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	)	

Rebuttal Testimony

of

Bryan J. Scott

on behalf of

Oklahoma Gas and Electric Company

December 2, 2011

QUALIFICATIONS, EXPERIENCE AND PURPOSE

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

A. My name is Bryan J. Scott. My business address is 321 North Harvey, Oklahoma City, Oklahoma 73102. In March 2008, I joined Oklahoma Gas and Electric Company ("OG&E" or "Company") as a member of the Rates and Costing team. I am currently the Director of Pricing and Load Research. I am responsible for pricing strategy and managing the Pricing and Load Research teams.

Q. **Would you please summarize your education and professional background?**

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 over PSO.) 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 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 UtiliPoint International. I joined OG&E in March, 2008. I have been involved with pricing, costing, rate administration and regulatory issues for over 31 years.

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

A. Yes. I have previously filed testimony on behalf of OG&E in Cause Nos. 200800398, 200900230, 200900231, and 201000037. I have also previously submitted testimony on behalf of Public Service Company of Oklahoma (PSO) in several proceedings before this Commission. I have submitted testimony and testified in various hearings and proceedings before the Arkansas Public Service Commission, the Louisiana Public

Service Commission, and the Public Utility Commission of Texas. I have also submitted testimony to the Federal Energy Regulatory Commission.

Q. **Did you previously submit direct testimony on behalf of OG&E in this Cause?**

A. Yes, I did.

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

A. I will rebut several points raised by various parties in this Cause. I have reviewed the responsive testimony of the witnesses for Wal-Mart, the AARP, and the PUD Staff.

WAL-MART

Q. **Have you reviewed the testimony of Steve Chriss on behalf of Wal-Mart?**

A. Yes, I have. The primary issues to which OG&E objects is a request to increase the maximum demand charge or to include a peak period demand charge in the PL-TOU rate design. Mr. Chriss raises these points on page 8, lines 12-15 and generally pages 8-13 of his testimony. Unfortunately Mr. Chriss does not clearly differentiate his argument between production and delivery (transmission and distribution) related costs.

OG&E designed the PL-TOU rate with production related costs recovered through the time period energy costs and delivery related costs recovered through the maximum demand charge. If Mr. Chriss objects to basing the maximum demand charge on the Company's latest COS study, then I disagree. However, if Mr. Chriss is requesting that OG&E revert back to a demand-based TOU rate structure from the current energy-based TOU structure for PL-TOU customers and collect production related costs through a peak period demand charge, then I must strongly object.

Q. **Why do you object to incorporating a peak period demand charge in PL-TOU?**

A. The reason is a practical one: a peak period demand charge would result in lower peak energy prices. This scenario would potentially be less beneficial for customers who actually shift or reduce peak period usage, and would not be as effective as the current peak period energy charge structure in getting customers to engage, change behavior, and reduce usage during peak periods. In order to receive savings and be rewarded under a demand-based TOU rate, a customer cannot make a single "mistake" during the billing month. However, an energy-based TOU structure is much more forgiving and encourages customers to continue working to shift or reduce load in spite of one or more "mistakes". If a customer accidently, or of necessity, uses more electricity than expected for a 15 minute interval during the daily peak period for the billing month and establishes a new peak demand, then all peak period reduction below that new level is for naught. As shown in Charts 1 and 2, if a customer targets to use only 90 kW and then uses 150 kW for 15 minutes, the customer will lose any savings associated with usage less than 150 kW. However, under an energy-based TOU, the customer simply pays the energy price for usage during that 15 minutes and continues to be rewarded during the month for reductions during the peak period. Therefore, OG&E believes most customers who subscribe to TOU plans are better served with an energy-based TOU plan.

