

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR AN ORDER OF THE COMMISSION)
AUTHORIZING APPLICANT TO MODIFY ITS)
RATES, CHARGES, AND TARIFFS FOR RETAIL)
ELECTRIC SERVICE IN OF OKLAHOMA)

CAUSE NO. PUD 201500273

OKLAHOMA SUSTAINABILITY NETWORK STATEMENT OF POSITION

COMES NOW Oklahoma Sustainability Network (OSN), by and through its undersigned counsel, and hereby provides the Commission its Statement of Position on OG&E's request to add a demand charge to its default standard residential tariff and to double its monthly fixed customer charge.

OSN appreciates this opportunity to provide comments on OG&E's proposed changes in rate design. OSN has given careful consideration to the new demand charge, the much higher mandatory monthly customer charge, and the reduced value for kilowatt hours. Our primary concern is with the ability of customers to respond to these changes, and the likely impacts on ratepayer energy efficiency (EE) investments. OSN has an established history of encouraging and supporting OG&E's successful and growing EE programs. We note that these programs for 2013-2015 reduced system demand by 71 MW and saved 221 million kWh.¹ For 2016-2018 the savings are expected to reach an additional 90.5 MW and 285 million kWh, producing \$103 million of expected net benefits.²

Over the last six years, often with the assistance of energy efficiency program rebates, tens of thousands of OG&E residential and small commercial customers have invested millions of dollars to upgrade and weatherize their homes and businesses in order to reduce their energy consumption and lower their costs of electricity. The large majority of these customers based their investment decision on the assumption that their costs would be recovered in a reasonable amount of time by a substantial reduction in the known and established kilowatt hour (kWh) charges on their bills.

OSN believes that OG&E's proposed three-part rate structure, with its much lower value for a saved kWh, undermines these customer investments. OSN also is concerned that it threatens the success and budget of the EE programs going forward. The proposal for a drastically higher mandatory monthly customer charge (fixed charge), along with the demand charge, will reduce

¹ OG&E Demand Portfolio Stakeholder Presentation, 3/4/2016, slides 12-13. Does not include SmartHours.

² Cause No. PUD 2015-247, Final Order No. 648327, Revised Attachment B, 1/6/2016.

customers' ability to control their bills and will increase the cost of inducing customers to save energy, including the necessity for higher incremental rebates for OG&E's efficiency programs.

MONTHLY FIXED CHARGES

At \$26.54 per month (up from \$13), OG&E's proposed increase in the monthly mandatory charge represents a 104% increase for residential customers. They will pay \$318 per year for their connection, no matter how much energy they use or conserve. General Service customers will be paying \$582, also nearly double their current charge.

While raising the flat monthly charge, OG&E also is proposing to slash Winter Season residential kWh energy prices by 70%.³ At less than two cents per kWh, customers would be left with almost no economic motivation to conserve energy. And OSN notes that OG&E also is proposing to shift the May shoulder period into this same winter pricing. This further weakens the customer's incentive to limit consumption, and could in fact promote wasteful usage of electricity.

This shift in the way OG&E wants to collect its costs - with a much lower value for saved kilowatt hours - is contrary to the goals of encouraging reduced usage by customers, and it restricts their ability to manage their electricity bills. Testimony from the Corporation Commission's Public Utility Division (PUD) described the problem this way:

The proposed increase in fixed costs makes the customer efforts to reduce their electricity bill by lowering their energy consumption less effective. The weakened price signal, through the proposed diminished energy charge, is likely to fail to encourage customers to reduce their consumption because their actions will not result in a sufficient decrease in their bill.⁴

OG&E's energy efficiency programs have reached thousands of residential customers and are expected to reach thousands more over the next few years, but OSN is concerned that the proposed rate changes put those programs and investments at risk. The specific impact is described well by economist William B. Marcus:

The end result of having rate design compete with efficiency programs is either higher rebates raising program costs or lower penetration of the programs or both. Raising fixed charges wastes ratepayer money spent on efficiency programs.⁵

³ Direct Testimony of William H. Wai, Table 1, p. 9.

