

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN RE: INQUIRY OF THE OKLAHOMA)
CORPORATION COMMISSION TO)
EXAMINE ALTERNATIVE RATEMAKING)
METHODOLOGIES FOR AND ISSUES OF) CASE NO. GD 2023-000005
ELECTRIC PUBLIC UTILITIES, INCLUDING)
BUT NOT LIMITED TO, PERFORMANCE)
BASED RATES, AND RIGHT OF FIRST)
REFUSAL)

Alternative Ratemaking
Comments on behalf of
Oklahoma Gas and Electric Company

October 2, 2023

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

TABLE OF CONTENTS

INTRODUCTION..... 3
ALTERNATIVE RATEMAKING..... 4
 A. The Regulatory Compact 4
 B. Performance Based Rates Increase Regulatory Oversight..... 6
 C. How Performance Based Rates and Formula Based Rates Work..... 9
 D. Performance Based Rates Improve the Regulatory Compact 11
 E. The PBR is a Proven Regulatory Model 15
 F. In Other States, PBRs and FRPs Successfully Fulfill the Regulatory Compact. 17
 G. Comparing Regulatory Systems and Outcomes..... 18
 H. PBRs and FRPs Do Not Cause Automatic Rate Increases..... 20
 I. FRPs and PBRs Produce Just and Reasonable Rates 23
 J. OG&E’s Southwest Power Pool Relationship Remains Largely Unchanged..... 24
 K. Addressing Concerns of Stakeholders 25
CONCLUSION 27

EXHIBIT INDEX

- Exhibit 1** – FRP and non-FRP Utility Average Prices
- Exhibit 2** – Arkansas, Louisiana, and Oklahoma IOU Average Prices
- Exhibit 3** – FRP Utilities and OG&E Oklahoma Average Prices
- Exhibit 4** – Arkansas Investor-Owned Utility Average Prices
- Exhibit 5** – Louisiana Investor-Owned Utility Average Prices
- Exhibit 6** – Oklahoma Investor-Owned Utility Average Prices

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

INTRODUCTION

On August 1, 2023, the Oklahoma Corporation Commission (“OCC” or “Commission”) opened a notice of inquiry to identify and examine alternative ratemaking methodologies (“Alternative Ratemaking”). Alternative ratemaking generally refers to a regulatory framework in which a utility’s rates are set using a methodology other than the periodic general rate case. In Oklahoma, the traditional ratemaking process is typically referred to as a general rate case, which is governed in part by Chapter 70 of the Oklahoma Corporation Commission’s Administrative Code. Alternative ratemaking has been implemented across the United States in a variety of forms, including, but not limited to, Performance Based Rates (“PBR”), Formula Rate Plans (“FRP”), Multiyear Rate Plans, Future Test Years, individual cost trackers, and others.

In recent years, OG&E has advocated for the implementation of a Performance Based Rate plan in its Chapter 70 general rate cases¹ and through its support of bills filed in the Oklahoma Legislature, including Senate Bill 1103 and SB 694.² For nearly 20 years, the PBR model has been successfully used to regulate the rates of Oklahoma’s natural gas utilities. OG&E, the Public Utility Division (“PUD”), and the Corporation Commission have recognized the alignment of ratepayer and utility interests that results from the PBR through closer supervision and more frequent review of utility performance. The successful history of PBRs in Oklahoma along with the Company’s own experience with the FRP in its Arkansas jurisdiction demonstrate the Commission need not speculate to know OG&E’s customers can benefit from the implementation of alternative ratemaking methodologies in Oklahoma.

The Company appreciates the opportunity to provide comments on these important issues. The areas of inquiry in this docket cover several significant topics that are important for the future of regulation in Oklahoma. Given the impactful nature of the topics included in this inquiry, the Company appreciates the collaborative process that has been laid out by the PUD and the Commission. OG&E presents the following comments in response to the questions issued in the August 1, 2023 Commission order.

¹ OG&E proposed a PBR in its 2021 general rate case filed before the Commission, and Public Service Company of Oklahoma has proposed a PBR or FRP in several recent general rate case filings before the Commission.

² Filed in the 2023 Regular Session of the Oklahoma Legislature.

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

ALTERNATIVE RATEMAKING

A. The Regulatory Compact

OG&E and other Commission-regulated electric, gas, and water companies provide an essential, life-sustaining service to the public. At the turn of the 20th Century, government recognized the essential nature of electric service and the need for significant investment to bring this modern marvel to the public. Exclusive supplier service territories were created to ensure the financial and material resources required to build these large systems – along with the systems themselves – were not wasted and unnecessarily duplicated in the same geographic areas. In exchange for this exclusivity, the utility company is required to serve all customers in its territory, and it cannot set or modify the rates for such service without approval from the state. This unique relationship has become known as the *regulatory compact*,³ and it was first recognized in the United States at almost the same time the first electric distribution systems were constructed over 140 years ago.⁴

The interconnected relationship between customers, regulators, utilities, and investors is foundational to ensuring the public receives reliable electric service at an affordable price. In this system, investors provide the utility company with the necessary capital to build and maintain the electric system. In turn, investors expect a reasonable rate of return for use of their capital. Without investors, there is no capital for the construction and maintenance of a safe and reliable electric system.

Spending investor money is firmly within the discretion of the utility, but recovering the return on and of⁵ those investments is reviewed for reasonableness by state regulators before including those investments in customer rates. Regulators utilize investigations to determine the appropriate rates for utility service. This process plays out in a public forum through docketed

³ “Effectively, regulation constitutes an agreement between a utility and the government: the utility accepts an obligation to serve in return for the government’s promise to approve and allow rates that will compensate the utility fully for the costs it incurs to meet that obligation. This implied agreement is sometimes called the regulatory compact. [...] Regulation is an exercise of the police power of the state, over an industry that is affected with the public interest.” From, *Electricity Regulation in the US: A Guide*, 2nd Edition, Regulatory Assistance Project.

⁴ In 1877, the Supreme Court discusses regulation of businesses “affected with the public interest” (*Munn v. Illinois*, 94 U.S. 113), around five years before Thomas Edison unveiled the first power plant in the United States (1882).

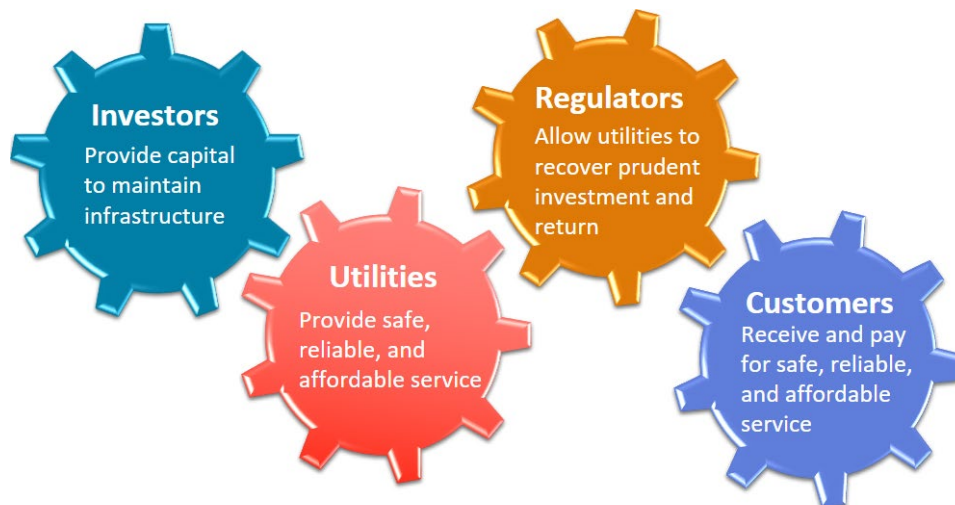
⁵ “Return on” is the reasonable rate of return investors expect for use of their capital. “Return of” is the annual repayment of the original capital itself over time, otherwise known as depreciation expense.

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

court cases involving public notice,⁶ opportunities for intervention by interested parties,⁷ a series of filings seeking competent evidence to support various analyses and opinions, and the opportunity for parties and the affected public to be heard.⁸ The goal of the regulatory process “is to ensure the provision of safe, adequate, and reliable service at prices (or revenues) that are sufficient, but no more than sufficient, to compensate the regulated firm for the costs (including returns on investment) that it incurs to fulfill its obligation to serve.”⁹

Customers are made aware of these rate investigations, which typically take place over the course over six to nine months,¹⁰ and they are invited to participate or provide comment. However, customers rely on their elected regulators to evaluate these cases and make a decision that will result in reliable service at an affordable price. Investors rely on utilities to keep costs to a minimum and also rely on regulators to allow an appropriate return on their invested capital. Customers, regulators, utilities, and investors are all critical players in the ratemaking process. There is no reliable electric service without capital for infrastructure, and there is no reasonable return on or of investment without customers who can pay for service. Utilities and regulators act as the conduits through which dollars and service flow to achieve these outcomes.

Figure 1



⁶ Public notice is approved by the Commission and generally involves direct mail and emails to customers.

⁷ Interveners are organizations represented by counsel that may be affected by the outcome of a rate investigation. These groups argue for particular interests, such as large energy consumers or environmental concerns. Interveners regularly present evidence in rate investigations recommending a different position from that of the utility.

⁸ Public hearings on rate adjustments and other matters are required by 17 O.S. 158 et seq.

⁹ *Electricity Regulation in the US: A Guide*, 2nd Edition, Regulatory Assistance Project, pg. 6.

¹⁰ The length of a full rate case process is at least 6 months, but it can last 12 months or more if a final Commission decision is more difficult to reach. These time periods vary by jurisdiction.

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

B. Performance Based Rates Increase Regulatory Oversight

In Oklahoma, general rate cases are the primary tool used by the Commission to conduct periodic rate investigations and ultimately balance the regulatory compact interests. Using only this tool, an electric company in Oklahoma has its full cost to serve customers – including the appropriate return on shareholder equity (“ROE”),¹¹ capitalization structure,¹² and capital depreciation rates¹³ – reviewed every few years, typically at a time of the utility’s choosing.

These rates are designed to give the company the fair *opportunity* – but not a guarantee – to earn its authorized ROE going forward. In reality, fluctuations in operating and maintenance expenses, increased or decreased revenues from changes in weather and customer growth, and additional capital investment mean the company will actually earn above or below this authorized ROE. The difference between authorized and earned ROEs will continue until the utility brings forth its next rate adjustment request. In between these general rate cases, a regulatory gap is created where changes in costs, revenues and capital investment are not reviewed. The gap created by this process can be as little as two or three years, or as long as ten years or more. In any case, the length of the gap is unknown until the next case is filed. Occasionally, the Commission will allow or require the utility to carve out certain costs for more frequent review and adjustment, but these exceptions are fairly limited.¹⁴

In this Notice of Inquiry, the Commission asked, “**What are the issues and or problems with traditional ratemaking practices that implementation of the proposed Alternative Ratemaking would solve?**”

In 2004, a new tool for rate investigations was created with the Commission approval of the PBR model.¹⁵ The PBR provides a streamlined regulatory process between general rate cases and this streamlined process allows a Company’s rates to be reviewed and adjusted more

¹¹ OG&E’s *authorized* ROE is currently 9.5%. The average return for the entire S&P 500 index since 1950 is about 11% per year. Recent cases have seen case participants propose ROEs in the range of 7 to 11%.

