

BEFORE THE  
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION	)	
OF OKLAHOMA GAS AND ELECTRIC	)	
COMPANY, FOR APPROVAL OF A	)	DOCKET NO. 16-052-U
GENERAL CHANGE IN RATES,	)	
CHARGES, AND TARIFFS	)	

DIRECT TESTIMONY

OF

MATTHEW S. KLUCHER  
DIRECTOR, RATES AND DEMAND RESOURCES

ON BEHALF OF THE GENERAL STAFF OF THE  
ARKANSAS PUBLIC SERVICE COMMISSION

JANUARY 31, 2017

1 **INTRODUCTION**

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

3 A. My name is Matthew S. Klucher and my business address is Arkansas Public  
4 Service Commission (Commission), 1000 Center Street, Little Rock, Arkansas  
5 72201.

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

7 A. I am employed by Commission's General Staff (Staff) as the Director of Rates  
8 and Demand Resources. In that capacity, I am responsible for the coordination  
9 and development of Staff's recommendations in utility filings regarding a variety  
10 of issues including class cost of service studies, rate design, energy efficiency  
11 and conservation programs, and other demand resource issues. I direct other  
12 Staff members in analyzing utility company filings, identify and evaluate issues,  
13 develop positions on those issues, and present those positions, when necessary,  
14 in written and oral testimony before the Commission.

15 **Q. What are your qualifications and background?**

16 A. I joined Staff in March 2010 as a Rate Analyst and was promoted to the position  
17 of Director in September 2012. My educational qualifications include a Bachelor  
18 of Science in Mathematics and Minor in Statistics from the University of Arkansas  
19 at Little Rock. Prior to joining Staff, I worked in the telecommunication industry in  
20 wholesale tariff administration and billing. I worked as a Senior Analyst for  
21 Windstream Communications, and prior to that I was with Alltel Wireless in  
22 Strategic Pricing. Since joining Staff, I have received specialized training by

1 completing the Advanced Regulatory Studies Program at Michigan State  
2 University's Institute of Public Utilities, the Introduction to Cost of Service  
3 Concepts and Rate Design for Electric Utilities sponsored by EUCI, the Electric  
4 Industry Regulation Course at New Mexico State University's Center for Public  
5 Utilities, the Certified Energy Management Courses sponsored by the  
6 Association of Energy Engineers, and the Energy Efficiency Management  
7 Certificate Program sponsored by the American Public Power Association. I  
8 have received training from the Association of Energy Engineers and have  
9 qualified as a Certified Energy Manager (CEM), License No. 21109.

10 **PURPOSE OF TESTIMONY**

11 **Q. What is the purpose of your Direct Testimony in this docket?**

12 A. My testimony addresses cost allocation issues related to Oklahoma Gas and  
13 Electric Company's (OG&E or Company) Application for Approval of a General  
14 Change in Rates, Charges and Tariffs for Retail Electric Service (Application)  
15 filed August 25, 2016, and revised on September 2, 2016. Specifically, I sponsor  
16 my Direct Exhibit MSK-1 and MSK-2, which presents the result of Staff's Class  
17 Cost of Service (COS) Study.

18 **SUMMARY OF RECOMMENDATIONS**

19 **Q. What are your recommendations?**

20 A. I recommend the Commission accept as reasonable the cost classification and  
21 allocation methodologies embedded in Staff's COS Study. Furthermore, I  
22 recommend new rates be designed such that each customer class pays its

1 revenue requirement as determined by Staff's COS Study results incorporating  
2 my recommended mitigated distribution of the revenue requirement.

3 **COST OF SERVICE STUDY**

4 **Q. What is the role of the COS Study in establishing rates?**

5 A. The COS Study is an important guide used to assist the Commission in  
6 determining the just and reasonable rates applicable to each customer class. A  
7 COS Study allocates a portion of the utility's total base rate revenue requirement  
8 to each of the Company's jurisdictions and the individual Arkansas retail  
9 customer classes. This is accomplished through the process of allocating the  
10 total cost of service to functional cost components that are then assigned to  
11 specific customer classes based on cost-causation principles. In addition, the  
12 COS Study results provide information regarding the level of classified  
13 component costs (e.g., demand, energy, and customer) by customer class that  
14 may be useful in the design of rates. Specifically, the COS Study is used to  
15 assist the Commission in determining: 1) a utility's Arkansas jurisdictional retail  
16 base rate revenue requirement; and 2) each individual Arkansas retail customer  
17 class' base rate revenue requirement.

18 **Q. How is a COS Study developed?**

19 A. A COS Study allocates the utility's total cost of service among jurisdictions and  
20 the various customer classes using a three step process: functionalization,  
21 classification, and allocation.