⁴ Responsive Testimony of Kathy Champion, 3/31/2016, p. 16, lines 3-7.

⁵ William B. Marcus, *The Appropriate Level of Fixed Charges for Hydro One Residential Customers, and Ancillary Cost Allocation Matters*, before the Ontario Energy Board, Docket EB-2013-0416, July 10, 2015, p. 9. (<http://www.rds.ontarioenergyboard.ca/webdrawer/webdrawer.dll/webdrawer/rec/451834/view/>).

A 2012 study for the Kansas Corporation Commission evaluated the type of residential rate design that OG&E is proposing:

When a utility makes a transition from standard rates to [Straight Fixed Variable] SFV rates, the customer charge is increased and the energy price is decreased. This reduction in the energy price reduces the return that customers get from investing in energy efficiency (e.g., a saved kWh used to reduce their bill by 8 cents, but under SFV it is only reduced by 6 cents).

The Kansas report states that higher fixed charges would raise electricity consumption by 1.1 – 6.8%, depending on the utility and season.⁶

The National Association of State Utility Consumer Advocates (NASUCA), representing forty states, recently looked at the trend of utilities seeking to impose higher mandatory charges. In 2015 they adopted a resolution on the issue. It includes the following point:

[I]ncreasing the fixed, customer charge through the imposition of SFV rates or other high customer charge structures creates disproportionate impacts on low-volume consumers within a rate class, such that the lowest users of gas and electric service shoulder the highest percentage of rate increases, and the highest users of utility service experience lower-than-average rate increases, and even rate decreases, in some instances.⁷

The resolution also noted that with a high customer charge, "customers' incentive to engage in conservation as well as federal and state energy efficiency programs is significantly reduced." The Association offered the following guidance:

NASUCA urges state public service commissions to reject gas and electric utility rate design proposals that seek to substantially increase the percentage of revenues recovered through the flat, monthly customer charges on residential customer utility bills – proposals that disproportionately and inequitably increase the rates of low usage customers, a group that often includes low income, elderly and minority customers, throughout the United States.⁸

Last year the Missouri Public Service Commission looked at mandatory fixed charges in a recent case. In their rejection of a utility request for increased monthly charges, they wrote the following:

⁶ Hansen, Daniel G. and Michael T. O'Sheasy, Residential Rate Study for the Kansas Corporation Commission Final Report (April 11, 2012),

http://www.kcc.state.ks.us/electric/residential_rate_study_final_20120411.pdf/AcroJS_DesignerJS.pdf#page=39

⁷ Resolution 2015-1, <https://nasuca.org/customer-charge-resolution-2015-1/>

⁸ Resolution 2015-1, <https://nasuca.org/customer-charge-resolution-2015-1/>

. . . the Commission is not bound to set the customer charges based solely on the details of the cost of service studies. The Commission must also consider the public policy implications of changing the existing customer charges.

And the Missouri order also included this point about customer interests:

There are strong public policy considerations in favor of not increasing the customer charges...Residential customers should have as much control over the amount of their bills as possible so that they can reduce their monthly expenses by using less power, either for economic reasons or because of a general desire to conserve energy. Leaving the monthly charge where it is gives the customer more control.⁹

The Minnesota Public Utilities Commission also looked at customer charges in 2015. Their Commission Action included the following comments:

The Commission concludes that raising the Residential and Small General Service customer charges, even by the smaller amount the Department recommends, would give too much weight to the fixed customer cost calculated in Xcel's class-cost-of-service study and not enough weight to affordability and energy conservation....The Commission also concludes that a customer-charge increase for these classes would place too little emphasis on the need to set rates to encourage conservation.¹⁰

OSN recognizes that OG&E is just one of a number of utilities in various states seeking to increase the monthly customer charge. But we also note that OG&E's proposed \$26.54 charge, and even Staff's \$20.00 counter proposal, would leave OG&E customers paying in the top tier of these charges in the nation. In our appendix we have included a chart prepared by Synapse Energy Economics that shows the range of these types of charges.