¹² The mix of bondholder debt and shareholder equity utilized to finance the company’s investments, typically somewhere between 40-60% of each. Increasing or decreasing this balance can have a significant impact on a utility’s cost to borrow debt.

¹³ Capital depreciation rates reflect the expected life of in-service assets, such as utility poles, power plants, and transmission lines. Experts regularly disagree about appropriate asset lives, and this can have a direct impact on utility rates.

¹⁴ As described later in these comments, OG&E has several riders to recover costs the Commission has deemed appropriate for more frequent review and adjustment.

¹⁵ CenterPoint Oklahoma Gas was the first utility to receive Commission authorization for a PBR in Order No. 499253, Cause No. PUD 200400187. Oklahoma Natural Gas would later receive authorization for a PBR in 2011.

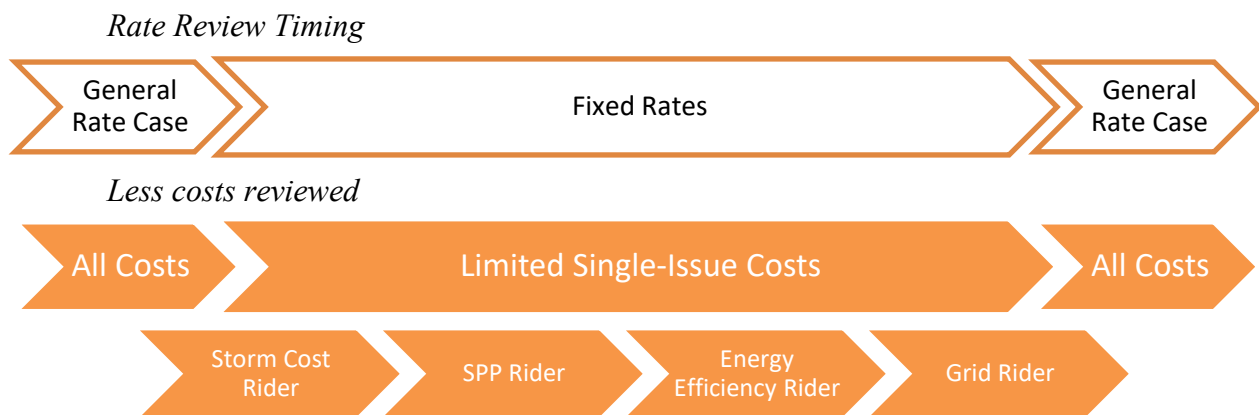
Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

frequently to ensure rates more closely match the Company’s cost to serve. The PBR eliminates the regulatory oversight gaps between general rate investigations, ensuring utility rates are consistently reviewed. The PBR reduces or eliminates the need for most special cost carve-outs – known more widely as “riders” – and significantly increases the amount of utility costs placed under the annual scrutiny of regulators. Today, over one million Oklahoma natural gas utility customers have their rates regulated under this PBR model.¹⁶

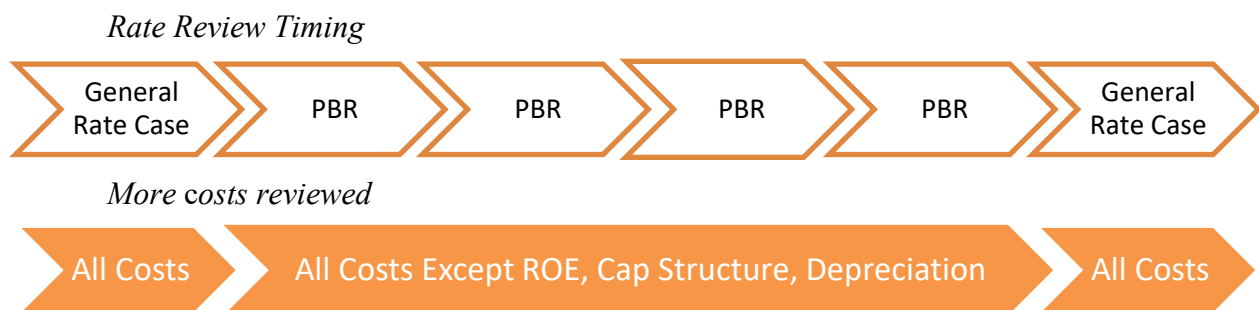
In Figure 2 below, it is clear how the PBR process increases the frequency of electric utility capital investment, expenses and revenues instead of having single issue reviews of only some costs during the period between general rate cases.

Figure 2

Traditional Rate Reviews



Performance Based Rate Reviews



¹⁶ Oklahoma Natural Gas and Summit Utilities Oklahoma collectively serve over one million customers in Oklahoma and comprise the vast majority of regulated natural gas customers in the state.

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

In order to achieve these more frequent rate reviews and streamline the regulatory process, the annual PBR reviews utilize the same ROE, capitalization structure, and depreciation rates established in the same general rate case that initiates the PBR term. These three issues consume significant resources for all parties involved in a general rate review, but do not often change very much from rate case to rate case. Importantly, the PBR model does not *replace* the periodic general rate case reviews. Instead, the PBR *supplements* general rate case reviews by ensuring a utility's financials never go without scrutiny in between general rates cases. This process also requires electric utilities to establish a regular cadence of general rate case filings every five years.

The PBR model is just one form of alternative ratemaking, but it is generally the superior method among the alternatives. PBRs rely on historical data from consecutive review periods and do not require any forecasting and subsequent true-up of those projections. As previously mentioned, Multi-Year Rate Plans, Future Test Years, and individual cost trackers are some other methods used across the country. In Oklahoma, OG&E has been authorized to use cost trackers (or, riders)¹⁷ in addition to its general rate cases to recover costs. The PBR model reduces or eliminates the need for most cost trackers and riders while providing a more frequent review of the utility's cost to serve. Multi-Year Rate Plans and Future Test Years also attempt to reduce potential rate shock and more closely monitor utility financial performance, but they also require a significant amount of and debate over an up-front forecast along with additional filings to ensure only the actual costs are passed through.

Nothing about the PBR process preempts the authority or the rights of the Commission, its professional staff, or other stakeholders from initiating cases, intervening in cases, and otherwise investigating utility rates.¹⁸ On the contrary, it creates additional opportunities for thorough rate investigations by establishing a known schedule of regular reviews that allow all parties to issue discovery, make recommendations, and ultimately have their interests considered by the Commission. Ultimately, the PBR ensures the customer pays only the actual cost for utility service on an annual basis, following an in-depth review and Commission determination.

¹⁷ Cost Trackers and Riders are terms sometimes used interchangeably in regulated ratemaking literature. In Oklahoma, a "tracker" most often refers to an accounting mechanism that ensures the difference between the costs embedded in rates and the actual cost is tracked and updated in general rate cases so that customers only pay the actual cost over time. A "rider" expands upon the cost tracker mechanism to provide for a more frequent adjustment of the rate associated with the underlying costs.

¹⁸ The PBR proposed in OG&E's 2021 general rate case and the framework laid out in Senate Bill 1103 required out specific processes for presenting testimony and developing a full evidentiary record in every annual review.

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

C. How Performance Based Rates and Formula Based Rates Work

Oklahoma's Performance Based Rate and other state Formula Based Rate frameworks generally work in a similar manner, though specifics can differ among jurisdictions and sometimes among individual companies within jurisdictions. In Oklahoma and Arkansas, utilities with a PBR or FRP must first file a general rate case before the Commission to review all costs comprising the utility's rates.¹⁹ General rate cases consider the utility's revenues, expenses, capital depreciation rates, capital structure, and an appropriate ROE. Upon conclusion of the general rate case, the utility enters a PBR or FRP term of approximately five years.²⁰ During the term, the utility makes a rate filing each year to compare the *earned* return during the rate review period to the return *authorized* in the previous general rate case.

For each annual PBR case, utilities must file direct testimony and accounting schedules along with any supporting evidence. The burden of proof for the proposed rate adjustment (if any) rests with the utility. Intervenors may still appear in cases, review evidence, issue data requests, and file testimony presenting opposing evidence. Just as with general rate cases, additional rounds of testimony are allowed and ultimately a public hearing must occur. The administrative law judges of the Commission, and the Commission itself hears this evidence and decide the case with an order of the Commission. Nothing about this process differs from a typical general rate case.

Each year, if a utility earns within a range approved by the Commission – typically 50 basis points above or below the *authorized* return – rates do not change. This bandwidth is a rate stabilization measure to prevent rates from changing too frequently and encourages utility cost efficiency. However, when utilities earn outside this range, rates are adjusted going forward – or prospectively – to reflect the new cost to serve customers. Since rates are only adjusted prospectively, if an electric utility underearns during a given year, the electric utility will not be able to recover that shortfall in earnings from customers.

The PBR system maintains the fundamental principle of utility ratemaking; utilities are only given the *opportunity* to earn their authorized return. However, any utility over-earnings above a level set by the Commission will result in a refund for those excess earnings to customers. The PBR improves customer confidence by never allowing an electric utility to keep excess

¹⁹ The general framework for Arkansas FRPs is explained in Arkansas Code § 23-4-1201 et seq. Oklahoma PBRs are governed exclusively by their Commission approved tariffs.

²⁰ The use of Projected Year data in the Arkansas FRP requires the operation of an FRP to extend beyond the five-year term.

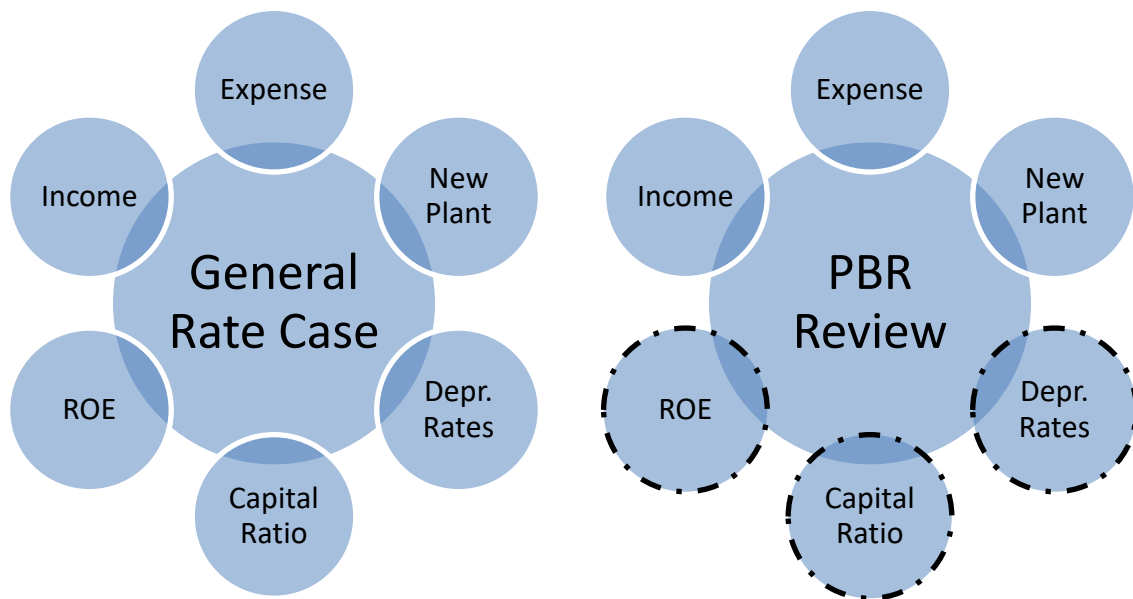
Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

revenues above the earnings bandwidth. The PBR also improves regulator confidence by providing a closer-to-real time look at the utility’s financial performance and the operational results behind the numbers. The PBR further provides investor insight into the regulator’s view of the utility’s discretion in the deployment of investor capital.

