

BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE FORMULA RATE)	
PLAN FILINGS OF OKLAHOMA GAS AND)	DOCKET NO. 21-087-U
ELECTRIC PURSUANT TO APSC DOCKET)	
NO. 16-052-U)	

Direct Testimony

of

Donald R. Rowlett

on behalf of

Oklahoma Gas and Electric Company

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

2 A. My name is Donald R. Rowlett. I am employed by Oklahoma Gas and Electric Company
3 (“OG&E” or “Company”) and my business address is 321 N. Harvey, P.O. Box 321,
4 Oklahoma City, Oklahoma 73101.
5

6 Q. **What position do you hold with OG&E?**

7 A. I hold the position of Managing Director of Regulatory Affairs.
8

9 Q. **Please state your educational qualifications and employment history with OG&E.**

10 A. I earned a Bachelor of Science degree in Business with an accounting emphasis (1980) and
11 a Master’s in Business Administration (1992), from Oklahoma City University. I have also
12 completed all work, except for the dissertation, on a Ph.D. from Oklahoma State University
13 in Business Administration. I joined OG&E in 1989. I currently serve as Managing
14 Director of Regulatory Affairs where I am responsible for overseeing the Company’s
15 economic regulatory activities with the Oklahoma Corporation Commission, the Arkansas
16 Public Service Commission and the Federal Energy Regulatory Commission. I have served
17 in various financial roles in the Company including ten years as Vice President, Controller
18 and Chief Accountant. As the Company’s Controller I was responsible for financial and
19 operations accounting, federal, state and local income and property taxes and budgeting. I
20 have also made investor presentations and participated in numerous public equity and debt
21 offerings. Prior to joining OG&E, I was employed by Arthur Andersen & Co. as a financial
22 consultant and audit manager. During my employment, I performed audits of financial
23 statements in a variety of industries. Additionally, I prepared filings with the Securities
24 and Exchange Commission (“SEC”) and provided clients with guidance on the financial
25 reporting requirements of the SEC and Generally Accepted Accounting Principles
26 (“GAAP”).
27

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

29 A. Yes, I provided testimony in Docket Nos. 18-046-FR, 17-030-U, 16-052-U, and 15-034-
30 U. I have also testified before the Oklahoma Corporation Commission (“OCC”), and
31 before the Environmental and Public Works Committee in the United States Senate.

Q. **What is the purpose of your Direct Testimony in this proceeding?**

A. The purpose of my testimony is to provide an overview and support the extension of OG&E's Formula Rate Plan ("FRP") Rider by five years. I will explain how the FRP Rider has provided benefits to both the Company and its stakeholders, and how the FRP Rider has provided the Company an opportunity to make investments to improve its reliability and safety, while keeping operation and maintenance ("O&M") increases lower than the rate of inflation. I will also describe the benefits of OG&E continuing to only use the Historical Year in determining a revenue change for the FRP Rider. Last, I will discuss how the FRP has allowed for rate stability and describe how the FRP Rider has provided increased transparency of the Company and its financial and business operations. For all of these reasons, OG&E believes that a five-year extension of the FRP Rider is just, reasonable, and in the public interest.

I. COMPANY WITNESSES

Q. **Please provide a list of other Direct Testimony's filed in this Case.**

A. Please see Table 1 for a list of Company witnesses filing in this Case and the subject matter they are supporting.

Table 1

<u>Witness</u>	<u>Title</u>	<u>Purpose of Testimony</u>
Donald R. Rowlett	Managing Director, Regulatory Affairs	Discusses the benefits of the investments included in the Initial Term of the FRP Rider.
Gwin Cash	Manager, Cost of Service and Rate Administration	Describes the proposed changes to the FRP Rider that would be used in the five-year extension and describes the class cost of service provided concurrently with this filing.
Ann Bulkley	Senior Vice President, Concentric Energy Advisors	Describes the proposed ROE and Capital Structure changes for the five-year extension
Jennifer Nelson	Assistant Vice President, Concentric Energy Advisors	Discusses why the FRP Rider and the extension is in the public interest.