DEMAND CHARGES

OG&E is proposing to add a new demand charge of \$2.75/kW for most residential customers, along with \$2.90/kW for most General Service customers. OG&E witness Ahmad Faruqi's direct testimony on page 10, lines 19-22, states, "The primary function of the demand charge is to accurately convey the cost structure of electricity to customers so that they can make *informed decisions* about how much power to consume and *at what time*." (italics added)

⁹ Report and Order, File No. ER-2014-0258, 4/29/2015, p. 76.
https://www.efis.psc.mo.gov/mpsc/commoncomponents/view_itemno_details.asp?caseno=ER-2014-0258&attach_id=2015025958

¹⁰ E-002/GR-13-868 - Findings of Fact, Conclusions, and Order, May 8, 2015, p. 88.

OSN strongly agrees that "informed" decisions are crucial, but we don't believe that customers understand demand charges, we doubt that demand charges will be easy to explain, OG&E has not provided a plan or enabling technology that would help with this gap in customer knowledge - and we doubt that a majority of even well-informed customers will be able to consistently modify their behavior in response to this type of charge.

We are also puzzled by the relevance of the witness's phrase, "*at what time.*" Under OG&E's proposal, the customer's individual peak demand charge could be incurred at any hour (that is, at any time).

OG&E's well-known "2020 Goal" and its highly successful (and widely promoted) SmartHours program have educated residential and small commercial customers as to how important it is to reduce usage during peak demand. But the proposed three-part rate design, with its non-coincident demand charges, places a price on peak consumption that occurs at any time of the day, as opposed to demand that occurs during OG&E's times of system peak demand.

OSN believes that this non-coincident charge, along with the corresponding extremely low energy price, sends an inconsistent and contradictory message to customers on the value of reducing usage during peak times. It doesn't convey an accurate price signal about the times when electricity is most expensive to produce.

OG&E witness Ahmad Faruqui states that, "A demand charge is directed at promoting efficient use of capacity and an energy charge is intended to promote efficient use of generation."¹¹ It is OSN's understanding that, for the most part, the system as a whole is planned and operated around the need for meeting system peak demand, so we are puzzled by the relevance of OG&E's proposal for a non-coincident demand charge. OG&E acknowledges that it does not expect the demand charge to contribute to load changes.¹²

• Residential Customer Response to Demand Charges

As evidence that residential customers will respond to demand charges, OG&E witness Faruqui points to four studies.¹³ But OSN notes that one of the studies is from Norway, and the other three are from 1986, 1984, and 1982. We question how these studies are in any way representative of typical Oklahoma customers today.

¹¹ Faruqui response to Data Request TASC 3-2(c.)

¹² Scott Response to Data Request OHA 2-12, when asked about load changes based on the residential demand charge he responded, "At this time, there are no load changes attributable to the introduction of residential demand charges."

¹³ Faruqui Direct Testimony, pp. 10-11, lines 25-29 and 1-5, respectively.

On page 11, lines 16-19, of his testimony, Dr. Faruqui states: “When faced with demand charges, residential customers would have the incentive to buy smart digital technologies such as thermostats, load controllers, home energy management systems and smart appliances, along with batteries and other storage options.” OSN supports the deployment of advanced technology for managing energy consumption, but we are concerned over the availability and cost, including installation, for the equipment that witness Faruqui describes.

OSN believes that very few customers know or have access to the kW demand of all electricity consuming devices in their homes. In our experience, many homeowners don't even know, for example, whether their dryers are electric or gas - yet a typical electric dryer can require 4 kW or even 5 kW of demand.¹⁴ Similarly, many customers don't know whether their water heater is gas or electric, but an electric water heater can draw more than 4 kW. OSN also notes that water heaters and refrigerators, for example, operate automatically and are not in the immediate control of customers.