In order to streamline the PBR reviews and ensure they can be completed on an annual basis, the issues of ROE, capital structure, and depreciation rates are reserved for the periodic general rate case. Once decided by the Commission, these issues remain fixed for the term of the PBR, until the next general rate case. Reserving these three larger items does more than ensure the PBR rate reviews can be completed in a timely manner, it serves as another rate stabilization mechanism for customers.

Figure 3

Rate components considered in general rate cases and PBR reviews



Utility rate case requests for higher ROEs and shorter depreciation rates can make up more than half of a company’s total revenue change request in a general rate case. And if any changes are approved by the Commission, they usually make up only a small part of the total *authorized* rate change because regulators generally prefer to gradually adjust these higher dollar issues. In fact, OG&E’s approved ROE has not been changed since the 2015 rate case, filed nearly a decade

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

ago.²¹ And changes in depreciation rates have been minimal for OG&E since 2015. Yet countless resources have been spent by internal personnel, expert witnesses, and attorneys' fees for the company and intervening parties alike to litigate these issues in the three OG&E general rate cases since 2015. Reserving these items for periodic review also benefits customers by "locking in" these cost components. For instance, OG&E's ROE is currently below the industry average, and the trend for industry ROEs is only prevailing upward.²² ROE, depreciation rates, and capital structure will continue to be regularly investigated by the Commission in general rate cases. However, supplementing these general rate case reviews with additional PBR reviews can only increase the amount of regulatory oversight over the current system.

D. Performance Based Rates Improve the Regulatory Compact

In its Notice of Inquiry, the Commission asks, **"What additional benefits would be passed through to customers, and what additional benefits would be received by utilities with the implementation of the proposed Alternative Ratemaking?"**

The Performance Based Rate framework consistently ensures utility customers are only paying the lowest reasonable cost to provide utility service, regardless of the amount of time that has passed since its last rate case. Under the current system, customers cannot be assured the rates they are currently paying for utility service capture the fluctuations in the cost to serve. If a utility over-earns its authorized return, customers may never receive the benefit of the refund these revenues would provide under the PBR system. Likewise, significant gaps between rate cases results in large accumulations of unrecovered investment, resulting in larger rate adjustments in general rate cases than would occur under the PBR.

Investment tranches are the total amount of accumulated utility investments from each year in between rate cases. The required rate adjustment to recover the cost of these investments increases as they accumulate without an accompanying rate review. Regardless of whether regulators adopt the PBR model or not, the utility is obligated to make these investments to respond to the needs of its customers and provide safe and reliable service. As seen in Figure 4, breaking

²¹ Cause No. PUD 201500273, Order No. 662059.

²² According to S&P Global, the average ROE authorized in all electric utility rate cases was 9.60% for the 12 months ending June 30, 2023.

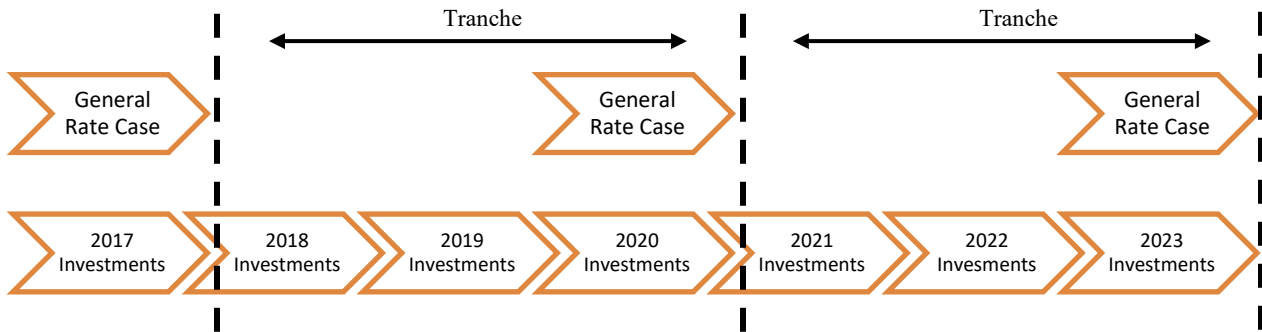
Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
 Case No. GD 2023-000005

up these investment tranches with regular PBR reviews would reduce the incremental rate impact of these investments and prevent investment accumulations from becoming too large.

Figure 4

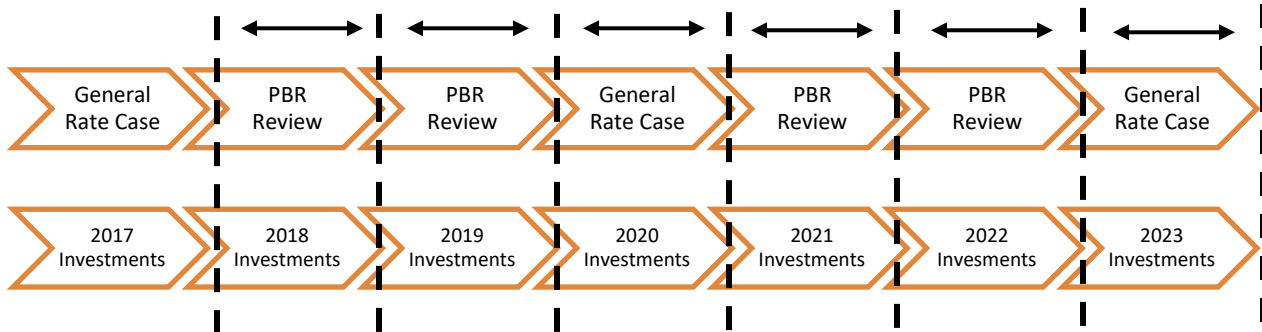
Traditional Rate Reviews

Larger investment tranches – Larger rate adjustments



Performance Based Rate Reviews

Smaller investment tranches – Smaller rate adjustments



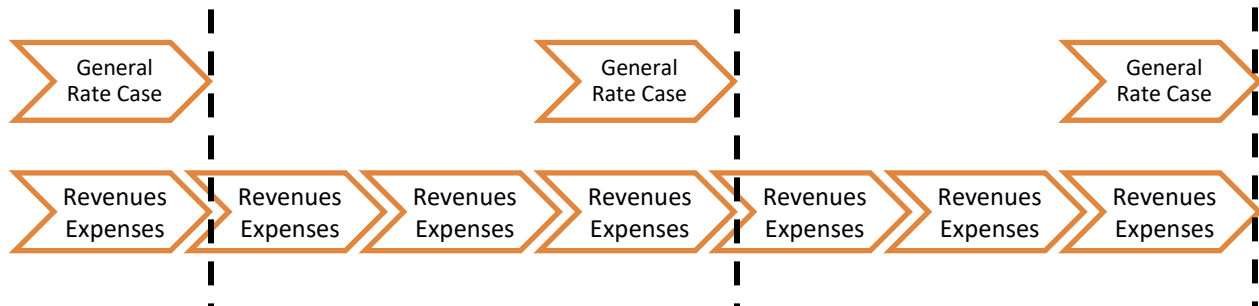
Annual PBR reviews would also capture the impact of fluctuations in revenues and expenses during that time. Capturing prudent and reasonable cost changes and adjusting rates more frequently aligns the interests of all stakeholders while recognizing the general customer preference for small price changes.

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
 Case No. GD 2023-000005

Figure 5

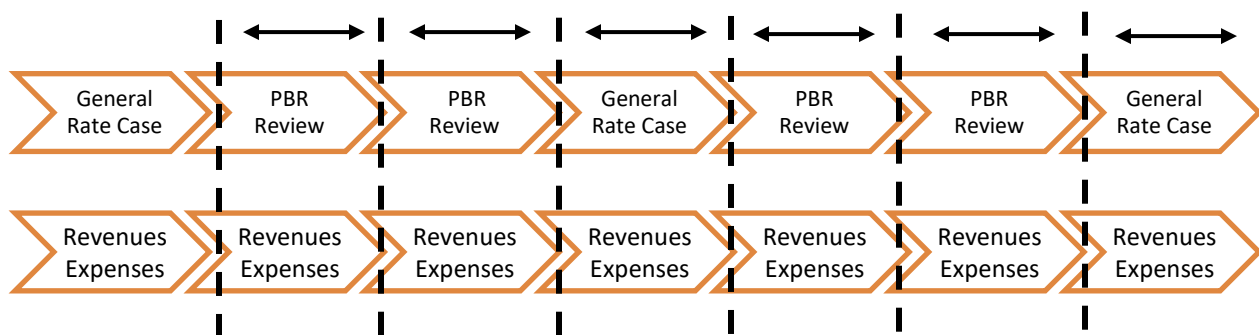
Traditional Rate Reviews

Fluctuations in revenue and expenses are not reviewed



Performance Based Rate Reviews

Fluctuations in revenues and expenses are reviewed and adjusted accordingly



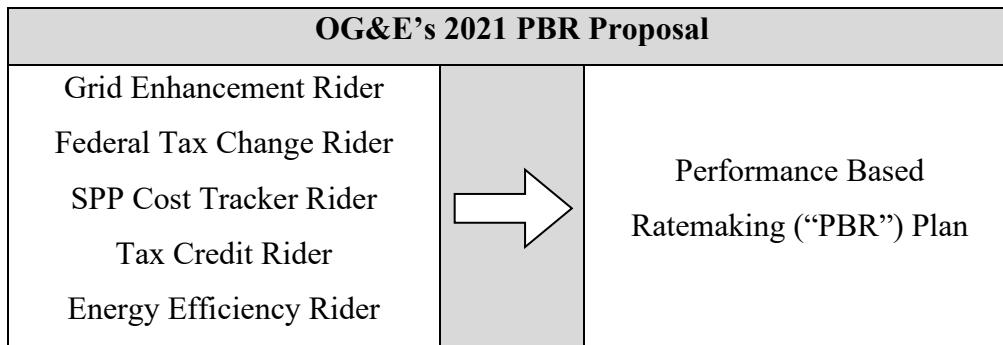
In its Notice of Inquiry, the Commission asks, “**How would the implementation of the proposed Alternative Ratemaking more efficiently align the interests of the utilities, ratepayers, and shareholders than through traditional ratemaking?**” PBRs increase customer, regulator, and investor visibility of utility financial and operational performance. Rather than waiting for infrequent and costlier general rate cases, all stakeholders have the annual opportunity to investigate whether the utility is spending its money wisely and whether rates reflect the true cost to serve customers. In fact, the PBR plan has been recognized by the OCC’s Public Utility Division and the Commission itself as a system that provides numerous benefits to Oklahoma natural gas utility customers, including: (1) balanced utility and ratepayer interests; (2) gradualism in rate adjustments; (3) decrease in regulatory costs; (4) reduction in regulatory lag; (5) closer supervision and more frequent review of utility performance; and (6) lesser need for cost

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

recovery outside base rates.²³ In addition, the PBR achieves several additional beneficial objectives, including facilitating investment in Oklahoma’s critical infrastructure, consistent feedback between the Company and its regulators, and a regulatory framework through which operational savings and potential over-earnings can be returned to customers.