1           The first step is to functionalize total costs into the primary operating  
2           functions of the utility, such as: 1) production; 2) transmission; 3) distribution; and  
3           4) customer service. Costs are also functionalized to administrative and general,  
4           which includes costs that cannot be directly assigned to the primary operating  
5           functions of production, transmission, distribution, or customer services. Costs  
6           are typically functionalized in accordance with the Federal Energy Regulatory  
7           Commission (FERC) Uniform System of Accounts (USOA). Operation and  
8           Maintenance Expenses and other expenses are functionalized in a comparable  
9           manner.

10           In the second step, functionalized costs are then classified as: 1) demand,  
11           which represent costs caused by peak demands imposed on the system; 2)  
12           energy, which represent costs related to the level of energy provided by the  
13           utility; and 3) customer, which represents costs that directly relate to the number  
14           and type of customers served by the utility.

15           In the third and final step, functionally assigned and classified costs are  
16           allocated to customer classes. Customer classes represent a group of  
17           customers based on the type of service provided and load characteristics. The  
18           three principal customer classes are residential, commercial, and industrial.  
19           Costs are directly assigned or allocated to the customer classes on the basis of  
20           an allocation factor that is representative of the service characteristic that drives  
21           the utility's cost. Demand-related costs are allocated according to some  
22           measures of each class' demand (kW), energy-related costs are allocated

1 according to measures of each class' energy usage (kWh), and customer-related  
2 costs are allocated according to the number of customers in each class,  
3 weighted or un-weighted, depending on the nature of the cost.

4 **OG&E'S COS STUDY**

5 **Q. How did the Company develop its COS Study?**

6 A. OG&E utilized the three-step approach outlined above to develop its total base  
7 rate revenue requirement for the Arkansas retail jurisdiction and for the individual  
8 retail customer classes. The result of the Company's COS Study is shown on  
9 OG&E's Application Schedule G-1. OG&E's Application is based on a twelve-  
10 month test year period ending June 30, 2016, including six-months of historical  
11 data and six-months of projected data, adjusted for known and measurable  
12 changes in circumstances which are expected to occur during the *pro forma*  
13 year, through June 30, 2017, as measured by the Company. The Company's  
14 COS Study resulted in an Arkansas-jurisdictional rate schedule revenue  
15 requirement of \$108,161,489, an increase of 18.0% of the current rate schedule  
16 revenues of \$91,647,836. On a total revenue requirement basis,<sup>1</sup> OG&E's COS  
17 Study resulted in a total Arkansas-jurisdictional revenue requirement of  
18 \$184,234,340, an increase of 9.8% over the current total revenue requirement of  
19 \$167,720,687.

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<sup>1</sup> Total revenue requirement includes base rates and riders.

1   **Q.     What are rate schedule revenues?**

2   A.     Rate schedule revenues or base rate revenues are revenues the Company  
3         receives from general rate schedules, excluding revenues from riders designed  
4         to collect specific cost such as fuel and energy efficiency cost. Base rate  
5         revenues are significant because *pro forma* year base rate revenues are  
6         compared to the revenue requirement from the COS Study to determine the  
7         revenue deficiency or excess for the various rate classes. Existing base rates for  
8         each rate class must be revised to account for the deficiency or excess in that  
9         rate class while no adjustment is necessary if revenues are sufficient.

10   **Q.     Did OG&E include revenues collected through its current riders as part of**  
11         **its current base rate revenue?**

12   A.     Yes. OG&E included the revenues from several current riders that will have  
13         expenses rolling into base rates when new rates are approved in this case. The  
14         Company states that it included these revenues to ensure that *pro forma* base  
15         rate revenues will align with investment and expenses included in the COS  
16         Study.<sup>2</sup> The riders that will have expenses rolling into base rates are the Lost  
17         Contribution to Fixed Cost (LCFC) component of the Energy Efficiency Cost  
18         Recovery (EECR) Rider; Smart Grid Recovery (SGR) Rider; the Crossroads  
19         Wind Farm revenue requirement collected through the Energy Cost Recovery  
20         (Crossroads ECR revenues); and the Environmental Compliance Plan (ECP)  
21         Rider (collectively referred to as the Expiring Rider Revenues). In addition, the

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<sup>2</sup> Direct Testimony Gwin Cash, p. 5, lines 21-27; and p. 8, lines 24-29.

1 Company included an H-2 Reconciliation adjustment that reduced the base rate  
2 revenue requirement by \$70,234. However; No Company witness supported the  
3 H-2 Reconciliation Adjustment in testimony. Incorporating the Expiring Rider  
4 Revenues as part of the rate schedule revenues does not materially affect the  
5 revenue requirement; it does reduce the apparent rate schedule revenue  
6 deficiency resulting from the Company's COS Study by approximately \$6.7  
7 million.