II. OVERVIEW OF OG&E's FRP Rider

Q. **When was OG&E's FRP Rider approved?**

A. OG&E provided notice of its intent to implement a Formula Rate Plan Rider mechanism in its last general rate case in Docket No. 16-052-U, as allowed by Act 725. In Order No. 8 of that docket, issued on May 18, 2017, the Commission approved OG&E's FRP Rider.

Q. **How many annual FRP filings has OG&E made in its initial term?**

A. OG&E has filed four annual evaluation reports during its initial five-year term starting in October 2018 up to its current filing in October 2021. The Company will file its 5th Evaluation Report as part of the initial FRP term in October 2022.

Q. **Please describe the Evaluation Periods approved during the initial five-year term?**

A. OG&E's approval of a five-year FRP term allowed the FRP Rider to be approved for the time periods of twelve months ending March 31, 2020 through 2023. Initially, OG&E's FRP annual filings included a Projected Year that would allow the Company to adjust rates prospectively. However, in Order No. 10 in Docket 18-046-FR, the Commission approved a settlement agreement that included, among other items, an agreement by the settling parties that OG&E would not project Plant, Expenses, Capital Amounts, or Rates in the Benchmark Rate of Return on Rate Base ("BRORB") for the remaining evaluation report filings during the term of its current FRP (and any 5 year extension of the current FRP). For the remaining years of OG&E's FRP filings, there will be no revenue change in the FRP based on projected costs.¹ This settlement agreement also ordered the Company to file a revised FRP tariff to eliminate any projected year schedules, adjustments, or filing requirements,² which the Company did in Docket No. 19-017-TF. The Company received an order approving the revised FRP tariff, in that Docket, on April 28, 2020.³

¹ Docket No. 18-046-FR Order No. 10 pg. 10.

² *Id.*

³ Docket No. 19-017-TF Order No. 3.

1 Q. **Please describe the impact this agreement had on the Company's 2020 and 2021**
2 **Evaluation Reports.**

3 A. As a result of the settlement agreement, the Company did not project any rate base,
4 expense, or capital amounts in its 2020 and 2021 Evaluation Report.
5

6 Q. **Please describe how this agreement has impacted this FRP Rider Extension request.**

7 A. As described above, OG&E is requesting to continue its FRP Rider in the extension
8 timeframe utilizing only Historical Year information, consistent with its 2020 and 2021
9 Evaluation Reports. This is also consistent with the settlement agreement from the 2019
10 Evaluation Report described previously.
11

12 Q. **Please explain what the Evaluation Periods during five-year FRP Extension would**
13 **be?**

14 A. As previously explained, the Company's initial five-year FRP Rider term ends when the
15 Evaluation Period, the twelve months ending March 31, 2023 is complete. Therefore, the
16 Company's five-year FRP extension would end March 31, 2028, five years after the initial
17 term is complete.
18

19 III. FRP RIDER BENEFITS

20 Q. **Please describe what benefits the FRP Rider has achieved during its initial term and**
21 **will continue to provide during a five-year extension.**

22 A. The FRP Rider has provide the Company and its stakeholders numerous benefits
23 throughout its initial term. Some of these benefits include: providing just and reasonable
24 rates consistent with the purpose of the Formula Rate Review Act, including Act 725 and
25 the recently enacted Acts 404⁴ and 894⁵ ("Act 725, as amended"), customer protection
26 mechanisms, a historical only Evaluation Period, rate gradualism, increased transparency,
27 and reduction in regulatory lag. I will further describe each of these benefits below.
28
29

⁴ Acts of 2021, Act 404, § 1, eff. March 22, 2021 (H.B. 1662).

⁵ Acts of 2021, Act 894, § 1, eff. April 26, 2021 (S.B. 489).

