

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY) Case No. PUD2025-000038
FOR COMMISSION PREAPPROVAL OF NEW)
GENERATION CAPACITY PURSUANT TO)
17 O.S. § 286(C) AND RIDER COST RECOVERY)

Direct Testimony

of

Christopher B. Lelak

on behalf of

Oklahoma Gas and Electric Company

May 19, 2025

Christopher B. Lelak
Direct Testimony

1 Q. **Please state your name and business address.**

2 A. My name is Christopher B. Lelak. My business address is 321 N. Harvey, Oklahoma City,
3 Oklahoma, 73102.
4

5 Q. **By whom are you employed and in what capacity?**

6 A. I am employed by Oklahoma Gas and Electric Company (“OG&E” or “Company”) as the
7 Director of Major Projects.
8

9 Q. **Please summarize your educational background and professional qualifications.**

10 A. I earned a Bachelor of Science in Electrical Engineering from Rose-Hulman Institute of
11 Technology in 2003. I hold Professional Engineering licenses in Oklahoma and Indiana.
12 I also hold a Project Management Professional certificate from Project Management, Inc.
13 Prior to my time with OG&E, I worked for Duke Energy and its predecessor company
14 Cinergy at various locations in Indiana and North Carolina. In those roles, I provided
15 engineering and project management oversight of projects in the generation space,
16 including new plant construction and large environmental retrofits. I have worked for
17 OG&E in various capacities since 2014 as a Project Manager, Director of Capital Projects,
18 and now as Director of Major Projects. In my current role, I have responsibility for New
19 Generation, Large Generation Retrofits, Transmission, and Substation projects.
20

21 Q. **Have you testified previously before this Commission?**

22 A. No, I have not.
23

24 Q. **What is the purpose of your testimony?**

25 A. The purpose of my testimony is to discuss the contracts resulting from the bid selected
26 from OG&E’s 2024 All Source Request for Proposals (“RFP”) for Horseshoe Lake Units
27 13 and 14 (“HL 13 & 14”). Specifically, my testimony describes the contracting structure,
28 certain specific terms, the costs associated with those contracts, and the other costs
29 associated with the project.

HORSESHOE LAKE UNITS 13 & 14

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Q. Please describe Horseshoe Lake Units 13 & 14.

A. One of the selected bids resulting from the All-Source RFP (further discussed in the Direct Testimonies of Company witnesses Kimber Shoop, Kelly Riley, and Matthew Schuermann) was OG&E’s affiliate bid for HL 13 & 14, which are two 224 MW units with a combined capacity of 448 MWs, to be built at OG&E’s existing Horseshoe Lake site.

Q. How was the HL 13 & 14 bid formed for submission into the All-Source Resource RFP?

A. The Affiliate Bid Team (“Bid Team”), who supplied the bid into the RFP, submitted a firm price with a bid validity period and a set of commercial and technical exceptions and clarifications. The bid was comprised of two components: (i) the purchase of the Combustion Turbines (“CTs”) themselves as proposed by the General Electric Company (“GE”), who is the Original Equipment Manufacturer (“OEM”) (the “CT Procurement Contract”); and (ii) the balance of plant engineering, procurement and construction (“EPC”) contract with a joint venture (“JV”) between Sargent & Lundy, an engineering and design firm, and TIC – The Industrial Company, an industrial construction company (hereinafter the “JV Contract”).

Q. Has there been an increase in the cost of the project since the original bid price?

A. No. Typically, in projects of this size and scope, bids are submitted using the best knowledge available at the time the bid is prepared, and all bidders take some exceptions and clarifications to the scope and terms of the contract. Between the time the bid is submitted, evaluation is conducted, and a winning bidder is announced, changes occur with regard to market conditions, supply chain constraints, etc. All of these changes are very typical in large construction projects. Fortunately, OG&E mitigated cost increases from bid time by awarding the OEM contract closer to the time of submitting the OG&E affiliate bid. That action allowed OG&E to secure manufacturing slots for gas turbines and lock pricing at the values used in the bid submission to the RFP.