8 **Q. Do you agree with including the Expiring Rider Revenues as part of the**  
9 **current base rate revenues in the COS Study?**

10 A. No. The Expiring Rider Revenues are not currently recovered in base rates and  
11 therefore should not be included as rate schedule revenues in the COS Study in  
12 this rate case. Staff supports a more straightforward approach that excludes the  
13 Expiring Rider Revenues from the COS Study, resulting in a rate schedule  
14 revenue deficiency that reflects the entirety of the recommended increase to the  
15 Company's base rates. The results of OG&E's COS Study is summarized in  
16 Table 1, below.<sup>3</sup> The percentage increase to base rates excluding the Expiring  
17 Rider Revenues which more accurately reflects the overall increase in base rates  
18 is summarized in Table 1, line 8. I have also included the percentage increase to  
19 base rates if the Expiring Riders are included on line 13, which is consistent with  
20 how the Company presented its case. The percent increase to total revenues,  
21 which includes all riders, is shown on line 16.

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<sup>3</sup> Source: Schedule G-1 filed with the Company's revised Application.



OKLAHOMA GAS AND ELECTRIC COMPANY  
DOCKET NO. 16-052-U  
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**Table 1**  
**Summary of Company's COS Study**

Line No.	Description (1)	Total Arkansas Retail (2)	Residential (3)	General Service (4)	Power & Light (5)	Power & Light TOU (6)	Municipal Pumping (7)	Athletic Field Lighting (8)	Lighting (9)
1	Rate Schedule Revenue Requirement	\$108,161,489	\$44,685,409	\$12,563,965	\$29,486,816	\$18,241,198	\$96,582	\$115,343	\$2,972,176
2	Other Revenues	\$694,920	\$519,079	\$56,106	\$75,010	\$38,476	\$373	\$393	\$5,483
3	Fuel Rider Revenues@Present Rates	\$64,922,446	\$18,674,040	\$5,472,715	\$19,569,550	\$20,387,935	\$31,967	\$26,332	\$759,907
4	Other Rider Revenues@Present Rates*	\$10,455,485	\$3,913,068	\$1,121,904	\$3,190,596	\$2,122,992	\$5,280	\$4,489	\$97,156
5	Total Revenue Requirement (L1+L2+L3+L4)	\$184,234,340	\$67,791,596	\$19,214,690	\$52,321,972	\$40,790,601	\$134,202	\$146,557	\$3,834,722
<b><u>Base Rates Excluding Expiring Riders Revenues</u></b>									
6	Present Rate Schedule Revenues*	\$85,034,181	\$30,711,142	\$9,237,103	\$24,694,922	\$17,275,881	\$58,298	\$54,747	\$3,002,088
7	Revenue Deficiency/(Surplus) (L1-L6)	\$23,127,308	\$13,974,267	\$3,326,862	\$4,791,894	\$965,317	\$38,284	\$60,596	(\$29,912)
8	% Increase on Rate Sch. Rev. (L7/L6)	27.2%	45.5%	36.0%	19.4%	5.6%	65.7%	110.7%	-1.0%
<b><u>Base Rates Including Expiring Riders Revenues</u></b>									
9	Expiring Riders	\$6,683,979	\$2,174,086	\$638,108	\$2,086,289	\$1,696,473	\$3,478	\$2,865	\$82,680
10	H-2 Reconciliation	(\$70,324)	(\$22,621)	(\$10,186)	(\$3,054)	(\$34,039)	(\$340)	(\$84)	\$0
11	Present Rate Schedule Revenues**	\$91,647,836	\$32,862,607	\$9,865,025	\$26,778,157	\$18,938,315	\$61,436	\$57,528	\$3,084,768
12	Revenue Deficiency/(Surplus) (L1-L11)	\$16,513,653	\$11,822,802	\$2,698,940	\$2,708,659	(\$697,117)	\$35,146	\$57,815	(\$112,592)
13	% Increase on Rate Sch. Rev. (L12/L11)	18.0%	36.0%	27.4%	10.1%	-3.7%	57.2%	100.5%	-3.6%
<b><u>Increase in Total Revenues</u></b>									
14	Total Current Revenues**	\$167,720,687	\$55,968,794	\$16,515,750	\$49,613,313	\$41,487,718	\$99,056	\$88,742	\$3,947,314
15	Change in Total Rev. Requirement (L5-L14)	\$16,513,653	\$11,822,802	\$2,698,940	\$2,708,659	(\$697,117)	\$35,146	\$57,815	(\$112,592)
16	% Increase in Total Rev. Req. (L15/L14)	9.8%	21.1%	16.3%	5.5%	-1.7%	35.5%	65.1%	-2.9%
*Excludes the Expiring Rider Revenue									
**Includes the Expiring Riders Revenues									

**Q. What approach did you use to review the COS Study developed by the Company?**

**A.** I reviewed all information and testimony provided by OG&E in this case related to the COS Study. I verified the mathematical accuracy of the Company's COS Study model. I accomplished this by inputting the Company's data, including its proposed allocation methodologies, into a model developed by Staff. I also reviewed the reasonableness of the classification and allocation methodologies used in the Company's COS Study.

