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 201700151

RESPONSIVE RATE DESIGN TESTIMONY
OF
MARK E. GARRETT

ON BEHALF
OF
OKLAHOMA INDUSTRIAL ENERGY CONSUMERS
("OIEC")

October 3, 2017

Responsive Testimony of Mark E. Garrett
October 3, 2017
Rate Design Issues

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I. WITNESS IDENTIFICATION AND PURPOSE OF TESTIMONY

Q: PLEASE STATE YOUR NAME AND PRESENT OCCUPATION?

A: My name is Mark Garrett. I am the President of Garrett Group, LLC, a firm specializing in public utility regulation, litigation and consulting services.

Q: DID YOU PROVIDE TESTIMONY IN THE REVENUE REQUIREMENT PHASE OF THIS PROCEEDING ON SEPTEMBER 21, 2017?

A: Yes, I did. A description of my qualifications and a list of the proceedings in which I have been involved were included with that testimony.

Q: ON WHOSE BEHALF ARE YOU APPEARING IN THESE PROCEEDINGS?

A: I am appearing on behalf of Oklahoma Industrial Energy Consumers (OIEC).

Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A: The purpose of my testimony is to address certain aspects of PSO's cost of service study, rate design, and to provide the Oklahoma Corporation Commission ("Commission") with recommendations for the resolution of these issues.

II. COST OF SERVICE STUDY ISSUES

Q: DOES PSO'S FILED COST OF SERVICE STUDY PROVIDE A REASONABLE BASIS FOR ALLOCATION OF TRANSMISSION COSTS TO PSO'S CUSTOMER CLASSES?

A: No. PSO's class cost of service ("COS") study uses a 12 Coincident Peak ("12CP") methodology rather than the more appropriate 4 Coincident Peak ("4CP") methodology for allocation of its transmission costs.

Q: WHAT IS THE ISSUE WITH PSO'S COS REGARDING TRANSMISSION COST ALLOCATION?

A: PSO is attempting to relitigate an issue it just lost in its last Commission rate case, Cause No. PUD 201500208. In that case, PSO proposed a departure from its long-standing use of the 4CP methodology for transmission cost allocation, which it has used in Oklahoma since 1996, to a 12CP methodology. PSO used the same arguments in that case as it is using in this case to support its proposed change. The Commission rejected PSO's request in the last rate case, which was decided just nine months ago (in December 2016), and it should reject the request here as well. In my opinion, PSO is attempting to relitigate the decision it lost in the last case regarding transmission cost allocation without any new evidence, arguments or rationale.

Q: WHAT REASON DID PSO GIVE FOR USING THE 12CP ALLOCATION METHOD FOR ITS TRANSMISSION SYSTEM COST ALLOCATION?

A: PSO states that the 12CP is required to "synchronize the allocation of PSO's transmission-related costs with the method by which it is charged for services by the SPP."

Q: ARE THESE ARGUMENTS ANY DIFFERENT FROM THE ARGUMENTS PSO RAISED IN ITS LAST RATE CASE?

A: No. In the most recent PSO rate case, Cause No. PUD 201500208, PSO advocated for a change in its transmission cost allocation from a 4CP to a 12 CP using all of the same arguments raised in this case.

Q: DID THE COMMISSION ACCEPT PSO'S ARGUMENTS IN THAT CASE?

A: No. In Order No. 657877, the Commission specifically found that PSO's system is a summer peaking system, and that it is appropriate to use a 4CP method for transmission cost allocation. My recommendation here is consistent with the Commission's findings in PSO's last case.

Q: IS PSO'S DESIRE TO SYNCHRONIZE PSO'S RETAIL CUSTOMER COST ALLOCATIONS WITH SPP'S ALLOCATIONS A SUFFICIENT REASON TO CHANGE PSO'S LONG-STANDING TRANSMISSION COST ALLOCATION METHODOLOGY?

A: No. The change of such an important and longstanding allocation methodology should involve more than the consideration of one factor, how SPP allocates costs to PSO,

especially when that factor has no relevance to how PSO allocates transmission costs to its retail customer classes. For retail transmission cost allocation, it is necessary to synchronize the transmission cost allocation with how retail customers actually use the transmission system. The utility must also consider synchronizing the transmission price signals with the production cost price signals the utility sends its customers. These synchronizations are far more meaningful from a cost allocation perspective than the SPP's transmission charges to PSO, which are not a relevant factor for choosing a retail cost allocation methodology.

