
- and incentives.

Q: Would you please provide an overview of the three cost recovery components of the Company's DPR: program costs, LNR and the incentive?

A: Yes. The Demand Program Rules allow for recovery of program costs, which are those costs incurred by the utility to achieve capacity, energy and peak demand savings through EE and DR programs. Those costs are projected for each budget established with the approval of the Demand Portfolio applications and trued up to actual costs. The LNR is the income foregone by the utility directly resulting from the success of its demand portfolio less expenses foregone by the lost sales. The intent of this component is to replace the sales revenue that is reduced through the reduction in energy and demand. The program cost and lost revenue make the utility whole or revenue neutral on the implementation of Demand programs. The last component is the Incentive component. The Incentive component is intended as a reward for the successful and appropriate EE and DR program performance.

Q: Does PUD have a concern with all of the cost recovery components of the Company's DPR?

A: No. PUD agreed with all of the program costs submitted by the Company for both its EE and DR programs.

Q. What concerns does PUD have with the LNR and the Shared Savings (SS) calculations for the Energy Efficiency Demand Programs?

A. PUD has a concern with the projected energy savings provided and used by the Company in the calculation of their LNR and SS. Both the LNR and the SS are delayed by one year in recovery to allow for the use of actual net energy savings in the calculation of those values. OG&E provided projected savings or estimates in both 2014 and 2015.

Q. Did OG&E offer an explanation as to why they used estimated energy savings in their calculation?

A. Yes, in February 2014 OGE had not yet completed a full evaluation of their Demand programs. In 2014, the DPR final energy savings for each program were not available until late May 2014.

Q. Does using an estimate make a difference in the amount of LNR and SS collected through the DPR?

A. Yes. As the chart below highlights, in 2014 the difference between the Company's requested LNR and SS and PUD's calculation of the same using OG&E's actual net energy saving was approximately $2.08 million.

Q. What is PUD's recommendation for the Energy Efficiency program LNR and SS calculations?

A. PUD recommends that the approved tariff is followed and that actual net energy savings is used in the calculation of LNR and SS. Further, PUD recommends that if OG&E is unable to provided actual data in February, that the DPR rider true-up be moved to June to accommodate the use of actual data.

Q: Please explain the issue with the SmartHours Lost Net Revenue Calculation.

A: As stated previously, this is the first DPR true-up submitted to PUD that included recovery for SmartHours. In review of the Company's calculated LNR for the

SmartHours program, PUD identified several issues with how the LNR were derived.

Q: Please list the issues PUD identified with the calculation of LNR for the SmartHours Program.

A: PUD has identified the following issues:

1. Calculation inconsistent with the DPR tariff
2. Proposed lost revenue recovery period not limited to peak hours (SmartHours)
3. Double counts customers and
4. Lost Revenues vs. Revenue Difference.

1) Calculation Inconsistent with the DPR tariff:

The Company provided a revenue difference calculation essentially deriving a baseline set of revenues, projecting what Customers would have paid if they remained on the standard tariff, and subtracted those derived revenues from the actual SmartHours revenues. The Company claims all of the difference in revenues, what the Customer paid versus what they would have paid, as LNR. PUD believes this method does not follow the tariff and overstates the SmartHours LNR. In the submission to recover the 2013 LNR the Company calculated approximately $11.2 million while the PUD's calculation is approximately $4.9, a difference off approximately $6.3 million. Last month, the Company submitted its 2014 DPR for true-up that included a request for approximately $14.2 million as LNR for the SmartHours programs. While PUD has not completed its review of the 2014 DPR true-up, PUD does anticipate the difference in our calculated LNR numbers will increase.

Q: What does the tariff include for the calculation of Lost Net Revenues?

