

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)

Direct Testimony

of

Adam W. Bigknife

on behalf of

Oklahoma Gas and Electric Company

July 28, 2011

Adam Bigknife
Direct Testimony

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

2 A. My name is Adam Bigknife. My business address is 321 North Harvey, Oklahoma City,
3 Oklahoma 73102. I am a Senior Pricing Analyst in the Regulatory Department for
4 Oklahoma Gas and Electric Company (“OG&E” or “Company”). My responsibilities in
5 this position include Minimum Filing Requirements preparation, assisting with rate
6 design, and assisting with pricing strategy.

7
8 Q. **Would you please summarize your education and professional background?**

9 A. I hold an Associate of Applied Science degree in Management from Oklahoma State
10 University in Oklahoma City, a Bachelor of Science degree in Business Administration
11 from Southern Nazarene University, and a Masters in Business Administration degree
12 from Southern Nazarene University. I began working in the OG&E Customer Care Call
13 Center in 2002 where I fielded credit and collection calls. In 2004, I moved to the New
14 Construction Department where I acted as a liaison between the various parties involved
15 in the new construction process. In 2008, I transferred into the Rates Department and
16 have assisted in the preparation and filings of Oklahoma and Arkansas general rate
17 reviews.

18
19 Q. **Have you previously filed testimony before the Oklahoma Corporation Commission
20 (the “Commission” or “OCC”)?**

21 A. No, I have not.

22
23 Q. **What is the purpose of your direct testimony?**

24 A. I sponsor the pro forma revenue and sales adjustments to Schedule H.

1 Q. **Please list the pro forma adjustments shown on Section H, Schedule H-2 that you**
2 **are sponsoring.**

3 A. There are fifteen pro forma adjustments affecting the Oklahoma jurisdiction that I am
4 sponsoring. They are:

- 5 • Adjustment #1 Unbilled Revenue and Over/Under Recovery Amounts;
- 6 • Adjustment #2 Reestablishing of Special Contracts;
- 7 • Adjustment #3 Day-Ahead Pricing (“DAP”);
- 8 • Adjustment #4 Year End Customer;
- 9 • Adjustment #5 SO₂ Sales;
- 10 • Adjustment #6 Manual Postings;
- 11 • Adjustment #7 Curtailment and Interruptible Subscription Payments;
- 12 • Adjustment #8 Riders;
- 13 • Adjustment #9 Time-of-Use Best Bill Provision;
- 14 • Adjustment #10 Renewable Energy Certificates;
- 15 • Adjustment #11 Demand Program Rider Savings;
- 16 • Adjustment #12 Removal of Fuel Cost Adjustment (“FCA”);
- 17 • Adjustment #13 Weather Normalization;
- 18 • Adjustment #14 Projection of Fuel Cost Adjustment; and,
- 19 • Adjustment #15 Municipal Free Service Surcharge and LIAP Surcharge.

20
21 Q. **Why is the Company proposing these adjustments?**

22 A. These adjustments are necessary to accurately normalize revenues and kilowatt hour sales
23 for OG&E’s Oklahoma customer groups. Normalizing test-year financial data provides
24 the basis for rate design by removing any non-recurring or atypical events that may have
25 occurred during the test year and provides a proper foundation for establishing cost-based
26 rates. The resulting Oklahoma retail electric normalized revenues and kWh sales are
27 utilized to design fair and reasonable rates to recover the allocated cost of service.

1 Q. **Please describe Adjustment #1 related to Unbilled Revenue and Over/Under**
2 **Recovery Amounts.**

3 A. This adjustment has two parts. The first is the removal of unbilled revenue and kWh
4 which results in a revenue increase of \$300,000 and an increase of 28,073,211 kWh. The
5 second is the removal of over or under-recovery of fuel revenue and rider collections
6 decreasing revenue by \$152,908,634. The net of the revenue adjustments result in a
7 decrease of \$152,608,634 to the Oklahoma jurisdiction.