Q: HOW DO RETAIL CUSTOMERS USE THE PSO TRANSMISSION SYSTEM?

A: PSO's load data, set forth at *Exhibit MG-RD-1*, demonstrates that PSO is clearly a summer peaking system for retail load. This is the reason both PSO's production costs and its transmission costs have historically been allocated using a 4CP allocation methodology. Electricity transmission demand on PSO's system in the Spring and Fall months are much lower and not relevant in determining the amount of capacity needed for PSO to provide reliable service.

Q: ARE THERE OTHER FACTORS THAT PSO FAILED TO CONSIDER BEFORE CHANGING TO A 12CP METHODOLOGY?

A: Yes. PSO failed to consider that changing to a 12CP methodology will skew price signals. PSO's industrial tariffs include a demand charge ratchet that is based on the customers' 4 peak months use, rather than customers'12 peak months use. In effect, the

change to a 12CP allocation would penalize industrial customers for responding to PSO's price signals. With a four-month peak season determined ratchet, PSO was and is currently sending a price signal for industrial customers to reduce or manage industrial use during the peak season and period. To the extent that industrial customers responded to these signals and shifted or managed load to reduce their peak demand during those periods, the 12 CP allocation has the effect of penalizing industrial customers for such responses.

Q: DO YOU VIEW THIS AS AN INCONSISTENCY IN PSO'S POSITION?

Yes. PSO claims to be concerned with synchronizing its retail transmission cost allocations with its SPP charges, which serves no valid pricing purpose. On the other hand, PSO is not concerned with synchronizing its retail transmission cost allocation with its overall rate structure, with serves a very compelling pricing purpose. If the industrial customers' rates are going to continue to be based in large part on the customers' four peak months' use, the only reasonable approach is to continue using the 4CP allocation methodology.

Q: WHAT ALLOCATION METHODOLOGY DOES OG&E USE FOR TRANSMISSION COST ALLOCATION IN OKLAHOMA?

A: OG&E uses a 4CP allocation for allocating transmission costs in Oklahoma as this methodology best reflects retail customers' use of the transmission system.

Q: WHAT METHODOLOGY DOES THE TEXAS PUBLIC UTILITY COMMISSION USE TO ALLOCATE TRANSMISSION COSTS?

A: The Texas PUC has a long-standing precedent of using a 4CP allocation for transmission costs.[1] In fact, PSO's sister utility in Texas, SWEPCO, has tried in its last two rate cases to change from a 4CP method to a 12CP method, making the same arguments PSO has made in this case. The Texas PUC rejected the Company's first attempt and in SWEPCO's pending Texas PUC rate case proceeding the ALJ's have recommended rejection of the Company's second attempt. In SWEPCO's pending Texas PUC rate case, Docket No. 46449, the ALJs' Proposal for Decision states the following:

> SWEPCO's arguments on the question of replacing the Commission's historically-approved A&E/4CP methodology with the 12CP methodology it proposed here and in its last rate case, Docket No. 40443, brings to mind the old adage that "you can't hit a home run unless you come to the plate." While SWEPCO may be applauded by some for continuing to advocate a method it believes best fits its system (particularly with reference to the manner in which SPP allocates transmission costs), it is also true that, as TIEC states, "if there is one constant in Commission ratemaking, it is the use of the A&E/4CP methodology for the class allocation of both production and transmission costs." The ALJs concur with TIEC.

Q: APRART FROM FOLLOWING SOUND RATEMAKING PRINCIPLES, ARE THERE REASONS FROM A POLICY PERSPECTIVE THAT THE COMMISSION SHOULD CONTINUE TO USE A 4CP TO ALLOCATE TRAMSISSION COSTS?

A: Yes. If the other large electric utilities in Oklahoma and Texas allocate transmission costs using a 4CP allocation, PSO's manufacturing customers will be put at a

1 Texas uses an Average and Excess 4 CP which gives virtually the same results as a straight 4CP.

competitive disadvantage compared to the manufacturing customers on these other systems if PSO is allowed to use a 12CP to allocate its transmission costs.