**Q. What were the results of your review of the reasonableness of the classification and allocation methodologies used in the Company's COS Study?**

A. My review revealed no material calculation errors in the Company's COS Study. The functionalization, classification, and allocation methodologies utilized by the Company in its COS Study are generally consistent with those used in the COS Study prepared in compliance with Commission Orders in Docket No. 10-067-U (OG&E's last rate case), with some exceptions that I will address below. OG&E's assignment of the costs to the functions generally followed the USOA as prescribed by the FERC. Table 2 below summarizes the external COS allocators OG&E used to allocate costs between jurisdictions and the Arkansas retail rate classes for each principal function.

**Table 2**  
**OG&E's Cost Classification and Allocation Methodologies**

Function	Classification	Allocation Method
<b>Production</b>		
Non-wind related accounts	Demand	Average & Excess 4CP <sup>1</sup>
Account 321 Boiler Plan Equipment	Energy	Energy
Wind Farm related accounts	Energy	Energy
<b>Transmission</b>		
Non wind related accounts	Demand	Average 12CP
SPP Base Plan Upgrade	Demand	Average 12CP - Modified
Generation Step-up Transformers (GSU)	Demand	Average & Excess 4CP
Wind Farm related accounts (radial tie lines & GSU)	Energy	Energy
<b>Distribution/Customer Service</b>		
Accounts related to: Substations; Land, Structures & Improvements; Station Equipment; Poles, Towers & Fixtures; Overhead Conductors; Underground Conduit; Underground Conductors; and Line Transformers	Demand	Non-Coincident Peak <sup>2</sup>
Accounts related to: Services and Installations	Customer	Weighted Customers
Meters	Customer	Directly Assigned to each applicable class
Lighting	Direct	Directly Assigned to Lighting Class

<sup>1</sup> Coincident Peak (CP) is a class' demand at the time of system peak.

<sup>2</sup> Non-Coincident Peak (NCP) - represents the peak demand the class places on the system, regardless of the systems peak.

1 **Q. Please summarize the changes to the COS Study that have been proposed**  
2 **by the Company in this case.**

3 A. The Company has proposed to change its Production Demand Allocation Factor  
4 (PDAF),<sup>4</sup> which has the largest impact of all the changes to the COS Study. The  
5 Company has also proposed certain functional changes to its transmission  
6 plant.<sup>5</sup> Finally, the Company has proposed a different method for allocating  
7 meter cost.<sup>6</sup>

8 **Q. What change has the Company proposed to its PDAF?**

9 A. Historically, OG&E has used the Average and Peak (A&P 1CP) methodology, but  
10 in this case the Company is recommending the Average & Excess methodology  
11 using the four summer<sup>7</sup> months coincident peaks (A&E 4CP) to allocate its  
12 demand-related production costs among the jurisdictions and the individual  
13 Arkansas retail customer classes.

14 **Q. What is the A&E 4CP methodology?**

15 A. The A&E 4CP method allocates production plant costs to rate classes using a  
16 weighted average of the average-demand and excess-demand. The calculation  
17 consists of two components that are summed to develop the allocation factor.  
18 The first component is total average-demand (total annual energy divided by the  
19 number of hours in the year, i.e. 8,784 hours) multiplied by the system load factor  
20 (LF). The LF is the average-demand of the system divided by the system's

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<sup>4</sup> Direct Testimony of David Smith, at p. 10, lines 13-16.

<sup>5</sup> *Id.*, at p. 8, lines 23-31.

<sup>6</sup> *Id.*, at p. 16, lines 13-20.

<sup>7</sup> The four summer months include June, July, August, and September.

1 single CP. The second component is the excess-demand multiplied by one  
2 minus the system LF. The excess-demand is the difference between each class'  
3 4CP demand and the average-demand.

4 **Q. Why has the Company proposed changing its PDAF?**

5 A. Historically, OG&E has relied upon previously approved Commission rulings  
6 absent the direction of the General Assembly of the State of Arkansas. However,  
7 the 90<sup>th</sup> General Assembly passed Act 725 of 2015 (Act 725) on March 27,  
8 2015<sup>8</sup>, which contained specific guidance for the purpose of the allocation of  
9 demand-related production costs. The statute specifically allowed the use of the  
10 average and excess method if the Commission makes the finding that the  
11 resulting rates were beneficial to economic development or the promotion of  
12 employment opportunities and would result in just and reasonable rates for all  
13 classes of customers.

14 **Q. Did OG&E provide evidence which supports the allegation that the**  
15 **implementation of rates consistent with Act 725 would result in rates that**  
16 **would be beneficial to economic development or the promotion of**  
17 **employment opportunities, and would result in just and reasonable rates**  
18 **for all classes of customers?**

19 A. OG&E did not rely upon Act 725 to support its proposal. However; in his Direct  
20 Testimony, OG&E witness David Smith describes how the use of A&E 4CP  
21 methodology may not be the sole factor in dictating economic development, but it

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<sup>8</sup> Codified at Ark. Code Ann. § 23-4-422.

