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

Direct Testimony

of

Bryan J. Scott

on behalf of

Oklahoma Gas and Electric Company

January 16, 2018

QUALIFICATIONS, EXPERIENCE AND PURPOSE

Q. **Please state your name and business address.**

A. My name is Bryan J. Scott. My business address is 321 N. Harvey Ave., Oklahoma City, Oklahoma 73102.

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

A. I am employed by Oklahoma Gas and Electric Company ("OG&E" or "Company") as the Director of Pricing and Load Analysis.

Q. **Please summarize your educational qualifications and professional experience.**

A. I graduated from the University of Tulsa with a Bachelor of Science degree in Economics. I began working at Public Service Company of Oklahoma ("PSO") in 1979 where I held various positions in its Rates Department. In 1994, I joined the Central and South West ("CSW") Rates Department as Manager of Pricing and Costing (CSW was the holding company for PSO at that time). In 1995, I became responsible for new pricing programs as Senior Project Manager for Pricing Development for CSW. In 2000, I became the Manager of Texas Retail Pricing for American Electric Power ("AEP") in preparation for the deregulated market in Texas (AEP assumed control of CSW in 2000). In 2002, I left AEP to become a consultant with B&B Consulting International and then with UtiliPoint International. I joined OG&E in March 2008. I have been involved with electricity pricing, costing, rate administration and regulatory issues for over 38 years.

Q. **Have you previously filed testimony before the Oklahoma Corporation Commission (the "Commission")?**

A. Yes. I have previously filed testimony on behalf of OG&E in Cause Nos. PUD 200800398, 200900230, 200900231, 201000037, 201100087, 201200134, 201400286, 201400307, 201500247, 201500273, 201600366, 201600441 and 201700216. I have previously submitted testimony on behalf of PSO in proceedings before this Commission. I have also submitted testimony before the Arkansas Public Service Commission, the

Louisiana Public Service Commission, the Public Utility Commission of Texas, and the Federal Energy Regulatory Commission.

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

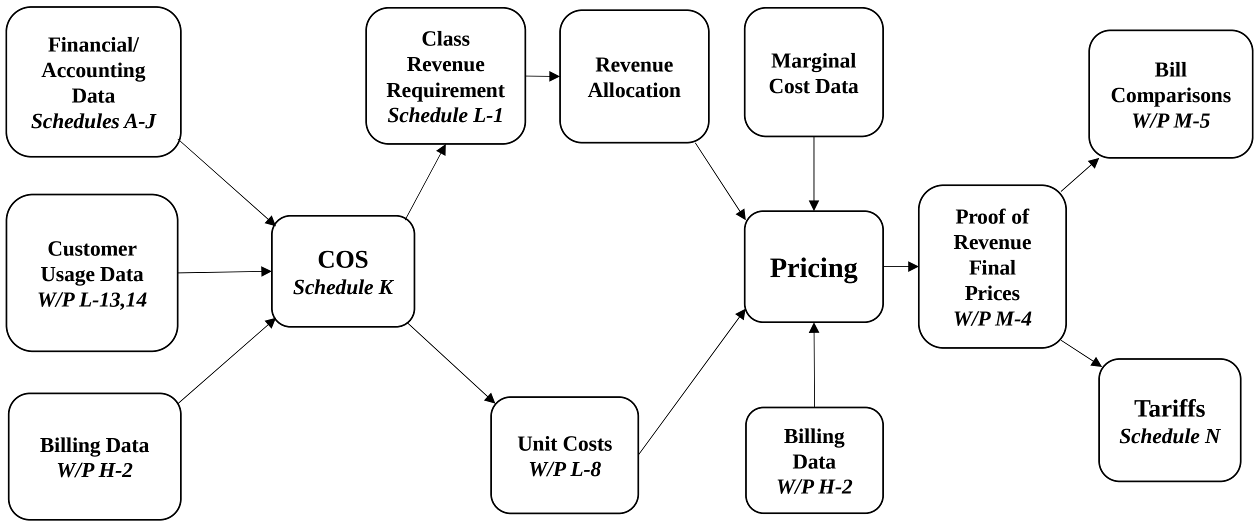
A. My testimony has three primary purposes. First, I will discuss the revenue allocation among customer classes as proposed by OG&E. Second, I will describe the goals of OG&E's pricing approach in this Cause and the process the Company used to develop the tariff pricing it proposes. Third, I will specifically address changes the Company is proposing to its lighting tariffs and the Green Power Wind Rider.