The OCC’s PUD has also recognized annual PBR reviews more efficiently align stakeholder interests by reducing the need for additional cost recovery mechanisms outside of base rates through the elimination of additional cost trackers. OG&E proposed to retire almost all of its existing riders in favor of the annual PBR review in its 2021 general rate case:²⁴

Figure 6



Under the current traditional ratemaking formula, only some costs are reviewed on a more regular basis than most of the other costs that comprise the total utility rate. There is no consideration for other potential offsetting revenues or expense reductions, and there is little opportunity under the current system in Oklahoma for a broader stakeholder group to have input on these reviews and adjustments.²⁵ Opponents of the PBR will claim that increasing the number and scope of reviews actually lowers regulatory oversight because “long, contentious regulatory proceedings...generally result in significant savings to customers.”²⁶ Aside from the fact there is no evidence to support the link between the length of a rate case proceeding and the ultimate outcome, this argument actually supports the benefits of the annual PBR review. If further

²³ These benefits have been discussed in the testimony of OCC Public Utility Division witnesses in dockets where the PBR was at issue, including, but not limited to, Cause Nos. UD 201900019 (Responsive Testimony of Isaac D. Stroup), PUD 201800097 (Responsive Testimony of Zachary Quintero), PUD 201900018 (Responsive Testimony of Elbert D. Thomas), and PUD 200800348 (Direct Testimony of Brandy Wreath).

²⁴ Cause No. PUD 2021000164, Direct Testimony of Zachary Quintero.

²⁵ Review and approval of these adjustments largely takes place outside of docketed cases, pursuant to a process approved by the Commission.

²⁶ OCC Cause No. PUD 201800097, Responsive Testimony of Mark E. Garrett on behalf of the Oklahoma Industrial Energy Consumers, pg. 23.

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

investigation of utility rates results in better outcomes for customers, then we should all agree placing the utility under annual rate scrutiny will lead to better outcomes.

PBR opponents will also argue that setting up annual reviews of customer rates incentivizes the utility to overspend.²⁷ However, that is exactly what an annual review of costs is designed to prevent. A more frequent review of the costs will require an electric utility to consistently demonstrate the reasonableness of its costs and any costs deemed unreasonable and imprudent by the Commission will be subject to disallowance and removal from rates. Under the traditional regulatory model, intervening parties must review up to three years' worth of investments to determine reasonableness, rather than just a single year. A more focused, annual cost review and the greater scrutiny placed upon those costs is a powerful incentive for the utility to ensure all costs are fair, just, and reasonable. Increasing the frequency, visibility, and scope of review of utility rates in between general rate cases can only further and more efficiently align the interests of all stakeholders.

E. The PBR is a Proven Regulatory Model

The traditional regulatory model does not need to fail to be improved upon. Today, Oklahoma's largest investor-owned utility²⁸ operates under the PBR model. Oklahoma Natural Gas ("ONG") has a PBR plan similar to the one proposed by OG&E in its 2021 general rate case, Senate Bills 1103 and 694, and as described in these comments. ONG's PBR includes a provision requiring a general rate case every five years and an option to re-authorize the next five-year PBR term during that case. Between rate cases each year, ONG files an annual PBR review to ensure its rates continue to accurately reflect the cost to serve customers. Since 2011, ONG customer rates have been reviewed by this Commission every single year to ensure they are fair, just, and reasonable.

Opponents of the PBR model sometimes claim natural gas distribution utilities are too different from electric utilities to warrant using the same regulatory policy. To justify more frequent rate reviews for gas utilities, electric utility PBR opponents will generally point to a declining customer base or usage "crisis" natural gas utilities have faced or are currently facing.

²⁷ OCC Cause No. PUD 202100164, Responsive Testimony of Mark E. Garrett on behalf of the Oklahoma Industrial Energy Consumers, pg. 7.

²⁸ Oklahoma Natural Gas has over 920,000 customers in the State.

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

However, ONG filed a general rate case in 2015 and received another five-year PBR term.²⁹ In 2021, ONG filed another general rate case and received another five-year PBR term. During the same time period, ONG's average customer count grew by 5%, and the total volumes of gas delivered grew by 8%.³⁰ In fact, ONG's holding company, ONEGas, boasted an \$8.5 million increase in net operating income in its 2021 annual earnings report "attributed primarily to net residential customer growth."³¹ Despite having a stable customer base and larger overall sales volumes, the PUD and the Attorney General signed the Commission-approved settlement agreement continuing ONG's PBR for an additional five years. Ironically, the Oklahoma Industrial Energy Consumers joined the parties in this settlement agreement despite frequently and vocally advocating against the PBR for electric utilities.³²

Opponents to PBR policy may also claim this "crisis" is seen more acutely on a per-customer basis because per capita gas usage is declining, even in ONG's service territory. However, this trend is also taking place in the electric utility sector,³³ and therefore is not a compelling reason to support the continued existence of ONG's PBR while advocating against the same for OG&E or other electric utilities. To the contrary, increasing overall load growth is just another reason the Commission should consider adopting the PBR Plan. If revenue growth outpaces historic trends and results in over-earnings, OG&E's customers would receive those over-earnings as a refund. Customers share in the benefits of this load growth through the regular and predictable timing of PBR reviews.

The PBR is a process that provides numerous benefits to customers regardless of whether a utility is facing an increasing or decreasing revenue and customer base, and there need not be a "crisis" to justify greater regulatory oversight. In addition to reduced investment tranches and returning potential expense savings to customers, the PBR's earnings sharing mechanism ensures customers to realize the benefits of potential economic development in the electric company's service territory.

²⁹ OCC Cause No. PUD 201500213, Order No. 648326.

³⁰ Oklahoma Natural Gas SEC Form 10-K, 2016 and 2022

³¹ ONEGas announces fourth quarter and full year 2021 financial results. ONE Gas - ONE Gas Announces Fourth Quarter and Full Year 2021 Financial Results. Retrieved May 10, 2022, from <https://www.onegas.com/news/press-release-details/2022/ONE-Gas-Announces-Fourth-Quarter-and-Full-Year-2021-Financial-Results/default.aspx>

³² OCC Cause No. PUD 202100063, Order No. 721916.

³³ Cause No. PUD 202100164, Rebuttal Testimony of Jennifer Nelson, pg. 4 et seq.

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

F. In Other States, PBRs and FRPs Successfully Fulfill the Regulatory Compact

The Commission asked interested parties in its Notice of Inquiry to “**(a) Identify other states that have adopted a form of Alternative Ratemaking; (b) Include statutory citations and/or rules implementing the Alternative Ratemaking in those states; (c) Describe any benefits or issues seen by the utility, customers, customer advocates, intervenors, and the regulatory agency following implementation of the Alternative Ratemaking methodology in these states.**”

Alternative ratemaking methods are used widely across the country, including Performance Based Rates and Formula Rate Plans.³⁴ OG&E’s Arkansas Formula Rate Plan (“FRP”) has been in place since 2017, and it was originally authorized by an Act of Arkansas General Assembly in 2015.³⁵ The General Assembly took up the matter again in 2021, permitting utilities to request an extension of their Formula Rate Plans.³⁶ In Oklahoma and Louisiana, utilities operate under PBRs or FRPs without specific guidance from the state legislature. OG&E has also identified electric utilities operating under a PBR or FRP in Mississippi, Alabama, and Illinois. These PBRs or FRPs are similar to the one described in these comments and utilized by utilities in Oklahoma, Arkansas, and Louisiana.

OG&E has made five rate adjustments to date pursuant to the Arkansas FRP.³⁷ The FRP enabled OG&E to recover federally mandated environmental investments in its generating units while also facilitating the Company’s investments to maintain a reliable grid. In addition, OG&E’s FRP has increased financial and operational transparency, returned significant O&M savings to customers, returned increased revenues, and resulted in a closer relationship with its regulators. Even after five years of annual rate filings and sustained, significant increases in natural gas prices in 2022, OG&E’s rates remain approximately 27% the national average.³⁸ The proposed rates in OG&E’s sixth FRP are also in line with or below state, regional, and national averages.³⁹

³⁴ S&P Global notes at least 20 states with some form of alternative ratemaking mechanism.

³⁵ Arkansas Code § 23-4-1201 et seq.

³⁶ Act 404 of the 93rd General Assembly, Regular Session 2021.

³⁷ See APSC Docket No. 18-046-FR.

³⁸ As of 2022, OG&E Arkansas average total sector price was 10.3 cents and the national investor-owned utility average was 13.3 cents (based on early release data to be finalized in late October 2023).

³⁹ APSC Docket No. 18-046-FR, Direct Testimony of Zachary Quintero, filed October 2, 2023.

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
 Case No. GD 2023-000005

G. Comparing Regulatory Systems and Outcomes

Opponents of the PBR and FRP models will claim that OG&E’s rates have seen runaway increases since the inception of the Arkansas FRP and narrowly direct attention to OG&E’s FRP filings in an attempt to demonstrate that rates have increased significantly. They will further claim Oklahoma’s traditional regulatory model has kept OG&E’s rates from increasing as quickly as other states. These claims are misleading because the Arkansas FRP is only one component of OG&E’s total Arkansas price.

Significant cost reductions experienced in Oklahoma, such as OG&E’s \$80 million annual cogeneration contracts that expired in 2018, were never charged to Arkansas customers in the first place.⁴⁰ Other significant cost reductions, such as the Tax Cuts and Jobs Act of 2017, flowed back to customers through a rider *outside* the Arkansas FRP. This cost reduction was appropriately returned to customers, but you would not know by narrowly focusing on OG&E’s Arkansas FRP rate. This difference can be seen in the Arkansas rate components from the period after the Arkansas Tax Adjustment Rider and Formula Rate Plan were implemented:

Figure 7

Isolating individual rate components does not tell the whole story

2019 OG&E Arkansas Rate Components	Rate⁴¹
Customer Charge	\$9.75 – Flat
Base Rate ⁴² (2016 Rate Case)	\$0.0580 per kWh
Tax Adjustment	- 7.03% per base kWh
Energy Cost Recovery ⁴³	\$0.025657 per kWh
Energy Efficiency Cost Recovery	\$0.00384 per kWh
Transmission Cost Recovery	\$0.002197 per kWh
Formula Rate Plan (2019 FRP)	\$0.031792 per kWh
Environmental Compliance Plan ⁴⁴	\$0.002633 per kWh

⁴⁰ Cause No. PUD 202100164, Rebuttal Testimony of Zachary Quintero, pg. 14.

⁴¹ OG&E’s Response to Edison Electric Institute (“EEI”) Typical Bills and Average Rates Report Summer 2019.

⁴² First 1,400 kWh; Over 1,400/kWh is \$0.0850/kWh.

⁴³ Includes Mustang ECR credit.