Chart 1

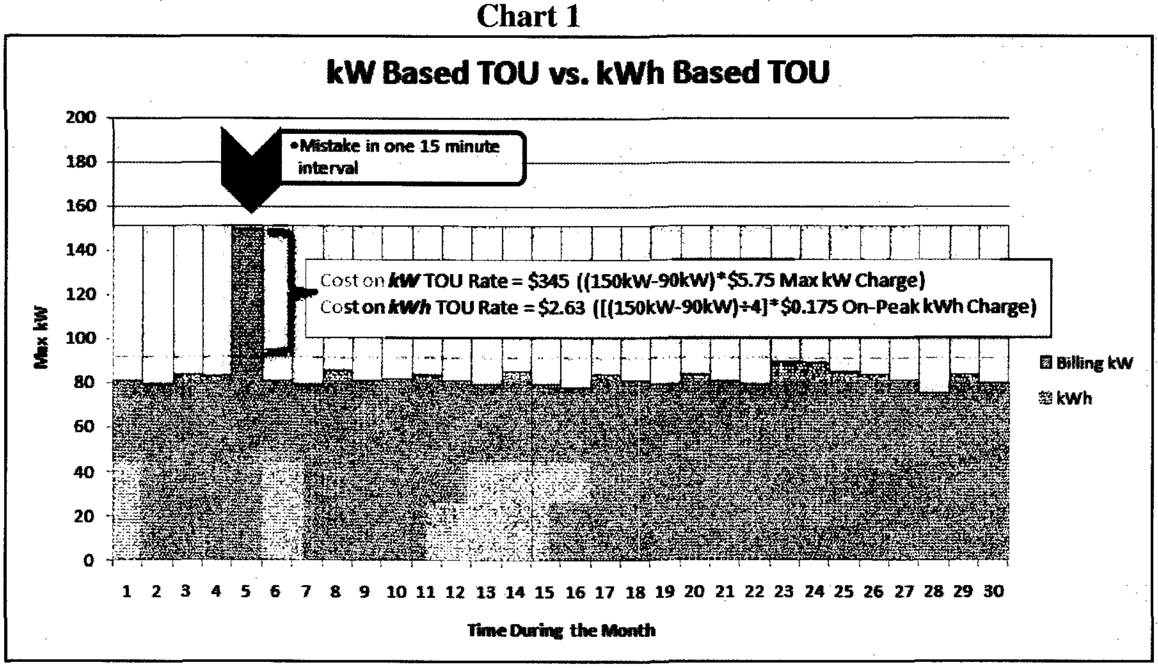
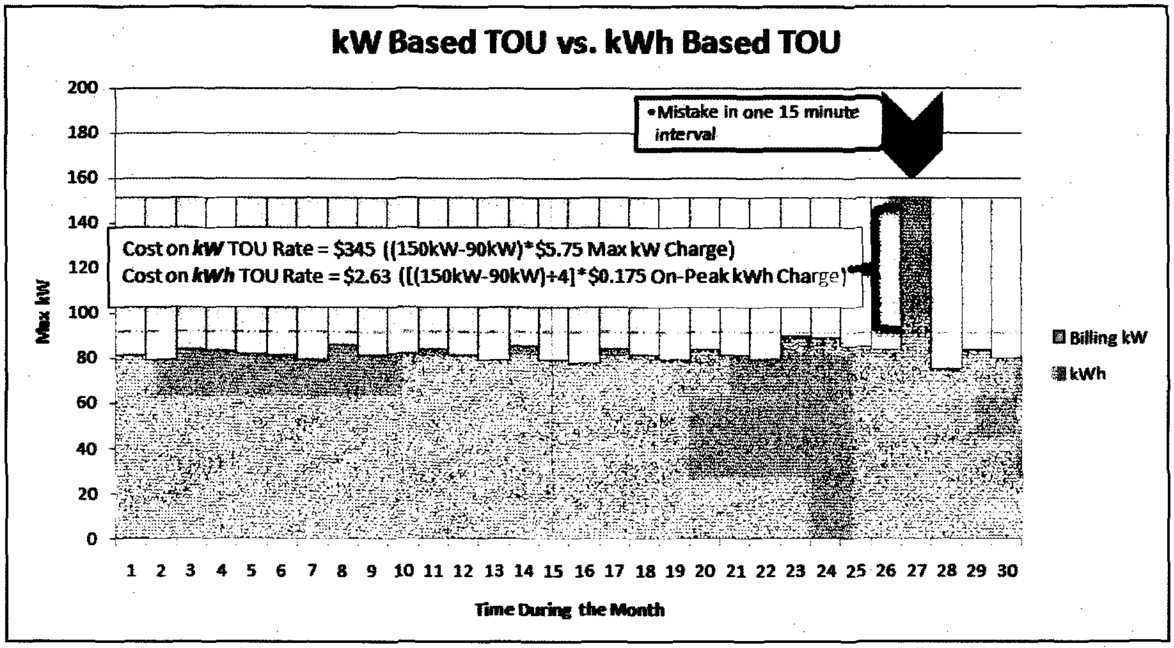


