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 201700496
AUTHORIZING APPLICANT TO MODIFY ITS	)	
RATES, CHARGES, AND TARIFFS FOR RETAIL	)	
ELECTRIC SERVICE IN OKLAHOMA	)	

Summary of the Responsive Testimony of Todd F. Bohrmann
Regarding Revenue Requirement Issues
On Behalf of Mike Hunter, Oklahoma Attorney General

Mr. Todd F. Bohrmann submitted pre-filed responsive testimony in the present case on May 2, 2018, on behalf of Mike Hunter, the Attorney General of Oklahoma. Mr. Bohrmann testified as to his educational and professional background, and confirmed that he has previously has testified before the Oklahoma Corporation Commission ("Commission"). The purpose of Mr. Bohrmann's testimony is to recommend the Commission take the following actions regarding Oklahoma Gas and Electric Company's ("OGE" or "Company") Application for an increase in the Company's base rate revenues.

First, Mr. Bohrmann recommends denial of the Company's request for a regulatory asset associated with the dry flue gas desulfurization systems ("dry scrubbers") at its Sooner Plant, which the Company had requested to cover from the systems' commercial in-service date to the end of OGE's next rate case, expected to be filed later this year;

Second, Mr. Bohrmann recommended that the Commission adjust OGE's return on common equity downward by 25 basis points until the Company satisfies the following criteria: 1) meeting its 2017 target of 114 minutes for its System Average Interruption Duration Index ("SAIDI"); 2) have a year-over-year change in scores from JD Power's annual residential surveys greater than the median year-over-year improvement for the U.S. South Large electric utility cohort; and 3) have a year-over-year change in scores from JD Power's annual business surveys greater than the median year-over-year improvement for the U.S. South Large electric utility cohort.

Third, Mr. Bohrmann recommended that the Commission strongly signal its expectation of an open, fair, competitive bidding process for generation resource additions.

Fourth, Mr. Bohrmann recommended disallowance of the costs associated with the testimony and appearance of Russell R. Evans, Ph.D., on behalf of the Company.

Dry Scrubbers Regulatory Asset

Mr. Bohrmann testified that the Company's request for deferred accounting treatment for the environmental compliance assets and operating costs of the dry scrubbers at Sooner Units 1 and 2, which are expected to be placed into commercial service by year-end 2018, should be denied. Mr. Bohrmann reasoned that, although this regulatory asset would have no immediate impact on the Company's base rates, the Commission's approval would place upward pressure on the Company rates at its next rate case, expected to be filed later this year. Furthermore, Mr. Bohrmann stated that OGE has not provided sufficient information to thoroughly evaluate the Company's proposed regulatory treatment. Consistent with traditional regulatory theory and OGE's prior commitment to defer recovery until after the dry scrubbers are placed in commercial service, Mr. Bohrmann noted that the Company may seek to recover its investment in and expenses associated with the dry scrubbers after they have been placed into commercial service.

Downward Adjustment to Return on Equity

Mr. Bohrmann testified that OGE had lagged peers in both network reliability and customer satisfaction scores. He recommended that the Commission implement a downward adjustment on the Company's return on equity until conditions related to reliability and customer satisfaction improve.

A. Network Reliability

Mr. Bohrmann testified that each utility within the Commission's jurisdiction is directed to design and maintain a reliability program to limit the frequency and duration of electric service interruptions, to the maximum extent possible, and to maintain acceptable electric service reliability levels over time. Mr. Bohrmann identified statistical indicators regarding the frequency and duration of electric outages that are used to evaluate distribution reliability performance, then compared OGE's statistical indicators with peer companies.

In recognition of the role that weather conditions can play with distribution reliability performance, Mr. Bohrmann limited his comparison of the Company's performance to three Oklahoma municipal electric utilities and one other Oklahoma investor-owned electric utility (Public Service Company of Oklahoma or "PSO") with geographical proximity to OGE's system. Mr. Bohrmann also excluded major events from the reliability data to compare how the Company distribution system compares *vis-à-vis* its Oklahoma peers under routine or "blue-sky" conditions.

