BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

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

Rebuttal Testimony

of

Shawna J. Satterwhite

on behalf of

Oklahoma Gas and Electric Company

June 5, 2018

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

A. My name is Shawna Satterwhite. My business address is 321 North Harvey, Oklahoma City, Oklahoma, 73102.

Q. **Are you the same Shawna Satterwhite that previously filed direct testimony in this proceeding?**

A. Yes.

Q. **What is the purpose of your Rebuttal Testimony?**

A. The purpose of my testimony is to rebut the Responsive Testimony of AARP witness Mr. Nelson, specifically the following issues:

1. Mr. Nelson's recommendation to use the "basic customer approach" instead of the Zero-intercept approach utilized by the Company per the NARUC Electric Utility Cost Allocation Manual ("NARUC Electric Manual") for an embedded Cost of Service Study ("COSS").
2. Mr. Nelson incorrectly suggests the use of a production allocator for distribution plant costs.
3. Mr. Nelson falsely accuses OG&E of not following the NARUC Electric Manual by not allocating a portion of FERC 369 Services on demand.

My testimony will explain the flaws in Mr. Nelson's approach and provide the basis for the Commission to support the Company's COSS, and specifically its use of the Zero-Intercept Study.

Q. **Did PUD Staff and other Intervenors object to the Company's COSS or the Zero-Intercept Study?**

A. No. Staff and Intervenors (excluding AARP), did not object to the Company's COSS and Zero-Intercept Study.

Q. **Please provide a brief overview of the Company's COSS.**

A. The Company utilizes embedded cost to determine the Company's revenue requirement or cost to serve. The COSS then functionalizes and classifies this cost. Lastly, the COSS, using various allocation methodologies, allocates the now functionalized and classified costs to the various customer classes.

Q. **What functions do electric utility distribution FERC accounts 364-368 serve?**

A. The distribution system exists to serve two functions:

1) delivering service to individual customers' residences or businesses (customer costs); and,
2) to ensure that the distribution system is large enough to reliably serve customer demand (demand costs).

Because this distribution plant serves two purposes, total distribution costs are classified as both customer and demand-related.

Q. **What methodology does the NARUC Electric Manual recommend to determine the customer/ demand split for the distribution FERC accounts 364-368?**

A. The NARUC Electric Manual provides two methods to determine the customer/demand split for these distribution accounts in an embedded COSS. The two methods the NARUC Electric Manual recommends are the Minimum-Size Method (what the Company refers to as the Minimum System Method) and the Minimum-Intercept Method (what the Company refers to as the Zero- Intercept method).

Q. **What is the Minimum-System Method?**

A. The NARUC Electric Manual defines the Minimum System Method as defining the minimum size of the distribution system that can be built to serve the minimum load of a particular customer, for distribution plant assets in FERC Accounts 364, 365, 366, 367, 368, and 369.[1]

[1] Electric Utility Cost Allocation Manual, January 1992, p. 90-91.

Q. **What is the Zero-Intercept Method?**

A. The NARUC Electric Manual defines the Zero-Intercept Method as identifying that portion of plant related to a hypothetical no-load or zero-intercept situation, this method uses more data and is generally considered the more accurate approach in the industry. The Zero-Intercept Method is used to determine the minimum intercept for distribution plant assets in FERC Accounts 364, 365, 366, 367, and 368,[2] but it is not used for FERC account 369, this account is allocated 100% as customer cost.

Q. **Is the Company's use of a Zero-Intercept Study in this Cause a new approach?**

A. No. The Company's COSS relied on a Zero-Intercept Study in its three previous general rate case proceeding, Cause No. PUD 2001500273, PUD 201100087, and PUD 200800398. In each of these Causes the Commission approved the Company's COSS and its reliance on the Zero-Intercept Method.

Q. **Please explain the Final Order in Cause No. PUD 201500273 as it relates to the Zero-Intercept Study.**

A. The final order stated that OG&E shall update its Zero-Intercept Study and provide such results to parties in its next general rate case.