I. REVENUE ALLOCATION

Q. **What is revenue allocation?**

A. For rate design purposes, revenue allocation is the process of adjusting each class's revenue requirement identified in a Cost of Service Study ("COSS") so as to establish the target revenue requirement for each class or group of retail customers. As can be seen in Chart 1 below, the Minimum Filing Requirements package for OG&E's Application in this Cause includes the information which the Company uses to develop the proposed rates for each of the tariffed services offered to our customers. Revenue allocation is one of the final, primary inputs which the Company considers when developing the pricing for those tariffs.

Chart 1: The Rate Design Process



Q. **What is the purpose of a Cost of Service Study?**

A. COSS results are used to establish the amount of revenues that should be collected from each customer group or class if each class were to pay its full cost for receiving electric service. In those circumstances, the class' revenue requirement is described as being at 100% relative rate of return ("RROR") or at an equalized rate of return ("ROR").

Q. **Has the Company prepared a COSS for this Cause?**

A. Yes. Table 1 shows the results of the COSS found in Section K of the Company's filing package and depicts the revenue requirements, revenue deficiencies and percent increases which would provide a 100% RROR for each customer group or class.

The first column is the customer group. The second column is the current revenue from each customer group after *pro forma* adjustments are made and also include fuel revenue and continuing rider revenues. These *pro forma* adjustments are described on Schedule H-2 of the Application package and discussed by OG&E Witness Seth Knight. The third column is the total proposed revenue, which also includes fuel revenue and rider revenues. The proposed revenues represents the amount needed to fund the Company's costs of service when new rates become effective. The fourth column shows the difference between current revenues and proposed revenues at 100% RROR. The last column is the proposed percent change for each class or group of Oklahoma retail customers and represents the impact to customers' bills if all groups were taken to 100% RROR.

Table 1. Cost of Service Study Results

Customer Group	Total Current Revenue	Total Proposed Revenue @ 100% RROR	Proposed Increase @ 100% RROR	Proposed Total % Change
RS	$ 946,993,899	$ 971,812,354	$ 24,818,455	2.6%
GS	$ 183,079,485	$ 177,621,159	$ (5,458,326)	-3.1%
OGP	$ 21,463,287	$ 19,036,921	$ (2,426,366)	-12.7%
PS-S	$ 20,649,195	$ 22,463,321	$ 1,814,126	8.1%
PS-L	$ 14,072,952	$ 14,669,947	$ 596,995	4.1%
PL	$ 329,672,197	$ 319,882,280	$ (9,789,917)	-3.1%
PL TOU	$ 225,673,597	$ 223,238,098	$ (2,435,500)	-1.1%
LPL TOU	$ 342,683,319	$ 335,579,968	$ (7,103,351)	-2.1%
MP	$ 9,138,307	$ 8,908,813	$ (229,494)	-2.6%
Lighting	$ 37,332,134	$ 39,406,025	$ 2,073,891	5.3%
Total Retail	$ 2,130,758,372	$ 2,132,618,886	$ 1,860,513	0.1%

Q. **Are these the revenue requirements OG&E will utilize for pricing services for the respective classes?**

A. No, not in this case. At times in the rate design process, a particular class' allocated revenues may be set at an amount higher or lower than is required to pays its full cost of service as identified in the COSS. The process of adjusting the COSS results to determine the target revenue requirement for each class is the revenue allocation process.

Q. **What are the considerations in the revenue allocation process?**

A. From OG&E's perspective, the initial focus of the revenue allocation process is always to set each class' revenue requirement as close as possible to a target RROR of 100%. We believe that ultimately each customer group should pay the full cost for its electric service. However, external or unusual circumstances are also considerations in the allocation of revenue recovery to each class. Consequently, while moving classes toward their allocated cost of service is a primary goal, the Company pricing proposals are frequently reflective of other circumstances.

Q. **Were there any unusual class related circumstances addressed by the Company during the revenue allocation process for this case?**

A. Yes. OG&E believes it is best to propose minimal changes to the tariffs that were implemented May 1, 2017. Consequently, we are only proposing modest changes in the rates for the lighting classes and for LPL service level 3, 4 and 5 customers.