8

9 Q. **Why is removal of unbilled revenue and kWh sales necessary?**

10 A. The unbilled revenue and kWh book balances are accounting entries that allow billing
11 cycle books to be aligned with calendar month books. Since these entries are not
12 representative of actual sales it is necessary to remove the entries to ensure rate design is
13 performed on the actual billing units and revenues that occurred in the billing cycle test
14 year.

15

16 Q. **Please explain why it is necessary to remove the over/under recovery of fuel expense**
17 **revenue and rider collections.**

18 A. The over/under fuel revenue recovery book balance includes accounting entries that track
19 historical billed fuel cost adjustment revenues based on projections versus actual fuel
20 expense. Since historical test year over/under fuel revenue is irrelevant to future period
21 costs they are removed. It should be noted that the Projection of Fuel Cost Adjustment #
22 14 later adds back revenues based on projected fuel expense. In addition, the rider
23 collections over/under recoveries reflect accounting entries that track historical rider
24 revenue balances versus actual annual revenue requirements. Since rider adjustments to
25 the test year should be made based on actual revenues these entries must also be
26 removed.

27

28 Q. **Please explain Adjustment #2 – Reestablishing of Special Contracts.**

29 A. This adjustment removes Special Contract B and C's customer count, revenues, and kWh
30 sales from special contract rate classes in the Company's book records and establishes
31 them for cost of service study purposes at their yearend levels as separate classes grouped

1 with what would be their applicable class, if not contracted at their special rate. This
2 adjustment results in a net revenue increase of \$66,308 and an increase of 1,766,338
3 kWh.

4
5 **Q. Please explain why this is necessary.**

6 A. Special Contract rates are not impacted by changes in base rate design during general rate
7 proceedings but instead revised upon expiration or renegotiation of the specific contract.
8 Although the contract rates do not change during a general rate proceeding they are still
9 assigned the appropriate level of costs during the Cost of Service Study (“COSS”)
10 allocation. The revenue and expense is then reassigned to the class and service level the
11 customers would otherwise participate in if not operating under a special contract. This
12 process ensures full recovery of the entire revenue requirement.

13
14 **Q. What is the adjustment made to the Day-Ahead Pricing?**

15 A. Adjustment #3 removes all book revenue, kWh, and kW associated with the Day-Ahead
16 Pricing (“DAP”) tariff participants. Customer Baseline Load (“CBL”) kWh, kW, and
17 revenue are then added back at the appropriate levels. This adjustment results in the
18 removal of incremental and decremental sales, revenue for riders and Fuel Cost
19 Adjustment (“FCA”) which produces a net revenue decrease of \$272,350 and an energy
20 decrease of 30,007,185 kWh to the Oklahoma jurisdiction.

21
22 **Q. Why is this adjustment appropriate?**

23 A. The costs associated with incremental and decremental kWh are based upon current
24 system marginal costs and are therefore unrelated to embedded costs. In contrast, the
25 CBL portion of the DAP billings is based upon standard rates and should be included in
26 the COSS and base rate design.

27
28 **Q. What is the purpose of Adjustment #4 – Year End Customers?**

29 A. This adjustment modifies revenue, kWh, kW, and customer counts for customers that
30 have either left the system, are new to the system, migrated to another rate, or were re-
31 billed, by adjusting to usage levels based on test year end customer counts. The

1 adjustment results in a revenue increase of \$9,148,607 and an increase of 64,362,061
2 kWh to the Oklahoma jurisdiction.

3
4 **Q. Please explain why this adjustment is necessary.**

5 A. Customer and consumption volumes vary month-to-month in the book records during the
6 test year. Adjusting test year books to reflect customer and consumption levels at year-
7 end captures any growth or decline in customer counts and consumption levels.

8
9 **Q. Please describe the SO₂ sales adjustment?**

10 A. Adjustment #5 removes the proceeds from sales of SO₂ credits. This results in a revenue
11 decrease of \$1,996,615.