Q. **Did OG&E comply with the Final Order?**

A. Yes, the Company updated its previous Zero-Intercept Study approved in Cause No. PUD 200800398. The results were stated in my Direct Testimony in this Cause on page 11. The Company followed the same methodology from the approved 2008 Zero-Intercept Study (2008 Study) when updating its current study except for changing how it classified its primary distribution assets. For further details please refer to the testimony of Company witness Mr. David W. Smith.

[2] *Ibid*., p. 92.

Basic Customer Approach Recommendation

Q. **Are you familiar with the term basic customer approach?**

A. No. As far as I am aware, the term "basic customer approach" is not a defined term in the NARUC Electric Manual.

Q. **How does Mr. Nelson describe the basic customer approach?**

A. Mr. Nelson describes the basic customer approach as assigning only those costs traced to a specific customer as customer costs. Under the basic customer approach, the costs that cannot be directly assigned to a customer should be classified as demand[3].

Q. **What support does Mr. Nelson provide for his recommendation of the basic customer approach'?**

A. Mr. Nelson cites the NARUC Electric Manual for discussing a method similar to the basic customer approach in the Marginal Cost Section[4]. He also references the NARUC Gas Distribution Rate Design Manual ("NARUC Gas Manual") which has no bearing on this Cause.

Q. **What issue does the Company take with Mr. Nelson's citing of the NARUC Electric Manual as a source for the basic customer approach?**

A. Mr. Nelson's reference is located in the Marginal Costing section of the NARUC Electric Manual, however OG&E's COSS utilizes embedded cost. Chapter 2 of the NARUC Electric Manual provides a lengthy explanation of the differences between an Embedded COSS and a Marginal COSS. The inherent differences of these two approaches make it inappropriate to apply an allocation method from one approach to the other.

[3] Responsive Testimony of Witness Nelson at p. 11.

[4] Electric Utility Cost Allocation Manual, January 1992, p. 136-146.

Q. **What issue does the Company take with Mr. Nelson's citing of the NARUC Gas Manual as a source for the basic customer approach?**

A. This is an electric utility general rate case filing. This is not a gas utility filing. It is inappropriate to rely on cost allocation methodologies for gas distribution systems.

Q. **On page 14 of Mr. Nelson's Responsive Testimony he quotes the Regulatory Assistance Project ("RAP") as having estimated approximately 30 electric utilities use methods that do not classify any portion of the distribution system as a customer cost. Do you find this persuasive?**

A. No. Mr. Nelson provides no context for these 30 electric utilities and their choice to utilize other methodologies that do not classify any portion of the distribution system as a customer cost. Mr. Nelson provides no data as to whether these utilities use a Marginal or Embedded COSS. Without any context to the citation of the RAP estimate or the significance of its use in the industry, it would be irresponsible for the Company to use methods that to do not classify any portion of the distribution system as a customer cost. The Company uses methods that are commonly used and supported by the NARUC Electric Manual as its methods for allocation.

Q. **On page 17 of Mr. Nelson's Responsive Testimony he quotes from Alfred Kahn's The Economics of Regulation: Principles and Institutions on page 95 in support of the Basic customer approach. Do you find this persuasive?**

A. No, the quote is from chapter 4 and is titled *The Application of Long- and Short-Run Marginal Costs*. Mr. Nelson again is recommending an approach tied to a Marginal Cost study when the Company clearly used an embedded COSS.

Q. **On Page 18 of Mr. Nelson's Responsive Testimony he provides Table 1, demonstrating the results of his basic customer approach compared to the Company's COSS. He uses this table to conclude that the Company's Zero-Intercept Study assigns more cost to the Residential class than any other common approach. Does the Company agree with this conclusion?**

A. No, Mr. Nelson discusses both a Zero-Intercept approach and a Minimum-Size approach as methods for allocating the distribution costs between customer and demand. The results in Mr. Nelson's Table 1 conveniently omit results from the Minimum-size approach. In the following Revised Table I have added the results of the Minimum-size approach. Revised Table 1 clearly shows that the Company's approach does not allocate the most costs to the Residential class and proves that Mr. Nelson's statement is false.