1 can send signals that costs are being allocated fairly and are aligned according  
2 to each class' use of the system.<sup>9</sup> Mr. Smith further supports the use of the A&E  
3 4CP method and its impact on jurisdictional cost as well as Arkansas class  
4 specific cost in this case.<sup>10</sup>

5 **Q. Do you find this change reasonable?**

6 A. Yes, given the reasons provided by Mr. Smith, I agree the use of the A&E 4CP  
7 method is reasonable. Additionally, as shown on Chart 4 of Mr. Smith's  
8 testimony, the A&E 4CP method allocated Arkansas approximately \$3.5 million  
9 less in total cost as compared to the A&P 1CP method.<sup>11</sup>

10 **Q. What functional changes has the Company proposed to Transmission**  
11 **Plant?**

12 A. Historically, OG&E has classified all transmission plant as demand-related and  
13 allocated using the average of the twelve monthly coincident peak demands (12-  
14 CP Allocator). In this case, OG&E has proposed to allocate costs relating to  
15 Generation Step-up Transformers (GSUs) and generation radial tie lines as  
16 generation assets, and has proposed to use a production allocator instead of the  
17 12-CP Allocator. In his Direct Testimony, OG&E witness Mr. Smith explains that  
18 both of these assets provide the transition phase of transferring electricity  
19 produced from generation sources to the transmission system.<sup>12</sup>

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<sup>9</sup> Direct Testimony of David Smith, p. 14, lines 5-10.

<sup>10</sup> *Id.*, at pp. 10-14.

<sup>11</sup> *Id.*, at p. 14.

<sup>12</sup> *Id.*, at pp. 8-9.

1   **Q.    Do you find this change reasonable?**

2    A.    Yes, given the explanation provided by Company witness Mr. Smith, I find the  
3       proposed functional change as reasonable.

4   **Q.    What changes has the Company proposed for the allocation of meter cost?**

5    A.    OG&E witness Mr. Smith explains that because of the installation of SmartGrid,  
6       OG&E now has the ability to capture current meter cost by customer class.  
7       Given that OG&E now has specific meter customer cost it has proposed to  
8       allocate meter cost directly to each applicable class instead of using a weighted  
9       customer methodology.

10   **Q.    Do you find this change reasonable?**

11   A.    Yes, I agree with the Company. It is reasonable to directly assigned cost to a  
12       class when the information is available.

13   **Q.    Were there any other changes in the COS Study that were different from**  
14       **OG&E last rate case that were not addressed by OG&E in testimony?**

15   A.    Yes. The Company made a change to the allocation of plant account 321.00  
16       Boiler Plant Equipment – Coal Fuel Handling Equipment (Account 321). The  
17       Company also identified certain transmission plant as “SPP Base Plan Upgrade”  
18       (SPP Upgrade) and allocated those cost with a modified 12-CP Allocator.

19   **Q.    What change did the Company make to Account 321?**

20   A.    The Company has classified Account 321 as energy-related and allocated it  
21       using the production energy allocator. Historically and in the last rate case  
22       Account 321 was classified as demand-related and allocated using the PDAF.

1   **Q.    Do you find this change reasonable?**

2    A.    No. The Company did not provide an explanation for this change in allocation. I  
3       recommend OG&E continue to classify Account 321 as demand-related and  
4       allocate using the PDAF.

5   **Q.    What modification has the Company made to its COS Study to allocate the**  
6       **transmission plant identified as SPP Upgrade?**

7    A.    As explained above OG&E has historically allocated all transmission plant with  
8       the 12-CP Allocator. Based on the peak data in this case, the 12-CP Allocator  
9       allocates Arkansas approximately 7.2% of transmission cost. However, OG&E  
10       has identified certain transmission plant costs as SPP Upgrade. These costs are  
11       associated with OG&E's participation in the Southwest Power Pool (SPP). The  
12       quantification of these costs are further addressed by Staff witness William L.  
13       Matthews.

14           The Company has allocated the SPP Upgrade transmission plant between  
15       the jurisdictions with a modified 12-CP Allocator (SPP 12-CP Allocator). The  
16       SPP 12-CP Allocator developed by OG&E allocates approximately 8.2% of SPP  
17       Upgrade cost to Arkansas or approximately 1% more than the 12-CP Allocator  
18       used to allocate the remaining transmission plant.

