

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR AN ORDER OF THE COMMISSION) CASE NO. PUD 2023-000087
AUTHORIZING APPLICANT TO MODIFY ITS)
RATES, CHARGES, AND TARIFFS FOR RETAIL)
ELECTRIC SERVICE IN OKLAHOMA)

Rebuttal Testimony

of

Robert Shaffer

on behalf of

Oklahoma Gas and Electric Company

May 17, 2024

Robert Shaffer
Direct Testimony

1 Q. **Please state your name, position, by whom you are employed, and your business**
2 **address.**

3 A. My name is Robert Shaffer. I am the Manager of Asset Management for Oklahoma Gas
4 and Electric Company (“OG&E” and/or the “Company”). My business address is 321 N.
5 Harvey, Oklahoma City, Oklahoma, 73102.
6

7 Q. **Are you the same Robert Shaffer that filed Direct Testimony in this case on December**
8 **29, 2023?**

9 A. Yes.
10

11 Q. **What is the purpose of your Rebuttal Testimony?**

12 A. The purpose of my Rebuttal Testimony is to respond to the recommendations of witnesses
13 sponsoring testimony on behalf of the Public Utility Division (“PUD”), Attorney General
14 (“AG”), Oklahoma Industrial Energy Consumers (“OIEC”), and Federal Executive
15 Agencies (“FEA”) regarding the Company’s Vegetation Management expense. I will
16 explain why the Company needs to increase its Vegetation Management expense in base
17 rates and be able track these expenses using a regulatory accounting tracker.
18

19 **VEGETATION MANAGEMENT**

20 Q. **Please explain why it is important for the Commission to authorize additional**
21 **Vegetation Management resources for OG&E in this case.**

22 A. Vegetation Management is a critical component of providing safe, reliable, and affordable
23 utility service. As noted in other OG&E witness Rebuttal Testimony, the external risks to
24 OG&E’s transmission and distribution systems are increasing. Extreme weather is
25 impacting the system on a frequent basis, and an additional type of catastrophic event –
26 wildfire – is rapidly becoming a concern for OG&E and its customers. As explained in the
27 Direct Testimony of OG&E witness Brian Huckabay, the Federal Emergency Management
28 Agency’s (“FEMA”) National Risk index ranks Oklahoma second and Arkansas third for

1 the frequency of extreme weather impact. In order to maintain safe and reliable service for
2 our customers, OG&E is requesting additional and reasonably necessary resources to
3 *prevent* vegetation from causing public safety hazards that directly impact our customers.

4 Additional vegetation management resources provide the Company with the ability
5 to ensure reliable electric service. Vegetation that is not properly maintained can make
6 contact with utility lines and cause momentary or sustained outages. OG&E is investing
7 its capital resources into building and maintaining a modern, reliable electric grid.
8 However, the reliability improvements provided by these investments must be protected
9 against vegetation growing into the distribution line right-of-way.

10 One of the ways the Company provides reliable and affordable electric service is
11 from the consistent application of vegetation management practices. In order for the
12 Company to consistently apply its vegetation management practices, OG&E must grapple
13 with the effects of increased labor and inflationary vegetation management costs. To
14 accomplish these goals OG&E has to increase its financial resources, which it has asked
15 for in this case. However, these costs provide direct benefits to the Company's customers
16 by reducing the number of potential momentary and sustained outages and reducing the
17 overall risks posed by potential wildfire events.

18
19 **Q. Does the Commission require a minimum standard of Vegetation Management from**
20 **its electric utilities?**

21 A. Yes. My understanding is that OAC 165:35-25-15 requires companies like OG&E to “at
22 a minimum, perform vegetation management on a 4-year cycle, unless needed otherwise
23 or unless otherwise ordered by the Commission.” The existing level of authorized
24 Vegetation Management expense does not allow OG&E to meet this requirement.

25
26 **Q. What additional resources is OG&E requesting the Commission authorize for the**
27 **Company in this rate case?**

28 A. OG&E's request consists of two parts: (1) an additional \$24 million in Vegetation
29 Management expense in base rates, reflecting the marked increase in labor and inflationary
30 costs since 2015, and (2) a regulatory tracking mechanism that would hold customers

1 harmless against any deviations from authorized spending levels. For more on the
2 regulatory accounting tracker, please refer to the Rebuttal Testimony of OG&E witness
3 Kimber Shoop.