Q: WILL CONTINUING TO USE A 4CP ALLOCATION FOR TRANSMISSION COSTS IMPACT PSO'S EARNINGS IN ANY WAY?

A: In the short-run, no. The allocation of transmission costs among the customer classes, whether it be with a 4 CP or 12 CP, has no impact on the utility's overall revenue requirement. The allocation methodology merely sets forth which customers pay for these costs and to what extent. In the long run, however, PSO's attempts to move to a 12 CP methodology to push more costs onto its industrial base are short-sighted and ill-conceived. Over time, these attempts, if successful, will tend to drive industrial load off the system, leaving higher fixed costs behind for residential and commercial customers to absorb.

Q: WHAT DO YOU RECOMMEND WITH RESPECT TO THE COMPANY'S REQUEST TO CHANGE ITS TRANSMISSION COST ALLOCATION TO A 12CP METHOD?

A: I recommend that the Commission reject PSO's proposed change to the 12CP and instead, authorize PSO's continued use of the 4CP methodology for transmission cost allocation. The 4CP method should apply to both SPP transmission cost recovered from retail customers as well as to the cost of transmission assets and related costs under the ownership and control of PSO.

III. RATE DESIGN ISSUES

Q: DO YOU HAVE RECOMMENDATIONS REGARDING PSO'S PROPOSED RATE DESIGN CHANGES FOR THE INDUSTRIAL CLASSES?

A: Yes. PSO has recommended numerous increases to customer charges, demand charges and nonfuel energy charges for the industrial classes. In my opinion, the current customer charges and nonfuel energy charges are sufficient, and should remain at their current levels. Therefore, the method I recommend to implement any change needed to meet the class assigned revenue requirement is to change the rate components to the industrial classes using an equal across-the-board change to the "demand charges" applied as needed to achieve the revenue requirement assigned to each specific Industrial class. (SL1, SL2, SL3).

Q: IS PSO'S PROPOSED RATE ALLOCATION TO THE CLASSES ACCEPTABLE FROM A RATEMAKING PERSPECTIVE?

A: No. PSO's proposed rate design would inappropriately increase the rates for the large industrial customer classes. According to Ms. Jackson's testimony at Exhibit JLJ-1, PSO's rate design would increase the SL1, SL2 and SL3 overall rates by 4.61%, 9.05% and 9.36% respectively. My analysis, coupled with my recommended revenue requirement, reveals that the rates for the SL1, SL2 and SL3 customers should not be increased anywhere close to the amount suggested by PSO.

Q: IS PSO'S PROPOSED RATE ALLOCATION TO THE INDUSTRIAL CLASSES ACCEPTABLE FROM A POLICY PERSPECTIVE?

A: No. PSO's proposed increase for SL1, SL2 and SL3 customers could adversly impact the manufacturing industry in Oklahoma, if implemented.

Q: HAVE YOU PREPARED A SCHEDULE THAT SHOWS THE RESULTS OF YOUR RECOMMEDATIONS ON THE VARIOUS RATE CLASSES USING PSO'S COST OF SERVICE STUDY WITH A 4CP ALLOCATION OF TRANSMISSION COSTS?

A: Yes. Attached to this testimony as *Exhibit MG-RD-2* is a schedule that shows the results of OIEC's recommended revenue requirement in this case using PSO's cost of service study revised to include a 4CP allocation of transmission costs.

Q: DID OTHER PARTIES IN THE CASE RECOMMEND LOWER REVENUE REQUIREMENTS THAN THE REVENUE REQUIREMENT SOUGHT BY PSO?

A: Yes. Along with OIEC, the Attorney General and Staff both filed testimony recommending lower revenue requirements than the revenue requirement requested by PSO.

Q: DO YOU RECOMMEND TAKING ALL OF THE CLASSES TO COST OF SERVICE BASED UPON YOUR CORRECTED COST OF SERVICE STUDY?

A: Yes, using the revenue requirement I have recommended, all classes should receive cost of service based rates as set forth in the attached Exhibit MG-RD-2.