Chart 2



AARP

Q. Have you reviewed the testimonies of Barbara Alexander on behalf of AARP?

A. Yes, I have. Ms. Alexander discussed issues related to rate design and program development in her testimony filed on November 9 (BA-1) and on November 16 (BA-2). I address concerns related to Ms. Alexander's view of optional price response plans. On page 11, lines 12-14 of BA-1, Ms. Alexander raises concerns regarding the potential for customer subscription to price response plans as shown in the OG&E pricing plan research. She also requests an increase to the LIAP rider as well as an expansion of the eligibility criteria (BA-1, page 7, line 1 through page 8, line 10). Witness Tillman addresses the requested increase to the LIAP rider. The Company summarily rejects the request that it qualify additional customers for the LIAP rider. In response to data requests, Ms. Alexander acknowledges[1] she is not familiar with the Oklahoma DHS or its capabilities to support her request.

In BA-2, Ms. Alexander raises several additional points to which I specifically object. First, on page 22, lines 10-13, BA-2, she asserts that OG&E "has no plans to design or even experiment with a peak time rebate program" (PTR). Ms. Alexander objects to how OG&E is conducting its previously approved pre-pay pilot plan (BA-2, page 9, lines 1-5),

[1] See the responses to OGE 1-9 and OGE 1-10.

OG&E's Terms and Conditions of Service related to customer data privacy (BA-2, page 8, lines 2-4), and to OG&E's disconnection policy and reconnect fee (BA-2, page 28, lines 11-16).

Q. **What is PTR?**

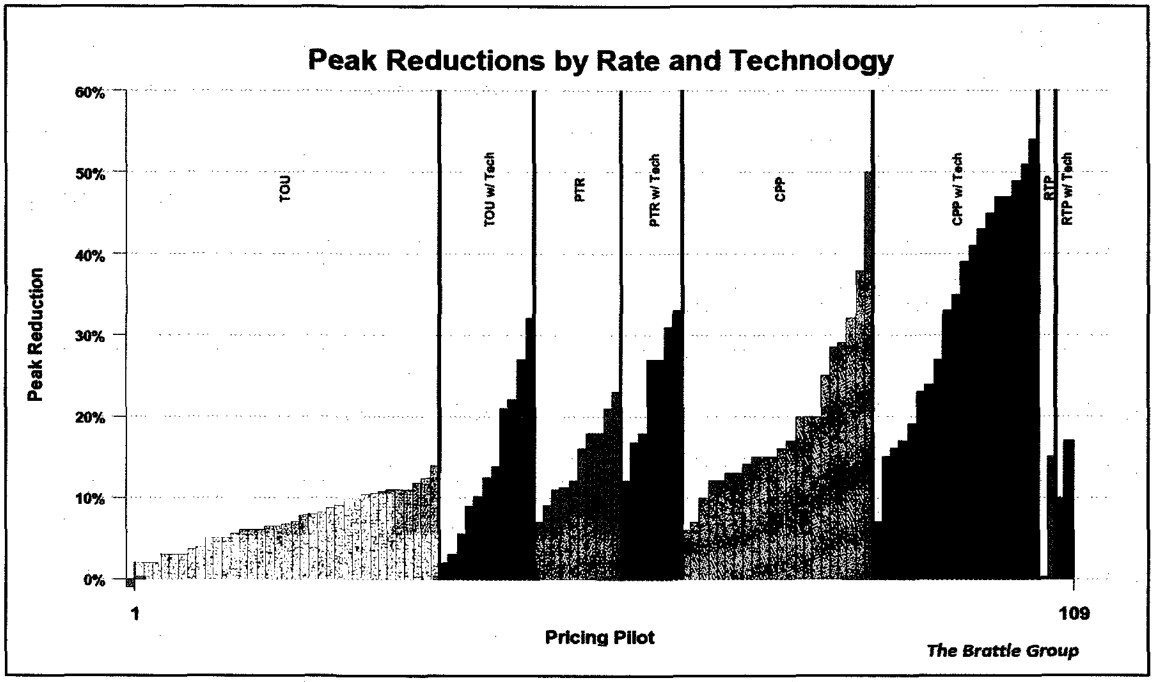
A. Although Ms. Alexander never describes a specific proposal for PTR or even defines PTR, my understanding is PTR is a voluntary rate option that seeks to incent a customer to reduce their load at the peak time by paying the customer a rebate based on their load reduction. To calculate the rebate amount, an assumed customer baseline usage must be created against which the customer's actual load is compared. The baseline is typically the customer's average usage for the previous 5 or 10 days usually for the hours for which the PTR event is called. The baseline can be a source of confusion and contention for a residential customer, since it is the basis for determining the payment amount. Because of this complexity of establishing dynamic customer specific baselines for each PTR event called, OG&E believes that a PTR program does not reduce the need for education and associated tools, but rather can increase the need.

