

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

APPLICATION OF PUBLIC SERVICE)
COMPANY OF OKLAHOMA, AN)
OKLAHOMA CORPORATION, FOR)
AN ADJUSTMENT IN ITS RATES AND)
CHARGES AND THE ELECTRIC)
SERVICE RULES, REGULATIONS AND)
CONDITIONS OF SERVICE FOR)
ELECTRIC SERVICE IN THE STATE)
OF OKLAHOMA)

CAUSE NO. PUD 201500208

FILED
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CORPORATION COMMISSION
OF OKLAHOMA

PUBLIC SERVICE COMPANY OF OKLAHOMA MOTION TO MODIFY ORDER NO. 657877

Comes now Public Service Company of Oklahoma (“PSO”) and, pursuant to OAC 165:5-17-1 requests this Commission to Modify Order No. 657877 (“the Order”).

PARTS OF THE ORDER TO BE MODIFIED

On page four of the order it states in part “. . . the Commission hereby adopts the recommendations set forth in the ALJ Initial Report issued on May 31, 2016, except as otherwise stated herein.” There are three matters contained in the ALJ report that are not discussed in the Order and are therefore adopted by the Commission that materially harm PSO or are not possible to comply with in the time frame directed by the Commission. Those matters are:

- (A) The manner that the System Reliability Rider was terminated;
- (B) Placing the environmental costs as a line item on a customer’s bill; and,
- (C) Requiring a marginal cost study in the next base rate case.

In addition to the above three matters, an additional modification is being requested to the order itself concerning:

- (D) Certain technical and timing issues regarding the implementation of the interim rate refund line item on bill.

(A) *System Reliability Rider.*

In PSO’s Exceptions To The Report And Recommendations of the Administrative Law Judge (“Exceptions”) filed June 14, 2016, PSO stated (pages 31-33) that PUD’s recommendation to end the SRR, which was adopted by the ALJ at page 153, by placing \$23.685 million in base rates, would not be revenue neutral to PSO.

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The ALJ's recommendation did not allow PSO to temporarily continue the SRR after new rates are in effect to allow PSO to collect the deferred expenditures and did not account for the system hardening capital component.

Because the Commission did not order PSO to temporarily continue the rider after new rates are in effect, ensuring the recovery of costs incurred previous to the implementation of new rates, PSO will be forced to write off approximately \$14.5 million of vegetation management and system hardening and grid resiliency operations and maintenance ("O&M") costs. As set forth in PUD Witness Mr. Bob Thompson's testimony quoted in PSO's Exceptions, a reasonable approach is to allow PSO to recover the deferred costs through the continuation of the SRR for a time period after new rates are in place. PSO requests the Commission to modify the order to allow the SRR to continue for the purpose of recovering the deferred balance.

Second, pursuant to the Commission's prior Order No. 620006 issued in Cause PUD 201300202, the SRR provides for the recovery of up to \$7.7 million of depreciation, property taxes, and return associated with system hardening and grid resiliency that will not be recovered through rates when the Commission accepted the ALJ's recommendation without modification. PSO is requesting the Commission to modify the order by allowing the system hardening capital component of the SRR to remain in the SRR rider after the deferred expenditures referred to above are recovered. PSO requests adoption of the revised SRR tariff contained in Attachment A of this motion. The recovery of the carrying costs associated with expanded system hardening and resiliency investments provides a proper incentive to move forward with the enhancements since PSO, like any company, must make capital allocation decisions because it does not have unlimited capital.

If the Commission does not allow the system hardening portion of the rider to continue then PSO requests the Commission to modify the order to add the plant-in-service contained in the SRR to PSO's rate base and adjust base rates to include the return, property taxes and depreciation so that PSO will be revenue neutral to changing cost recovery from the SRR to base rates.

(B) Line Items on Consumer Bills.

PSO's Exceptions took issue (page 36) with the ALJ's recommendation found on page 156 that "PSO should add a separate line item on the consumer's bill that shows the breakdown of costs that can be attributed to managerial decisions of the Company and those that are due to outside action." In PSO's Exceptions it was presumed the ALJ was adopting some form of the recommendation of PUD witness Schwartz to have a line item on the bill depicting cost resulting from EPA mandates. By not addressing this issue, the Order has adopted the ALJ's recommendation and ordered PSO to provide tariffs to the Director of the Public Utility Division in five business days that would depict the cost that are due to "outside action." PSO cannot comply with the Commission's Order.

The Commission's Order did not adopt an environmental compliance rider. Therefore, the cost of environmental compliance is bundled, for lack of a better term, with all other base rate costs that are recovered through usage charges that are subject to seasonal rates, inclining and declining kWh rates, load factor based rates, and combination demand and energy rates. The proposed

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environmental costs are also reflected in the cost of consumables, replacement power, fuel switches, carrying charges for NOx controls and other items.

Attempting to produce accurate information on a customer's bill as to what specific portion is a result of an EPA mandate would be, if possible, extremely difficult. Further, EPA mandates are not the only costs caused by "outside sources". The inextricably intertwined effect of management decisions and multiple outside sources means that the line item will be of little value to customers in understanding their bill. Examples of costs that would meet the definition found in the ALJ's recommendation would include regional transmission organization costs, the Regulatory Assessment Fee, state and federal taxes, property taxes, and costs from other government regulations

PSO requests the Commission modify the Order to reject the ALJ's recommendation to require dissection of a customer bill based upon if costs are incurred "due to outside action."

(C) *Marginal Cost Study.*

The Order was silent on the ALJ's recommendation (pages 155-156) that PSO be required to submit a marginal cost study in the next base rate case. PSO's Exceptions addressed this recommendation at pages 37-38.

To PSO's knowledge this commission has never approved marginal cost rates. This commission, as the vast majority of regulatory commissions across the country, sets rates based on average embedded costs using an embedded cost-of-service study. To do otherwise only adds expense and controversy to a rate case. Unless the Commission is abandoning setting PSO's revenue requirement on the book value of PSO's assets (embedded costs), a reconciliation method will be required to determine the revenue requirement which is complicated and at times controversial.

PSO would further point out that with the advent of the Southwest Power Pool Integrated Market the value of a PSO stand-alone marginal cost study is questionable.

PSO requests the Commission avoid the unnecessary expense and controversy that accompany the use of a marginal cost study when rates and the revenue requirement are based upon embedded costs, and modify the order to reject the requirement of PSO performing a marginal cost study in the next base rate case.

(D) *Certain technical and timing issues regarding the implementation of the interim rate refund line item on bill.*

On page 12 of the Order the Commission states in part "The refund shall appear as a credit on the customers' monthly billing" with the refund beginning with the first billing cycle after the order is issued. PSO is unable to comply with the order requirement to add a line item on the bill by November 29th due to the length of time required to implement the bill change. PSO requests the Commission to modify the Order by stating that "The interim rate refund line item shall be added on the bill as soon as possible but no later than February 1, 2017."

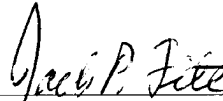
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Another difficulty is that the accounting attachments to the Order are not consistent with the revenue distribution that the Order requires PSO to use in the development of new rates.

CONCLUSION

The Commission has the authority under Okla. Const. Art. 9 Sec. 18 and 17 O.S. 152 and 153 to modify the order as requested herein to avoid PSO having to write off millions of dollars; to avoid unnecessary expenses; and to allow an orderly process to implement new rates and customer bill changes.

Respectfully submitted,



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CERTIFICATE OF SERVICE

This is to certify that a true and correct copy of the above and foregoing document was sent to the following:

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