19   **Q.    Do you find this change reasonable?**

20    A.    The Company has not provided evidence or an explanation in testimony for this  
21       change. Therefore, I am unable to support this change unless the Company  
22       provides further evidence and explanation in testimony of its proposed cost

1 allocation for SPP Upgrade transmission cost. The Company should specifically  
2 address how it determines the amount of cost that is SPP Upgrade related, how  
3 it developed its SPP 12-CP allocator, and why the SPP 12-CP allocator is  
4 appropriate for the allocation of these costs as part of its rebuttal testimony.

5 **STAFF'S COS STUDY**

6 **Q. Did Staff develop its own COS Study?**

7 A. Yes. I support Staff's COS Study, and the details of my COS Study are  
8 presented in Direct Exhibit MSK-1. Table 3, below, summarizes the results of my  
9 COS Study. I have presented the results of my COS Study in the same format  
10 as I did for the Company's COS Study in Table 1. Line 8 shows the percent  
11 increase in base rates consistent with how Staff has developed its COS Study.  
12 My COS Study summary is provided by the seven major customer groups within  
13 the COS Study. However, each of the seven customer groups has individual rate  
14 classes within them for a total of 23 different rate classes. A more detail  
15 presentation by rate class is provided in my Direct Exhibit MSK-2.



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**Table 3**  
**Staff's COS Study Summary**

Line No.	Description (1)	Total Arkansas Retail (2)	Residential (3)	General Service (4)	Power & Light (5)	Power & Light TOU (6)	Municipal Pumping (7)	Athletic Field Lighting (8)	Lighting (9)
1	Rate Schedule Revenue Requirement	\$101,731,591	\$42,259,126	\$11,889,656	\$27,503,397	\$17,177,233	\$91,830	\$106,746	\$2,703,603
2	Other Revenues	\$319,995	\$166,523	\$34,966	\$74,052	\$38,280	\$373	\$393	\$5,408
3	Fuel Rider Revenues@Present Rates	\$65,433,767	\$18,537,681	\$5,673,588	\$20,011,900	\$20,393,411	\$33,117	\$24,162	\$759,907
4	Other Rider Revenues@Present Rates*	\$10,497,296	\$3,878,291	\$1,161,553	\$3,252,848	\$2,097,859	\$5,470	\$4,119	\$97,155
5	Total Revenue Requirement (L1+L2+L3+L4)	\$177,982,649	\$64,841,622	\$18,759,762	\$50,842,197	\$39,706,783	\$130,790	\$135,421	\$3,566,074
<b>Base Rates Excluding Expiring Riders Revenues</b>									
6	Present Rate Schedule Revenues*	\$85,166,353	\$30,786,853	\$9,511,996	\$24,649,782	\$17,095,630	\$59,162	\$50,450	\$3,012,480
7	Revenue Deficiency/(Surplus) (L1-L6)	\$16,565,238	\$11,472,273	\$2,377,660	\$2,853,615	\$81,603	\$32,668	\$56,297	(\$308,877)
8	% Increase on Rate Sch. Rev. (L7/L6)	19.5%	37.3%	25.0%	11.6%	0.5%	55.2%	111.6%	-10.3%
<b>Base Rates Including Expiring Riders Revenues</b>									
9	Expiring Riders	\$6,730,281	\$2,154,764	\$660,760	\$2,109,079	\$1,716,765	\$3,603	\$2,629	\$82,680
10	H-2 Reconciliation	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
11	Present Rate Schedule Revenues**	\$91,896,633	\$32,941,617	\$10,172,756	\$26,758,861	\$18,812,395	\$62,765	\$53,079	\$3,095,159
12	Revenue Deficiency/(Surplus) (L1-L11)	\$9,834,958	\$9,317,509	\$1,716,899	\$744,536	(\$1,635,162)	\$29,064	\$53,668	(\$391,556)
13	% Increase on Rate Sch. Rev. (L12/L11)	10.7%	28.3%	16.9%	2.8%	-8.7%	46.3%	101.1%	-12.7%
<b>Increase in Total Revenues</b>									
14	Total Current Revenues**	\$168,147,691	\$55,524,113	\$17,042,863	\$50,097,661	\$41,341,946	\$101,726	\$81,753	\$3,957,630
15	Change in Total Rev. Requirement (L5-L14)	\$9,834,958	\$9,317,509	\$1,716,899	\$744,536	(\$1,635,162)	\$29,064	\$53,668	(\$391,556)
16	% Increase in Total Rev. Req. (L15/L14)	5.8%	16.8%	10.1%	1.5%	-4.0%	28.6%	65.6%	-9.9%

\*Excludes the Expiring Rider Revenue  
\*\*Includes the Expiring Riders Revenues

**Q. What are the primary differences between the Company's and your COS Study results?**

A. There are three primary differences: 1) total recommended base rate revenue requirement; 2) the billing determinants used to allocate costs to the customer classes, such as number of customers and energy consumption; and 3) the classification & allocation of SPP Upgrade related transmission plant costs and production Account 321, as discussed above. The difference between the Company's and Staff's total recommended base rate revenue requirement is addressed in the Direct Testimony of Staff witness Jeff Hilton and shown on his Direct Exhibit JH-8. The difference between the Company's and Staff's billing

1 determinants is addressed in the Direct Testimony of Staff witness Robert H.  
2 Swaim.