4
5 **Q. Could OG&E just shift existing financial resources as suggested by AG witness**
6 **Matejcic¹ to meet its obligation to provide safe and reliable service?**

7 A. No. Mr. Matejcic's assertion is unreasonable. Moving resources from one planned
8 expense to another creates the potential for sacrificing one component of safe and reliable
9 service for another. For instance, OG&E could have spent more on Vegetation
10 Management activities in 2023 but this may have required sacrificing other necessary
11 activities. Every shift of resources creates an opportunity cost that is detrimental to
12 customers.

13 Mr. Matejcic's argument also makes the false assumption that OG&E can expend
14 the same amount of total O&M expense, regardless of need, and that spending cuts are
15 always possible. While the Company is always seeking opportunities to increase efficiency
16 and keep rates low, inflationary pressures create situations where keeping certain expense
17 categories flat is simply not possible.

18
19 **Q. Has OG&E already "shifted resources" in response to rising labor costs?**

20 A. Yes. As explained in my Direct Testimony, as contract labor rates increased over the years,
21 OG&E has increasingly utilized less expensive, alternative vegetation methods such as
22 herbicide, vegetation growth regulators, and work prioritization to stretch the amount of
23 authorized vegetation management expense to as many circuits as possible. The increased
24 use of herbicides and work prioritization is not as expensive as trimming activities and
25 vegetation removal, which have only become significantly more expensive with inflation
26 over the past few years. As the dollars have been stretched, much-needed saw work has
27 decreased. Essentially, the ideal tools for effectively managing vegetation have become
28 more expensive to deploy. Continuing to cut back on the more effective methods is not

¹ Responsive Testimony of Greg J. Matejcic, page 35, lines 8 – 11.
Rebuttal Testimony of Robert Shaffer
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1 sustainable for OG&E's efforts to continue to safely operate the grid and reliably deliver
2 electricity to our customers.

3

4 **Q. Does OG&E's 2024 projected budget show that it is planning to spend less money on**
5 **Vegetation Management?**

6 A. No. Mr. Betchan claims that OG&E's 2024 planned vegetation management spending is
7 only \$27.1 million.² However, the 2024 budget is not inclusive of the pro forma Vegetation
8 Management expense increase of \$24 million over the test year and \$27.9 million over
9 previously authorized levels. When the full 2024 budget and pro forma expense adjustment
10 requests are combined, it results in a \$51 million budget for distribution and \$7.2 million
11 budget for transmission expenses; this is a total budget of \$58.2 million. It should also be
12 noted that authorization of the tracker mechanism would protect customers against any
13 deviation from this budget.

14

15 **Q. Does the Company's consistent spending on Vegetation Management in recent years**
16 **demonstrate that Vegetation Management expenses are not volatile?**

17 A. No. Despite the increases in costs, the Company has endeavored to manage its four-year
18 cycle requirement. OG&E averaged approximately 29% of line miles managed each year
19 from 2016 through 2022. However, this dropped to less than 10% in 2023. Costs have
20 increased far too much to effectively manage existing vegetation, and additional resources
21 are now necessary to keep up with these costs.

22

23 **Q. Has the Company actually spent more than its base level of expense on Vegetation**
24 **Management since the 2015 rate case?**

25 A. Yes, the Company has exceeded its pro forma agreement over the past several years,
26 leading to a cumulative \$9 million spent on Vegetation Management beyond what was
27 authorized in 2015.³ In addition, new business and capital work requiring construction has
28 carried some of the challenges of clearing vegetation from the system.

² Responsive Testimony of Brice D. Betchan, page 33, table BDB-3.

³ Rebuttal Exhibit RS-1

1 Q. **Do you agree with FEA witness Leyko⁴ and AG witness Matejcic⁵ that the additional**
2 **\$24 million in vegetation spending over the test year is not cost-effective?**

3 A. No. The reason for the additional funding is due to the planned need of the Company to
4 physically remove more vegetation from its system rather than prevent it from growing or
5 leaving it in place. As stated in my Direct Testimony, the Company has actively managed
6 its costs by offsetting saw work on our system for lower cost herbicide and growth
7 regulators. The drawback for using these tools is the need to eventually remove the
8 vegetation from the system. In the next round of planned work, the debris and any new
9 growth will need to be cut out and removed from the system. We have estimated this cost
10 over the next year to be an additional \$16 million. The remaining increases are related to
11 customer request non-cycle increases and inflationary additions to current spend in the
12 other categories.