Faced with a new and unfamiliar bill component that they do not understand, and not having access to enabling technology, OSN believes that most customers will not know how to respond to the \$2.75/kW demand charge. The charge then becomes simply another mandatory fee.

For a customer with a monthly peak demand of 8.5 kW, and little ability to reduce it, the mandatory, unavoidable portion of their bill, including the doubled customer charge, will increase from \$13.00 to nearly \$50.00.¹⁵ For small usage customers this amount would be well more than half of their bill.

But OSN is concerned that many customers, even those with minimal consumption patterns, could be hit with demand charges that go much higher. For example, consider a customer who arrives home in the evening, starts two loads of laundry, turns on the electric oven to preheat for dinner, and starts a pot of water boiling (on an electric range top). During these activities the electric water heater starts heating more water, the air conditioner cycles on as the house grows warmer, and the refrigerator starts its normal cooling cycle. The peak demand from just these common activities (not including lights, TV, computers, dishwasher) could reach 20 kW, producing a demand charge of \$55.00.¹⁶ Add in the monthly customer charge and the total rises to \$81.54. If it's wintertime instead of summer, and that customer has electric heat – an electric furnace or resistance baseboard – the impact of the kW charge likely would be even worse.

OSN also is puzzled as to why OG&E would propose a charge that could drive customers to change out their appliances. Customers would eventually learn, or would realize, that demand

¹⁴ <https://www.georgiapower.com/in-your-community/electric-safety/chart.cshtml>
<https://www.georgiapower.com/residential/rate-plans/residential-demand.cshtml>

¹⁵ $8.5 \times \$2.75$, plus $\$13.54 = \49.92 .

¹⁶ Calculated here: <http://www.srpnet.com/prices/home/calculator.aspx>

charges mean gas stoves and gas dryers are preferable to electric stoves and dryers. We're concerned that customers with electric stoves, ovens, water heaters, and electric heat could be hit particularly hard by a demand charge if they are unable to switch to gas appliances. Customers who live in houses or multi-unit dwellings that don't have a gas connection won't even have that option, including many apartment residents or renters.

Since peak demand charges are very dependent on behavioral modifications, OSN wonders whether residential customers with multiple members in their household will be able to communicate and coordinate their activities to make certain that, for example, one person doesn't start using hot water while another is cooking and a third is adjusting the thermostat.

At multiple points in OG&E's testimony and Data Responses their witnesses state that customers will be able to use the Demand Side Management programs to reduce their demand charges. OSN notes that for individual customers these energy efficiency programs are most effective at reducing *energy* consumption. They do produce some reduction in average demand - about 1 kW for OG&E's Weatherization Residential Assistance Program and 1.1 kW for the New Home Construction Program.¹⁷ But while weatherization measures, for example, will reduce the need for heating and cooling, they will have no effect on the simultaneous operation of appliances like dryers, ovens, and water heaters. It's also worth noting that any EE measure reductions in average demand may not even be fully coincident with the customer's maximum demand. The DSM programs will therefore provide, at most, only minimal relief from demand charges.

OSN is concerned that OG&E could experience troubling customer acceptance issues if they impose a demand charge that customers perceive as punitive. This could lead to increased call center volume and costs, on top of customer dissatisfaction. OSN also is concerned that customers who have invested in EE measures will see the new demand charge, much higher monthly charge, and reduced kWh values as a type of punishment for their responsible efforts to conserve energy.

CONCLUSION

OSN is opposed to the demand charge and the requested increase in the mandatory monthly charge to \$26.54. We disagree with Public Utility Division's recommendation of increasing the mandatory monthly charge to \$20 for Residential (w/ similar increases for General Service, et al).¹⁸ A \$7 rise might not sound drastic, but it represents an increase of more than 50%. It would not be consistent with the principle of "gradualism" - especially for low-usage customers - and it still contains many of the negative points described above, including devaluation of a saved kilowatt

¹⁷ OG&E 2014 Oklahoma Demand Programs Annual Report, June 2015.

