

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR COMMISSION PREAPPROVAL OF NEW) Case No. PUD 2023-000038
GENERATION CAPACITY PURSUANT)
TO 17 O.S. SECTION 286(C))

Direct Testimony

of

Matthew J. Schuermann

on behalf of

Oklahoma Gas and Electric Company

May 31, 2023

Matthew J. Schuermann
Direct Testimony

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

2 A. My name is Matthew J. Schuermann. My business address is 321 N. Harvey, Oklahoma
3 City, 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 Vice President of Power Supply Operations.
8

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

10 A. I earned a Bachelor of Science Degree in Mechanical Engineering from the University of
11 Oklahoma (2002) and a Master of Business Administration from Oklahoma State
12 University (2008). I began my career with OG&E in 2000 as an engineering intern and
13 began fulltime employment in 2002 as a plant engineer. I have held various roles in the
14 organization, with most being in leadership of the areas of operations, engineering, and
15 planning for the generation fleet of the company. In my current position I oversee the
16 operations and maintenance of all generation assets for the company as well as the long-
17 term resource planning and supply adequacy strategies.
18

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

20 A. No.
21

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

23 A. The purpose of my testimony is to discuss the contracts that resulted from the winning bid
24 selected from OG&E’s Flexible Resource Request for Proposal (“RFP”). Specifically, my
25 testimony describes the contracting structure, certain specific terms, the costs associated
26 with those contracts, and the other costs associated with the project.

Introduction

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Q. Please describe the Horseshoe Lake Combustion Turbine project.

A. The winning bid resulting from the Flexible Resource RFP (further discussed in the Direct Testimonies of Company witnesses Shoop, Riley, and Scheller) was OG&E’s self-bid Horseshoe Lake Combustion Turbine Project (“HL CTs”). The HL CTs are two 224 MW units with a combined capacity of 448MWs, to be built at OG&E’s existing Horseshoe Lake Generating Station site.

Q. How did the HL CT bid get formed for submission into the Flexible Resource RFP?

A. The 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 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 (“BOP”) 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. In a project of this size and scope, is it routine for pricing to change during the life of the RFP process?

A. Yes. 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. Given the time between the crafting of the bid and the end of the RFP process, the original pricing was no longer available, and OG&E had to engage in negotiations with the OEM and JV to finalize contract pricing.

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

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

12 The Code of Conduct ensured the Bid and Evaluation Teams had no contact related
13 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. This ensures the internal bid
16 team had the same publicly available information that was posted for all bidders.

17

18 Q. **Please describe the process that followed the announcement that the HL CTs had**
19 **been selected as the winning bid in the Flexible Resource RFP.**

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

23

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

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

The Contracts

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Q. Why was a single EPC contract not utilized for both the procurement of the CTs and the BOP?

A. OG&E’s objective was to create savings for customers by contracting directly with the OEM for the procurement of the CTs instead of using the EPC contractor to acquire the CTs. EPC contractors usually charge a markup on procurement of such items as a fee for management of the OEM Contract. OG&E successfully utilized this contracting strategy on the Mustang Energy Center and wanted to do so again to avoid this EPC contractor fee, which would have likely been approximately 10 percent of the CT purchase cost.

Q. Please describe the general terms of the CT Procurement Contract.

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

Q. What are some of the general provisions and milestones in the CT Procurement Contract?

A. The Contract Price is firm, fixed, and all-inclusive, covering payment of all costs of materials, equipment, labor, transportation, engineering, manufacture and other services relating to GE’s performance of its obligations under the CT Procurement Contract. The contract also provides liquidated damages for delivery and performance of the CTs, which ensures OG&E customers are protected financially from equipment delivery delays or poor performance of the units.

Q. Please describe the general terms of the JV Contract.

A. OG&E has entered into the JV Contract for the engineering, procurement, and construction of the balance of plant related to the installation of the HL CTs. The JV Contract is between OG&E and TIC-S&L Oklahoma Power Partners, a joint venture between TIC – The Industrial Company and Sargent & Lundy. Under the JV Contract, the JV contractor will

1 install, test and commission the HL CTs and all associated equipment and materials,
2 instruments, components, and accessories at the Horseshoe Lake Generating Station.

3
4 **Q. What are some of the general provisions and milestones in the JV Contract?**

5 A. The JV Contract is mostly firm-fixed price, with a limited number of variable cost items
6 that will be procured on an open-book basis, with actual costs reconciled via change orders
7 for direct costs incurred by the JV. "Open-book basis" means the JV will share with OG&E
8 the estimated value of these variable cost items, and when the items are purchased, any
9 cost adjustment up or down will be shared with OG&E. The total estimated dollar value
10 of these variable cost items at time of contract is approximately \$31 million, and the
11 maximum cap on increases is 30 percent or approximately \$9 million. This 30 percent is
12 being carried in the total contingency budget of the project by OG&E as I discuss further
13 below in the section called Contingency Costs and Contingency Budget. This benefits
14 customers by managing risk collaboratively between the parties rather than pre-paying the
15 30 percent risk premium which may never materialize. The contract also provides
16 liquidated damages for completion of the project on time, and absolute obligations for
17 performance which means if the JV's design does not meet agreed performance criteria,
18 they must correct any deficiencies.