13

14 Q. **What would the approximate level of Vegetation Management spend be if the**
15 **Commission adopted Mr. Alvarez's recommendation?**

16 A. Using PUD witness Alvarez's recommendation⁶ that OG&E should clear 100% of
17 overhead lines every four years, and our average costs to perform saw work on our system,
18 at \$30,000 per mile (rural) and \$70,000 per mile (urban), we approach an annual need of
19 approximately \$130 million.⁷ Instead, given resource availability, ramp time, safety
20 considerations and quality control, OG&E believes the requested amount, an additional
21 approximate \$24 million in spending (for a total budget of \$58.2 million), is a reasonable
22 and balanced request that is in the public interest.

23 Q. **Why is OG&E not requesting the annual \$130 million required to clear 100% of lines**
24 **every four years, as suggested by PUD witness Alvarez?**

25 A. The Company believes that there is a balance between sawing out all the trees, removing
26 them, and using the other tools described to help manage risk, reliability, and safety. We
27 also believe that satellite imagery and analysis deliver an objective baseline that will

⁴ Responsive Testimony of James A. Leyko, page 10, lines 12 – 16.

⁵ Responsive Testimony of Greg J. Matejcic, page 35, lines 8 – 11.

⁶ Responsive Testimony of Paul J. Alvarez, pages 39 – 40.

⁷ Shaffer Rebuttal Clearing Costs Workpaper.xlsx

1 provide a timely, accurate, and complete inventory and risk analysis for the reliability and
2 safety issues that vegetation poses on OG&E's system. These tools should allow OG&E
3 to effectively manage its vegetation inventory yearly with consideration for up to 100%
4 ground to sky clearance of its lines, as necessary.
5

6 **Q. What other benefits could satellite analysis provide?**

7 A. Satellite analysis could assist the Company with developing the necessary information to
8 address various risks on the system. These risks include:

- 9 • 100% saw work, removal of all vegetation; The Company could precisely quantify
10 the total cost to clear all vegetation on the entire system using only saw work.
- 11 • Combinations of saw work, herbicide, and growth regulators; The Company could
12 use several different combinations of saw work, herbicide, and growth regulators
13 to manage and address vegetation on the system depending on how quickly the
14 clearance is needed.
- 15 • Reliability: The Company could evaluate the highest likelihood of tree contacts to
16 conductors and the impact to customers and address those with the highest
17 reliability risks and focus resources based on areas, circuits, or regions.
- 18 • Wildfire Risk: The Company could review wildland fire risk and address fuel
19 sources to reduce the spread of fires and evaluate potential ignitions due to trees
20 impacting the utility system.

21
22 **Q. Given the potential significance of vegetation's impact on the system and the
23 complexity of the work needed to manage the risks, do you believe this is necessary to
24 track the vegetation management spending from year to year?**

25 A. Yes. The amount of potential work outstanding requires the need to efficiently and
26 effectively plan and track costs, work performed, safety results, and quality assurance.
27 OG&E's customers and the Commission will directly benefit from the ability to review
28 dollars spent in each rate case and, after a thorough prudence review, determine the
29 appropriate amount to be recovered over a period set by the Commission. As I explained
30 in detail in my Direct Testimony, vegetation management expenses are volatile,

1 substantial, and outside OG&E's control. I cited a series of reasons for this, including
2 changing labor costs, trimming crew availability, differences between costs of bucket
3 versus climbing work, specific customer requests, variations in vegetation growth rates in
4 urban and rural areas, right of way access issues, complexities caused by customer
5 landscaping and improvements, equipment pathway obstructions, easement
6 encroachments, and customer refusals.

