

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

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CORPORATION COMMISSION
OF OKLAHOMA

Rebuttal Testimony

of

William H. Wai

on behalf of

Oklahoma Gas and Electric Company

June 5, 2018

William H. Wai
Rebuttal Testimony

1 **Q. Please state your name, business address, and position.**

2 A. My name is William H. Wai. My business address is 321 N. Harvey Ave., Oklahoma
3 City, Oklahoma 73102.

4 **Q. Have you previously submitted testimony in this Cause?**

5 A. Yes. I submitted direct testimony on January 16, 2018 on behalf of Oklahoma Gas and
6 Electric Company (“OG&E” or “Company”).

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

8 A. I will address issues raised by FEA witness Gorman, Wal-Mart witness Tillman, and
9 PUD witness Champion in Responsive Testimony on cost of service and rate design filed
10 May 16, 2018.

11
12 **Large Power & Light (“LPL”) Demand Rate Differential Between Service Level-1 (“SL-1”)**
13 **and Service Level-5 (“SL-5”)**

14 **Q. What is Mr. Gorman’s recommendation regarding the Company’s proposed rate**
15 **design changes for LPL SL-5?**

16 A. Mr. Gorman recommends that the Company increase the proposed demand charge for
17 LPL TOU SL-5. The Company believes that Mr. Gorman’s recommendation to increase
18 the spread between SL-1 and SL-5 is based on a flawed analysis and does not recognize
19 the movement towards unit cost in the Company’s proposal.

20
21 **Q. What changes did the Company recommend for the demand charge for LPL TOU**
22 **Service Level 5?**

23 A. The Company proposed to reduce the demand charge from \$11.51 to \$10.36 per kW.

24
25 **Q. What was the basis for Mr. Gorman’s recommendation?**
26 A. Mr. Gorman indicated that the appropriate demand charges would result in a \$5.14
27 differential between LPL TOU SL-1 and SL-5, as opposed to the spread of \$3.61 as

1 proposed by the Company. He based this recommendation on a misunderstanding
2 regarding the unit cost developed by OG&E in this Cause.

3
4 **Q. What is your response to Mr. Gorman's recommendation?**

5 A. First, Mr. Gorman's testimony incorrectly states the current LPL TOU demand rate for
6 SL-5. Mr. Gorman's table shows the SL-5 rate is \$11.15; however, the rate is actually
7 \$11.51. As a result of Mr. Gorman's error in Table 3, his statement on page 8, line 12
8 about the current spread between SL-1 and SL-5 is also incorrect. Mr. Gorman states the
9 current differential is \$4.41; however, the correct differential is \$4.77.

10 Second, Mr. Gorman calculated a spread of \$0.54 per kW for transmission
11 demand attributable to line losses.¹ While Mr. Gorman later admitted that OG&E's Cost
12 of Service Study accounts for line losses in the allocation of production and transmission
13 capacity cost², he provided no evidence to support his claim that the Company's resulting
14 rates did not correctly take into account of line losses. OG&E's proposed demand charge
15 spread between SL-1 and SL-5 of \$3.61 per kW, which is over 500% higher than the
16 \$0.54 per kW spread suggested by Mr. Gorman.

17 Third, the Company believes its proposed spread is appropriate because both rates
18 for LPL-TOU SL-1 and SL-5 follow their respective class revenue requirement
19 consistently. Rates for SL-1 are effectively unchanged because there is no change to SL-
20 1's revenue requirement. Demand charge for SL-5 drops due to a reduction to SL-5's
21 revenue requirement. Maintaining the same revenue requirement for LPL-TOU SL-1
22 implies minimum change to the rates for SL-1 class, while rates for LPL-TOU SL-5 have
23 to decrease because SL-5 revenue requirement is reduced. It is simply a mathematical
24 fact that, the spread between two different rates will become smaller if the lower rate
25 stays the same while the higher moves down.

26 Finally, Mr. Gorman proposed the demand rate spread between SL-1 and SL-5
27 remained at \$4.77, as opposed to the spread of \$3.61 proposed by the Company. As the
28 rightmost column of Table 1 shows, the Company's rate proposal moves the current SL-1
29 and SL-5 demand charge spread closer to the actual Distribution Demand unit cost spread

¹ Responsive Rate Design Testimony of Michael Gorman, p. 13, lines 4-6.

² Data Request OG&E-FEA 3-6.

by approximately \$1.90, the difference between the \$2.89 of current and the \$0.99 of proposed.

Table 1

Demand Rate Design - LPL TOU SL-1 & SL-5							
	Tariff Demand Rate			Distribution Demand			Differential
	SL-1	SL-5	Spread*	Unit Cost SL-1	Unit Cost SL-5	Spread*	Tariff Spread vs. Unit Cost Spread**
Current	\$ 6.74	\$ 11.51	\$ 4.77	\$ -	\$ 7.66	\$ 7.66	\$ 2.89
Proposed	\$ 6.75	\$ 10.36	\$ 3.61	\$ -	\$ 4.60	\$ 4.60	\$ 0.99

*Compares to the spread discussed by Mr. Gorman

**Indicates difference of the demand rate from unit cost

Rate Design Alternatives

Q. Have you read some of the recommendations of intervening parties regarding how to modify rates in accordance with a Commission order?

A. Yes. Wal-Mart witness Tillman and PUD witness Champion each propose a methodology to modify rates to comply with the Commission's Final Order in this Cause. I am aware that other Intervenors proposed differing revenue allocations in this Cause; however, those proposals did not have a specific rate design methodology, and will not be addressed in this testimony.

Q. What is your response to the proposals of Mr. Tillman and Ms. Champion?

A. While OG&E does not necessarily agree with either proposal, Ms. Champion presents a methodology that is more in line with OG&E's pricing philosophy. Ms. Champion "...recommends that any change in base rates be accomplished through the variable charges. For non-demand customers that would be changes to the kWhs charges; for demand customers PUD recommends changing both the kWh and kW charges."³

Mr. Tillman recommends that, "If the Commission approves a lower revenue requirement than proposed by the Company for PL TOU SL5, the Commission should

³ Responsive Rate Design Testimony of Kathy Champion, p. 24, ln. 3 -25, ln. 2.

1 begin with the Company's proposed rate design and reduce the on-peak and off-peak
2 energy charges proportionately to reflect the reduced revenue requirement.”⁴

3 OG&E disagrees with Mr. Tillman’s proposal that any reduction should only be
4 applied to energy charges, *i.e.* no change to demand charges. OG&E recognizes Mr.
5 Tillman’s emphasis on the importance of moving towards unit costs in rate design.
6 However, a proportional reduction to both the energy and demand charges minimizes the
7 changes experienced by an individual customer within a class. This approach is
8 consistent with OG&E’s main rate design goals in this specific rate case.
9

10 **Recommendations**

11 **Q. Please summarize your recommendations to the Commission.**

12 **A.** I respectfully recommend that the Commission:

- 13 1. Reject the LPL TOU demand rate methodology recommended by Mr. Gorman
- 14 2. Reject the LPL TOU demand rate differential recommended by Mr. Gorman;
- 15 3. Reject the rate design proposal of Mr. Tillman; and,
- 16 4. Approve a rate design proposal similar to that of Ms. Champion, whereby any
17 change in base rates is accomplished through changes to the kWh charges for
18 non-demand customers and changes to both the kWh and kW charges for demand
19 customers.

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

21 **A.** Yes.

⁴ Responsive Rate Design Testimony of Gregory Tillman, p.10, lns. 17-20.