12
13 **Q. Why is this adjustment necessary?**

14 A. The Joint Stipulation and Settlement Agreement in Cause No. PUD 200800215, adopted
15 by the Commission in Order No. 558445, authorizes the Company to retain the first
16 \$3,373,739 of the Oklahoma jurisdictional portion of the sales of excess SO₂ allowances
17 during the sale period from the order date of August 22, 2008 to June 30, 2010. Since the
18 sales booked in the test year occurred prior to June 30, 2010 and the Company has not
19 sold excess SO₂ allowances that exceed the \$3,373,739 threshold, the test year sales were
20 removed.

21
22 **Q. What are Manual Postings?**

23 A. Manual postings are revenue credits entered into the billing system for non-typical
24 customer specific issues. Some of these postings are for occurrences such as customer
25 refunds for burned out security lights that were not repaired for an extended time and
26 billing was not temporarily halted. These postings are manual revenue entries and do not
27 correspond to an equivalent billing determinate adjustment. For the test year, this results
28 in a revenue increase of \$44,631 to the Oklahoma jurisdiction.

1 Q. **Why is this adjustment required?**

2 A. Since these credits are not considered an ongoing occurrence, Adjustment #6 removes the
3 postings to reflect normal revenue levels.
4

5 Q. **What are Curtailment and Interruptible Subscription Payments?**

6 A. Until April 2010 the Company offered Curtailment and Interruptible programs in which
7 customers could elect to participate. One feature of the programs required the Company
8 to pay customers for the right to request they curtail their usage in times of system
9 constraint. These payments are considered subscription payments.
10

11 Q. **What adjustment is the Company proposing for Curtailment and Interruptible
12 Subscription Payments?**

13 A. The Company proposes to remove the Curtailment and Interruptible payments booked
14 into revenue. This results in a revenue increase of \$889,930.
15

16 Q. **Why is this adjustment required?**

17 A. The Curtailment and Interruptible programs ended in March 2011 when the new Load
18 Reduction rider was implemented. The Company recovers the Curtailment and
19 Interruptible payments through the FCA so it is necessary to remove these revenues from
20 the Company's books for rate making purposes.
21

22 Q. **Please explain Adjustment #8 – Riders.**

23 A. This adjustment modifies book revenues and credits for riders that: i) do not have
24 expenses or plant included in base rates; ii) have plant in base rates at different levels
25 than revenues in the test year; or iii) are pass-through mechanisms. These adjustments
26 reduce test year revenues by \$53,142,260.
27

28 Q. **Please explain why it is necessary to remove the revenue for riders that do not have
29 expenses or plant included in base rates.**

30 A. These riders have their own revenue recovery mechanism for those expenses or plant.
31 Since the associated investment and expenses have not been included in the COSS, the

1 rider revenues must be removed. The riders this portion of the adjustment pertains to are
2 the Storm Cost Recovery Rider, Demand Program Rider, System Hardening Program
3 Rider, Smart Grid Rider, Smart Power Rider, and the Green Power Wind Rider.
4

5 **Q. Please explain why it is necessary to ensure that revenues are adjusted for riders**
6 **that have plant or expenses in the cost of service study at different levels than test**
7 **year revenues.**

8 A. Pro forma base rate rider revenues should align with annual revenue requirements to
9 ensure there is not a mismatch between costs and revenue. A mismatch would cause the
10 deficiency to be over or under stated. These riders include the OU Spirit Rider, Security
11 Rider, Cogen Credit Rider, and the Renewable Transmission Surcharge component of the
12 Renewable Transmission Systems Additions (“RTSA”) rider.
13

14 **Q. Please explain why it is necessary to remove riders that are pass-through**
15 **mechanisms.**