7
8 **Q. Do you believe that the impact of Mr. Alvarez' suggestion that OG&E trim 100% of**
9 **overhead lines every four years demonstrates the volatile and substantial nature of**
10 **these expenses?**

11 A. Yes. Due to the recognition of the aforementioned costs to completely clear the lines, the
12 traditional 4-year cycle total exceeds \$520 million (*i.e.*, \$130 million per year for 4 years).
13 This is a substantial cost that demonstrates the potential risks that need to be balanced with
14 the Company's obligation to effectively track and control costs in the best possible manner.

15
16 **Q. Are there other ways the Company has been managing vegetation on the system?**

17 A. Yes. If construction requires access to facilities during major capital projects where
18 vegetation is impeding progress, those removals are appropriately attributed to the
19 respective capital projects. Additionally, during major storm work, vegetation is removed
20 from the system along impacted areas. Inclusive of capital projects, as shown in the
21 Company's data request response attachment, OIEC 17-1_Att1, total vegetation related
22 work approached over \$120 million in 2022. However, neither storms nor major capital
23 work allow the Company to manage vegetation on all of its system over a four-year cycle
24 because not all areas of the system are impacted by storms or subject to other capital work
25 during that timeframe.

1 Q. **If OG&E experienced fewer storms or the number of capital projects slowed, would**
2 **it require more cycle vegetation management spending?**

3 A. Yes. Storms and other capital work provide opportunities for OG&E to reactively address
4 vegetation, but the occurrence of these events is either somewhat (new business or
5 construction) or completely (storms) out of the Company's control. The variability in
6 expense dollars versus capitalized dollars for vegetation management activities
7 demonstrates why it is important to track the expensed dollars and allow the Commission
8 to review and amortize the recovery of those dollars over multiple years.

9
10 Q. **Do you agree with PUD witness Alvarez' recommendation to establish a budget to**
11 **clear a set number of miles per year and for the Commission to ensure OG&E stays**
12 **on track with its line-clearing obligations?⁸**

13 A. Yes. OG&E welcomes the opportunity to work within a tracked budget that allows for
14 appropriate management of vegetation for an agreed upon amount of circuit miles per year,
15 as needed. The regulatory tracker mechanism proposed in this case would be an essential
16 component of this arrangement.

17
18 Q. **Please address Mr. Leyko's concerns about the cost effectiveness of the additional**
19 **requested spend for vegetation management.⁹**

20 A. The labor rate increase since 2015 has challenged the Company's ability to complete the
21 necessary saw work and remove vegetation from the system. As the saw costs have
22 increased by over 60%, the amount of completed saw work has decreased. As stated in my
23 Direct Testimony, other methods have been employed to ensure safe and reliable service.
24 These other methods do not remove the material from the trees or the system, and they only
25 control the growth in and around the lines. The fact is that OG&E cannot keep
26 "controlling" vegetation in perpetuity, and the Company must focus more on removing it
27 from the system.

⁸ Responsive Testimony of Paul J. Alvarez, page 45, line 16 – page 46, line 3.

⁹ Responsive Testimony of James A. Leyko, page 5.

1 Q. **Is there any data showing recent labor rate changes for the group of laborers**
2 **performing tree trimming or pruning?**

3 A. Yes. As included in Direct Testimony, the Bureau of Labor Statistics has shown increases
4 for labor in our region of 50% for 2023 and a potential 60% increase for 2024.
5

6 Q. **Please address Mr. Leyko's claim that there is "no benefit to customers" from the**
7 **increase in spending.¹⁰**

8 A. Vegetation management is an essential part of providing safe, reliable, and affordable
9 electric service. In fact, PUD witness Alvarez fully supports additional resources for
10 vegetation management due to its direct positive impact to reliability. The issue before us
11 is not whether there are benefits to vegetation management work, but rather what the
12 appropriate cost is to perform the necessary work. OG&E's requested increase, along with
13 a tracker mechanism, will ensure customers continue to enjoy safe and reliable service
14 while managing the overall impact of this fluctuating cost on their bills.
15

16 Q. **Please address Mr. Leyko's concern about increasing the number of line miles**
17 **managed with the additional funding.¹¹**

18 A. The Company asked for a reasonable amount of funding to address the known concerns on
19 the system. These concerns are drawn from the years of reduced saw work and increased
20 uses of herbicide and growth regulators. Additional funding is needed to ensure the
21 appropriate removal of this existing vegetation on the system. Further, as explained in the
22 response to witness Alvarez's recommendation for 100% removal of all vegetation for a
23 full four years, the Company does not believe an all or nothing approach to managing the
24 vegetation on the system is the best course of action.

