BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF	)	
OKLAHOMA GAS AND ELECTRIC COMPANY	)	
FOR AN ORDER OF THE COMMISSION	)	CAUSE NO. PUD 202100164
AUTHORIZING APPLICANT TO MODIFY ITS	)	
RATES, CHARGES, AND TARIFFS FOR RETAIL	)	
ELECTRIC SERVICE IN OKLAHOMA	)	

FILED
DEC 30 2021
COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

Direct Testimony

of

Zachary Quintero

on behalf of

Oklahoma Gas and Electric Company

December 30, 2021

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

A. My name is Zachary Quintero. My business address is 321 North Harvey, Oklahoma City, Oklahoma 73102.

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

A. I am employed by Oklahoma Gas and Electric Company ("OG&E" or "Company") as a Lead Regulatory Coordinator.

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

A. I hold a Bachelor's degree in Economics from the University of Science and Arts of Oklahoma and a Master's degree in Energy Management from Oklahoma City University. I joined OG&E in my current position in July 2021. Prior to joining OG&E, I was employed as Senior Analyst, Rates and Regulatory Affairs for Liberty, a subsidiary of Algonquin Power and Utilities Corporation. During my time with Liberty, I supported the company's customer initiatives through the development of state and federal regulatory filings for Liberty's Central Region utilities, including The Empire District Electric Company. Prior to joining Liberty, I was employed as a Senior Public Utility Regulatory Analyst by the Oklahoma Corporation Commission ("OCC" or "Commission"). In that position, I performed analysis of regulatory issues in electric, gas, and water utility cases in order to make fair and reasonable recommendations. To date, I have participated in at least 45 different docketed regulatory proceedings in three regulatory jurisdictions. I have also attended utility ratemaking trainings provided by New Mexico State University and Electric Utility Consultants, Inc.

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

A. Yes, I have previously testified before the OCC on behalf of the Public Utility Division ("PUD"). I have also testified before the Arkansas Public Service Commission ("APSC") and the Missouri Public Service Commission.

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

A. The purpose of my testimony is to discuss OG&E's proposed Performance Based Ratemaking ("PBR") Plan.

I. ALTERNATIVE RATEMAKING REQUEST

Q. **What is the Company's alternative ratemaking request in this Cause?**

A. OG&E is requesting the approval of an annual rate review mechanism, known as the PBR, with a five-year initial term. The Company is also requesting approval of modifications to existing riders to become effective at the conclusion of this base rate case, including the Grid Enhancement Mechanism ("GEM"), Southwest Power Pool Cost Tracker ("SPPCT"), the Production Tax Credit ("PTC"), and Federal Tax Change ("FTC-ARL"). As explained further in this testimony, these modified riders, in addition to the currently approved Energy Efficiency Program Rider ("EEP"), will close upon the issuance of a final order in the Company's first annual PBR review. The modifications to these riders are discussed by other Company witnesses as shown below in Figure 1:

Figure 1

Witness	Topic
Kandace Smith	GEM
Donald Rowlett	SPPCT
	PTC-ITC
	FTC-ARL

Q. **Will the modified GEM, SPPCT, PTC, and FTC-ARL riders run concurrently with the PBR?**

A. No. The Company is requesting the PBR, as proposed in Direct Testimony, essentially replace the true-up of costs associated with these modified riders upon issuance of a final order in the Company's first annual PBR review. In the event the PBR alternative is not approved, the riders will continue.

Q. Before providing additional details of the PBR, can you summarize the nature of OG&E's proposed alternative ratemaking requests?

A. Yes. Figure 2 visually summarizes the nature of OG&E's request.

Figure 2

OG&E's Proposal		
GEM Rider FTC-ARL Rider SPPCT Rider PTC-ITC Rider EEP Rider	→	Performance Based Ratemaking ("PBR") Plan

Q. Please briefly describe the PBR.

A. The PBR is a tariff that creates a streamlined, annual process through which the Company's financials are reviewed and rates are subsequently adjusted, if necessary. Under the PBR, the Company will file an application on or about July 31 of each year to review the Company's financial performance using a test period of the twelve months ending March 31. The Company's earned return during that period will be compared to the target rate of return, as approved by the Commission in this Cause. If the earned return is more than 50 basis points below the target rate of return, rates will be prospectively adjusted to increase the Company's return to the target rate. If the earned return is more than 50 basis points above the target rate of return, the Company returns 75% of the over-earnings to its customers. The details of the PBR are included in the tariff attached as Direct Exhibit ZQ-1.