3 **Q. Did the jurisdictional allocators used in your COS Study differ from those**  
4 **proposed by the Company, given that Staff's and the Company's billing**  
5 **determinants are different?**

6 A. No. I have accepted the jurisdictional allocators recommend by the Company  
7 with the exception of the SPP 12CP Allocator as discussed above. The  
8 difference in Staff's billing determinants will only have an effect on the allocation  
9 among the Arkansas retail classes. The methods and procedures applied in my  
10 COS Study are generally consistent with those proposed by OG&E. The results  
11 of my COS Study fairly and reasonably reflect the cost to serve the various  
12 customer classes and provide a sound basis for designing just and reasonable  
13 rates for each of OG&E's rate classes.

14 **REVENUE REQUIREMENT USED IN DESIGNING RATES**

15 **Q. Are the results of the COS Study used to determine rates for each of the**  
16 **customer classes?**

17 A. Yes. The base rate revenue requirement determined in the COS Study is used  
18 as the basis for designing rates. As a result, the percentage increases may be  
19 different for each customer class.

1 **Q. What has OG&E proposed for the revenue requirement used in designing**  
2 **rates?**

3 A. To mitigate the impact of the COS Study increase, OG&E proposed that no class  
4 receive a rate decrease.<sup>13</sup> The results of OG&E proposed rate schedule revenue  
5 requirement used in designing rates by rate class are shown on OG&E's  
6 Schedule G-1 line 42.

7 **Q. Based on your COS Study, what is your recommendation regarding the**  
8 **revenue requirement used in designing rates?**

9 A. I agree with OG&E that mitigation of the COS Study results such that no  
10 individual customer class should receive a rate decrease in the context of an  
11 overall system increase is reasonable in this proceeding. This position is  
12 consistent with Staff's position in prior rate cases. As summarized in Table 3, my  
13 COS Study results in an overall system increase of 19.5% in base rate revenues  
14 (line 8) or 10.7% increase if the Expiring Riders Revenues are included (line 13).  
15 The Residential class, Municipal Pumping, and Athletic Field Lighting have  
16 increases in base rates (including the Expiring Rider Revenues) of more than  
17 twice the system average, at 28.3%, 46.3% and 101.1%, respectively.  
18 Therefore, I recommend that, in this proceeding, the Commission accept the  
19 mitigation of my COS Study results that I developed by applying the following:

- 20 1. No customer class should receive a rate decrease from current revenues,  
21 including base rates and the Expiring Riders Revenues;

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<sup>13</sup> Direct Testimony of Bryan Scott, p. 18, lines 17-18.

1           2. Any revenue surplus attributable to the classes that have no change in  
2           current revenues will be used to limit the increase to the Municipal  
3           Pumping and Athletic Field Lighting classes to 2.5 times the system  
4           average; and

5           3. The remaining revenue surplus should then be distributed to the  
6           Residential classes.

7   **Q. How did you approach and evaluate the reasonableness of your**  
8   **recommended mitigation?**

9   A. I gave consideration to the total system increase of 10.7% (Table 3, Line 13) and  
10   each class' position relative to that average. I also evaluated the impact on total  
11   revenue, including fuel and other rider revenue (Table 3, Line 16). The results of  
12   my recommendation are shown in Table 4 below. A more detailed presentation  
13   by rate class is provided in my Direct Exhibit MSK-3.

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**Table 4**  
**Staff's Proposed Revenue Allocation**