A: The approved DPR tariff, Sheet No. 51.72, displays the LNR is supposed to follow the formula below:

PPLNR = PPTES * EFC + PPTDS * DC, where:

Prior Period Lost Net Revenue (PPLNR) is the revenues associated with volumetric Prior Period Total Energy Savings (PPTES) and Prior Period Total Demand Savings (PPTDS)

PPTES = Prior Period Total Energy Savings

EFC = Embedded Fix Cost per kWh

PPTDS = Prior Period Total Demand Savings

DC = Demand Charge reflected in current tariffs

As shown in the tariff, the LNR is determined by identifying the energy and demand savings occurring as a result of the Demand Program multiplied by an embedded fix cost (EFC) factor. The EFC factor is determined using the class revenue requirement established in the most recent Cost of Service study less any fixed customer charge recovery, divided by the kWhs in each class. As provided by OG&E, the SmartHours programs resulted in a total kWh savings for all of the SmartHours tariffs of approximately 75.7 million kWh. To determine the LNR, PUD used the actual energy savings achieved for each of SmartHours customer classes and multiplied that savings by the EFC factor for each SmartHours class. By PUD's calculation that resulted in a savings of $4.9 million. Both methods are summarized in the chart below.

Comparison of OGE and PUD Lost Revenue Calculation			
	SmartHours kWh Saved	ECF Factor *	PUD Lost Revenue
Res-VPP Plus	(65,520,040)	$ 0.0636	$ (4,167,139)
Res-VPP	(7,971,777)	$ 0.0707	$ (563,900)
R-TOU	(426,592)	$ 0.0799	$ (34,089)
Total Residential	**(73,918,409)**	**$ 0.0645**	**$ (4,765,127)**
GS-VPP Plus	(582,978)	$ 0.0619	$ (36,102)
GS-VPP	(596,855)	$ 0.0843	$ (50,341)
GS-TOU	(611,791)	$ 0.0999	$ (61,134)
Total GS	**(1,791,624)**	**$ 0.0824**	**$ (147,576)**
Total Savings	**(75,710,033)**	**$ 0.0649**	**$ (4,912,703)**
	Estimated Standard Revenue	SmartHours Revenue	OGE Lost revenue
Res-VPP Plus	$ 33,930,510	$ 26,273,864	$ (7,656,646)
Res-VPP	$ 19,167,688	$ 15,973,485	$ (3,194,203)
R-TOU	$ 1,349,085	$ 1,127,058	$ (222,027)
Total Residential	**$ 54,447,283**	**$ 43,374,407**	**$ (11,072,876)**
GS-VPP Plus	$ 802,202	$ 757,512	$ (44,690)
GS-VPP	$ 960,345	$ 899,491	$ (60,853)
GS-TOU	$ 1,170,037	$ 1,139,825	$ (30,212)
Total GS	$ 2,932,584	$ 2,796,828	$ (135,755)
Total Savings	$ 57,379,867	$ 46,171,235	$ (11,208,631)

*ECF Factor varies by season and excludes customer charge revenues

2) Proposed lost revenue recovery period not limited to peak hours (SmartHours)

Q: How are the SmartHours Programs defined in the Demand Program Portfolio?

A: The SmartHours programs are included as DR programs. DR programs differ from EE programs in that they are used to reduce peak demand. Traditional price/load response programs like SmartHours consider savings that are limited to the peak or "smart hours" – 2pm to 7pm, summer, weekdays (on-peak season). This is supported by industry practice for calculating impact of price/load response programs, which typically considers load one hour ahead and two ahead behind the on-peak hours. The additional hours before and after peak events are included to reflect customer's behavior – they may pre-cool before an event and they may ramp up or cool longer after an event.

Q: Is the Company offering a Traditional DR Program?

A. No. In reviewing the SmartHours program, the final order, and the DPR tariff, PUD determined that OG&E is offering a hybrid program – part EE part price/load response and the lost revenues should reflect all the l savings resulting from participants. As stated above, PUD still disagrees with OG&E's method for calculating the Lost Revenues. OG&E uses a model to estimate Standard tariff billings which are then subtracted from actual SmartHours billings with the difference used as a proxy for SmartHours Lost revenues. Instead, PUD would limit the SmartHours Lost revenues to the formula allowed in the DPR tariff that uses the annual energy savings multiplied by the approved EFC factor to establish lost revenues.