Q. What are some of the benefits of utilizing the PBR Plan?

A. The OCC's PUD has recognized numerous benefits[1] that the PBR Plan offers for utilities and customers, including:

- Balanced utility and ratepayer interests;

[1] These benefits have been discussed in the testimony of PUD witnesses in dockets where the PBR was at issue, including, but not limited to, PUD 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).

- Gradualism in rate adjustments;
- Decrease in regulatory costs;
- Reduction in regulatory lag;
- Closer supervision and more frequent review of utility performance; and
- Lesser need for cost recovery outside base rates.

Q. **Why is the Company proposing the PBR?**

A. The proposed PBR will provide the aforementioned benefits to its customers, stakeholders, and the OCC. In addition, the PBR achieves several additional beneficial objectives, including facilitating investment in Oklahoma's critical infrastructure, cooperation between the Company and its stakeholders, and a regulatory framework through which operational savings and potential over-earnings can be returned to customers.

Q. **Why is the proposed PBR preferable to traditional ratemaking?**

A. In addition to the aforementioned benefits, the PBR provides a streamlined regulatory process through which the Company's rates can be reviewed and adjusted more frequently to ensure rates more closely match the Company's cost to serve. OG&E's proposed PBR will reduce the need for additional cost recovery mechanisms outside of base rates, including the riders proposed in this case.

Q. **Is OG&E proposing to close any riders in the event a PBR is approved as proposed in Direct Testimony?**

A. Yes, OG&E is proposing to close the following riders: GEM, SPPCT, EEP, PTC-ITC, and FTC-ARL. Under the traditional ratemaking process currently governing the OG&E's rates, these riders are necessary to ensure the financial integrity of the Company while keeping rates affordable for customers. However, the PBR provides a streamlined, annual review process through which the costs and revenues associated with these riders can be reviewed and adjusted.

Q. **Is OG&E proposing to eliminate the underlying tracker mechanisms associated with some of these riders and instead include the full annual expense through the PBR?**

A. No. OG&E will continue to defer and amortize costs according to the Commission-approved levels as appropriate. The actual amortization dollar amounts will be updated in each annual PBR filing instead of at different intervals throughout the year, as is currently done. For instance, the amortization of the deferred tax liability resulting from the Tax Cuts and Jobs Act will continue as approved by the Commission. The annual liability and amortization amounts will be trued-up in the annual PBR filings and included in the total proposed rate adjustment.

Q. **In the event a PBR is approved, when will these riders close?**

A. These riders will close upon the effective date of the first order determining prospective rates pursuant to the first annual PBR filing.

Q. **Are the specific details of OG&E's proposed PBR critical to the Company's proposal to retire any of its existing riders?**

A. Yes. While the Company will consider proposed modifications from stakeholders, such modifications must allow the Company a fair opportunity to earn its authorized return and a reasonable level of certainty its prudent costs will be recovered while also protecting customers' interests. All recommended changes will be considered holistically with the Company's existing riders to ensure these objectives are met.

Q. **Will you provide an example of a recommended change that could make the PBR and the retirement of riders unfeasible?**

A. Yes. If a PBR were only approved for a one-year term in conjunction with rider retirements, the Company may not have reasonable certainty its prudently incurred costs will be recovered and rate gradualism for its customers may not be achieved. The Company's existing riders were established through a rigorous review process before the Commission, and implementing a PBR to replace these riders for a short period of time could create significant regulatory inefficiency in addition to the significant increase in risk for the Company and its customers.

II. ANNUAL RATE REVIEWS IN OG&E'S SERVICE TERRITORY

Q. **Does OG&E have experience with implementing annual rate reviews?**

A. Yes. OG&E currently has a Formula Rate Plan ("FRP") Rider in its Arkansas jurisdiction. The FRP was approved in the Company's last general rate case.[2] The initial term of the FRP is five years, and OG&E has filed four of its first five Evaluation Reports. The Company is currently seeking an extension of its FRP which will grant the Company an additional five-year term.

