

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR AN ORDER OF THE COMMISSION) CAUSE NO. PUD 201100087
AUTHORIZING APPLICANT TO MODIFY ITS)
RATES, CHARGES, AND TARIFFS FOR RETAIL)
ELECTRIC SERVICE IN OKLAHOMA)

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CORPORATION COMMISSION
OF OKLAHOMA

Rebuttal Testimony

of

Greg Veitch

on behalf of

Oklahoma Gas and Electric Company

December 2, 2011

Greg Veitch
Rebuttal Testimony

1 QUALIFICATIONS, EDUCATION, PURPOSE

2 Q. **Please state your name, your job title, by whom you are employed, and your**
3 **business address.**

4 A. My name is Greg Veitch, Manager of Cost of Service for Oklahoma Gas and Electric
5 Company ("OG&E" or "Company"). My business address is 321 N. Harvey, Oklahoma
6 City, Oklahoma 73102.

7
8 Q. **Are you the same Greg Veitch who filed direct testimony on July 28, 2011 in this**
9 **cause?**

10 A. Yes.

11
12 Q. **What is your educational background and experience with OG&E?**

13 A. I earned a Bachelor of Science degree in Accounting from Central State University in
14 1988. In 1991, I became a Certified Public Accountant, licensed to practice in
15 Oklahoma, and a member of the Oklahoma Society of Certified Public Accountants. I
16 have been employed by OG&E for almost thirty-nine years. My experience in
17 Regulatory (2005 to present) has been primarily in cost of service studies, revenue
18 requirement calculations for special projects and rate case support. I was promoted to
19 Manager, Cost of Service in September 2008. I have attended various courses and
20 seminars on cost of service, rate design and utility industry related issues.

21
22 Q. **What is the purpose of your rebuttal testimony?**

23 A. I address issues raised by Oklahoma Industrial Energy Consumers ("OIEC") witness
24 Mark Garrett in his responsive testimony and analyze inconsistencies in his cost of
25 service study ("COSS") and testimony exhibits. My testimony is divided into five parts:

26 (I) Weather Normalized Versus Non-Weather Normalized Load Data

27 (II) Bad Debt Expense Allocation

28 (III) Oklahoma Jurisdictional Allocations

29 (IV) Other COSS Issues

1 Part I – Weather Normalized Versus Non-Weather Normalized Load Data

2 Q. **Did Mr. Garrett conduct a cost of service study?**

3 A: Yes. Mr. Garrett modified OG&E's filed COSS to reflect the impact of using his non-
4 weather normalized approach for the production allocator and the other pro forma
5 adjustments addressed in his testimony.

6
7 Q. **How did Mr. Garrett address weather normalized demand load data for allocation
8 purposes?**

9 A: Mr. Garrett advocates utilizing actual test year peak loads, which reflect non-weather
10 normalized data, instead of the Company's weather normalized peak load data.

11
12 Q. **Do you agree with Mr. Garrett's assertion that OG&E should have used actual
13 demand data from the test year instead of weather normalized data?**

14 A. No. Using weather normalized load data for allocation purposes is widely accepted
15 throughout the utility industry. OG&E has adopted this approach so that extreme weather
16 conditions do not unfairly impact allocations to rate classes. Just as pro forma rate base
17 and expense are adjusted to normalize test year results, so should demand data be
18 normalized to design rates that will be in effect in 2012. In his rebuttal testimony, OG&E
19 witness Philip Bartholomew discusses why a 30-year period is the statistically superior
20 approach for eliminating weather anomalies and the danger of unintended class
21 subsidization.

22
23 Q. **Did OG&E file weather normalized demand load data in its last Oklahoma rate
24 case?**

25 A. Yes. In Cause No. PUD 200800398, as in the present cause, OG&E used weather
26 normalized demand and energy data for OG&E's production, transmission and
27 distribution allocators.

1 Q. **Have you performed an analysis to show the impact on customers of Mr. Garrett's**
2 **proposed production allocation methodology?**

3 A. Yes. Exhibit GV-1R details this analysis. The Company analyzed the OG&E as filed
4 allocator versus OIEC's proposed allocation methodology using \$2.9B for generation
5 plant. The exhibit shows OG&E's filed allocation to the classes listed as well as Mr.
6 Garrett's proposed allocations when using actual demand data that has not been weather
7 normalized. The last column of the exhibit shows the increase or decrease that occurs.

8
9 Q. **Please explain your conclusions from this comparison.**

10 A. Based on the comparison described above, it is apparent that Mr. Garrett's proposal
11 would shift cost responsibility from the Power and Light ("PL") and Large Power and
12 Light ("LPL") Time of Use ("TOU") classes to the Residential and General Service
13 classes. Anytime you allocate above normal temperatures as experienced in the test year,
14 the higher load factor customers, especially the biggest LPL customers, will benefit and
15 the lower load factor customers such as residential will be allocated more costs.