Also, PUD recommends separating the SmartHour's energy savings into both EE savings and DR savings, as is required by the Demand Program rules. Doing this, PUD calculates savings of $1.35 million for the SmartHour's DR reduction (2pm to 7pm summer weekdays) and another $3.56 million for EE savings attributed to SmartHours customers.

3) Double Counting customers:

Q: Does PUD have a concern with OG&E customers participating in more than one program?

A: While PUD does not have issue with customers taking advantage of both programs, PUD is concerned that the Company is double counting the energy savings and the lost revenues for those participants. For the EE programs, the energy savings are captured using the deemed savings by measure and included in the EE programs. For the Smart Hours participants, OG&E is also capturing energy savings all hours/months. For those participants in both programs, OG&E needs to adjust the savings so that there is not a double counting and over-statement of lost revenues. In conversations with OG&E, they have agreed to address this issue in the future.

4) Lost revenues – versus Revenue difference:

Q: Does PUD agree that OG&E's $11.2 million revenue difference represents lost revenue to the Company?

A: No, PUD believes OG&E has confused recovery of Lost Revenues with a Revenue difference. As stated previously, PUD believes lost revenues should only be associated with the performance of the Demand programs and any energy or demand savings resulting from those programs. The revenue difference OG&E has calculated is a difference in tariff price between the standard tariff and the SmartHours tariffs. That revenue difference could occur if a customer did nothing to change their behavior. The following numbers were pulled from OG&E's last Cost of Service Study (PUD Cause No. 201100087) to illustrate PUD's concern with OG&E's lost revenue calculation that appears to be a revenue difference between tariffs. As the chart below shows, OG&E receives approximately $.096 per kWh from customers on the Standard Residential tariff but $.081 from customers on the VPP tariff. OG&E had approximately 74,000 customers migrate from the Standard tariff to the SmartHour tariffs in 2013, which created much of the revenue difference that OG&E is now claiming as "Lost Revenues".

OGE - Lost Revenue Issue
Data from Settlement COS 201100087

Classes	kWhs	Revenue Requirement	$/kWh
TOTAL RESIDENTIAL	8,225,596,133	$785,462,777	$ 0.0955
RESIDENTIAL - STANDARD	8,170,598,726	$781,044,129	$ 0.0956
RESIDENTIAL - STANDARD CTUA	355,588	$29,543	$ 0.0831
RESIDENTIAL - TOU	39,260,717	$3,150,935	$ 0.0803
RESIDENTIAL - VPP	15,381,102	$1,238,170	$ 0.0805

Q: Notwithstanding, whether the revenue difference is labeled lost revenues or revenue difference due to customer migration, does PUD agree that $11.2 million should be recovered from customers?

A: No, PUD does not have enough information to accurately evaluate whether the customer migration from standard tariff to the VPP tariff results in an actual revenue loss to OG&E. The $11.2 million revenue difference is merely one component in determining whether the Company is incurring a real loss. Rates are designed so that the Company collects their revenue requirement, approved through a Commission order, from all customers. That revenue requirement is the result of: all revenues collected, minus expenses, plus approved rate of return. The total revenue requirement is then allocated to customer classes and priced to recover that allocated amount through the class rates.

It is often the case that one class does not perform quite as projected, customers move in and out of the service territory or weather is hotter or milder; expenses also change, costs increase or decrease through efforts of the Company or the market; and rate of return is a balance of those collected revenues and costs incurred. Those differences between projections and performance are part of the regulatory lag, the time in between rate cases, and are generally expected to net out. If those differences do not net out, resulting in a change in the rate of return the Company earns, then the loss or gain is remedied by filing a new rate proceeding.