19
20 **Q. What was the original bid price of the HL CT project?**

21 A. Approximately \$249 million.
22

23 **Q. What is the updated contract cost for the OEM and JV contracts?**

24 A. Approximately \$286 million. As discussed above, the pricing supporting the original bid
25 expired and OG&E had to renegotiate with the OEM and JV to obtain final contracts. The
26 awarded value of the CT Procurement Contract is approximately \$9 million higher than
27 the original pricing due to necessary costs to comply with technical specifications. For
28 example, the technical specifications included a closed cooling water heat exchanger
29 system that can withstand winter weather conditions such as those experienced during the
30 winter storm of 2021. Even though this was included in the technical specifications

1 referenced by the RFP documents, this was not part of GE's base offering, so it resulted in
2 a scope and price increase.

3 The awarded value of the JV Contract is approximately \$27 million higher than the
4 original pricing. This was largely caused by (i) changes to the scope, such as the need for
5 a new operations and maintenance building; (ii) inflation; and (iii) extension of the
6 project's in-service date.

7
8 **Q. Do the costs of the CT Procurement and JV Contracts represent the total cost of the
9 HL CT project?**

10 A. No. Those contract costs do not include the associated "Owner's costs", allowance for
11 funds used during construction ("AFUDC"), taxes, or contingencies. Below I will discuss
12 Owners' costs, and Contingency costs, while Company witness Thenmadathil discusses
13 the inclusion of AFUDC and taxes that are included when calculating the revenue
14 requirement.

15
16 **Owner's Cost**

17 **Q. What makes up the estimated Owner's Cost for the project?**

18 A. Owner's Costs are costs that will be incurred by OG&E in addition to the costs of
19 purchasing the equipment and third-party costs of construction. These Owner's Costs
20 include items such as internal labor, construction oversight, engineering oversight to ensure
21 design adequacy and technical compliance with specifications, project management to
22 ensure timely, on-budget compliance with the contracts and technical specifications, legal
23 fees related to negotiating the contracts and to handle disputes arising during construction,
24 and performance testing after the HL CTs are constructed in order to validate performance
25 to the design and technical specifications.

26
27 **Q. What are the estimated Owner's Costs for the HL CTs?**

28 A. These costs are estimated to be approximately \$26 million of the total project cost.

1 Q. **Are Owner's Costs included in costs from bidders in their RFP submissions?**

2 A. No. Bidders cannot include Owner's Costs in their bids due to their inability to know the
3 total costs that would be incurred by the Company. The OG&E Bid team focused solely
4 on the cost of purchasing equipment and the third-party engineering and construction of
5 the HL CTs. The Bid Team did not attempt to bid any of the aforementioned Owner's
6 Costs.

7
8 Q. **Is it necessary to include Owners' Costs in the overall cost of the project?**

9 A. Yes. Any winning bid and subsequent project from the RFPs would have incurred similar
10 internal costs in order to complete the project.

11

12 **Contingency Costs and Contingency Budget**

13 Q. **What are examples of contingency costs and why is it necessary to include a
14 contingency budget in the overall cost of the project.**

15 A. Contingency Costs are risks borne by the owner and may materialize during the
16 construction process. There are two kinds of contingency costs. First, some of these costs
17 are based on potential delays or unforeseen complications with the engineering and
18 construction of the project. For example, such unforeseen conditions that often arise with
19 large construction projects of this nature could include force majeure events, change orders,
20 unknown subsurface conditions, or contractual disputes. Second, there are risks associated
21 with cost increases associated with materials and components used during the construction
22 process. For example, there could be commodity/materials escalation risk around the
23 purchase of transformers, prefabricated electrical buildings, or air compressors. The
24 inclusion of a contingency budget is necessary to account for unexpected costs that may
25 materialize from the risks identified above. Optimally, if none of these risks materialize
26 and the contingency budget is not expended, which results in a lower cost to deliver the
27 Project.

28

29 Q. **Is the addition of a contingency budget standard industry practice?**

30 A. Yes. The addition of a contingency budget to address identified risk is standard industry
31 practice. As such, OG&E has approximately 6 percent of the total project cost (or \$18.8

1 million) as a contingency budget and will work to manage those risks throughout the
2 duration of the project.

3

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

5 A. The baseline contingency budget was developed through a risk identification and
6 quantification process. Price risk was mitigated by entering into a firm, fixed price contract
7 with the OEM, and as mentioned previously, contracting with the EPC with the majority
8 of the spend in a firm, fixed fashion. Material risks from the JV were mitigated via the
9 open-book process. Schedule, delivery, and performance risks were mitigated by securing
10 liquidated damages from both the OEM and JV as appropriate.

11

12

Conclusion

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

14 A. Yes. I recommend the Commission grant pre-approval of the HL CTs.

15

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

17 A. Yes.

CERTIFICATE OF MAILING

I hereby certify that on the 31st day of May 2023, a true and correct copy of the foregoing Application was electronically transmitted to the following via email:

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Fairo Mitchell

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AFFIDAVIT

STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA)

On the 30th day of May 2023, before me appeared Matthew J. Schuermann, to me personally known, who, being by me first duly sworn, states that he is the Vice President of Power Supply Services for Oklahoma Gas and Electric ("OG&E") and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge, and belief.

Print Matt Schuermann

Signature *Matt Schuermann*

Subscribed and sworn to before this 30th day of May, 2023.

 Harrison L. Burton
Notary Public

My commission expires: 10-17-2026