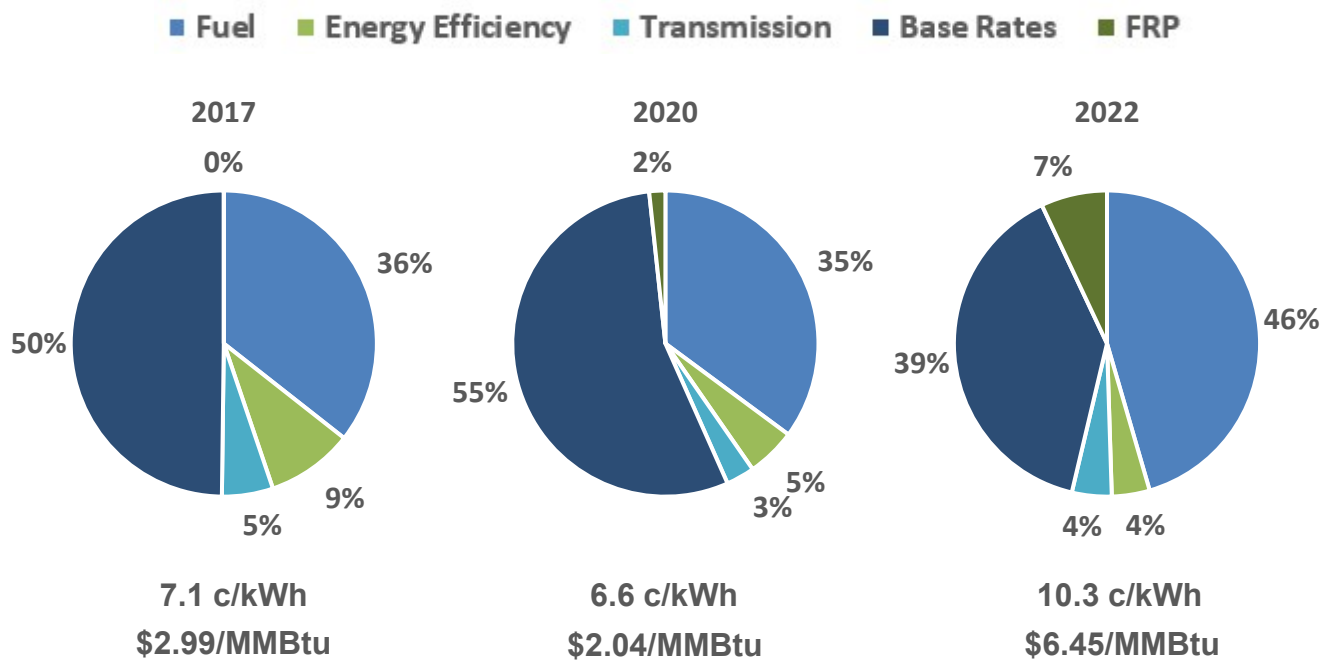
⁴⁴ This rider was refunded to OG&E customers later in 2019.

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
 Case No. GD 2023-000005

Multiple factors that comprise the total average price for an OG&E Arkansas residential customer over recent years, and isolating the change of the FRP component alone does not accurately represent the total change in price over time. OG&E’s Arkansas base rates were last adjusted in 2017. Since that time, infrastructure investments, O&M changes, and revenue changes have all been holistically captured in the annual FRP review. Figure 8 demonstrates the multiple components that have made up OG&E’s Arkansas rates over time, and how those components correspond to changes in total electric price and natural gas market prices.

Figure 8

Reviewing individual pieces of the pie – rather than the whole pie – is misleading



While the FRP rate increased between 2017, 2020, and 2022, these increases do not equate to a 28% total price increase as some opponents have claimed. In fact, OG&E’s overall price decreased from 7.1 c/kWh to 6.6 c/kWh between 2017 and 2020 despite the addition of the FRP rate. OG&E’s total average price then increased from 6.6 c/kWh in 2020 to 10.3 c/kWh in 2022, largely due to natural gas price increases recovered through the fuel adjustment factor. Over the past six years, the base rate and FRP combined actually became a *smaller* amount of the total price. This comparison is not to obscure or minimize the discrete cost increases during this period. There are a significant number of beneficial investments that OG&E has sought recovery of through the FRP, and the Arkansas PSC has approved these investments as reasonable and prudent. The FRP

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

rate has increased accordingly to recover these prudent costs from customers. Nevertheless, OG&E's total average price in Arkansas has not become unreasonable due to the FRP rate adjustments.

The truth is most active parties at the Commission are highly aware of the various components which comprise the utility's end price. Isolating OG&E's Oklahoma base rates and comparing them to OG&E's Arkansas FRP rates without providing the appropriate context is either acutely naïve or intentionally misleading. The method in which a wide variety of utility costs are recovered can vary significantly among jurisdictions and even between companies in the same jurisdiction. Fuel costs can be recovered completely through a rider or through a combination of base rates and riders. Energy efficiency program costs can be recovered through an FRP/PBR mechanism or through their own separate rider. Some utilities receive rider treatment for regional transmission organization expenses while others do not. Ultimately, many pieces constitute the total price "pie." The sizes of these individual pieces may change over time, but the only way to closely compare utilities and jurisdiction price is to add them all up into the total price.

H. PBRs and FRPs Do Not Cause Automatic Rate Increases

When we evaluate the whole price pie, there is no evidence to suggest adopting a PBR or FRP will lead to runaway price increases. It is clear there are noticeable trends in utility prices over time, but none of those trends correspond to the implementation of PBRs or FRPs. To accurately understand how prices compare across jurisdictions, OG&E has developed analyses using the latest available independent data from the U.S. Energy Information Administration ("EIA").⁴⁵ The EIA data is the best available for comprehensive price comparisons, because it accounts for all the pieces of the pie through each utility's monthly and annual reporting.

Opponents will claim OG&E's prices in Arkansas have increased faster than OG&E's prices in Oklahoma. Over certain time periods, the opponent's claim is a true statement, but this also paints a misleading picture. From 2015 to 2021, OG&E's Oklahoma total electric price has increased by \$0.71/kWh⁴⁶ and OG&E's Arkansas total electric price increased by \$1.52/kWh.⁴⁷

⁴⁵ Unless otherwise noted, all referenced price data is sourced from Forms EIA 864, Electric Power Monthly, Electric Power Annual. EIA produces state-level price data monthly, but individual utility price data is only released annually, typically in October of the following year. Year-end 2022 data was released early and will be finalized in October.

⁴⁶ OG&E's Oklahoma total sector average prices in 2015 and 2021 were 7.52 c/kWh and 8.28 c/kWh respectively.

⁴⁷ OG&E's Arkansas total sector average prices in 2015 and 2021 were 6.47 c/kWh and 7.99 c/kWh respectively.

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

Yet \$0.62 of the Arkansas price increase occurred between 2015 and 2017,⁴⁸ before OG&E's FRP was ever implemented, and Oklahoma experienced a \$0.32/kWh price increase during the same two-year period.⁴⁹ Clearly this difference cannot be attributed solely to the existence of the FRP or lack thereof. Despite this higher rate of increase and the continued increase in electric prices as a result of high natural gas prices, OG&E's Arkansas and Oklahoma prices were approximately the same in 2022.⁵⁰

Energy across the Southern United States remains affordable compared to most of the country. As of June 2023, Arkansas and Oklahoma are ranked the 9th and 10th lowest respectively for average electricity price.⁵¹ Opponents of the FRP and PBR models have shifted their focus to other states and utilities in an attempt to expand these misleading comparisons. Louisiana – ranked third lowest in electric price affordability as of June 2023 – has utilized the FRP regulatory model since at least 1995. In both Arkansas and Louisiana, rates are adjusted through the FRP by calculating a revenue requirement, and then producing a percentage adder or subtractor on top of the last approved general base rate.⁵² Despite an FRP Rate of approximately 69% to 81% (depending on the applicable class), Entergy Louisiana's average price of electricity in 2022 was \$0.82/kWh less than OG&E's Oklahoma average price.⁵³ Again, failing to consider all rates components and pointing to the increase of a single factor over a long time period is misleading.

Taking the broad view, there is no clear long-term trend demonstrating that Arkansas, Louisiana, or other FRP state and utility prices follow a rapidly increasing price trend that is not experienced in non-FRP states. OG&E's research suggests cost trends in most states follow the national trend of increasing energy costs over time, with fluctuations attributable to the price of natural gas used for electricity production. Figure 9 shows the average price of electric utilities with FRPs, electric utilities without FRPs, and U.S. average electricity price during the same period. OG&E's Oklahoma (non-FRP) and Arkansas (FRP) rates are also shown for comparison.

A closer look at investor-owned utilities average price in Oklahoma (non-FRP), Arkansas (FRP), and Louisiana (FRP) shows there's no clear distinction in the trend of average prices since

⁴⁸ OG&E's Arkansas total sector average prices in 2015 and 2017 were 6.47 c/kWh and 7.09 c/kWh respectively.

⁴⁹ OG&E's Oklahoma total sector average prices in 2015 and 2017 were 7.52 c/kWh and 7.84 c/kWh respectively.

⁵⁰ As of 2022, OG&E Arkansas total sector average price is 10.30 c/kWh and OG&E Oklahoma is 10.25 c/kWh.

⁵¹ Arkansas and Oklahoma state average electric prices in June 2023 were 9.81 c/kWh and 9.89 c/kWh respectively.

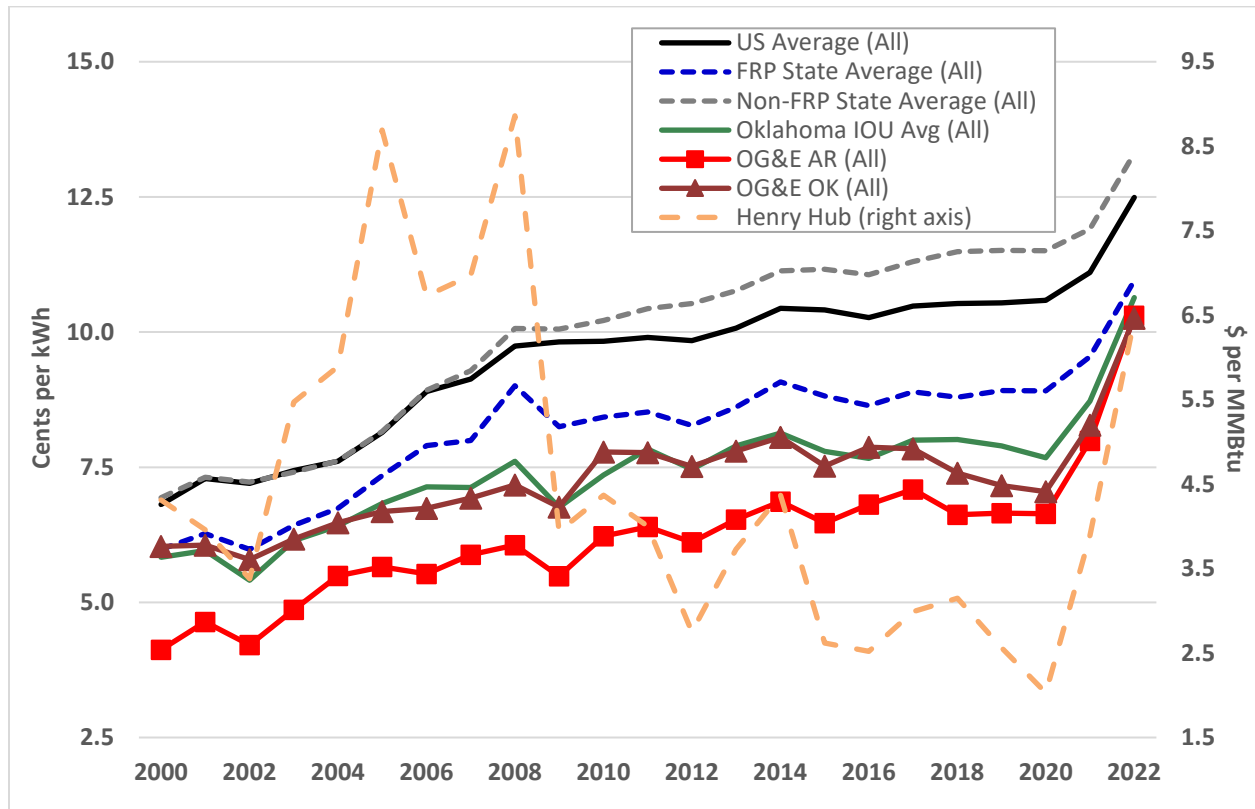
⁵² Oklahoma gas utility PBRs typically recalculate the base rate itself to produce the final rate.