The gain or loss is not determined by just reviewing one component – revenues or costs - and then seeking a rider or surcharge to adjust for that difference as is being requested by OG&E. OG&E's calculation of "lost revenues" would allow the Company to collect more revenues based just on a review of only one component of the revenue requirement equation. In fact OGE's "lost revenue" calculation does not even consider all revenues in determining whether the Company is experiencing "lost revenues", just the revenues received from one class of customers. OG&E's approach does not provide enough information to gauge whether the Company is experiencing any actual revenue loss.

RECOMMENDATION

Q: Please summarize PUD's recommendation.

A: PUD recommends the Commission accept the recommendation that the Company use actual net energy savings in the calculation of LNR and Shared savings for their DPR programs. If actual data is not available in March, then PUD recommends the DPR true-up be moved to June to accommodate the use of actual data.

In addition, PUD recommends the Commission accept the recommendation that SmartHours DPR LNR calculation be clarified so that the Company uses the existing tariff calculations and the LNR collection is limited to revenue loss directly associated with demand and energy savings. PUD also recommends the Commission accept the recommendation that OG&E track participants in both the EE and DR programs to isolate the savings of each program and prevent double counting of savings. Finally, PUD recommends the Commission accept the recommendation that OG&E in its next rate case resolve the additional revenue loss issue, if any, in the future rate design.

I state under penalty of perjury under the laws of Oklahoma that the foregoing is true and correct.

Kathy Champion
(Signature)

April 14, 2015 Oklahoma City, Oklahoma
(Date and Place)

LIST OF EXHIBITS

Exhibit KJC-1

Kathy Champion

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Work Experience

- ***Oklahoma Corporation Commission, Public Utility Division, Oklahoma City***
  July 2013 - present: Public Utility Regulatory Analyst, Energy Policy Group
  - Special Focus – Oklahoma Corporation Commission Demand Programs, Energy Efficiency, Rulemakings
  - Expert Witness – recommendations and written and oral testimony
  - Analysis - Utilities service rates, terms and conditions

- ***Champion Energy Consulting, Tulsa***
  January 2012 – July 2013: Owner/President
  - Provided rate, energy efficiency, and marketing consulting services to utilities and customers.
  - Developed Energy Education offering for school children

- ***Public Service Company of Oklahoma, Tulsa***
  April 2008 – November 2011: Manager Consumer Programs
  - Managed the development and continued operation of PSO's energy efficiency and demand response programs, supervising a staff of five with budget of $25 million
  - Budgeting, reporting
  - Issued and reviewed request-for-proposals, and contract development for third-party service providers
  - Provided Regulatory support, expert testimony and analysis for Energy Efficiency and Demand Response portifolio programs, budgets and recovery mechanisms.

- ***AEP Services Company, Tulsa***
  January 2000-March 2008: Principal Regulatory Consultant
  - Supporting all of the AEP western utilities in Oklahoma, Arkansas, Louisiana, and Texas, provided rate and regulatory expertise before the various state regulatory agencies.
  - Provided analysis and testimony for a variety of studies and programs including, class cost-of-service studies, tariffs, revenue allocation, and price/revenue recovery issues.
  - Supported standard tariff offerings, as well as specialty rates and riders, including time-of-day, load reduction or interruptible rates, Energy Efficiency and Green Power offerings.
  - Represented the Company on a variety of rulemakings and policy proceedings before the state regulatory agencies and the SPP Market Working Group

Education

- Bachelor of Science (Business), Oklahoma Wesleyan College, Bartlesville, OK December 2000
- Associate of Science (Computer Science), Tulsa Community College, Tulsa, OK, May 1986

Professional Training

- Arthur Anderson Rate Case Process - 1990
- Building Performance Institute – Building Analyst Training - 2012
- LEED Green Associate Course - 2013
- Principles of Evaluation, Measurement and Verification 2010

CERTIFICATE OF ELECTRONIC SERVICE

I, the undersigned, do hereby certify that on the 14th day of April 2015, a true and correct copy of the above and foregoing was sent electronically, addressed to the following:

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