Contrary to Ms. Alexander's assertion that OG&E rejected PTR (BA-2, page 22, lines 10-13 and page 27, lines 5-6), OG&E merely stated that it had not included PTR in the conjoint research. Likewise, OG&E has chosen to avoid direct load control (DLC) programs as OG&E prefers to provide pricing options and empower customers to make their own choices instead of directly controlling customers' equipment.

Q. **Why does OG&E prefer VPP and CPP plans instead of PTR?**

A. I have reviewed evaluations of PTR plans and determined that OG&E's VPP and CPP plans have produced better results than the PTR plans I have reviewed. OG&E's customers reduced peak load by up to 50%. OG&E's results are consistent with upper end ranges of results published by Dr. Ahmad Faruqui of the Brattle Group, a respected and nationally published consultant on utility pricing. Dr. Faruqui has surveyed and recorded results for many utilities on load response and performance of utility pricing and also documents that Critical Peak Pricing, similar to OG&E's offering, is more effective than PTR. I have attached a graphic summarizing the results reported from 109 programs from his work below as Chart 3.

Chart 3



OG&E's results from its VPP and CPP pilot programs are summarized in the report prepared by Global Energy Partners.

Q. **Please explain your concern with Ms. Alexander's implied characterization of optional pricing plans?**

A. Ms. Alexander implies that the goal of optional pricing plans is to merely provide a bill reduction to subscribers, e.g. page 12, lines 8-10 of BA-1 and response to data request OGE 1-12. OG&E agrees bill reductions are important. OG&E supports customers receiving the lowest bill to which they are entitled. Customers consumption patterns need to evolve, but not all customers will change. Those who are willing to change should be given the tools and the rewards for doing so. The role of OG&E's optional price response plans is to get customers to *change behavior* and create *cost* reductions that result in *savings for all customers*. If OG&E simply moved customers to the rate that appeared to provide the lowest annual bill based on the previous year's behavior and usage, revenue reductions occur, but demand reductions and cost reductions do not follow. It does not produce sustainable bill reductions or acknowledge customer preferences. Sustainable bill reductions can only result from cost reductions due to behavior changes, price transparency, and corresponding reductions to system peak loads.

Q. **Why are customer preferences important?**

A. With regard to customer preferences, while OG&E plans to provide the comparison Ms. Alexander suggests on its web portal[2], not all customers agree which plan is the cheapest for them. As an illustration of this point, consider that OG&E has over 50,000 subscribers to its guaranteed flat bill ("GFB") plans for residential and small commercial customers. In the recruitment materials, OG&E clearly explains to customers that their current rate can be less expensive than the GFB plan. However, these customers value price security more than the lowest price possible.

In the pricing plan research, customers revealed that they selected the GFB plan because, in part, they considered it <u>less expensive</u> than other offerings. Simply put, customers have different tastes and preferences, and, customers value different plans and plan features differently. One size simply does not fit all customers. A point of the pricing plan research was to validate this hypothesis. The chart in my direct testimony clearly shows that most customers want a plan other than the standard rate. Regardless of whether customers prefer the price security offered by GFB or want to maximize their savings through a plan such as the VPP, OG&E should offer customers a choice of plans that offer meaningful differentiations to meet the variety of customer preferences. Ms. Alexander's recommendations regarding the PTR and customer education should be ignored.

Q. **Please explain your concern with Ms. Alexander's characterization of customer education?**

A. As shown on page 5, lines 11-13 of BA-1, Ms. Alexander suggests that OG&E should "undertake routine steps utilizing existing resources to better explain its rate options to residential customers and target its enrollment efforts for time-varying rates to

[2] Ms. Alexander acknowledges she is not familiar with the web portal, <u>www.myogepower.com</u>, or its current capabilities in her response to OGE 3-1.

customers", but she does not explain how to identify them. OG&E believes its customers, given sufficient information about available choices, can make the best choice about which pricing plan is best for them. OG&E does not know which specific plan is preferred by each of its 617,425 residential customers. Customer education and empowerment is OG&E's solution.