1 Q. **Please describe what you believe the intent was with the passing of Act 725.**

2 A. In A.C.A. § 23-4-1202, the statute states, “The intent of this subchapter is to establish a
3 regulatory framework that implements rate reforms to provide just and reasonable rates to
4 consumers in this state and enables public utilities in this state to provide reliable service
5 while maintaining stable rates.”
6

7 Q. **Do you believe the FRP Rider has complied with Act 725 and the subsequently
8 enacted Acts?**

9 A. Yes. As described further in this testimony, OG&E has maintained rates that are among
10 the most affordable in the State, region, and nation while making significant investments
11 in its electric production and distribution system. Continuing the FRP would continue to
12 allow OG&E to make additional investments that benefit its customers while maintaining
13 just, reasonable, and stable rates.
14

15 Q. **Do you believe that the FRP incents investors to provide the capital necessary to invest
16 in Arkansas?**

17 A. Yes. An affordable and reliable electric system is a factor in attracting and maintaining
18 business, and the existence of an FRP lets the investment community know that Arkansas
19 desires the investments necessary to foster economic development. However, as further
20 described in this testimony, the FRP also affords customers protections that prevent
21 possible rate shock.
22

23 Q. **Can you explain the customer protection mechanisms within the FRP Rider?**

24 A. Yes. There are two constraints in the FRP Rider that provide customer protection that were
25 established in Act 725. Those two constraints determine whether a rate adjustment is
26 necessary and the amount of a rate adjustment. The first constraint is whether the Company
27 has an earned rate of return that falls outside of a plus or minus 50 basis point bandwidth
28 from its Target Rate of Return (“TRR”), which is the Commission approved Return on
29 Equity (“ROE”) of 9.5% from its last general rate case. If a rate adjustment is necessary,
30 then the second constraint limits the amount of the adjustment to plus or minus four percent
31 of each rate class’ total Filing Year revenues. These constraints ensure that any increase

or decrease in customer rates are not too drastic and helps to protect customers and the Company from significant rate volatility from year to year.

Q. Has the FRP Rider utilized these constraints during the initial term of its FRP?

A. Yes. OG&E's first three FRP annual filings have resulted in a revenue change to account for a shortfall in its actual, earned ROE. However, it is important to note that it has been below the 4% cap in two of its first four filings. In the case where OG&E was capped in its annual filing, the Company would have been under the cap if it had not been required to include its Environmental Compliance investments in the 2020 Evaluation Report. The Company sought relief through the Act 310 and a separate regulatory rider mechanism in Docket 15-034-U but was ultimately ordered to include it in its 2020 Evaluation Report. These same Environmental Compliance reports are also incremental to the rate increase projection as compared to the 2019 Evaluation Report Projected Year, which is the basis for comparison of the Historical Year in the 4th Evaluation Report.

Q. Does the outcome of the Environmental Compliance Plan investments demonstrate any additional benefits of the FRP mechanism?

A. Yes. Though the Company preferred for its Environmental Compliance Plan investments to be recovered through a separate rider, allowing recovery through the FRP demonstrates an additional customer protection afforded by the FRP mechanism by providing customers the benefit of the investments while keeping rates stable over time.

Q. Has the FRP Rider allowed for customers to be protected from rate volatility?

A. Yes, as described previously, the customer protection mechanism of a cap on any increase or decrease will help to reduce rate volatility for customers. This customer protection is not available to customers through traditional ratemaking with general rate cases. This can be particularly helpful in circumstances like when companies must add significant investment due to regulation changes or new generation may be necessary. Extending the FRP Rider will continue to give customers this additional protection.

1 Q. **Has the FRP Rider allowed for increased financial and operational transparency?**

2 A. Yes. Attachment E of the FRP Rider requires OG&E to file twenty-four individual files
3 that coincide with its Annual Evaluation Report. This information is provided initially
4 when the Company first files its Annual Evaluation Report and is updated each year with
5 the changing of the Evaluation Period. The information provided is critical information
6 about the Company's financials and gives stakeholders a chance to view it without having
7 to wait for the discovery process. In addition to this information, stakeholders are given the
8 ability to ask discovery through the entirety of each FRP Evaluation Report in order to
9 gather all the necessary information they need to review the Company's filing.