16 A. Generally, pass-through mechanisms are designed to collect revenue from one source and
17 distribute to another. Since the expenses associated with the revenues are borne by
18 customers instead of the Company, the expenses and revenues must be eliminated from
19 base rates. This adjustment prevents base rates from recovering revenues that will be
20 recovered through other rider charges. The riders this adjustment impacts are the Rider
21 for Annual Public Utilities Assessment Fee, Military Base Tariff Credit, Economic
22 Incentive Credit Rider, Southwestern Power Pool Transmission Revenues component of
23 the RTSA, Transmission Service Revenue Credits component of the RTSA, Green Power
24 Wind Rider Revenue component of the RTSA, New Renewable Energy Credits
25 component of the RTSA, Special Contract Renewable Energy Certificate Sales, and
26 Renewable Energy Program.
27

28 **Q. What is the purpose of the adjustment for the Time of Use (“TOU”) Best Bill**
29 **Provision?**

30 A. This adjustment removes booked credits from billed revenue associated with the best bill
31 provision of various time-differentiated rate schedules. The TOU, Variable Peak Pricing

1 (“VPP”), and Critical Peak Pricing (“CPP”) tariffs all have a one year best bill provision
2 that guarantees participating customers be billed at either the time-differentiated rates as
3 set forth in the enrolled tariff or at their previous tariff depending on which billing is in
4 favor of the customer. The provision provides for the credit to be applied after one full
5 year of participation in the elected tariff if their previous tariff would have been less over
6 the entire year’s billings. This adjustment increases the test year revenues by \$33,142.

7
8 **Q. Please explain why this adjustment is necessary.**

9 A. Order No. 569281 issued in Cause No. PUD 200800398 required that all existing time-
10 differentiated customers be allowed an additional year of best billing protection. This
11 additional year began in November of 2009 and ended in October of 2010. In addition,
12 the Smart Grid Best Bill Exception Rider allowed for a credit in October 2010 for Smart
13 Grid Demand Response study participants enrolled in the TOU, VPP, and CPP rates.
14 Since OG&E anticipates these customers will remain enrolled in their current time-
15 differentiated rate schedules, the credits are being removed to ensure the remaining billed
16 revenue aligns with book billing units.

17
18 **Q. Please explain the adjustment to remove Renewable Energy Certificate (“REC”)
19 revenue.**

20 A. This adjustment removes revenues booked as a result of REC sales from various wind
21 resources to customers during the test year. The proceeds from these sales are booked
22 into miscellaneous revenue each month and are then credited through rider mechanisms or
23 retained by shareholders in accordance with the order in each respective wind resource
24 case. For the test year, this results in a revenue decrease of \$1,382,305.

25
26 **Q. What is the adjustment related to the Demand Program Rider and explain why it is
27 necessary?**

28 A. This adjustment decreases energy, demand, and revenue to account for lost sales resulting
29 from energy efficiency measures implemented through the Demand Program Rider
30 during the test year. Since energy saved by customers implementing energy efficiency
31 measures is cumulative and changes every month when new measures are implemented,

1 it is necessary to adjust each month of the test year to December 2010 levels. Decreasing
2 January 2010 through November 2010 to the savings recognized at test year end allows
3 revenue, energy, and demand to be representative of the expected levels of sales that
4 would have occurred during the test year. This adjustment results in a revenue decrease
5 of \$1,849,077 and a decrease of 29,723,116 kWh. OG&E witness Greg Tillman's direct
6 testimony explains the recommended treatment to account for lost sales between the test
7 year end and new rates being implemented as a result of this case.

8
9 **Q. What is OG&E proposing in Adjustment #12?**

10 A. Adjustment #12 removes billed FCA revenue. This adjustment increases test year
11 revenue by \$108,185,290. It should be noted that after the weather normalization and
12 year-end customer adjustments are completed, FCA revenues are added back for COSS
13 and Proof of Revenue (POR) purposes.