VI. CONCLUSION

Q: DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?

A: Yes, it does.

Exhibit MG-RD-1

OIEC COINCIDENT PEAK CALCULATIONS

PSO Rate Case Cause No. PUD 201700151

Test Year Ended December 31, 2016

Source: PSO WPL-13 Load Research

Month	Demand	Average
January	674,928	-12.87%
February	689,322	-11.01%
March	705,420	-8.93%
April	764,439	-1.31%
May	775,437	0.11%
June	860,107	11.04%
July	836,210	7.96%
August	830,306	7.19%
September	864,866	11.65%
October	813,804	5.06%
November	793,599	2.45%
December	686,616	-11.36%
Average	774,588	0.00%

Exhibit MG-RD-2

OIEC REVENUE DISTRIBUTION CALCULATIONS

PSO Rate Case Cause No. PUD 201700151

Test Year Ended December 31, 2016

OIEC Schedule M-1

Customer Group	Present Non Fuel Revenue	OIEC Proposed Non Fuel Revenue	Present FCA Revenues	Proposed FCA Revenues	Present Total Revenue	Proposed Total Revenue	Dollar Difference	Percent Difference
Residential								
LURS	$1,609,657	1,738,771	520,612	$520,612	$2,130,269	$2,259,384	$129,114	6.06%
RS	298,078,427	326,613,106	172,135,753	$172,135,753	$470,214,179	$498,748,858	$28,534,679	6.07%
RS TOD	6,702,406	7,343,937	3,866,836	3,866,836	$10,569,242	$11,210,773	$641,531	6.07%
Total RS	$306,390,490	$335,695,814	$176,523,201	$176,523,201	$482,913,691	$512,219,015	$29,305,324	6.07%
Commercial								
LUGS	$51,665,978	54,085,729	29,995,474	$29,995,474	$81,661,452	$84,081,202	$2,419,751	2.96%
GS5	$97,397,996	105,778,991	80,534,126	$80,534,126	$177,932,123	$186,313,118	$8,380,995	4.71%
PL	$35,964,280	39,058,850	39,756,937	$39,756,937	$75,721,217	$78,815,787	$3,094,570	4.09%
PND	$740,046	804,032	546,242	546,242	$1,286,288	$1,350,274	$63,986	4.97%
MS	709,696	680,774	457,045	457,045	$1,166,742	$1,137,819	($28,922)	-2.48%
MP	283,406	305,112	309,651	309,651	$593,056	$614,763	$21,707	3.66%
Commercial Total	$186,761,402	$200,713,489	$151,599,475	$151,599,475	$338,360,877	$352,312,964	$13,952,087	4.12%
Lighting								
GSL	$16,163	17,407	9,922	$9,922	$26,085	$27,329	$1,244	4.77%
OL	650,634	700,548	574,253	574,253	$1,224,887	$1,274,800	$49,913	4.07%
SL/NR	9,670,731	10,413,931	2,050,654	2,050,654	$11,721,385	$12,464,585	$743,199	6.34%
TS	64,324	69,231	47,560	47,560	$111,885	$116,791	$4,907	4.39%
MSL	1,716,405	1,848,442	1,466,811	1,466,811	$3,183,216	$3,315,253	$132,037	4.15%
Total Lighting	$12,118,258	$13,049,558	$4,149,200	$4,149,200	$16,267,458	$17,198,758	$931,301	5.72%
Industrial								
LPL 3 Total	$44,093,113	47,928,514	48,997,760	$48,997,760	$93,090,873	$96,926,275	$3,835,402	4.12%
LPL 2 Total	38,499,414	42,243,328	65,145,679	65,145,679	$103,645,093	$107,389,007	$3,743,914	3.61%
LPL 1 Total	9,944,222	10,458,469	19,090,222	19,090,222	$29,034,444	$29,548,691	$514,247	1.77%
Total Industrial	$92,536,749	$100,630,311	$133,233,661	$133,233,661	$225,770,410	$233,863,972	$8,093,563	3.58%
Total Retail	**$597,806,898**	**$650,089,172**	**$465,505,537**	**$465,505,537**	**$1,063,312,435**	**$1,115,594,709**	$52,282,274	4.92%