Q. **Have OG&E and its customers benefitted from the FRP in Arkansas?**

A. Yes. 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, and resulted in a cooperative regulatory framework with its stakeholders.

Q. **Has OG&E's Arkansas FRP resulted in higher rates than would have otherwise occurred under traditional ratemaking?**

A. No. Even after four years of annual rate filings, OG&E's rates remain some of the lowest in the nation.[3] The proposed rates in OG&E's Fourth Evaluation Report are also below the Arkansas state, regional, and national averages.[4]

Q. **Do other utilities in OG&E's service territory have annual rate review mechanisms?**

A. Yes. As previously mentioned, Oklahoma's natural gas utilities[5] operate under an annual rate review framework also known as PBR Plans. The gas utilities' PBRs allow the utilities to make annual filings to review their financial performance for the prior year. If a utility earns more than 50 basis points below the target rate of return, rates are prospectively adjusted to increase that utility's return to the target rate. If a utility earns more than 50

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[2] APSC Docket No. 16-052-U.
[3] S&P Capital IQ, Ranking of 2020 average price to ultimate customers by operating company (c/kWh).
[4] Direct Testimony of Donald Rowlett, filed October 1, 2021 in APSC Docket No. 18-046-FR.
[5] Currently, these utilities are Oklahoma Natural Gas, CenterPoint Energy Oklahoma Gas, and Arkansas Oklahoma Gas.

basis points above than the target rate of return, the utility will return 75% of the over-earnings to its customers. This revenue sharing mechanism is the same as those utilized by the gas utilities.

Q. **Has the OCC recently indicated its support for PBRs?**

A. Yes. Oklahoma Natural Gas has successfully filed and resolved annual PBR cases since 2011 and requested an extension of the PBR for an additional five years in its most recent general rate case. All signatories[6] to the Joint Stipulation in that case agreed to allow Oklahoma Natural Gas to continue filing annual PBR cases through 2026, and the Commission adopted that Joint Stipulation in its final order.[7]

CenterPoint Energy Oklahoma Gas has filed annual PBRs with the Commission since 2004. In a recent PBR case, the Commission found,

> *A general rate case is unnecessary because the Company's PBRC Plan continues to work as intended by encouraging CenterPoint Oklahoma to achieve greater efficiency and performance by reducing the cost of serving customers through significantly lower regulatory and rate case expenses, accomplishing "gradualism" by providing the opportunity for smaller, but more frequent, rate changes, and resulting in closer supervision of the Company because of the required annual reviews of its financial results and operations.* [8]

Q. **Has an electric utility previously requested an annual rate review mechanism in Oklahoma?**

A. Yes. Public Service Company of Oklahoma ("PSO") recently requested a PBR in its 2018 general rate case.[9] A PBR was ultimately not a part of the Joint Stipulation approved by the Commission.[10]

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[6] Signatories include the OCC's PUD, Oklahoma Industrial Energy Consumers, the Attorney General of Oklahoma, and the AARP.

[7] Order No. 721916, Cause No. PUD 202100063.

[8] In Cause No. PUD 201900019, the final Commission order adopted the Report and Recommendation of the Administrative Law Judge. Commissioner J. Todd Hiett did not concur that a general rate case was unnecessary. OG&E's proposed PBR will require a general rate case after the initial five-year term.

[9] Cause No. PUD 201800097.

[10] Order No. 692809.

Q. What concerns with PSO's proposed plan did PUD identify in its Responsive Testimony in that case?

A. PUD's concerns included how PBR Plans might be applied to vertically integrated electric utilities, cost recovery of generation and transmission ("G&T") investments, continued use of riders and cost trackers, return on equity ("ROE"), impact of the revenue requirement increase on ratepayers, and additional factors specific to PSO's proposal.[11]

Q. Does OG&E's proposed PBR address these concerns?

A. Yes. OG&E evaluated these concerns and designed its proposed PBR to address them. To address the differences between gas and electric utilities, OG&E proposed to file a cost of service study as part of the annual filing to ensure allocations are appropriately adjusted. To address the cost recovery of G&T investments, OG&E proposes the PBR as an annual review with consecutive review periods so that plant investments can be reviewed by stakeholders both as they are constructed and when placed into rates. To address the continued use of riders and cost trackers, OG&E proposes closing some riders if the PBR is approved as proposed. OG&E's requested ROE is addressed in the Direct Testimony of Company witness Ann Bulkley.