14
15 **Q. Please explain why Adjustment #12 is required.**

16 A. Because of the fluctuating nature of fuel costs, historical billed fuel revenues are not
17 representative of an on-going level of fuel cost to customers. Removing historical billed
18 fuel allows fuel levels for future periods to be added in order to more closely align fuel
19 levels with future projections. For example the 2010 test year included a significant level
20 of fuel cost refund. However, when new rates are implemented, as a result of this case,
21 fuel is projected to no longer include a refund.

22
23 **Q. What is a weather normalization adjustment?**

24 A. A weather normalization adjustment changes revenue, energy, and demand to reflect
25 normal weather in the test year. In this case this adjustment results in a revenue decrease
26 of \$46,876,441 and a decrease of 601,573,931 kWh or approximately 2.57 percent to the
27 Oklahoma jurisdiction.

1 Q. **Why are such adjustments necessary?**

2 A. The effects temperature has on heating and cooling loads in relation to electricity usage
3 can cause significant annual revenue swings and cause test year revenue to differ from
4 the expected revenue outcome for a normal year.

5

6 Q. **Please discuss the adjustment for FCA projections.**

7 A. Adjustment # 14 re-establishes FCA revenues to reflect pro forma kWh adjustments
8 made in schedule H-2 and the expected fuel cost levels for 2012. This adjustment
9 increases the test year revenues by \$16,228,577.

10

11 Q. **Why is it appropriate to make this adjustment?**

12 A. Having projected fuel revenues included in the COSS allows total revenues to be
13 representative of a level expected when rates from this cause become effective. In
14 addition having the projected fuel levels included in the POR allows total bill impacts to
15 be representative of what the customer can expect to experience upon implementation of
16 new rates.

17

18 Q. **Please explain the adjustment for Municipal Free Service Surcharge and Low
19 Income Assistance Program (“LIAP”) Surcharge.**

20 A. This adjustment distributes surcharges to recover credits associated with the granting of
21 free municipal lighting service as part of certain franchise agreements and the credits
22 low-income Residential customers receive through the LIAP rider. The surcharges are
23 applicable to all classes except lighting and special contracts. This adjustment decreases
24 the test year revenue by \$4,303,591.

25

26 Q. **Why is the Municipal Lighting portion of this adjustment proper?**

27 A. Book revenues and billing units in the Municipal Lighting class do not include portions
28 associated with the granting of free service to certain municipalities. Since these portions
29 are not included, it is necessary to add the missing fixtures, kWh, and revenue into the
30 lighting class to ensure proper rate design and COSS assignment. The adding of these
31 revenues and billing units can be seen in adjustment H-2-4a where the book portions are

1 removed and total year-end levels are added back including the free service portions. If
2 the revenues were not added, the Municipal Lighting class would show deficient that
3 level of revenue, and, all other Municipal Lighting customers would solely be responsible
4 to pay for it. In order to recover the revenue recognized but not received by the Company
5 the other specified classes are assessed a surcharge equal to the amount of revenue added.
6 This process spreads the cost of free service to the other Oklahoma retail customers.

7
8 **Q. Why is the LIAP portion of this adjustment proper?**

9 A. Eligible low-income customers receive a \$10 credit each month that decreases book
10 revenues. The recovery of the credit granted to these customers is distributed amongst the
11 other retail customer classes to ensure the Residential class does not solely bear the cost
12 associated with providing this credit.

13
14 **Q. Please summarize the total pro forma revenue adjustments you are recommending?**

15 A. The total test year Oklahoma book revenue of \$1,830,912,826 has been reduced by the
16 adjustments I have discussed above by the amount of \$127,834,788 resulting in adjusted
17 Oklahoma base revenue of \$1,703,078,038¹. The supporting calculations and
18 spreadsheets for the above pro forma adjustments are found in Schedule H-2 of the
19 Company's application.

20
21 **Q. Does this conclude your direct testimony?**

22 A. Yes.

¹ Schedule OKREV of the Company's application.