10
11 In addition, throughout the initial term of the FRP Rider, the Company has agreed to
12 additional reporting requirements at the request of the stakeholders. This includes
13 additional reporting on the Company's Grid Modernization investments on a quarterly
14 basis as well as holding a stakeholder meeting to discuss its Grid Modernization
15 investments. Additionally, the Company is reporting on investments made to the
16 Company's generation assets approved in Docket No. 19-014-U. The Company is also
17 reporting on specific investments made in its other jurisdictions in order to ensure that
18 Arkansas customers would not be responsible for. All of these additional reporting and
19 information provided to stakeholders allows for increased financial and operational
20 transparency on an annual basis that is absent from the traditional ratemaking process.

21
22 Q. **Please describe some of the investments OG&E has included in its initial FRP Rider**
23 **term.**

24 A. OG&E has made significant investments in Arkansas during the initial term of its FRP.
25 Some of the largest have included the Mustang Plant Modernization Plan, Environmental
26 Compliance projects, and the Grid Enhancement Plan. The Company plans to continue its
27 investment in its Grid Enhancement program through the initial term of its FRP.

28
29 Q. **Please describe the customer benefits that these investments provide.**

30 A. The Mustang Modernization added quick-start combustion turbines necessary to maintain
31 the Company's generating capacity, reserve requirements, and reliable operation of the

1 transmission system. The Environmental Compliance Plan was required to maintain
2 continued operation of several critical generating units in order to provide reliable
3 generation capacity. OG&E built upon these generation reliability investments by also
4 increasing the reliability of its distribution system through the Grid Enhancement Plan.
5 Through the first two Series of these investments have provided significant reliability
6 improvements for customers while maintaining low rates.

7
8 **Q. Has OG&E's O&M expenses increased significantly since its last rate case?**

9 A. No. OG&E has kept its total O&M expense virtually flat during the term of FRP Rider.
10 In fact, the Company's proposed total non-fuel O&M expense in the 2021 Evaluation
11 Report is approximately 4% less than the total non-fuel O&M expense approved in the
12 Company's last rate case.⁶ The Company's reasonable and prudent O&M expenses, as
13 reviewed and authorized by the Commission, have a one-to-one impact on customers
14 through the revenue requirement. OG&E works diligently to ensure it maintains a safe and
15 reliable system while keeping O&M to a reasonable level to limit the financial impact to
16 its customers.

17
18 **Q. How does the FRP provide benefits to customers related to O&M expense?**

19 A. The annual review of the Company's rates and the underlying cost to serve means that
20 customers can experience O&M cost reductions closer to "real time" rather than possibly
21 losing out on those cost savings. The timing of general rate cases is generally unknown as
22 compared to the predictable nature of the FRP, therefore cost savings realized in one
23 service category may be undone by unexpected increases in other service categories by the
24 time another general rate case is filed. The annual review ensures the rates OG&E's
25 customers pay more timely reflect the Company's actual cost to serve.

26
27 **Q. Has OG&E's rates increased significantly since its last rate case?**

28 A. No. OG&E still consistently has some of the lowest rates in the state, region, and national
29 average. The Company has now filed four Evaluation Reports that have included
30 significant investments that provide safe and reliable service for its customers. Through

⁶ Docket No. 16-052-U.

the FRP, the Company has kept rates affordable for customers while encouraging additional beneficial investments in the system. Table 2 compares the rates proposed in the Company's 2021 Evaluation Report to the State, regional, and national average and demonstrates how the FRP has not resulted in runaway rate increases for OG&E's customers. The Direct Testimony of Jennifer Nelson also provides additional insight into how OG&E's rates compare to those of other utilities.