16
17 Q. **Did you identify an apparent inconsistency with how Mr. Garrett used "actual" load**
18 **data for purposes of the production allocator?**

19 A. Yes. Energy is weather normalized in OG&E's filed COSS and Mr. Garrett did not make
20 an adjustment when he developed his COSS calculations. As a result, Mr. Garrett used
21 weather normalized energy in his derivation of the production allocator. However, he
22 then used peak data that was not weather normalized for the demand component of the
23 same allocator. If energy data is weather normalized, then the demand data should also
24 be weather normalized. Phil Bartholomew also discusses why energy should be
25 normalized in his rebuttal testimony.

26
27 Q. **Do you have another issue related to Mr. Garrett's treatment of weather normalized**
28 **data in his COSS?**

29 A. Yes, Mr. Garrett was not consistent because he used weather normalized NCP data
30 instead of actual NCP data for the distribution allocation factors in his COSS. If he

1 believes that actual CP data should be used instead of weather normalized CP data, he
2 should also have used actual NCP data instead of the weather normalized NCP data.

3 **Q. Did Mr. Garrett adjust the transmission allocators in his cost of service study?**

4 A. No. He relied on weather normalized data for the CPs used for transmission rate base
5 and transmission expense allocation. Based on the same reasoning discussed above
6 regarding NCPs, Mr. Garrett should have used actual CP load data for development of the
7 12CP jurisdictional and 4CP class transmission allocators which allocate costs for both
8 transmission plant and transmission O&M expense.

9
10 Part II – Bad Debt Expense Allocation

11 **Q. Did the Company change its allocation methodology for bad debt expense?**

12 A. Yes. The Company reviewed how bad debt expense had historically been allocated and
13 made a determination that allocating bad debt expense based upon revenue responsibility
14 is the better treatment.

15
16 **Q. Did the Company's allocation methodology impact the LPL class?**

17 A. Yes. Previously, the Company had only allocated bad debt expense to the service level 5
18 customers in the LPL class. However, because bad debt expense is a general cost of
19 operations the Company allocated these costs to all classes and service levels which
20 included all service levels in the LPL class.

21
22 **Q. What is the effect of OIEC's proposal to return to the previous methodology?**

23 A. As shown in Exhibit GV-2R, a comparison was made for each class in the Oklahoma
24 jurisdiction. This exhibit shows bad debt expense for OG&E's filed allocation and
25 OIEC's proposal. As you can see, the residential class allocation, as proposed by OIEC
26 will increase by approximately \$1.3 million.

1 Part III – Oklahoma Jurisdictional Allocations

2 Q. **Did you find an allocation error in Mr. Garrett’s use of the Oklahoma jurisdictional**
3 **percentage?**

4 A. Yes. The Oklahoma jurisdictional percentage that he applied to his ad valorem tax
5 adjustment is incorrect. Mr. Garrett used 96.37% as his allocation percentage to
6 Oklahoma.

7
8 Q. **Please explain the error.**

9 A. In Table 1 below, I provide the error that exists in Mr. Garrett’s Exhibit MG 2.8. Table 1
10 also shows the correct calculation to Mr. Garrett’s cost of service study.

11 **Table 1**

	Exhibit MG 2.8	Correct Calculation
Total Company Adjustment	(\$5,343,061)	(\$5,343,061)
Oklahoma Jurisdictional Percentage	96.37%	86.4153%
Final Oklahoma Amount	(\$5,149,206)	(\$4,617,222)

12
13 As I noted above, in Exhibit MG 2.8, Mr. Garrett uses 96.37% for the Oklahoma
14 jurisdiction and I have no knowledge how he derived this percentage. My correction
15 utilizes the correct Oklahoma jurisdictional percentage.

16
17 Q. **Why do Mr. Garrett’s Oklahoma jurisdictional allocations, as reflected in Exhibit**
18 **MG 2.0, present a problem?**

19 A. There are two primary problems with Mr. Garrett’s Oklahoma jurisdictional allocations.
20 The first problem is that jurisdictional percentages of the costs in the COSS change each
21 time pro forma adjustments are made to the model. This is true whether the adjustments
22 are to expenses or rate base. However, Mr. Garrett did not update his jurisdictional
23 percentages. The second problem is that adjustments in a COSS are cumulative, meaning
24 that all adjustments taken as a whole impact the resulting revenue requirement or
25 deficiency.

1 Q. **Could you explain the first problem further?**

2 A. As discussed in my direct testimony, pages 11 and 12, some internal allocators within a
3 COSS get changed just by the fact that an underlying FERC account is changed due to
4 the pro forma adjustment. For example, when an O&M expense amount is changed, it
5 will change an internal allocator called "SUP_OM" which is used to allocate labor related
6 and corporate general expenses to all of the classes.

7

8 Q. **Please further explain the second problem.**

9 A. It is difficult to calculate a deficiency impact on just one pro forma adjustment because of
10 its impact to internal allocators or other adjustments that may be made subsequent to the
11 preceding one. For example, a rate base adjustment by itself would yield one impact, but
12 if the rate of return ("ROR") was changed subsequently to the rate base adjustment, then
13 the impact to the deficiency would be a culmination of both adjustments.