1 Q. **How did the Company ensure OG&E's affiliate bid did not receive any special**
2 **consideration during the RFP process?**

3 A. As discussed by Company Witness Riley, this process was conducted in compliance with
4 the Oklahoma Corporation Commission ("OCC") Competitive Bidding Rules. Once the
5 Company decided to submit an affiliate bid option into the RFP, OG&E prepared a Code
6 of Conduct document, which identified OG&E members representing separate Bid Team
7 and Evaluation Teams. The Code of Conduct also specified the steps the Company would
8 take to maintain separation between the two teams for the duration of the RFP and ensure
9 the Bid Team did not receive any non-public information that could be used to gain an
10 advantage in the RFP process. The Code of Conduct was also posted on the Company's
11 website during the RFP process.

12 The Code of Conduct ensured the Bid Team and Evaluation Teams had no contact
13 related to the RFP other than during the technical conference and through transparent email
14 communications through a dedicated email inbox—communications that were shared with
15 the Independent Evaluator and made available to all bidders. These actions are taken to
16 ensure the internal Bid Team had the same publicly available information that was posted
17 for all bidders.

18

19 Q. **Please describe the process that followed the announcement that HL 13 & 14 had been**
20 **selected as a winning bid in the All Source RFP.**

21 A. Once the project was selected and announced as a winning bid, the Bid Team and
22 Evaluation Team worked together to commence formal contract negotiations with the JV.

23

24 Q. **Please describe the formal negotiation process.**

25 A. Formal negotiations began with OG&E asking clarifying questions of GE and the JV with
26 regard to price and scope adjustments that are typical of a project of this size and scope.
27 Once the JV and OEM answered questions, scope and pricing adjustments were agreed
28 upon, and the final set of contracting documents were negotiated and executed.

HL 13 & 14 CONTRACTS AND COSTS

1
2 **Q. Why was a single EPC contract not utilized for both the procurement of the CTs and**
3 **the balance of plant?**

4 A. OG&E Bid Team's objective was to create savings for customers by having OG&E
5 contract directly with GE, the OEM for the procurement of the CTs, instead of using the
6 EPC contractor as a middleman to acquire the CTs. OG&E successfully utilized this
7 contracting strategy on the Mustang Energy Center and HSL 11 & 12 projects. EPC
8 contractors usually charge a markup on procurement of large equipment as a fee for
9 management of the OEM Contract. The Bid Team included this concept in its bid to avoid
10 this EPC contractor fee and lower costs to customers, which could have added
11 approximately 10 percent of the CT purchase cost to the total cost.
12

13 **Q. Please describe the general terms and provisions of the CT Procurement Contract**
14 **with GE.**

15 A. The CT Procurement Contract between OG&E and GE specifies the terms under which
16 OG&E will acquire two (2) 224 MW CTs. Under its terms, GE will manufacture, supply,
17 deliver, and provide technical support and assistance, as requested, in connection with the
18 installation, commissioning, and testing of the HL 13 & 14 CTs.

19 The Contract Price is firm, fixed, and all-inclusive, covering payment of all costs
20 of materials, equipment, labor, transportation, engineering, manufacture, and other services
21 relating to GE's performance of its obligations under the CT Procurement Contract. The
22 contract also provides liquidated damages for delivery and performance of the CTs, which
23 ensures OG&E customers are financially protected from equipment delivery delays or poor
24 performance of the units. For the benefit of customers, OG&E specifically negotiated
25 terms which provide price certainty for the turbines.
26

27 **Q. Is there a deadline for providing a full notice to proceed to GE?**

28 A. Yes. OG&E must provide a full notice to proceed to GE by November 15, 2025, in order
29 to keep the CTs under current pricing. If OG&E fails to do so, it could either face increased
30 costs or lose the specific turbines it has contracted for and must re-enter the supply chain