Line No.	Description (1)	Total Arkansas Retail (2)	Residential (3)	General Service (4)	Power & Light (5)	Power & Light TOU (6)	Municipal Pumping (7)	Athletic Field Lighting (8)	Lighting (9)
1	Rate Schedule Revenue Requirement	\$101,731,591	\$39,552,207	\$11,889,656	\$27,986,512	\$19,061,219	\$79,559	\$67,280	\$3,095,159
2	Other Revenues	\$319,995	\$166,523	\$34,966	\$74,052	\$38,280	\$373	\$393	\$5,408
3	Fuel Rider Revenues@Present Rates	\$65,433,767	\$18,537,681	\$5,673,588	\$20,011,900	\$20,393,411	\$33,117	\$24,162	\$759,907
4	Other Rider Revenues@Present Rates*	\$10,497,296	\$3,878,291	\$1,161,553	\$3,252,848	\$2,097,859	\$5,470	\$4,119	\$97,155
5	Total Revenue Requirement (L1+L2+L3+L4)	\$177,982,649	\$62,134,702	\$18,759,762	\$51,325,312	\$41,590,769	\$118,519	\$95,954	\$3,957,630
<b>Base Rates Excluding Expiring Riders Revenues</b>									
6	Present Rate Schedule Revenues*	\$85,166,353	\$30,786,853	\$9,511,996	\$24,649,782	\$17,095,630	\$59,162	\$50,450	\$3,012,480
7	Revenue Deficiency/(Surplus) (L1-L6)	\$16,565,238	\$8,765,354	\$2,377,660	\$3,336,730	\$1,965,588	\$20,396	\$16,830	\$82,680
8	% Increase on Rate Sch. Rev. (L7/L6)	19.5%	28.5%	25.0%	13.5%	11.5%	34.5%	33.4%	2.7%
<b>Base Rates Including Expiring Riders Revenues</b>									
9	Expiring Riders	\$6,730,281	\$2,154,764	\$660,760	\$2,109,079	\$1,716,765	\$3,603	\$2,629	\$82,680
10	H-2 Reconciliation	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
11	Present Rate Schedule Revenues**	\$91,896,633	\$32,941,617	\$10,172,756	\$26,758,861	\$18,812,395	\$62,765	\$53,079	\$3,095,159
12	Revenue Deficiency/(Surplus) (L1-L11)	\$9,834,958	\$6,610,589	\$1,716,899	\$1,227,651	\$248,823	\$16,793	\$14,201	\$0
13	% Increase on Rate Sch. Rev. (L12/L11)	10.7%	20.1%	16.9%	4.6%	1.3%	26.8%	26.8%	0.0%
<b>Increase in Total Revenues</b>									
14	Total Current Revenues**	\$168,147,691	\$55,524,113	\$17,042,863	\$50,097,661	\$41,341,946	\$101,726	\$81,753	\$3,957,630
15	Change in Total Rev. Requirement (L5-L14)	\$9,834,958	\$6,610,589	\$1,716,899	\$1,227,651	\$248,823	\$16,793	\$14,201	\$0
16	% Increase in Total Rev. Req. (L15/L14)	5.8%	11.9%	10.1%	2.5%	0.6%	16.5%	17.4%	0.0%
*Excludes the Expiring Rider Revenue									
**Includes the Expiring Riders Revenues									

**Q. Can this approach to mitigate the impact to the Residential, Municipal Pumping, and Athletic Field Lighting classes be accomplished without unreasonable adverse impacts to the other classes?**

**A.** Yes. Given the magnitude of the increase above the system average to these classes, my recommended rate mitigation achieves a just and reasonable result by tempering the rate increase to the Residential, Municipal Pumping, and Athletic Field Lighting classes while keeping the General Service classes at their cost of service and keeping the rate increases to the other classes below the system average.

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**Q. Did you analyze the impact of the A&P 1CP versus the A&E 4CP?**

A. Yes. Similar to the approach used by OG&E witness Mr. Smith, I compared what the rate schedule revenue requirement by customer group would have been using both allocators. As shown in Table 5, below, the A&E 4CP allocator is more favorable to Arkansas and to most of its customer groups.

**Table 5**  
**Production Demand Allocation Method**  
**(Rate Schedule Revenue Requirement)**

Line No.	Description (1)	Total Arkansas Retail (2)	Residential (3)	General Service (4)	Power & Light (5)	Power & Light TOU (6)	Municipal Pumping (7)	Athletic Field Lighting (8)	Lighting (9)
1	A&P 1CP	\$105,402,672	\$41,758,178	\$11,928,438	\$29,754,343	\$19,054,075	\$94,746	\$109,698	\$2,703,194
2	A&E 4CP	\$101,731,591	\$42,259,126	\$11,889,656	\$27,503,397	\$17,177,233	\$91,830	\$106,746	\$2,703,603
3	\$ Difference (L2 - L1)	(\$3,671,081)	\$500,949	(\$38,783)	(\$2,250,946)	(\$1,876,842)	(\$2,916)	(\$2,951)	\$409
4	% Difference (L3 / L1)	-3.5%	1.2%	-0.3%	-7.6%	-9.9%	-3.1%	-2.7%	0.0%

## RECOMMENDATIONS

**Q. What are your recommendations?**

A. For the reasons set forth above, I recommend the Commission:

- Reject the Company's COS Study and accept my COS Study as summarized in Table 3 and detailed in my Direct Exhibits MSK-1 and MSK-2;
- Accept as reasonable the classification and allocation methodologies embedded in my COS Study; and
- Order the Company to design rates such that each customer class pays its COS as determined by my COS Study incorporating my recommended mitigation of the distribution of the base rate revenue

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1 requirement as shown in Table 4 above and detailed by rate class in

2 Exhibit MSK-3.

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

4 **A.** Yes, it does.

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing has been served on all parties of record by electronic means via the Commission's Electronic Filing System this 31<sup>st</sup> day of January, 2017.

/s/ Justin A. Hinton  
Justin A. Hinton