14

15

Part IV – Other COSS Issues

16 Q. **Please explain your review of Mr. Garrett's COSS.**

17 A. Mr. Garrett used the wrong cost of debt in his COSS for development of his overall rate
18 of return. Mr. Garrett's COSS capital cost indicated an overall rate of return of 7.78%
19 versus his testimony rate of return of 7.85% (Exhibit MG 2.12). The rate of return
20 reflected in the COSS was lower because of the cost of debt being 6.20% instead of
21 6.32%. When corrected in the COSS, the effect would be a decrease to his proposed rate
22 reduction by about \$2.1M with all of his other adjustments included.

23

24 Q. **Are there additional discrepancies between Mr. Garrett's Exhibit MG 2.0 and his
25 COSS results?**

26 A. Yes. Mr. Garrett's proposed rate reduction of \$56,751,575, as seen on his Exhibit MG
27 2.0, is inconsistent with his COSS proposed reduction of \$57,985,919, by \$1,234,344.
28 This difference is because of multiple errors, including the rate of return error as
29 described above.

1 Q. **Do you believe a final COSS should be calculated in this cause when all adjustments**
2 **have been approved by the Commission?**

3 A. Yes, I do. This would provide the most accurate calculations and results of all of the total
4 company adjustments approved by the Commission to determine the Oklahoma
5 jurisdictional revenue requirement. This COSS should be used to provide the accurate
6 Oklahoma jurisdictional percentages used in Staff's final exhibits. These final exhibits
7 should be attached to the final order in this cause as done in previous causes.

8

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

10 A. Yes.

**OKLAHOMA GAS & ELECTRIC COMPANY
PRODUCTION ALLOCATOR (CAPISY) COMPARISONS
TWELVE MONTHS ENDING DEC. 31, 2010
CAUSE NO. PUD 201100087**

<u>LN. JURIS / RATE CLASSES</u>	<u>OG&E Filed</u>		<u>OIEC</u>		<u>OG&E Filed vs. OIEC</u>
	<u>ICP AED DEMAND ALLOC. "CAPISY"</u>	<u>Estimated Allocation (\$ 2,900,000,000)</u>	<u>ICP AED DEMAND ALLOC. "CAPISY"</u>	<u>Estimated Allocation (\$ 2,900,000,000)</u>	<u>Estimated Allocation Increase/(Decrease)</u>
<u>OKLAHOMA RETAIL JURISDICTION ALLOCATION</u>					
1 TOTAL RESIDENTIAL CLASS	40.4395%	\$ 1,172,745,500	40.7083%	\$ 1,180,540,700	\$ 7,795,200
2 TOTAL GENERAL SERVICE CLASS	8.0569%	\$ 233,650,100	8.5680%	\$ 248,472,000	\$ 14,821,900
3 TOTAL POWER & LIGHT CLASS	20.7779%	\$ 602,559,100	20.2522%	\$ 587,313,800	\$ (15,245,300)
4 TOTAL LARGE POWER & LIGHT TOU CLASS	13.7171%	\$ 397,795,900	12.8351%	\$ 372,217,900	\$ (25,578,000)
5 NON-MAJOR CLASSES	2.2012%	\$ 63,834,800	2.3776%	\$ 68,950,400	\$ 5,115,600
6 OKLAHOMA RETAIL JURIS.	85.1926%	\$ 2,470,585,400	84.7412%	\$ 2,457,494,800	\$ (13,090,600)

**OKLAHOMA GAS & ELECTRIC COMPANY
ALLOCATION OF BAD DEBT
TWELVE MONTHS ENDING DEC. 31, 2010
CAUSE NO. PUD 201100087**

<u>LN.</u>	<u>RATE CLASSES</u>	<u>"AS FILED" ALLOCATION BY OG&E Note 1</u>	<u>"PROPOSED" ALLOCATION BY OIEC Note 2</u>	<u>INCREASE / (DECREASE) IN ALLOCATION</u>
1	RESIDENTIAL CLASS	\$1,345,362	\$2,617,258	\$1,271,896
2	GENERAL SERVICE CLASS	\$289,053	\$209,082	(\$79,971)
3	POWER & LIGHT CLASS	\$746,651	\$131,839	(\$614,812)
4	LARGE POWER & LIGHT CLASS	\$476,746	\$29,725	(\$447,021)
5	NON-MAJOR CLASSES	<u>\$139,024</u>	<u>\$8,932</u>	<u>(\$130,092)</u>
6	TOTAL OKLAHOMA RETAIL JURIS.	\$2,996,836	\$2,996,836	\$0
7	TOTAL ARKANSAS RETAIL JURIS.	<u>\$267,464</u>	<u>\$267,464</u>	<u>\$0</u>
8	TOTAL COMPANY	\$3,264,300	\$3,264,300	\$0

Note 1: Spread to classes based on pro forma electric revenues.

Note 2: Spread to classes based on amounts in PUD 398.