OG&E was confronted with three basic approaches to subscribing customers to price response plans:

1. Mandate subscription: achieved by eliminating the standard rate;
2. Opt-Out: achieved by informing all customers that they will be moved to the TOU rate (or some other designated price response rate) unless they indicate a preference to remain on the existing tariff or a preference to subscribe to another optional plan; or
3. Opt-In: achieved by informing customers of the benefits of subscription to price response rates and then removing as many barriers to subscription to price response plans for customers as possible.

Each approach offers benefits and has costs...some obvious, some not. For example, each requires a significant customer education effort to inform customers of their choices or lack of choice. OG&E chose to use the Opt-In approach to recruit customers to our price response plans. OG&E believes this approach has the lowest total impact to our stakeholders. This approach, when combined with education, empowers customers to take control of their own energy costs.

Q. **Are there additional reasons why OG&E did not select either mandating or the Opt-Out subscription approach?**

A. Mandating subscription was rejected, in part, because it did not appear necessary in order to achieve OG&E's goal of achieving subscription to price response plans by 20% of its residential customers at this time. Likewise, an Opt-Out approach does not appear to have lower customer education and recruitment costs than an Opt-In approach. With Opt-Out, OG&E still has to build the plan subscription capability on its web site, inform customers of the optional plans and the benefits of each and inform customers of the need to make a selection by a certain date. OG&E would also need to increase staffing at the call center and back office billing functions to manually process the Opt-Out by approximately 69% of customers and the predictable increase in customer complaints due to having to make a choice. Although Mandating subscription or employing an Opt-Out approach may prove necessary under some circumstances, OG&E believes its selected approach to be the best at this time.

Q. **Regarding Ms. Alexander's BA-2, footnote 22 on page 20, is it true the Company accepts only an oral declaration of age from customers during enrollment in Senior Citizen discount offerings?**

A. It is true the Company initially accepts an oral declaration of age from customers with existing verified accounts. The Company verifies the customer supplied information, including date of birth, using a credit bureau validation process when accounts are initially established. The benefit of utilizing a credit bureau when establishing a customer account is the Company can be assured they are contracting for service with a customer of legal age. Since the validation of customer information is already handled in the initial application process, the Company can accurately apply the senior citizen discounts to eligible customers.

Q. **Ms. Alexander recommends that the Company be required to propose the specific parameters of the pre-paid pilot program to the Commission for review and public comment. What actions has the Company taken to work with stakeholders?**

A. OG&E filed and received approval in July of 2009 for a pre-paid service pilot in PUD 200800389. The Company presented the specific details of its pilot plan (that will affect 600 to 700 customers) at two workshops this year, on May 23rd and June 22nd, where stakeholders and public comments were welcome. The Company incorporated the feedback received from the stakeholder comments at these meetings into its planned implementation.

Q. **Do you believe OG&E has already addressed the requirement that Ms. Alexander proposed?**

A. Yes. OG&E should be permitted to conduct its pilot as it was approved in PUD 200800398. After the pilot is concluded, the Commission can review the actual results from the pilot, including reviewing the Company's recommendations for any changes to the plan or even if to advance it to a standard offering, and then make its determination regarding how the Company should proceed.

Q **Ms. Alexander has presented data that suggests that the rate of disconnects for nonpayment has increased nearly 100%. Do you agree?**

A. No, the data she presented on page 29 in her BA-2 testimony, lines 5-6, is misleading since the many smart meters originally deployed were in the Oklahoma City metro area and include a high concentration of apartment complexes and student housing where the rate of disconnection for nonpayment is typically much higher than the norm.

Q. **Do you believe that smart grid will allow the company to work more orders of non-pay disconnection than meter locations where smart grid has not been deployed?**

A. Yes. This is one of the benefits of having Smart Meters and enabling the Company's ability to reduce costs to those who pay their bills and lower overall operating expenses to perform these functions.