Revised Table 1

	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL	TOTAL
	RESIDENTIAL	GENERAL	OIL & GAS	PUBLIC SCHOOLS	PUBLIC SCHOOLS	POWER &	PWR & LGHT	LRG. PWR & LGHT	MUNICIPAL	LIGHTING
CCOSS Approach	Total Residential	Total General	Total Oil and Gas Production	Total Public Schools - Small	Total Public Schools- Large	Total Power and Light	Total Power and Light - TOU	Large Power and Light - TOU	Total Municipal Pumping	Total Lighting
OG&E Zero-Intercept	4.28%	-4.45%	-23.24%	15.94%	8.19%	-4.38%	-2.33%	-5.51%	-5.58%	6.91%
OG&E Minimum Size	7.54%	5.25%	-19.31%	-2.81%	-10.60%	-12.99%	-14.55%	-9.44%	-7.54%	10.16%
Basic Customer	2.49%	-14.87%	-27.42%	36.03%	27.32%	1.14%	8.77%	-2.22%	-4.10%	6.37%

Q. **Revised Table 1 shows that the Residential class is allocated less costs when using Mr. Nelson's basic customer approach. Should the Company utilize this basic customer approach?**

A. No, the Company is not seeking to arbitrarily apply more or less cost to individual classes, but is instead adhering to the principles of cost causation as recommended in the NARUC Electric Manual. As explained above, the NARUC Electric Manual, for embedded cost of service studies, recommends either a Minimum-Size approach or a Zero-Intercept approach. The NARUC Electric Manual does not recommend a basic customer approach for embedded cost of service studies.

The Energy Related Classification Approach

Q. **Mr. Nelson recommends that distribution demand costs be allocated on a partial energy allocator, specifically the peak and average method. Does the Company agree with Mr. Nelson's recommendation?**

A. No. The NARUC Electric Manual states on page 97 in the Development of the Distribution Demand Allocators Section "customer-class non-coincident demands (NCP's) and individual customer maximum demands are the load characteristic that are normally used to allocate the demand component of distribution facilities"[5]. The Company's COSS uses the customer-class non-coincident demands to create the Distribution Demand allocator.

Mr. Nelson suggests the peak and average approach, and as support for this recommendation he cites the NARCU Electric Manual. Surprisingly, he correctly refers to the embedded cost section of the manual, however he incorrectly refers to Section IV of Chapter 4 which discusses methods for classifying and allocating production plant costs[6]. The Company's production costs is not what is at issue, what is at issue is distribution costs.

FERC Account 369

Q. **Mr. Nelson makes the accusation that the Company differs from the NARUC Electric Manual by classifying FERC account 369 as all customer and no demand component. What is the Company's response to this accusation?**

A. Mr. Nelson's accusation is false. The Company followed the NARUC Electric Manual Section B the Minimum–Intercept Method on pages 92-94, which does not address the classification of FERC account 369. Because FERC account 369 is not addressed in this section the Company referred to "Table 6-1 Classification of Distribution Plant" on page 87. This table classifies FERC account 369 as only customer related. The Minimum-Size method addressed on pages 90-92 of the NARCU Electric Manual does classify a

[5] Electric Utility Cost Allocation Manual, January 1992, p. 97.

[6] *Ibid*., p. 41.

demand component of FERC account 369. The Company did not use a Minimum – Size method in its COSS.

Recommendations

Q. **What are your recommendations to the Commission?**

A. I have two recommendations:

1. Reject Mr. Nelson's recommendation to use the basic customer approach for distribution cost classification.
2. Accept the Company's Zero-intercept method as appropriate.
3. Accept the Company's allocation of FERC account 369 as all customer component does in fact follow the NARUC Electric Manual.

Q. **Does this conclude your Rebuttal Testimony?**

A. Yes.