⁵³ As of 2022, Energy Louisiana's total sector average price was 9.44 c/kWh.

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
 Case No. GD 2023-000005

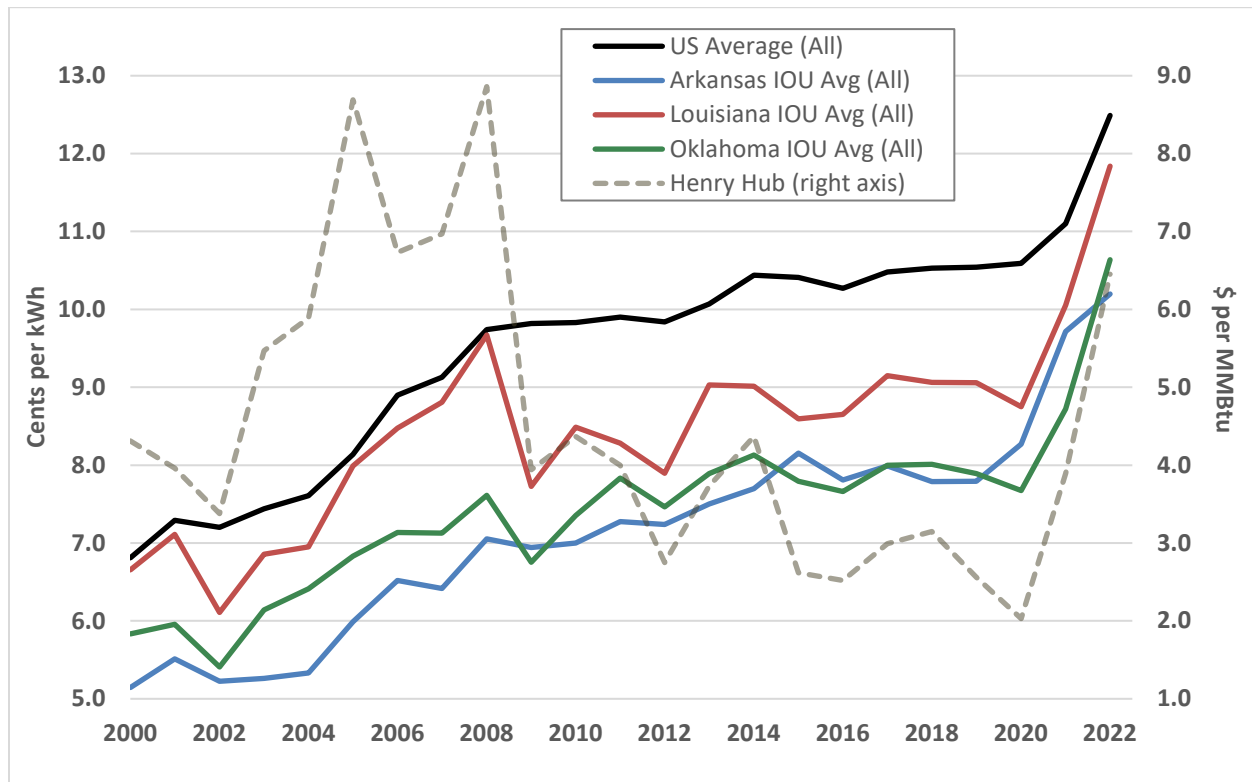
2000. Despite the utilization of FRPs in Louisiana since 1995 and the utilization of FRPs in Arkansas since 2015, price trends are largely in line with Oklahoma. Again, the price of natural gas appears to have the largest impact on electricity price over time. These trends are apparent in the comparison of the three states with natural gas prices as shown in Figure 10. Attached to these comments are larger versions of these figures as well as investor-owned utility price comparisons for individual utilities in Arkansas, Louisiana, and Oklahoma.

Figure 9 – Exhibit 1



Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
 Case No. GD 2023-000005

Figure 10 – Exhibit 2



I. FRPs and PBRs Produce Just and Reasonable Rates

Balancing reliability and affordability are the difficult task of the utilities and their regulators. In the capital-intensive electric utility industry, utilities must balance between the recovery of necessary costs, maintaining the lowest possible rates for customers, and attracting new businesses. There are many individuals and organizations among the larger investor and customer groups that see the delicate balance between the two competing interests, but generally it is up to the utilities and the regulators to achieve this balance. Opponents will claim utilities and their investors seek PBRs or FRPs to tilt the balance of power against regulators in order make it easier to increase rates to the detriment of customers. The price comparison data directly refutes this argument. Prices have not become unaffordable in states that have adopted the PBR or FRP. This claim is also contrary to OG&E’s efforts to maintain affordable rates that attract new businesses to our state. PBRs and FRPs do however provide stability to the ratemaking process. It tells utility investors that there is a standard, predictable process where a utility will have consistent reviews of the utility’s investments and expenses.

No PBR in Oklahoma or FRP in any other state includes an “automatic” rate adjustment mechanism, and any suggestion otherwise is completely false. Under a PBR, before any annual

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

change in rates, the Commission must review every proposed annual PBR adjustment and evaluate the reasonableness of the previous year's investments and expenses. Increasing the number of rate reviews over the status quo inherently increases regulatory oversight through consistent and consecutive rate evaluations, which require the same standard of transparency and substantial evidence as traditional general rate cases.

As explained above, for each annual PBR case, utilities must file direct testimony and accounting schedules along with any supporting evidence. The burden of proof for the proposed rate adjustment (if any) rests with the utility. Intervenors may still appear in cases, review evidence, issue data requests, and file testimony presenting opposing evidence. Just as with general rate cases, additional rounds of testimony are allowed and ultimately a public hearing must occur. The administrative law judges of the Commission, and the Commission itself hears this evidence and decide the case with an order of the Commission. Nothing about this process differs from a typical general rate case.

Efficiencies are gained by fixing some of the most controversial and costly components of a typical general rate change adjustment, including ROE, depreciation rates, and capital structure. Those components are still regularly reviewed during the general rate cases at the beginning and end of a PBR term. Regardless, every year the Commission must decide whether a utility's rates are fair, just, reasonable and in the public interest.

J. OG&E's Southwest Power Pool Relationship Remains Largely Unchanged

In its Notice of Inquiry, the Commission asked, "**What impact would the implementation of the proposed Alternative Ratemaking have with regards to the participation of utilities in the Southwest Power Pool ("SPP")?**" OG&E's participation in the SPP would not be fundamentally altered by the implementation of supplemental PBR reviews. OG&E's fuel costs, including SPP market expenses and revenues, would continue to be audited in its annual Fuel Cost Adjustment prudence filings. OG&E would continue to bid its generation fleet into the market, and customers would continue to receive the lowest cost available generation each day. OG&E would continue to fully participate in SPP working groups and committees to advocate for reliable and affordable generation for our customers.

One benefit of implementing annual PBR reviews could be the elimination of OG&E's Southwest Power Pool Cost Tracker Rider. The review of these costs and any necessary

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

adjustments could be reviewed in each annual PBR case, and the Commission could more holistically balance cost fluctuations against all other changes in OG&E's revenues, expenses, and investments for the same time period.

K. Addressing Concerns of Stakeholders

OG&E recognizes there are stakeholder concerns with the operation of PBRs in Oklahoma and FRP. Through the development of its 2021 general rate case proposal, OG&E addressed several concerns raised by the Public Utility Division.⁵⁴ OG&E and other supporters also continued to support Senate Bill 1103, its amended versions, and successor bills as each version reflected both additional clarifications and further concessions to address stakeholder concerns.

Some of these amendments include provisions that are important to keeping rates cost-based and reasonable. For instance, industrial customers have raised valid concerns about FRPs that "lock in" class allocations for the duration of the FRP term. These locked class allocations can cause specific types of investments to be allocated to the industrial class that otherwise might not be in the context of a general rate case. OG&E agrees it's appropriate to keep class cost allocation open for review and adjustment in any potential Oklahoma electric utility PBR framework.

Other amendments ensured OG&E intends to follow through with the promises of the streamlined regulatory process, such as ensuring nearly all riders are folded into the annual PBR reviews and guaranteeing rate cases will be performed at the beginning and end of a PBR term. Despite claims to the contrary, OG&E does not seek to use any earnings sharing mechanism through the PBR to earn a profit on fuel costs, and it has even supported PBR frameworks that would return 100% of over-earnings to customers rather than the standard 75% used in current Oklahoma gas utility PBR plans. Through these amendments, OG&E sought to improve the PBR framework.

The Arkansas Public Service Commission has noted – as a matter of practice – a continued concern "that the operation of the FRP statute could result in continuing year-to-year rate increases approaching or meeting the four-percent cap."⁵⁵ Opponents of the FRP and PBR have used this

⁵⁴ Cause No. PUD 202100164, Direct Testimony of Zachary Quintero, pg. 9 et seq.

⁵⁵ This language is identically copied into every order approving FRP rates for the past several years. One example is in Docket No. 18-046-FR, Order No. 23. Other examples can be found in similar orders in the same docket, and other final orders issued in Docket Nos. 16-036-FR and 17-010-FR.

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

statement as evidence for their contention that “given the opportunity to increase rates 4% annually, a utility will try to make certain those annual increases occur.”⁵⁶ Yet as of this filing, OG&E has completed five FRP adjustments in Arkansas and has not met the cap every year.

Despite this evidence, opponents of the Arkansas FRP will tell you it is a “dismal failure for ratepayers”⁵⁷ while signing on to a settlement agreement supporting OG&E’s first set of FRP rates as in the public interest.⁵⁸ And when given the annual opportunity to present evidence in each FRP case (that are allegedly “automatic”), the same opponents have only filed testimony twice in five years.⁵⁹ Every OG&E FRP rate adjustment case since its inception has resulted in a productive settlement agreement among the participating parties, to include the Arkansas PSC General Staff and the Attorney General, and once with the Arkansas River Valley Energy Consumers. No party has ever opposed the proposed settlement agreements, and the Commission has approved the resulting rates as in the public interest.