1 queue. Given recent increases in pricing due to high demand and tariff risk, any delay
2 beyond November 15, 2025, could lead to a significant price increase for the turbines.
3

4 **Q. Please describe the general terms and provisions of the JV Contract.**

5 A. OG&E has entered into the JV Contract for the engineering, procurement, and construction
6 of the balance of plant related to the installation of the HL 13 & 14 CTs. The JV Contract
7 is between OG&E and TIC-S&L Oklahoma Power Partners, a joint venture between TIC
8 – The Industrial Company and Sargent & Lundy. Under the JV Contract, the JV contractor
9 will install, test and commission the HL CTs and all associated equipment and materials,
10 instruments, components, and accessories at the Horseshoe Lake Generating Station.

11 The JV Contract is mostly firm-fixed price. The labor costs are fixed; however, a
12 limited number of variable cost material items will be procured on an open-book basis,
13 with actual costs reconciled via change orders for direct costs incurred by the JV. “Open-
14 book basis” means the JV will share with OG&E the estimated value of these variable cost
15 items, and when the items are purchased, any cost adjustment up or down will be shared
16 with OG&E.

17 The contract also provides liquidated damages for failure to complete the project
18 on time, and absolute obligations for performance which means if the JV’s design does not
19 meet agreed performance criteria, they must correct any deficiencies.

20
21 **Q. Please describe the estimated costs for the “Open-book” portion of the contract.**

22 A. The total estimated dollar value of these variable cost items at time of contract is \$55.3
23 million, and the maximum cap on increases for materials is \$27.1 million. This \$27.1
24 million is already reflected and being carried in the total contingency budget of the project
25 by OG&E (and included in the bid submitted by the affiliate JV). I discuss this cap in
26 more detail below when discussing Contingency Costs and Contingency Budget. The
27 maximum cap benefits customers by managing risk collaboratively between the parties
28 rather than pre-paying the \$27.1 million risk premium as a firm-fixed price which may
29 never materialize. This approach allows for savings for materials if the cost of those
30 materials end up costing less than \$55.3 million, while capping the upside risk of cost
31 increases.

1 Q. **Other than the CT Procurement and JV Contracts, what costs are included in the**
2 **overall bid price?**

3 A. There were other costs outside of the Contracts included in the bid price, such as Owner's
4 costs and contingencies. These other costs were not included in the bid costs in the 2021
5 RFP in which the affiliate JV bid in for the HL 11 & 12 units. OG&E's affiliate decided it
6 was better to identify all of these costs in the RFP bid so they could be fully considered by
7 the OG&E Evaluation Team when selecting winning bids. As noted below, this means that
8 the total price tag of \$506.4 million (plus Allowance for Funds Used During Construction
9 ("AFUDC") and taxes) could decrease if contingency costs do not materialize.

10

11 Q. **Please describe the Owner's costs for HL 13 & 14.**

12 A. Owner's Costs are costs that will be incurred by OG&E in addition to the costs of
13 purchasing the equipment and third-party costs of construction. These Owner's Costs
14 include items such as internal labor, construction oversight, engineering oversight to ensure
15 design adequacy and technical compliance with specifications, project management to
16 ensure timely, on-budget compliance with the contracts and technical specifications, legal
17 fees related to negotiating the contracts and to handle disputes arising during construction,
18 and performance testing after the HL CTs are constructed in order to validate performance
19 to the design and technical specifications. Additionally, some scopes that may not be the
20 responsibility of the CT or JV Contracts are included such as Generator Interconnect
21 Agreement fee and existing switchyard upgrades necessary to connect the new units to the
22 grid. The Owner's costs included in the bid are \$72 million of the total project cost.