Table 2⁷

Average Rate Comparison in \$/kWh			
	Residential	General Service	Power and Light
OG&E Proposed	\$ 0.0866	\$ 0.0724	\$ 0.0523
Arkansas Average	\$ 0.1075	\$ 0.0842	\$ 0.0601
West South Central Average	\$ 0.0995	\$ 0.0830	\$ 0.0480
National Average	\$ 0.1314	\$ 0.1068	\$ 0.0674

Q. How does OG&E's rates when compared to specific utility operating companies?

A. Industry rankings confirm that OG&E Arkansas customers pay some of the lowest rates in the nation. Data from S&P Capital IQ⁸ shows OG&E's Arkansas bundled rates are in the top five for affordability among the 160 utilities studied in the 2020. This analysis also showed OG&E's ultimate price to customers is 39% below the national average. This data further confirms that OG&E's rates have remained affordable even after the Company has made significant investments in reliability during the term of the FRP.

Q. Does OG&E believe the FRP is a cooperative process that allows the Company and its stakeholders to create a mutually beneficial regulatory framework?

A. Yes. As demonstrated by the outcome of the first three FRP Evaluation Reports, the settlements parties in each filing have been able to reach agreement on contentious issues, including use of the Projected Year, revenue netting, project cost prudence, various accounting adjustments, and additional Company reporting requirements. OG&E believes these agreements demonstrates both the Company's and stakeholders' commitment to a

⁷ Edison Electric Institutes Typical Bills and Average Rates Report Winter 2021

⁸ Formerly S&P Market Intelligence.

1 cooperative and productive annual process that results in just, reasonable, and stable rates
2 for customers.

3
4 **IV. ROE JUSTIFICATION**

5 **Q. Is OG&E seeking an increase in its authorized ROE in this extension request?**

6 A. Yes. Pursuant to A.C.A. § 23-4-1208(a)(2)(A)(ii)(b), the Company is seeking an increase
7 of 10 basis points in its authorized ROE from 9.50% to 9.60%.

8
9 **Q. Has OG&E filed testimony to address the reasonableness of the ROE increase
10 request?**

11 A. Yes. The Direct Testimony of Company witness Ann Bulkley makes the case that the low
12 end of a reasonable ROE range is 9.90%, which is higher than the maximum adjustment
13 allowed by statute.

14
15 **V. PROSPECTIVE FRP RIDER MODIFICATIONS**

16 **Q. Is OG&E requesting any modifications to its FRP Rider tariff in this proceeding?**

17 A. Yes. Most of the prospective tariff changes are necessary to ensure the tariff is compliant
18 with the potential approval of a second five-year term and OG&E's requested Target Rate
19 of Return. The Company is also requesting two substantive changes to the Evaluation
20 Report calculation, including a change from average rate base to year-end rate base.

21
22 **Q. Why is the Company requesting a change from average rate base to year-end rate
23 base?**

24 A. As previously stated, OG&E has agreed to use only Historical Year data for the calculation
25 of its annual rate adjustment. Usage of a Projected Year allows utilities to mitigate some
26 of the regulatory lag associated with the historic ratemaking process. By giving up the
27 Projected Year, OG&E has increased the regulatory lag on its prudent investments,
28 resulting in rates becoming effective up to two years after the investment was placed into
29 service. By utilizing the actual net plant balance at March 31 of each year, rather than
30 averaging the amount from the beginning and end of the test year, OG&E is endeavoring
31 to reduce regulatory lag while still maintaining a Historic Year. It should be noted that this

1 change may not always result in higher net plant figures than using an average method.
2 Rather, it will ensure the most current available Historic Year balances are included in
3 rates.

4
5 **VI. RECOMMENDATION**

6 **Q. What is your recommendation?**

7 **A.** The Company respectfully requests the Commission approve its FRP Rider Extension
8 request for an additional five-years, as proposed by Company witnesses in this docket,
9 using an authorized ROE of 9.60%.

10
11 **Q. Does this conclude your testimony?**

12 **A.** Yes.
13

CERTIFICATE OF SERVICE

I, Lawrence E. Chisenhall, Jr., hereby state that a copy of the foregoing instrument was served on all the parties of record via the APSC Electronic Filing System on this the 1st day of October, 2021.

/s/ Lawrence E. Chisenhall, Jr.
Lawrence E. Chisenhall, Jr.