The PBR model actually resolves many of the issues its opponents claim it will cause. Instead of runaway, automatic rate increases, the PBR breaks up the electric utility’s capital-intensive investment requirements into smaller tranches that are both easier for regulators to review in-depth and result in smaller rate adjustments. With a known schedule of annual rate reviews, the Commission can also increase regulatory efficiency and reduce pancaking workloads by putting all its regulated utilities on streamlined and staggered rate review schedule. A well-designed rate review schedule would avoid the problem of potentially overlapping several lengthy and contentious general rate case proceedings from multiple utilities.

Nevertheless, OG&E still agrees there are several possible improvements to existing frameworks beyond those already mentioned. For instance, any Oklahoma electric utility PBR framework should require utilities to file general rate cases at the conclusion of a PBR term, and PBR terms should not be indefinite. These frameworks should also rely on historical cost data rather than projected information to ensure only actual, prudently-incurred costs are passed

⁵⁶ OCC Case No. PUD 2021-000164, Responsive Rate Design Testimony of Mark E. Garrett on behalf of the Oklahoma Industrial Energy Consumers, pg. 14.

⁵⁷ OCC Cause No. PUD 202100164, Responsive Testimony of Mark E. Garrett on behalf of the Oklahoma Industrial Energy Consumers, pg. 14.

⁵⁸ APSC Docket No. 18-046-FR, 2018 Settlement Agreement Testimony of Mark E. Garrett on behalf of the Arkansas River Valley Energy Consumers.

⁵⁹ The Arkansas River Valley Energy Consumers filed testimony in 2018 and 2020, but did not provide testimony in 2019, 2021, or 2022. See APSC Docket 18-046-FR.

Alternative Ratemaking Comments on Behalf of Oklahoma Gas & Electric Company
Case No. GD 2023-000005

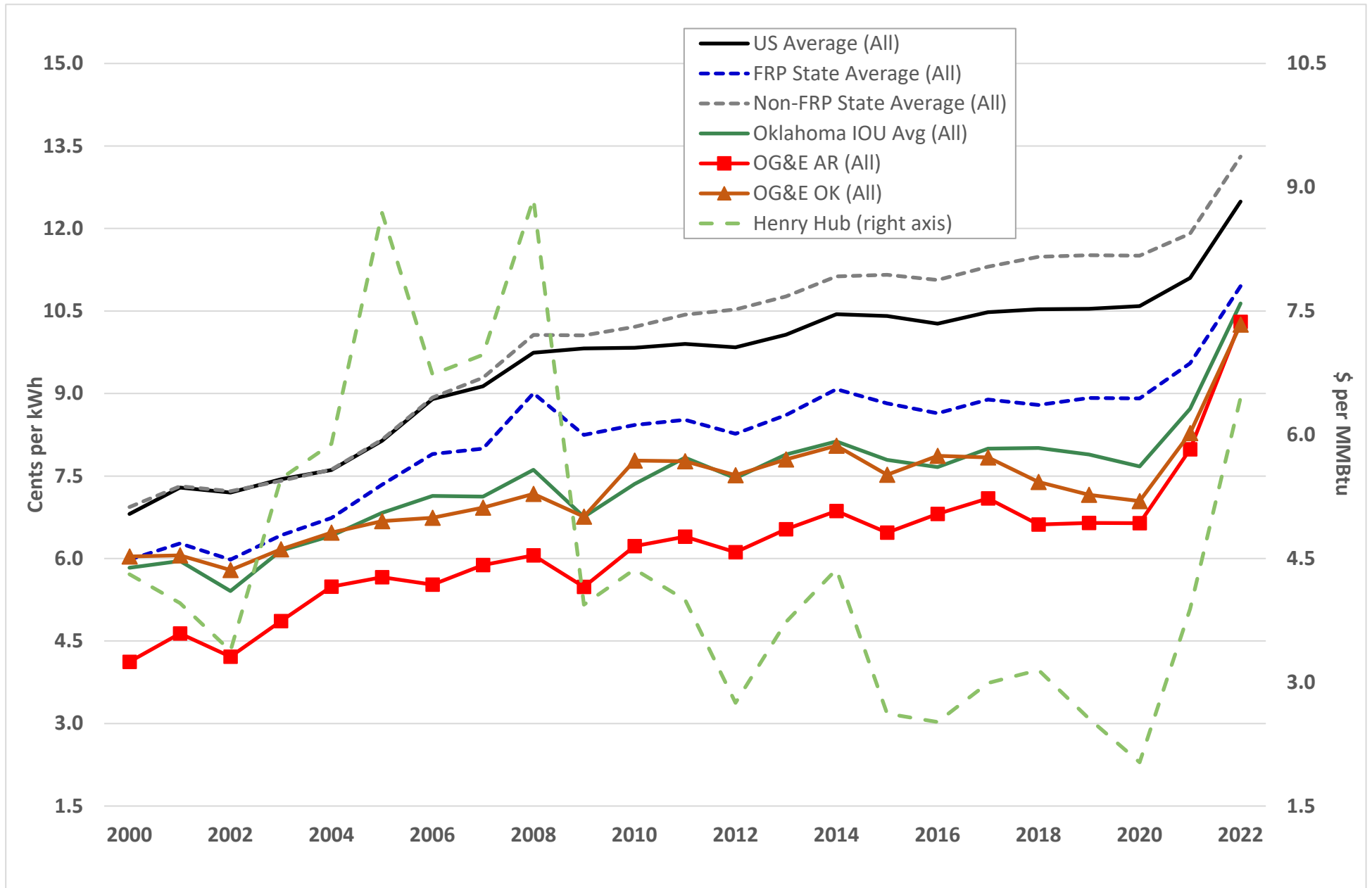
through to customers. While projected data (with subsequent true-ups) has a well-established history in the Arkansas regulatory system, this is not the case in Oklahoma, and it would not necessarily be appropriate to introduce such a change along with the PBR model at this time.

CONCLUSION

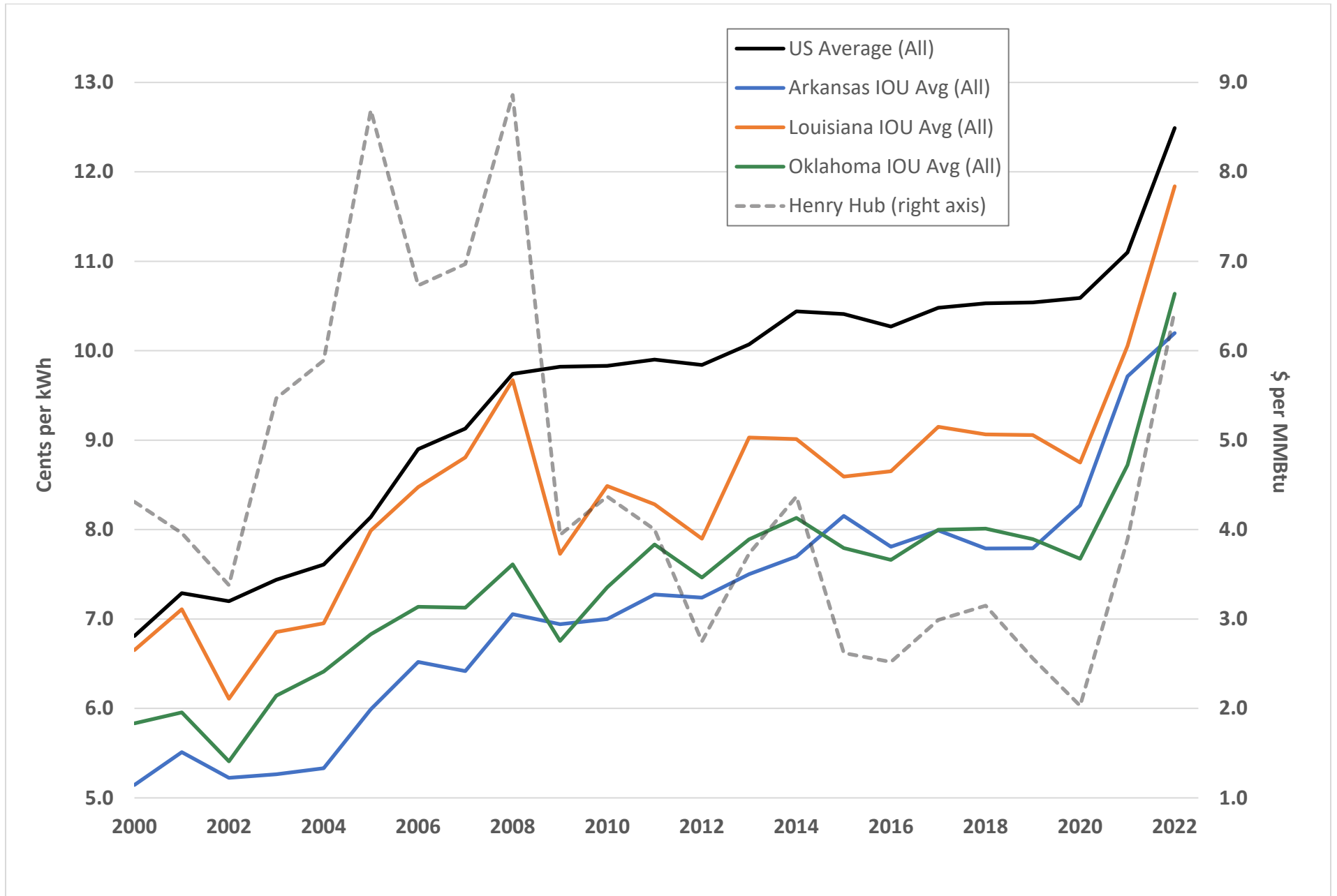
OG&E appreciates the opportunity to provide these initial set of regarding Performance Based Rates and Alternative Ratemaking. These topics are important issues facing our industry. OG&E respectfully requests the Commission and other policymakers consider these comments in its future consideration of electric utility PBR requests. As discussed in these comments, there are clearly numerous benefits to adopting the PBR regulatory model for Oklahoma's electric utilities. Opponents speculate as to potential problems with PBRs despite the significant evidence to the contrary.

OG&E will continue to work with interested stakeholders to develop a PBR framework which balances utility and ratepayer interests, achieves gradualism in rate adjustments, provides closer and more frequent supervision of utility costs and performance, and ensures customer rates remain affordable while providing investors an opportunity earn a reasonable return. Through greater transparency and visibility into utility rates, the PBR model can improve the regulatory compact that has served all stakeholders well for over 100 years. We look forward to engaging in the discussion that this Notice of Inquiry facilitates and reserve the right to supplement our comments at a later date.