Q. Will you summarize how OG&E developed its PBR to address PUD's concerns with PSO's PBR Plan?

A. Yes. See Figure 3 below.

Figure 3

PUD's Concerns with PSO's PBR vs. OG&E's Proposed PBR	
Cost recovery of G&T investments	Review projects as they are constructed in annual filings
	Adjust cost allocations annually
Riders alongside PBR	Close some riders upon issuance of the final order in OG&E's first PBR filing
Customer impact	Conduct annual reviews of investment and expenses
	Return over-earnings to customers

[11] Cause No. PUD 201800097, Responsive Testimony of Zachary Quintero.

Customer impact	Return O&M savings to customers
	Gradually adjust rates over time
Filing dates conflict with gas utilities	File after gas utility PBRs
Performance incentive mechanisms (“PIM”)[12]	Return 75% of the earnings above the deadband to customers
Statutorily enacted tax changes	Annualize tax changes
Requested ROE	Addressed in the Direct Testimony of Ann Bulkley

Q. **How does OG&E address the possible impact of rate increases during the term of the proposed PBR?**

A. The framework of the PBR Plan results in gradualism in rates by accounting for all factors that determine a revenue requirement. Incremental changes to net plant, revenues, and expense levels are all captured in the annual filings, resulting in the rates more closely matching the Company’s cost to serve on an ongoing basis. While this means the Company may experience less lag in recovery on its investments, its customers also experience the benefits of any savings and load growth realized during the same period. Further, in situations where the Company over-earns, the customers realize the benefit of those excess earnings through the 75/25 performance component.

Q. **Is there real-world evidence of OG&E’s ability to manage the customer impact of its investments under an annual rate review mechanism?**

A. Yes. As previously stated, even with substantial investments in both its Arkansas and Oklahoma jurisdictions, OG&E maintains some of the lowest rates in the nation. OG&E has operated under its FRP in the Arkansas jurisdiction since the conclusion of its 2016 rate case, and the existence of the FRP has not resulted in excessive rate increases.

[12] PSO proposed four PIMs based upon the Company’s annual performance in four categories: Grid Modernization, Customer Satisfaction, Public Safety, and Economic Development. Oklahoma’s gas utilities do not include PIMs such as these.

Q. **Even if OG&E currently has some of the lowest rates in the nation, is the PBR a blank check to increase rates going forward?**

A. Absolutely not. The Company's Arkansas FRP has successfully demonstrated it can balance the interests of the Company and its customers by maintaining some of the lowest rates in the nation. OG&E has also shown it is committed to finding savings and value for its customers wherever possible. The Company's total non-fuel O&M expense has actually decreased since the beginning of its Arkansas FRP and its total price of service to residential customers has remained flat.

Q. **Even with this real-world evidence of OG&E's commitment to low customer rates, how can the Commission and the Company's customers be assured the PBR is not a blank check?**

A. The PBR process does not preclude the stakeholders from conducting prudence reviews of the Company's investments and expenses. The PBR process does not prevent the Commission from making disallowances based upon the recommendations of these reviews. The PBR process does not, in any way, guarantee that OG&E will recover every dollar it spends. The PBR process simply makes these reviews, findings, and subsequent rate adjustments more frequent than they otherwise would have been under the traditional ratemaking framework.

Q. **Have other utilities in Oklahoma demonstrated how PBRs do not result in automatic rate increases?**

A. Oklahoma Natural Gas and CenterPoint Oklahoma Gas have experienced rate increases and decreases in their annual PBR filings since inception. As explained in Oklahoma Natural's recent general rate case, the PBR resulted in two rate decreases, one rate increase, and one filing with no rate adjustment.[13]

[13] PUD 202100063, Direct Testimony of Cory Slaughter, page 54.