When comparing these utilities on a duration basis, Mr. Bohrmann noted that OGE's values were far below those of PSO and the three municipal utilities. Furthermore, Mr. Bohrmann showed that the duration values for the three OGE operating districts closest to Edmond—Metro East, Metro North, and Metro West—are only marginally better than the Company-wide 2015 and 2016 values. OGE's Enid district was within 15 percent of Ponca City in 2015, but the gap grew considerably larger in 2016. By 2016, customers in OGE's Enid district experienced total outage duration that was nearly four times longer than that experienced by Ponca City's and Stillwater's customers.

For 2017, the Company had set a duration target of 114 minutes. OGE's actual 2017 value (excluding major events) was 144 minutes, or 26 percent higher than target. Moreover, only 8 of the 26 OGE operating districts had a duration value that met the target. Also, OGE did not meet the historical average of 138 minutes that the Commission established as the base performance level.

When comparing these utilities on a frequency basis, OGE's values for 2015 and 2016 set the median among itself, PSO, and the three municipal utilities. However, the frequency values for the three OGE operating districts closest to Edmond were worse than Edmond's corresponding values. OGE's Enid district had a lower SAIFI value than Ponca City in 2015, but slipped to near parity with both Ponca City and Stillwater in 2016.

Mr. Bohrmann testified that, based on a U.S. Department of Energy model to estimate the value of service interruptions to customers, the difference between the Company's actual and target reliability performance for 2017 created a $27.8 million cost for ratepayers, equivalent to 81 basis points of the Company's common equity with nearly all these costs borne by commercial and industrial customers.

Customer Satisfaction

Mr. Bohrmann also described how, although the Company represents that its customers repeatedly rank OGE as the best in the region and among the best in the nation, the Company has not kept pace with its peers for the past two years. OGE is located in the Large Utility (i.e., more than 500,000 households) and the U.S. South region. Along with OGE, the following electric utilities are included in this peer group, according to J.D. Power's 2017 report: Florida Power & Light, Georgia Power, Entergy Louisiana, Duke Energy Carolinas, CPS Energy, Alabama Power, Dominion Virginia Power, Entergy Arkansas, Progress Energy Carolinas, South Carolina Electric and Gas, Tampa Electric, and Progress Energy Florida. A utility's score (*i.e.*, maximum of 1000) is derived from customer interviews by J.D. Power, an independent third party, on various elements of its customer experience with the brand over 140 questions.

Mr. Bohrmann compared OGE's J.D. Power scores as well as the scores from its peer group for the past five years for residential customers and past four years for business customers. Among residential customers, OGE ranked highest among its peers in the U.S. South region with a score of 683 in 2013. OGE overall customer satisfaction score was 26 points higher than its peer average. OGE rated higher than its peer average among all the dimensions that comprise the overall score, and rated highest in its peer group on four of the six dimensions. By 2017, the Company's overall customer satisfaction score had increased to 737. However, this 54 point improvement did not keep pace with its peer group. Instead, the Company ranked sixth, not first, among its 13 peers, and its score was slightly less than the peer average. Also, the Company scored below its peer average on dimensions such as power quality and reliability and customer service. Among the 13 electric utilities in its peer group, OGE's 54 point improvement was the worst performance over this period.

Among business customers, OGE ranked third highest among its peers in the U.S. South region with a score of 692 in 2014. OGE overall customer satisfaction score was 14 points higher than its peer average. OGE rated higher than its peer average among all, but one, of the dimensions that comprise the overall score, and rated no worse than third highest in its peer group on five of the six dimensions. By 2017, the Company's overall customer satisfaction score had increased to 759. However, this 67 point improvement had failed to keep pace with its peer group. Instead, the Company ranked last among its 11 peers, and its score was 24 points less than the peer average. Also, the Company scored below its peer average on six dimensions, and ranked last on the billing and payment and communications dimensions.

As a result of the foregoing, he recommended that the appropriate regulatory remedy is for the Commission to impose a 25 basis point downward adjustment on the rate of return on common equity until the Company satisfies the following criteria: a) The Company meets its 2017 target of 114 minutes for SAIDI; b) The Company's year-over-year change in its score from JD Power's annual residential survey is greater than the median year-over-year improvement for the U.S. South Large electric utility cohort; and c) The Company's year-over-year change in its score from JD Power's annual business survey is greater than the median year-over-year improvement for the U.S. South Large electric utility cohort. This 25 basis point downward adjustment is equivalent to approximately $8 million in revenue requirements.