¹⁰ Responsive Testimony of James A. Leyko, page 6.

¹¹ Responsive Testimony of James A. Leyko, page 7.

1 Q. **What other observations can be made about increasing saw work but not *claiming***
2 **additional reliability benefits?**

3 A. It is important to understand that the realigned saw work is still considered maintenance.
4 It is not a request to increase the number of circuits addressed in a year or pull forward
5 future planned work on the system. Those dollars represent the Company's request to
6 realign expectations and *remove* risk from the system.

7
8 Q. **Has the Company committed to managing vegetation on the system?**

9 A. Yes. Over the past several years, the Company has overspent the amount embedded in
10 base rates by approximately \$9 million.¹² When vegetation dollars for new business,
11 storms, and construction capital work are included, the additional spending is much greater.

12
13 Q. **Should the company wait until measurable increases in vegetation caused outages,**
14 **decreases in reliability, wildfires, customer complaints increase, or other adverse**
15 **events occur before mitigating vegetation's impact upon the system?**

16 A. No. Waiting until adverse events occur could be detrimental to the safety and reliability
17 standards expected of OG&E by its customers, regulators, and shareholders. OG&E
18 requests the Commission recognize the substantial risks involved in funding vegetation
19 management at previous levels and assist the Company in mitigating those risks for its
20 customers by authorizing additional resources in this case. It is better to be proactive and
21 prevent harm from occurring in the first place than to let it occur and try to fix it afterwards.

22
23 Q. **Has anyone suggested waiting on these indicators before justifiable increases to**
24 **Vegetation Management expenses?**

25 A. Unfortunately, yes. Witness Norwood's Responsive Testimony is centered around the lack
26 of customer complaints, the "relatively good" total system performance or SAIDI, and the
27 "tiny fraction" of the 525,600 outage minutes each year attributable to vegetation as
28 justification for why no further expenses are necessary. His minimization of the overall
29 effects of the vegetation misses the point about the risk vegetation poses to the system.

¹² Rebuttal Exhibit RS-1
Rebuttal Testimony of Robert Shaffer
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1 Given the significant risk to reliability and public safety this poses, his position is neither
2 logical nor safe and reliable.

3

4 **Q. Do you have any further comments?**

5 A. Yes, I think it is important to note that most Responsive Testimony witnesses have
6 recognized the need for additional vegetation management spending and have
7 recommended some amount of increased funding. However, the recommended levels are
8 below what is needed to meet the Commission's four-year cycle requirement, appropriately
9 reduce risk to the system, and provide safe and reliable service for customers. I request the
10 Commission authorize an additional \$24 million in OG&E's base rates for the purpose of
11 managing vegetation on its system to preserve reliability and reduce risk to our customers.
12 I also request the Commission authorize a regulatory tracker mechanism to ensure the
13 Company only recovers the expenses necessary to meet the Commission's four-year cycle
14 requirement.

15

16 **Q. Does this conclude your Rebuttal Testimony?**

17 A. Yes.

Vegetation Costs 2021- 2023 Test Year

Test Year and History OK Vegetation Mgmt	2021	2022	Test Year Ending Sep 30, 2023
Distribution Cycle Trimming	25,910,296	25,017,855	23,596,765
Distribution Non-Cycle	1,798,848	2,010,123	1,805,041
Distribution Substations	637,783	705,526	868,147
Transmission Cycle	5,474,054	5,590,132	5,503,881
Transmission Hazard Tree Program			
Transmission Subs Grounds	303,330	351,337	473,008
Distribution Total	28,346,928	27,733,504	26,269,953
Transmission Total	5,777,384	5,941,470	5,976,889
Total	34,124,312	33,674,973	32,246,842

Base Rate

Distribution	25,790,903	25,790,903	25,790,903
Transmission (Total Company)	4,534,654	4,534,654	4,534,654
Total	30,325,556	30,325,556	30,325,556

Differences	3,798,756	3,349,417	1,921,286
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Additional Spend \$ 9,069,458.75