The Outdoor Security Lighting ("OSL") class was increased by approximately $1.7 million to recover its full cost of service and the Lighting Municipal ("LM") class was increased approximately $200,000 or approximately halfway towards the recovery of its full cost of service.

As a result of the rate design stipulation in the Company's last rate case, the LPL5 revenue requirement was increased approximately $3 million while LPL3 and LPL4 customers saw decreases in their revenue requirement. In this Cause, the COSS indicates the LPL5 requirement should be reduced by approximately $1.5 million while the rates for LPL3 and LPL4 are both under-recovering their respective revenue requirements. Therefore, LPL3 was increased to its full cost of service or about 1.3%. LPL4 was also increased 1.3% or approximately one third towards its full cost of service. These amounts were used to reduce LPL5 by approximately $760,000 and results in no net change to the LPL class in total. No other adjustments to classes are proposed in the revenue allocation.

Q. **Except for the tariffs we just discussed, did the final revenue allocation achieve the goal of each customer group paying the full cost of their electric service?**

A. No. Table 2 shows the results of the revenue allocation process and includes the RROR for each rate class as well as the percent of the total cost of service included in the final revenue requirement. These results are shown in Schedule M and associated Schedule M work papers of the Application package.

Table 2. Proposed Revenue Allocation

Customer Group	Total Current Revenue	Proposed Increase (Rate Design)	Proposed Final Revenue Requirement	Final Total Proposed % Change	Proposed Rate of Return	Proposed RRoR	Percent of Total COSS
RS	$ 946,993,899	$ -	$ 946,993,899	0.0%	7.0%	90%	96.0%
GS	$ 183,079,485	$ -	$ 183,079,485	0.0%	8.7%	111%	104.6%
OGP	$ 21,463,287	$ -	$ 21,463,287	0.0%	13.6%	176%	130.2%
PS-S	$ 20,649,195	$ -	$ 20,649,195	0.0%	5.3%	68%	86.3%
PS-L	$ 14,072,952	$ -	$ 14,072,952	0.0%	6.4%	83%	92.5%
PL	$ 329,672,197	$ -	$ 329,672,197	0.0%	8.9%	114%	105.9%
PL TOU	$ 225,673,597	$ -	$ 225,673,597	0.0%	8.2%	106%	102.4%
LPL TOU	$ 342,683,319	$ -	$ 342,683,319	0.0%	8.9%	114%	105.8%
MP	$ 9,138,307	$ -	$ 9,138,307	0.0%	8.9%	114%	105.9%
Lighting	$ 37,332,134	$ 1,860,514	$ 39,192,648	5.0%	7.6%	98%	99.3%
Total Retail	$2,130,758,372	$ 1,860,514	$ 2,132,618,885	0.1%	7.8%	100%	100.0%

Q. **How are these allocated revenues used to establish the prices in the proposed tariffs?**

A. The results from the final revenue allocation establish the target revenue changes for the rate design sponsored by Witness William Wai.

II. OG&E PRICING APPROACH

Q. **Would you generally describe OG&E's approach to designing and pricing tariffed services for its customers?**

A. OG&E's pricing approach or the goal for its pricing options can generally be described as offering meaningful choices to its customers while also collecting enough revenue to cover the cost of providing electric service. Meaningful options occur when plans offer distinctly different choices to customers,[1] such as plans with prices that vary by time of day as compared with plans that offers customers an energy price that does not vary by season or usage amount.

[1] Offering price plans requires the utility to incur costs to support and maintain them. There is rarely a purpose to offering similar price plans to customers that offer no real distinction from each other. Inevitably, the majority of customers will subscribe to one plan over another; the utility must then decide if it makes business sense to continue offering the under-subscribed plans or if that plan should be withdrawn.

Q. **How are the Company's costs to provide electric service incorporated in price plans?**

A. The price development process begins with the determination of the appropriate revenue requirement for each of OG&E's customer classes or customer groups. This is the revenue allocation process which I described earlier in my testimony. The rate design process then adjusts individual prices within the plan to collect the revenue requirement. OG&E Witness William Wai will explain this process in his testimony. The pricing plan terms and the pricing plan structures provide the differentiation that allows customers the choices to select a plan that works best for them.