Q. **Does the PBR enhance the ability of its stakeholders to review the Company's investments and other changes to financial operations that result in rate adjustments?**

A. Yes. As just mentioned, the PBR process does not preempt the authority of the Commission, PUD, or other stakeholders. Rather, it creates a known schedule of frequent rate investigations that allow all parties to issue discovery, make recommendations, and ultimately have their interests considered by the Commission. Put another way, the existence of the PBR Plan does not increase the overall cost to serve customers or minimize the Commission or other stakeholders' ability to review the Company's performance. Instead, it achieves gradual rate adjustments based on the Company's actual cost to serve, subject to a full, in-depth annual financial review.

III. PERFORMANCE BASED RATEMAKING PLAN

Q. **Please briefly describe OG&E's PBR Plan.**

A. The PBR Plan is codified in a proposed tariff that requires OG&E to make a filing by July 31 of each year to review its financials for the 12 months ending March 31. The first PBR filing will occur on July 31, 2023 based on a test year of the 12 months ending March 31, 2023. If OG&E's earned return for this period is more than 50 basis points above its authorized return, its rates will be increased to the authorized return prospectively. If OG&E's earned return for this period more than 50 basis points below its authorized return, the Company will return 75% of the over-earnings above the dead-band to its customers.

Q. **Will the prospective adjustment of rates guarantee the Company's authorized return?**

A. No. Since rates are only adjusted prospectively, any shortfall in earnings as compared to the authorized rate of return will not be "trued-up" or otherwise recovered from customers. Once new rates are authorized, OG&E still only has the reasonable *opportunity* to earn its authorized return.

Q. **What is the length of the PBR as proposed?**

A. The first term will be for five years, after which OG&E will file a Chapter 70 general rate case. The Company will make its first annual PBR filing in July of 2023 and every July thereafter through 2027. The general rate case will be filed by the end of 2028.

Q. **What is the proposed authorized rate of return and dead band?**

A. The authorized rate of return is 10.20%, as described in the Direct Testimony of company witness Ann Bulkley. The dead-band will be 50 basis points on either side of this authorized ROE, from 9.70% to 10.70%.

Q. **Will class and jurisdictional allocations be set for the five-year term of the PBR?**

A. No. OG&E will file a cost of service study annually with its PBR and propose adjustments to allocations annually to ensure costs are distributed equitably among its customers. While this provision differs from the set class allocation methodology used in Oklahoma's gas distribution PBRs, it allows the Company and its stakeholders to address allocation of the generation, transmission, distribution, and other investments that will be reviewed annually in the PBR filings.

Q. **What riders will close if a PBR is approved as proposed?**

A. The following riders will close if a PBR is approved as proposed:

- Grid Enhancement Mechanism ("GEM")
- Southwest Power Pool Cost Tracker ("SPPCT")
- Energy Efficiency Program ("EEP")
- Production Tax Credit-Investment Tax Credit ("PTC-ITC")
- Federal Tax Change ("FTC-ARL")

Q. **When will the aforementioned riders close?**

A. The riders will close upon issuance of a final order in OG&E's first PBR filing. These riders will reopen in the event the PBR is cancelled prior to the end of its term.

Q. **Will closing these riders change how the underlying deferral and amortization mechanisms operate?**

A. The Company will continue to track, defer, and amortize the underlying expenses and revenues in accordance with prior Commission orders. The annual PBR filing will update the actual amortized dollar amount on an annual basis. The expenses and revenues associated with the EEP rider will also continue according to the Commission order in the Company's most recent three-year portfolio. These program costs and revenues will be trued-up in each annual PBR filing.

Q. **Will the PBR change how the Lost Net Revenues ("LNR") component of the Company's Energy Efficiency Program portfolio is calculated?**

A. Yes. The LNR component will be set to zero to reflect the capture of updated revenues in each annual PBR filing.

Q. **What riders will be retained after the implementation of the PBR?**

A. OG&E will retain the Fuel Cost Adjustment ("FCA") rider, Storm Cost Recovery Rider ("SCRR"), and the Winter Event Securitization Mechanism ("WES"). Other miscellaneous and voluntary pricing programs would remain unaffected.

