

An Explanation of OG&E's Lost Net Revenue Recovery Settlement

The Oklahoma Corporation Commission (OCC) recently approved a \$30.3 million settlement that allows OG&E to recover lost net revenue for demand programs, which include the company's energy efficiency programs and SmartHours program. The company will recover the lost net revenue through a Demand Program Rider, which is already in place on Oklahoma customers' bills.

Customers are not paying back to OG&E what they saved with SmartHours or other energy efficiency programs and will not see an increase in their bills as part of this settlement. The recovery settlement allows only a **portion** of what OG&E would have sold (the "net"), so customers are not paying back their savings. The settlement allows OG&E to have the revenue it needs to operate its business while still giving customers options for energy and money savings.

Questions and Answers

Q: What is "lost net revenue" recovery?

A: Lost net revenue recovery allows a utility to recoup revenue lost as a result of the success of demand reduction or energy efficiency programs that reward customers for using less of a utility's product (electricity). It encourages utilities to offer these programs, which lower the cost of power for all customers, by removing a portion of the decline in sales revenue when customers reduce their energy use through these programs. It's a typical ratemaking mechanism used nationwide.

Q: How will this settlement affect customers?

A: *Customers will not see an increase in their bills as a result of this settlement agreement.* The Demand Program Rider used to recover lost net revenue is already a part of all customers' bills. The settlement finalized the agreement for recovery of lost revenue from energy efficiency programs that already existed in our Demand Program Rider and verified the past actions the company took to recover that lost net revenue.

Q: Will the settlement change the current SmartHours rates?

A: No. The settlement will have no impact on any customer rates.

Q: Why does OG&E need lost net revenue recovery?

A: OG&E's revenue must be sufficient to cover its cost of operations, including the cost of financing its investment in electric infrastructure. Customers that reduce their energy use or shift use from peak to off-peak periods reduce the cost OG&E has to incur to provide service to all customers. However, although the majority of these costs are avoided, not all of them are. Recovery of lost net revenue is designed to make the company whole for those costs that do not go away. In the Arkansas jurisdiction, which OG&E also serves, lost net revenue is referred to as "lost contribution to fixed costs," which more accurately defines this cost recovery mechanism.

Because the lost net revenue recovery mechanism is in place, we can continue offering energy and money-saving programs to our customers without the risk of losing revenue to cover our infrastructure and operating expenses.

Q. Why do all customers have the Demand Program Rider as part of their bills?

A. Energy efficiency and SmartHours programs help OG&E avoid building additional generating facilities or buying power from another source and also save in costs for operating the system, which benefits all customers, not only those who participate in these programs. In addition, energy efficiency and SmartHours programs are available to all customers who choose to participate in the programs.