Q. **What is OG&E's history of disconnection for nonpayment?**

A. Chart 4 below shows the number of disconnect orders for nonpayment created vs. the number of customers actually disconnected has increased over the last 10 years. There is no obvious change in the ratio of orders created to orders disconnected since smart grid has been deployed beginning in 2010. At the same time OG&E has improved its customer engagement using better processes, systems and skilled personnel to help customers in need to meet there obligations. These improvements include:

- implementing dynamic staffing models to anticipate customers needing flexible installment plans (for up to 6 months),
- accommodating customers using a 24 hour 7 days a week automated IVR system to assist customers with installment plans,
- signing up over 5,000 customers that have life threatening issues,

- developing an innovative gift card program for social services,
- increasing company donations to social services agencies to help low income customer pay bills,
- assigning dedicated personnel to work closely with social services agencies, and
- implementing automated systems to significantly reduce the time to reconnect customers after re-payment of a customer nonpayment account made through third party vendors.

It should also be noted that during past summer, OG&E implemented a self-imposed moratorium on disconnects for non-payment because of the unusually hot summer weather and set a company record for working with customers on installment plans.

Chart 4
Nonpayment Orders Created vs. Completed

Year	Residential Non Pay Disconnect Orders Created	Residential Non Pay Disconnects Completed	Percent of Disconnect Orders Created to Orders Completed
2002	136,177	59,474	43.67%
2003	145,629	64,920	44.58%
2004	154,424	72,736	47.10%
2005	153,930	68,582	44.55%
2006	179,656	71,021	39.53%
2007	155,727	75,425	48.43%
2008	158,840	81,724	51.45%
2009	162,969	81,660	50.11%
2010	167,216	73,627	44.03%
2011*	159,178	68,145	42.81%

*2011 numbers are through 10-31-2011.

Q. Do you believe Ms. Alexander's recommendation for a Commission investigation is needed?

A. No I do not. The Company has managed its customer engagement well and is constantly striving for improving in its services offered.

Q. Do you agree that the reconnect charge should be lowered as advocated by Ms. Alexander?

A. No. OG&E chose not to update its costs at this time; instead OG&E will do so after it has fully deployed Smart Grid. Ms. Alexander may well be correct that actual reconnection costs for Smart Grid customers are lower but it is incorrect to assume that the charge of $35 should be reduced.

If the Commission decided to lower the reconnection fee, then an adjustment would need to be made to miscellaneous revenues and a corresponding increase would need to be made elsewhere to the Company's proposed rate revenues. If the $35 reconnect fee was eliminated, it would reduce revenues by $2,179,330—see miscellaneous revenues Schedule H-1-1a. I recommend the Commission make no change to the reconnection charge at this time.

PUD STAFF COMMENTS

Q. What other comments do you have at this time regarding the responsive testimonies filed by PUD Staff?

A. Pat Davis of the Commission staff made a customer pro forma adjustment for $2.6 million. The adjustment reflects the addition of load for 2 customers in March 2011 and May 2011. Mr. Davis prepared an annual pro forma adjustment to the Company's non-fuel revenues using data from the first quarter of 2011 to the fourth quarter of 2011. Mr. Davis' adjustment, in effect, has these two customers in service through December 2011. An adjustment using only actual data thru June 2011 would have been $925,000. An adjustment consistent with using actual data through September 2011 would have been $1.7 million.

Next, Nicholas Fiegel of the Commission staff raises an issue regarding the riders authorized for the Company, on pages 15 and 18 of his responsive testimony. In response, OG&E currently has 30 riders in its Oklahoma jurisdiction tariff manual, however only seven (7) of these are Company requested, project specific cost recovery riders that will remain active after this case.

Chart 5 below shows that OG&E currently collects approximately 1.2% of its revenue through these riders, which is less than the percentage collected by 12 of the sixteen utilities. I have excluded the fuel cost adjustment for all utilities to simplify the analysis. The conclusion I reach from this analysis is that concerns regarding the number of riders and the amount collected through them are without merit.

Chart 5

Typical Annual Bill - Residential using 1,000 kWh per Month
Percentage and Dollar Impact of Riders