Q. **What will happen to the closed riders if the PBR is cancelled through Commission order prior to the end of the five-year term?**

A. These riders will reopen to all applicable customers and new billing factors will be submitted to PUD for approval within 60 days. This provision is unlikely to be triggered because the Company is committed to ensuring the PBR model is implemented effectively. However, the provision is necessary to protect the Company from the significant risk it is assuming through its proposal of a streamlined regulatory process.

Q. **What documentation will be provided in each annual PBR filing?**

A. The Company will file the Application, supporting testimony and workpapers, a fully functioning class cost of service study, proposed redline tariffs, rate design workpapers, and schedules consistent with OAC 165:70-5-4. Essentially, this documentation will closely follow what is provided in the Oklahoma Natural annual PBRs with the addition of a cost of service study. OG&E is open to considering additional filing requirements to be determined in this proceeding in consultation with its stakeholders.

Q. **What is the proposed procedural timeline?**

A. The Company will file its annual PBR application on or about July 31 of each year. The PUD will have 15 days to inform the Company if its application did not meet the requirements of the PBR tariff. Parties to the docket will be required to file Responsive Testimony no later than 75 days after the Application date, and interim rates could be implemented by the Company no earlier than 120 days from the filing date. Each year, parties will endeavor to file a procedural schedule with the Commission that conforms to the PBR tariff requirements.

Q. **What are the inputs to the annual PBR rate adjustment calculation?**

A. The rate adjustment calculation will utilize actual FERC accounting inputs for revenues, expenses, and rate base components, subject to several adjustments discussed further in this testimony. The accounting schedules provided in traditional rate cases, consistent with OAC 165:70-5-4, will be provided with less adjustments.

Q. **What are the adjustments to the actual FERC accounting inputs?**

A. Rate base (including working capital, regulatory assets, and liabilities), shall be calculated in the same manner as approved by the Commission in this case.

Operating revenues shall be adjusted as follows:

- All revenues that flow through approved riders shall be removed.

Operating expenses shall be adjusted as follows:

- All expenses that flow through approved riders shall be removed;
- Statutorily enacted tax changes shall be annualized;
- Payroll and associated expenses shall be annualized;
- Short-term incentives (“STI”) shall reflect the lesser of 100% of target or actual payout;
- Long-term incentives (“LTI”) shall reflect the lesser of 100% of target or actual payout
- Depreciation and amortization expense at the end of the test year shall be annualized.

Q. **Will the PBR tariff prohibit the Company or other parties from recommending additional adjustments on an annual basis?**

A. No. As issues emerge during the term of the PBR, the Company and parties may recommend other adjustments and regulatory treatments consistent with the PBR Plan.

Q. **What adjustments will be reflected in the cost of service study?**

A. The cost of service study shall be consistent with the adjustments made in the Company's most recent Chapter 70 rate case, including the approved revenue reallocation methodology. While operating revenues will reflect the actual revenues received during the test year (subject to the approved accounting adjustments), load will be normalized consistent with the methodology approved in the Company's most recent Chapter 70 rate case.

Q. **What significant components of the Company's revenue requirement calculation will be set for the five-year term of the PBR?**

A. The Company's authorized ROE, capital structure, and depreciation rates will be set for the term of the PBR, streamlining the review process and reducing regulatory expense to customers. The Company will be allowed to propose new depreciation rates for assets that did not have an approved depreciation rate at the time they were placed into service.

Q. **How will prospective rate adjustments be applied in each of the Company's annual PBR filings?**

A. The rate adjustment will be calculated based upon the Company's most recent Cost of Service Study filing and then applied to the customer charge, energy charges, demand charges, and reactive demand charges in the same manner as approved in the Company's most recent Chapter 70 rate case.

Q. **Will the PBR tariff prohibit the Commission or the Company from filing a show cause or Chapter 70 general rate case prior to the end of the five-year term?**

A. As is consistent with other PBR Plans in the Oklahoma jurisdiction, nothing shall prevent the Company or Commission from filing a general rate change application.