23

24 Q. **Please describe the contingency costs for HL 13 & 14.**

25 A. Contingency Costs are risks borne by the owner and may materialize during the
26 construction process. There are two kinds of contingency costs. First, some of these costs
27 are based on potential delays or unforeseen complications with the engineering and
28 construction of the project. For example, such unforeseen conditions that often arise with
29 large construction projects of this nature could include force majeure events, change orders,
30 unknown subsurface conditions, or contractual disputes. Second, there are risks associated
31 with cost increases associated with materials and components used during the construction

1 process. For example, there could be commodity/materials escalation risk around the
2 purchase of transformers, prefabricated electrical buildings, or air compressors. The
3 inclusion of a contingency budget is necessary to account for unexpected costs that may
4 materialize from the risks identified above. Optimally, if none of these risks materialize
5 and the contingency budget is not expended, this results in a lower cost to deliver the
6 Project.

7 OG&E has approximately 7 percent of the original total project cost (or \$43
8 million) as a contingency budget and will work to manage those risks throughout the
9 duration of the project. This is on the low end of industry guidance for projects of this
10 scope.

11
12 **Q. How did the company address risk mitigation for the project?**

13 A. The baseline contingency budget was developed through a risk identification and
14 quantification process. Price risk was mitigated by entering into a firm, fixed price contract
15 with the OEM, and as mentioned previously, contracting with the EPC with the majority
16 of the spend is a firm, fixed fashion. Labor risk is fixed, while material price risks from
17 the JV were mitigated via the open-book process described above. Schedule, delivery, and
18 performance risks were mitigated by securing liquidated damages from both the OEM and
19 JV as appropriate.

20
21 **Q. What is the total cost of the HL 13 & 14 project?**

22 A. The total all-in cost is \$506.4 million (plus AFUDC and taxes). This is the total cost which
23 includes Contract costs, Owner's Costs, and Contingency.

24
25 **Q. Does the cost for HL 13 & 14 differ from the costs associated with the current
26 construction project of HL 11 & 12 approved in PUD2023-000038?**

27 A. Yes. The power industry is experiencing a surge in construction to meet the demands of
28 extra-large customers across the United States. As a result of that increased demand,
29 turbine costs increased 25% from HL 11 & 12 to HL 13 & 14. There were also significant
30 increases to engineered equipment (such as: electrical switchgear, motor control centers,
31 transformers, air compressors), along with demand for construction labor. Direct scope

1 compared between the projects increased in the aggregate by approximately \$78 million
2 (20.7% over HL 11 & 12).

3 The project also has some other differences from HL 11 & 12. A new water
4 treatment facility is necessary to accommodate the increased demands for water for a cost
5 of approximately \$30 million. Transmission interconnection to the existing switchyard,
6 differences in site orientation, and demo of existing facilities contributed approximately
7 \$10 million.

8 Finally, increases in Owner's Costs such as project oversight labor, contingency,
9 and interconnection fees contributed approximately \$57.8 million.

10 In total, HL 13 & 14 is expected to cost approximately \$176 million more than the
11 construction of HL 11 & 12.

12

13 **Q. Is there any way the project can be completed for less than the \$506.4 million?**

14 A. Yes. This is an advantage of an affiliate bid that is formed collaboratively with GE, the JV
15 team, and the OG&E bid team. We have opportunities to realize cost decreases in the open
16 book portion of materials and by proactively managing project risks to avoid draws on
17 contingency. OG&E is committed to delivering the project on time and realize the potential
18 cost decreases as a benefit to customers.

19

20 **CONCLUSION**

21 **Q. Do you have any recommendations for the Commission?**

22 A. Yes. I recommend the Commission grant pre-approval of the HL 13 & 14 Project. This
23 project ensures reliable power generation for Oklahoma's growing communities and will
24 provide benefits to customers for many years.

25

26 **Q. Does this conclude your testimony?**

27 A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that on the 19th day of May 2025, a true and correct copy of the foregoing was electronically served via the Electronic Case Filing System to those on the Official Electronic Case Filing Service List, or via electronic mail to the following persons:

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