Competitive Bidding

Mr. Bohrmann described the Mustang Modernization Project, which consists of retiring Mustang Units 1 through 4 and constructing seven new units with a combined nameplate capacity of 462 MW. Mr. Bohrmann compared the Company's Mustang Units 1 through 4 to other generating units of comparable size and vintage. Although a majority of these comparable units have been retired, many units remain in commercial service with no announced retirement date. Mr. Bohrmann also described the new aero-derivative combustion turbine ("CT") units installed at the Mustang facility. He compared them to a New Jersey merchant plant, Bayonne Energy Center, which has employed this specific technology since 2012. In contrast to the older Mustang steam units, the Bayonne units are 14 percent more efficient and dispatched three times more frequently.

OGE believes the aero-derivative CT units will create value for itself and its customers through its multiple starts per day, a 10 minute start capability, reliable operations, low operation and maintenance costs, and low emissions. However, one aspect of its decision that should be problematic for the Commission is the Company's exclusive reliance on its market knowledge that no alternatives, except for its self-build option, existed to fill OGE's capacity need. The Company did not conduct any competitive bidding process to determine whether a proposal with an alternative technology, location, or timing of incremental capacity resources could deliver a better solution.

The Company did forecast the cumulative revenue requirements on a net present value ("NPV") basis over a 30 year planning horizon for two alternatives (i.e., 400 MW CT capacity and 560 MW combined cycle ("CC") capacity) to fill the capacity need created with the Mustang Units 1 through 4 retirements. However, there was a marginal difference between these alternatives. Moreover, the CC alternative is forecasted to be more cost-effective than the CT alternative under the high gas and CO_2 sensitivity scenarios. Based on the myriad of assumptions over 30 years that OGE made to forecast these values, it is not reasonable to conclude from this analysis that one alternative (CT vs. CC) was a clearly superior option over the other.

Without a competitive bidding process, the Company has no basis to determine whether its assessment of the market was valid. When the Company is contemplating a $390 million generating asset with a useful life measured in decades, the Company can be taking unnecessary and imprudent risks if it does not confirm its market knowledge with a robust, fair, competitive bidding process.

Mr. Bohrmann testified that OGE selection of two bids from a 2009 request for proposals for wind energy resources, despite an apparent self-build option, should be instructive for OGE as well as all stakeholders that an open, fair, competitive bidding process is not a fruitless exercise. Instead, the Company did not conduct any competitive bidding process to determine whether an alternative technology, location, or timing of incremental capacity resources could deliver a better solution. There is no substitute for an open, fair competitive bidding process to vigorously test such market assumptions.

Based on Mr. Bohrmann's experience, a public utility commission must evaluate the prudence or reasonableness of a Company's decisions based on what the utility either knew or should have known at the time the decision was made. A comparison of the estimated cost of the project several years after the original capital budget was established should have no impact on whether OGE properly evaluated all relevant information prior to its decision to proceed. The absence of a competitive bidding process substantially hinders the Commission's ability to determine whether the Mustang Modernization Project was based on reasonable and prudent decisions. Mr. Bohrmann testified that the Commission should signal strongly its expectation for an open, fair competitive bidding process for subsequent generation resource additions.

The Testimony of Dr. Russell Evans

Mr. Bohrmann recommended that the Commission disallow the costs associated with the testimony and appearance of Russell R. Evans, Ph.D. Dr. Evans' testimony is primarily comprised of broad, general economic principles without any specific applicability to OGE or this rate proceeding. By Dr. Evans' admission, his testimony supplements and supports that of two other OGE witnesses, Dr. Roger A. Morin and Mr. Stephen E. Merrill. Dr. Evans does not make any specific recommendations regarding OGE's rates and service, including the rate of return on common equity. Instead, Dr. Evans' testimony is the Company's third opportunity to justify its request for a return on common equity. In the absence of Dr. Evans' direct testimony, Dr. Morin and Mr. Merrill could have testified regarding the same generic economic principles with minimal incremental effort and expense. The cost of Dr. Evans' consulting fee to appear as an OGE witness is an unreasonable and imprudent expense.

CERTIFICATE OF SERVICE

On this 7th day of May, 2018, a true and correct copy of the above and foregoing *Summary of the Responsive Testimony of Todd F. Bohrmann, on Behalf of Mike Hunter, Oklahoma Attorney General*, was sent via electronic mail to the following interested parties:

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