Q. **Where can parties review the PBR Plan in full?**

A. The PBR Plan is codified in a tariff attached to this testimony as Direct Exhibit ZQ-1.

IV. CONCLUSION

Q. **What are your recommendations to the Commission?**

A. I recommend the Commission approve the Company's request for a PBR Plan and the modified riders as proposed in the Company's Direct Testimony.

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

A. Yes.

EFFECTIVE IN: All territory served.

PURPOSE: The Performance Based Rate Plan ("PBR") defines the procedures by which all rates and charges on file with the Oklahoma Corporation Commission ("OCC"), except those specifically excluded, may be periodically adjusted. Rates not subject to the PBR will be adjusted according to the applicable rate schedule as ordered by the OCC.

No provision contained within this tariff will limit the Company's ability to a file a general rate change application or the OCC's authority to file a show cause.

APPLICABILITY: The PBR is applicable to and becomes a part of each Oklahoma retail rate schedule unless specifically excluded.

TERM: The Company shall file an Application for OCC determination pursuant to this PBR on or before July 31 of 2023, 2024, 2025, 2026, and 2027.

The Company shall file an Application for Chapter 70 general rate change on or before December 31, 2028. The Company may request an extension of the PBR at that time.

The PBR shall become effective upon issuance of an OCC order and approval of the stamped tariff sheets by the Director of the Public Utility Division.

ANNUAL FILING REQUIREMENTS: The Company shall, on or about July 31 of each year, file an application with the OCC containing schedules consistent with OAC 165:70-5-4 and supporting Direct Testimony.

Within 48 hours of filing, the Company shall electronically provide the following non-confidential information to the parties of record in the Company's most recent Chapter 70 general rate change filing:

Notification of application with the OCC Court Clerk
Workpapers supporting the filed application schedules
Fully functioning Class Cost of Service Study
Rate design workpapers consistent with OAC 165:70-5-33
Proposed redline tariffs

PROCEDURAL TIMELINE: In the event the annual PBR Application does not satisfy the requirements of the PBR tariff, the Public Utility Division shall notify the Company within 15 days of the initial filing.
Intervening parties shall file Responsive Testimony to the Company's annual PBR Application no later than 75 days after the Application filing date.

The Company may implement interim rates, subject to refund, no sooner than 120 days after its annual PBR Application filing date.

RATE CHANGE CALCULATION: The following components of the rate change calculation shall be set for the term of the PBR, unless otherwise indicated:

Authorized Return (“AROE”)
The Company’s Authorized Return on Equity (“AROE”) is 10.2%. The AROE shall be set for the term of the PBR, until such time that a Chapter 70 general rate change filing is made by the Company or a show cause Application is filed by the OCC. The AROE may be modified following an evidentiary hearing in the Chapter 70 general rate change filing or OCC show cause. Any modification shall be applied prospectively.

Capital Structure
The Company’s authorized capital structure is 53.37% equity and 46.63% debt. The capital structure shall be set for the term of the PBR, until such time that a Chapter 70 general rate change filing is made by the Company or a show cause Application is filed by the OCC. The capital structure may be modified following an evidentiary hearing in the Chapter 70 general rate change filing or OCC show cause. Any modification shall be applied prospectively.

Cost of Debt
The Company’s cost of debt is 4.5%. The Cost of Debt shall be updated in each annual PBR filing as material changes occur. The annual updated Cost of Debt shall be reflected in the PBR tariff and applied prospectively to the subsequent PBR filing.

AROE Dead-Band
An AROE Dead-Band of 100 basis points is hereby established. The dead-band shall be from 9.7% to 10.7%, The Company may request a rate increase pursuant to the PBR when its earned return falls below the Dead-Band. Any rate adjustment pursuant to the PBR will only be issued when the Company’s earned return is above the Dead-Band.

Depreciation Rates
To calculate its annual revenue requirement, the Company shall use the depreciation rates approved in its last Chapter 70 general rate change filing. The Company may propose new depreciation rates for assets that did not have an approved depreciation rate in its last Chapter 70 general rate change filing.