			Riders w/o FCA	
No.	**Utility**	**Annual Bill**	**Annual Amount**	**Rider Percent of Annual Bill**
1	AEP - Ark. (SWEPCO)	$ 899.68	$ 0.24	0.04%
2	The Empire Dist.- Arkansas	$ 1,340.43	$ 2.80	0.33%
3	The Empire Dist.- Missouri	$ 1,444.84	$ 10.62	0.74%
4	AEP - Indiana Michigan Power	$ 1,006.97	$ 8.18	0.87%
5	OG&E Proposal in Current Filing	$ 1,198.90	$ 10.61	0.89%
6	OG&E	$ 1,145.83	$ 13.58	1.20%
7	The Empire Dist.- Kansas	$ 1,245.96	$ 18.32	1.53%
8	AEP - Kentucky	$ 1,199.75	$ 20.44	1.70%
9	Xcel Energy - Colorado	$ 1,159.04	$ 15.92	1.95%
10	Xcel Energy - Minnesota	$ 1,310.60	$ 21.18	2.09%
11	Westar Energy - North Area	$ 1,853.86	$ 19.72	2.18%
12	AEP - PSO Oklahoma	$ 1,021.57	$ 26.32	2.39%
13	Xcel Energy - North Dakota	$ 1,150.72	$ 21.18	2.57%
14	The Empire Dist.- Oklahoma	$ 1,020.16	$ 36.20	3.82%
15	AEP - Ohio	$ 1,388.88	$ 80.13	3.84%
16	AEP - Tennessee	$ 973.78	$ 44.90	3.84%
17	Southern Company - Gulf Power	$ 1,472.04	$ 44.12	5.15%
18	CLECO	$ 1,353.73	$ 81.18	6.02%

Source: EEI Winter 2011

Riders provide benefits to both the Company and its customers. The riders used by OG&E have true-up mechanisms—mechanisms that ensure customers pay exactly the amount that the Commission has authorized and no more. Riders, such as the Cogen Credit Rider (CCR), also provide credits to customers that would not be received if the underlying costs were included at test year levels in base rates. Riders remain a useful tool for the Commission.

OTHER REBUTTAL COMMENTS

Q. What other comments do you have at this time regarding the responsive testimonies filed by parties?

A. Mark Garrett, witness for the OIEC, makes many comments regarding the importance of load factor[3], particularly related to the value of high load factor customers and how those customers should be entitled to favorable treatment in COS and rate design (e.g. page 10, lines 13-22). Mr. Garrett fails to grasp an important fact: higher load factor customers are not necessarily less expensive to serve than many lower load factor customers. The diversity of usage of a customer class and the amount contributed to the system peak can be more important and the difference between LPL and other classes becomes smaller.

The easiest example to consider why load factor is not a comprehensive indicator of the cost to produce electricity is Lighting service. Lighting service is approximately 48% load factor as service is essentially dusk to dawn (4,200 burning hours out of 8,760 hour in a year). Yet because Lighting is completely off-peak, the cost to produce electricity for Lighting service is less than that of a high load factor customer who uses electricity across the highest cost periods–summer weekday afternoons. The key is this, for retail electric service, electricity costs vary by time of use, not by volume. This is the reason a comprehensive COS study is performed.

There is a variation of load factor that is more closely aligned with electricity supply costs—coincident peak load factor (CPLF). CPLF uses the customer's demand coincident with the system peak instead of a customer's maximum demand in the calculation. This provides a more accurate alignment of a customer's usage behavior with supply costs.

[3] Load factor is a measure of how intensely customers use electricity and can be calculated as follows: annual kWh ÷ (maximum demand in kW * 8760 hours per year). It is also sometimes calculated as average demand ÷ maximum demand.

Using this measure, LPL customers do not necessarily have the highest CPLF among customer classes.

Mr. Garrett also states on page 10, line 8, that energy usage is somewhat elastic. Mr. Garrett is confused. Electricity usage is generally classified by economists as relatively inelastic. The demand for a good is considered elastic if there is more than a 1% change in consumption given a 1% change in price. Likewise, demand for a good is considered relatively inelastic if there is less than a 1% change in consumption given a 1% change in price. Common estimates of elasticity for electric usage are in the range of -.05 to -.12 for residential customers, -.10 to -.15 for smaller commercial customers, and can range up to -.80 for a few of the most responsive industrial customers—customers with alternative generation or dual fuel capability.

These examples are provided to show that Mr. Garrett's statements do not support a comprehensive view of costing and pricing principles.

RECOMMENDATIONS

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

A. I recommend the Commission:

- approve the Company's proposed Customer Education plan and adopt the Customer Education adjustment as proposed by the Company and supported by the Commission Staff witness Karen Forbes,
- reject the changes proposed by Wal-Mart, OIEC and AARP that I have addressed,
- approve the Company's rate structures, riders, and pricing plans as proposed by the Company, and
- order the Company to adjust the price levels within each tariff to meet the final approved revenue requirement with approval by the Commission staff in the compliance tariff filing.

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

A. Yes, it does.