¹⁸ Rate Design Responsive Testimony of Kathy Champion, p. 22, lines 10-12.

hour.¹⁹ OSN also notes that \$20 would be one of the highest proposed charges as shown in the chart in our appendix.

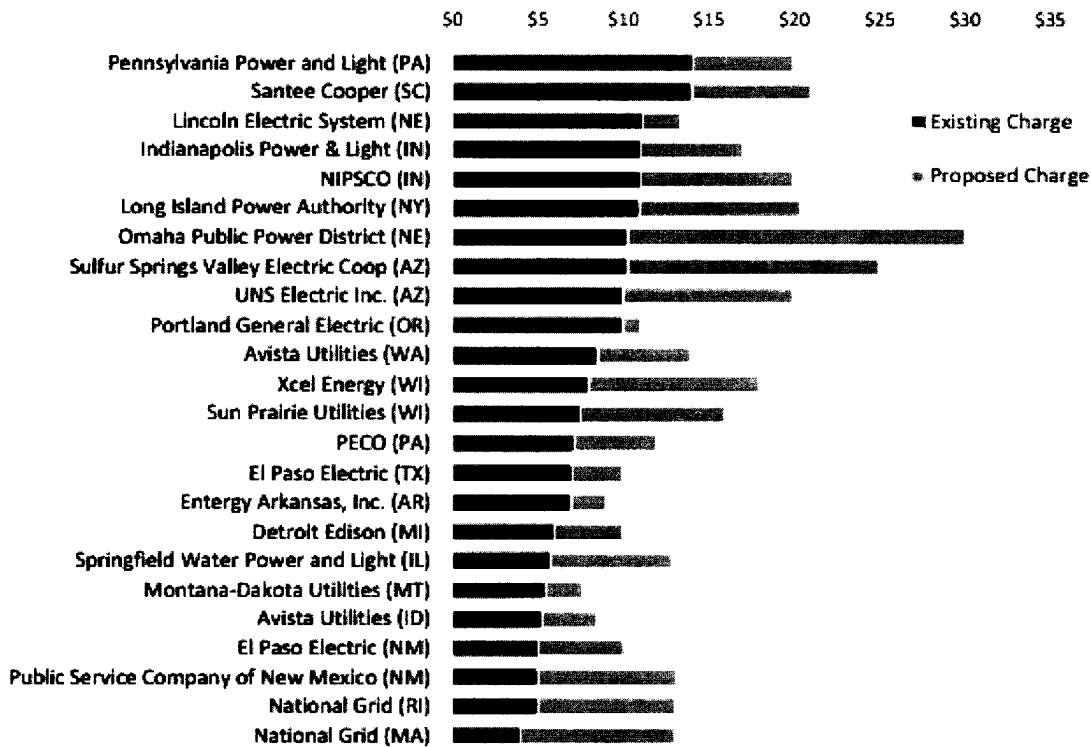
At some point these charges become death by a thousand cuts for low income, low usage, and energy efficient customers. If an increase in Residential revenue is genuinely necessary, we would recommend consideration of inclining block rates as one possible solution.

OSN urges OG&E to pursue a different course with their rate designs. We recognize that a flat volumetric rate - charging customers for the number of kWh consumed in each month - might not fairly reflect system costs, and we support OG&E's efforts to promote and encourage enrollment in their price response plans, including VPP and TOU (SmartHours). If OG&E believes that additional rate designs are necessary, we urge them to consider creating a stakeholder working/advisory group to evaluate recent studies and data and find cost-effective models that avoid punitive components and provide benefits for all customers.

¹⁹ Champion Responsive Testimony, p. 23, lines 4-5.

APPENDIX

Figure 13. Existing and proposed fixed charges of utilities with pending proceedings to increase fixed charges



Source: *Caught in a Fix*, Prepared for Consumers Union by Synapse Energy Economics, 2/9/2016, p. 47.
<http://www.synapse-energy.com/sites/default/files/Caught-in-a-Fix.pdf>

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CERTIFICATE OF SERVICE

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