Test Year
The test year of the first PBR annual filing shall be the 12 months ending March 31, 2023. Each subsequent annual filing shall use the same review period of each subsequent year.

Revenue Change Calculation
If, for the test year period, the Company's actual earned return is below the AROE Dead-Band, the base rates subject to the PBR shall be increased in the amount necessary to restore the Company's earned return to the AROE.

If, for the test year period, the Company's actual earned return is above the AROE Dead-Band, the Company shall return 75% of the excess earnings above the AROE Dead-Band to customers subject to the applicability of the PBR tariff. The Company will retain 25% of excess earnings above the AROE Dead-Band.

Any proposed increase pursuant to this calculation shall be based upon the Company's actual rate base, revenues, and expenses per books for the appliciable test year period, except for those adjustments and true-ups provided for in the PBR tariff and approved by the OCC.

Adjustments and True-Ups to the Test Year
Rate base shall be calculated in the same manner as in the Company's last Chapter 70 general rate change filing.

Operating Revenues shall be adjusted as follows:
All revenues collected through approved riders shall be removed.

Operating Expenses shall be adjusted as follows:
All expenses collected through approved riders shall be removed;
Statutorily enacted tax changes shall be annualized;
Payroll and associated expenses shall be annualized;
Short-term incentive compensation ("STI") shall reflect the lesser of 100% of target or actual payout;
Long-term incentive compensation ("LTI") shall reflect the lesser of 100% of target or actual payout;
Depreciation and amortization expense at the of the test year shall be annualized.

The Company and intervenors may propose adjustments to rate base, revenues, and expenses to be applied prospectively.

COST OF SERVICE STUDY: Rate adjustments pursuant to the PBR shall be applied prospectively based upon the Class Cost of Service Study filed in each annual PBR filing. The adjustments to the Class Cost of Service Study shall be consistent with the adjustments made in the Company's most recent Chapter 70 general rate change filing, including the approved revenue reallocation methodology.
Load shall be adjusted using the methodology approved in the Company's most recent Chapter 70 general rate change filing.

APPLICATION OF PBR RATE CHANGES: Any rate change pursuant to the PBR will be applied using the same methodology as ordered by the OCC in the Company's most recent Chapter 70 general rate change filing.

Any rate adjustment pursuant to the PBR shall become effective upon issuance of an order by the OCC and approval of the stamped tariff sheets by the Director of the Public Utility Division. The rate change will be applied to customer bills on the first billing cycle following approval of the stamped tariff sheets.

TARIFFS MODIFIED UPON APPROVAL OR CANCELLATION OF THE PBR: The following tariffs shall have their billing factors set to zero and be closed to new customers upon issuance of a final order in the Company's first PBR filing:

Grid Enhancement Mechanism ("GEM")
Southwest Power Pool Cost Tracker ("SPPCT")
Energy Efficiency Program Rider ("EEP")
Federal Tax Change Rider ("FTC-ARL")
Production Tax Credit-Investment Tax Credit Rider ("PTC-ITC")

In the event the PBR tariff is cancelled through issuance of an OCC order, the aforementioned tariffs shall be re-opened to all applicable current and new customers and their factors reset to recover appropriate costs. The Public Utility Division shall complete its review of the reset factors and issue stamped tariff sheets within 60 days of the issuance of an OCC order cancelling the PBR.

EXEMPT RATE SCHEDULES:

Day Ahead Pricing ("DAP")
Flex Price ("FP")
Low Income Assistance Program Rider ("LIAP")
Utility Solar Program ("USP")
Green Power Wind Rider ("GPWR")
Energy Efficiency Program Rider ("EEP")
Federal Tax Change Rider ("FTC-ARL")
Fuel Cost Adjustment Rider ("FCA")
Production Tax Credit Rider ("PTC")
Storm Cost Recovery Rider ("SCRR")
Winter Event Securitization Mechanism ("WES")
Annual Public Utility Assessment Fee ("APUAF")
Load Reduction Rider ("LR")
Renewable Energy Program ("REP")
Smart Meter Opt-Out ("SM-OPT-OUT")
Net Energy Billing Option ("NEBO")
Economic Development Incentive Credit Rider ("EDIC")