Q. **What is the basis for OG&E's focus on customers' preferences for pricing plans?**

A. The Company recognizes that many of its customers want choices. The challenge in rate design is that different customers want different features, but we can only provide choices that are both desired by a significant number of customers and available at a reasonable price. As an example, OG&E's customer research found that most customers surveyed prefer an alternative to the standard pricing plan. Some customers are more interested in the lowest price available and are willing to take actions to achieve that goal, while others are more interested in convenience. Similarly, some customers are more interested in certainty that the monthly bill amount will not change. OG&E currently offers alternative pricing plans to provide customers with choices that address each of these preferences.

Q. **Is OG&E proposing significant structure changes to its tariffs in this Cause?**

A. No. As I mentioned earlier, OG&E implemented new prices and structures on May 1, 2017. As of this date, the changes authorized in Cause No. PUD 201500273 have not been in effect for a complete year. The Company proposes to minimize changes to those tariffs in this Cause.

Q. **In the previous Cause, OG&E proposed a three part structure for its standard offerings to residential and small commercial customers. Is the Company proposing something similar in this Cause?**

A. No. There were no structure changes proposed to the R-1 or GS-1 standard tariffs. In addition, the Company is proposing no change in the monthly customer charge for residential customers. OG&E continues to believe that three part pricing structures will prove instrumental in providing more choices to our customers in the future and that a customer charge which is based on the actual costs of providing those services is ultimately the best policy. However, for the reason discussed in my previous answer, the Company has elected not to propose those changes in this Cause.

Q. **Did OG&E complete the rate design related actions ordered by the Commission in the previous Cause?**

A. Yes. OG&E completed all applicable requirements[2]. In particular, OG&E updated its zero-intercept study as discussed by Witness Satterwhite it in her direct testimony. I would note that since the Company is not requesting demand charges for any non-demand tariffs, the Company elected not to conduct a demand charge pilot study at this time. Further, OG&E did not perform a small/medium/large customer analysis within the cost of service study ("COSS").

III. TARIFF CHANGES

Q. **What are the changes to tariff structures proposed in this Cause?**

A. OG&E proposes to close the Municipal Lighting and Outdoor Security Lighting tariffs to new subscription. The Company also proposes to change the language in the Green Power Wind Rider ("GPWR"). I will briefly discuss each of these changes. In addition Witness Gwin Cash will also discuss modification to the Utility Solar Pilot ("USP"), a price change in the Military Base Tariff Credit ("MBTC") rider, a change in to Section 408 of the Terms and Conditions regarding the Company's Allowable Expenditure

[2] See Order No. 662059 in Cause No. PUD 201500273, pages 218-219.

Formula reporting requirement, and support the Company's proposal to add a Federal Tax Change and Production Tax Credit ("FTCPTC") rider.

Q. Why is OG&E proposing to close out the LM and OSL tariffs at this time?

A. Lighting manufacturers are discontinuing the HPS (high pressure sodium vapor) and MH (metal halide) fixtures currently used for most of our lighting fixtures and converting to the manufacture of LED fixtures. OG&E began preparing for this development in Cause No. 201600366 with the introduction of the LED tariff. By closing the LM and OSL tariffs, customers who currently receive service under either of these tariffs (LM, OSL) may continue to do so, but no new HPS or MH fixtures will be placed in service. Consequently, if a fixture offered under the LM or OSL tariff needs replacement, the customer would need to subscribe to the LED tariff and select an equivalent fixture. Finally, as discussed by Witness Wai, OG&E proposes to offer our customers additional LED options as part of the LED tariff.

Q. Why is OG&E proposing to change the GPWR at this time?

A. The Sooner Wind purchase power agreement which was the basis for subscriptions to the GPWR is scheduled to expire on September 27, 2018. In order to continue service and subscription to the tariff, OG&E proposes to change the language of the GPWR to allow any of the Company's wind resources to be designated to support the GPWR.

RECOMMENDATIONS

Q. Please summarize your recommendations to the Commission.

A. I respectfully recommend that the Commission:

1. Approve tariffs based on the Company's recommended Revenue Allocation for customer classes as described above and shown in Table 2 of this testimony;
2. Approve the Company's proposal to close the LM and OSL tariffs to new subscription;
3. Approve the Company's proposed modifications to the GPWR tariff.

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

A. Yes.