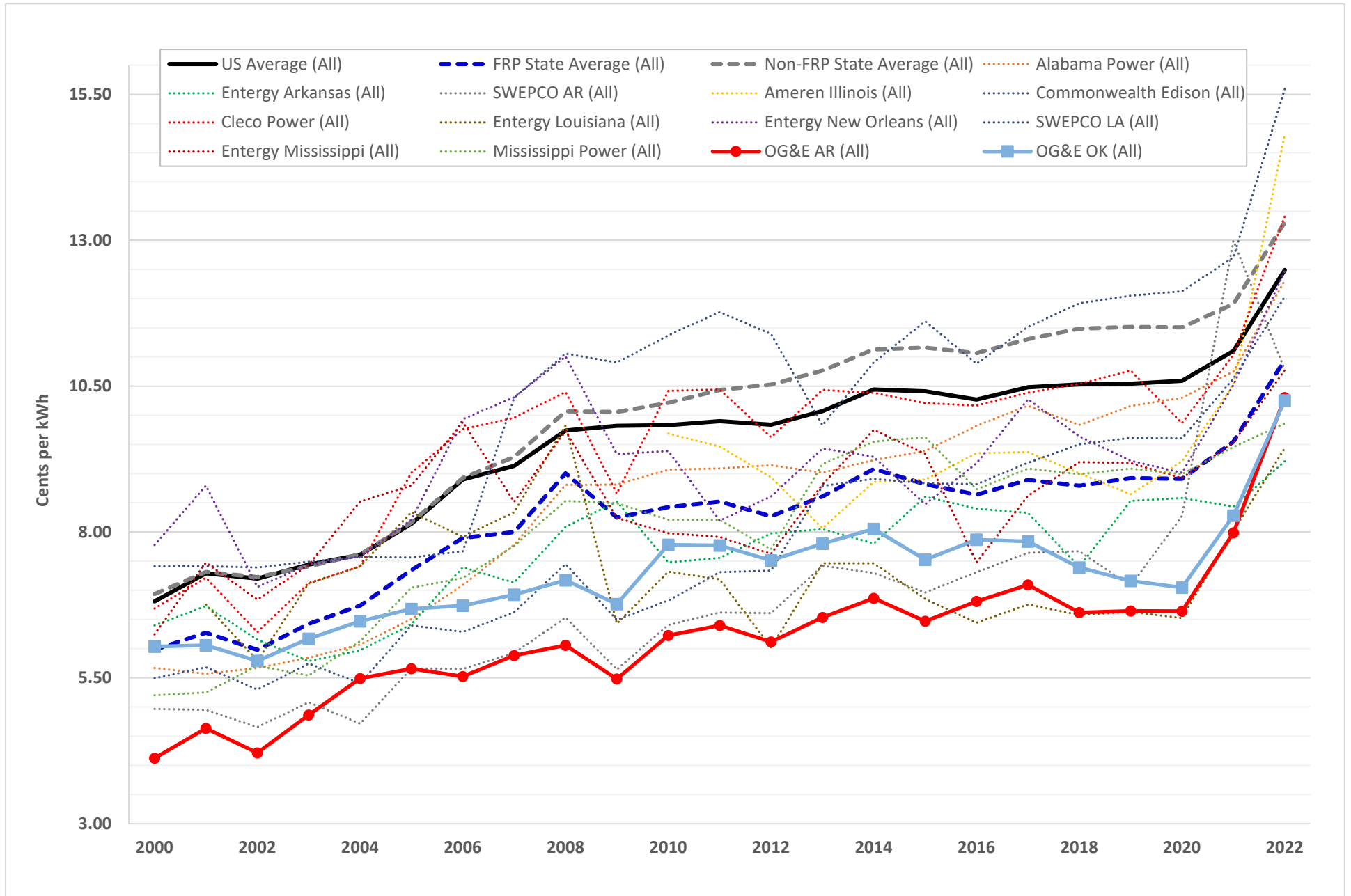
FRP and Non-FRP Price Comparison



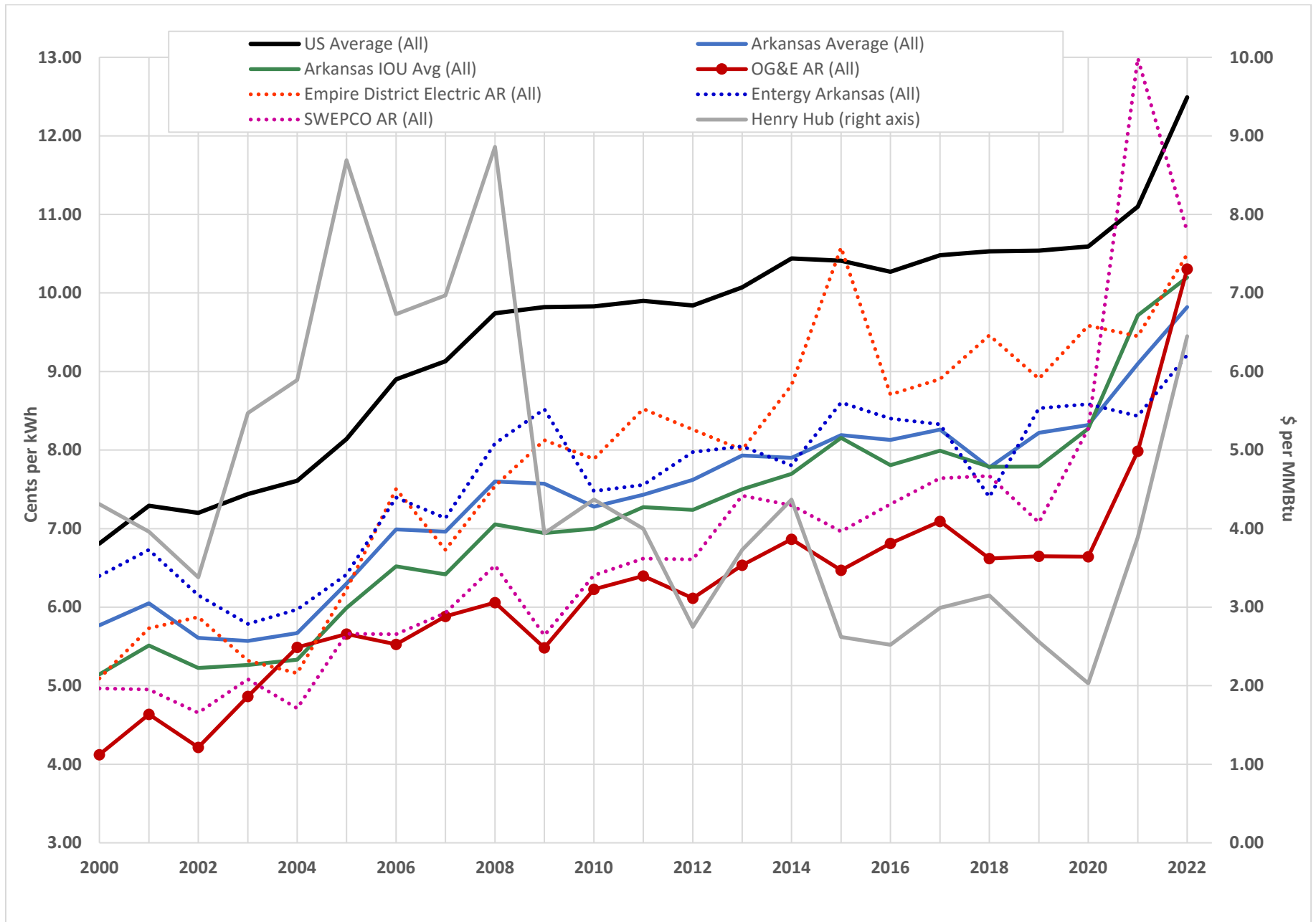
Arkansas (FRP), Louisiana (FRP), and Oklahoma (non-FRP) IOU Average Prices



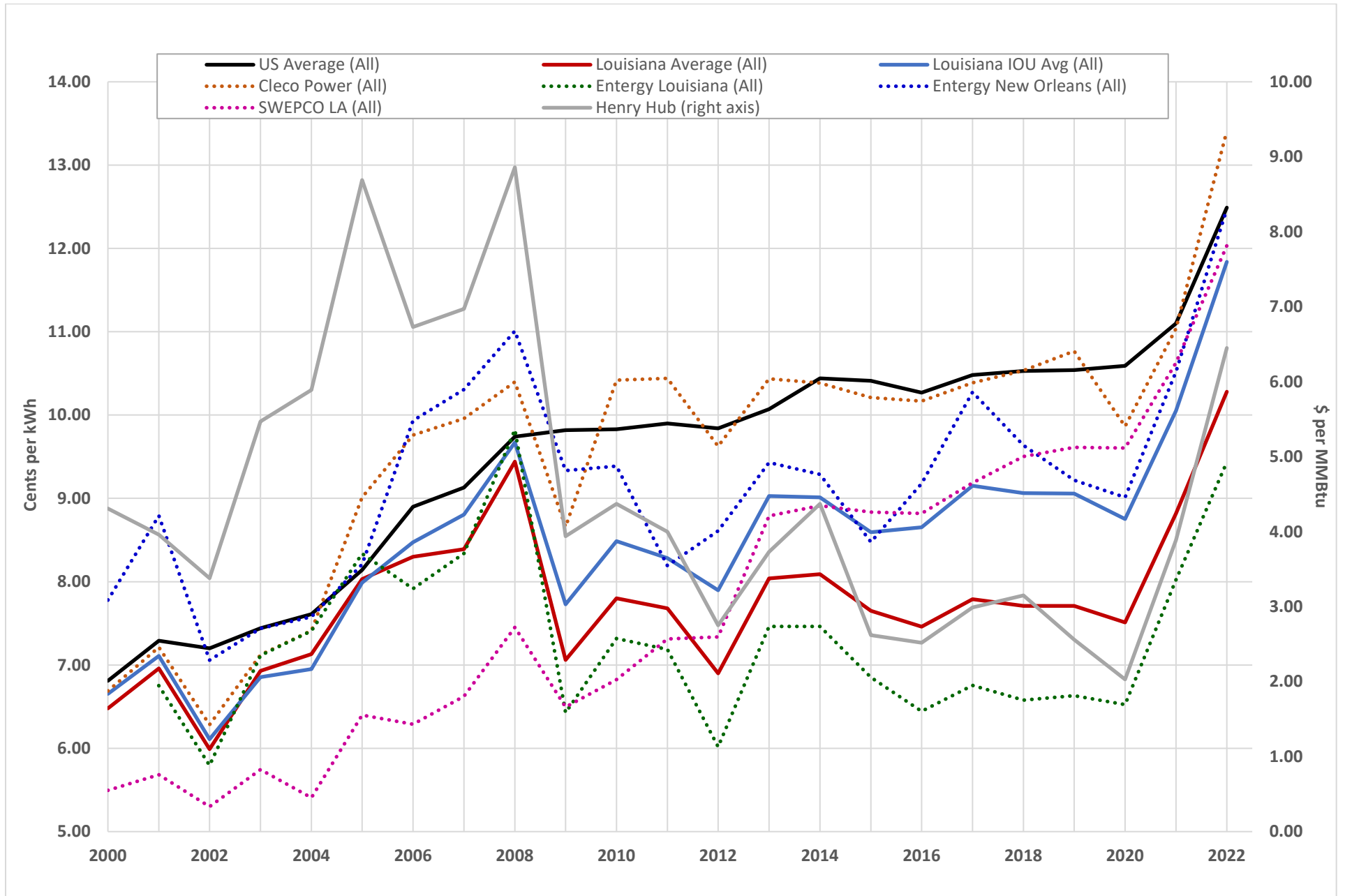
FRP Utilities and OG&E Oklahoma Average Prices



Arkansas Investor-Owned Utility Average Prices



Louisiana Investor-Owned Utility Average Prices



Oklahoma Investor-Owned Utility Average Prices

