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	)	

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CORPORATION COMMISSION
OF OKLAHOMA

Direct Testimony

of

Donald R. Rowlett

on behalf of

Oklahoma Gas and Electric Company

December 30, 2021

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

A. My name is Donald Rowlett. My business address is 321 North Harvey, Oklahoma City, Oklahoma 73102.

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

A. I am the Managing Director of Regulatory Affairs for Oklahoma Gas and Electric Company ("OG&E").

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

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

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

A. Yes. In addition to testifying before the Commission, I have testified on behalf of the Company before the Arkansas Public Service Commission and the Environmental and Public Works Committee in the United States Senate. I have also filed testimony before the Federal Energy Regulatory Commission.

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

A. The purpose of my testimony is to discuss the relief requested and to explain why OG&E is seeking a change in its base rates. In addition, I discuss some of the key issues in the Company's application, summarized in Chart 1 below. Finally, I will introduce each of the Company witnesses in this proceeding.

Q. **Please state the relief sought from the Commission through this application.**

A. OG&E is requesting a general rate change[1] pursuant to the Commission Rules, including Chapter 70 Minimum Standard Filing Requirements. The accounting exhibits, schedules, testimony, and evidence that support the general rate change are included in the Application Package[2] filed in this cause.

Q. **Did OG&E provide the Commission advance notice of the Company's Application?**

A. Yes. A utility is required to provide the Commission a 45-day notice of its intent to file an Application for a general rate change.[3] The notice is required to be in writing and filed with the Commission's Court Clerk. On November 15, 2021, OG&E filed a Notice of Intent that the Company would be filing an application on or about December 30, 2021 requesting a modification to its rates and charges for its Oklahoma jurisdiction customers.

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[1] OAC 165:70-1-2. Definitions. "**General Rate Change**" means a change in rates and charges which exceeds three percent (3%) based on the previous twelve (12) months revenue generated by the existing rates for an association or electric cooperative subject to the Commission's jurisdiction pursuant to 17 O.S. Section 158.27 et seq; or a change in rates resulting in more than a one percent (1%) increase in a utility's jurisdictional annual gross operating revenues unless otherwise allowed by law. A change mandated by regulation or legislation, a change in the terms and conditions of service, a request for a special contract, or a request for a new and/or optional service does not constitute a general rate change.

[2] OAC 165:70-1-2. Definitions. "**Application package**" means the required schedules and testimony filed by a Class A or B utility to initiate a general rate change. See OAC 165:70-3-1 and 165:70-5-4.

[3] OAC 165:70-3-7(a)

Q. **What test year was utilized in developing the Application Package?**

A. The Company's exhibits are based on the financial results of the test year[4] ended September 30, 2021. The Application Package contains *pro forma* adjustments to rate base[5] and *pro forma* adjustments to operating income.[6] *Pro forma* adjustments reflect reasonably known and measurable changes that occur during and after the test year.

DISCUSSION OF RELIEF REQUESTED

Q. **Please generally describe OG&E's request for a general rate change in this filing.**

A. OG&E is requesting an overall increase in rates of $163.5 million annually which reflects a total bill increase of 8.4% over the rates last set in July of 2018. The Company expects the new rates to go into effect no later than July of 2022.

Q. **Why is OG&E asking for a rate increase?**

A. The primary reason OG&E is seeking a rate increase is to begin recovering the costs associated with those items depicted in Chart 1.

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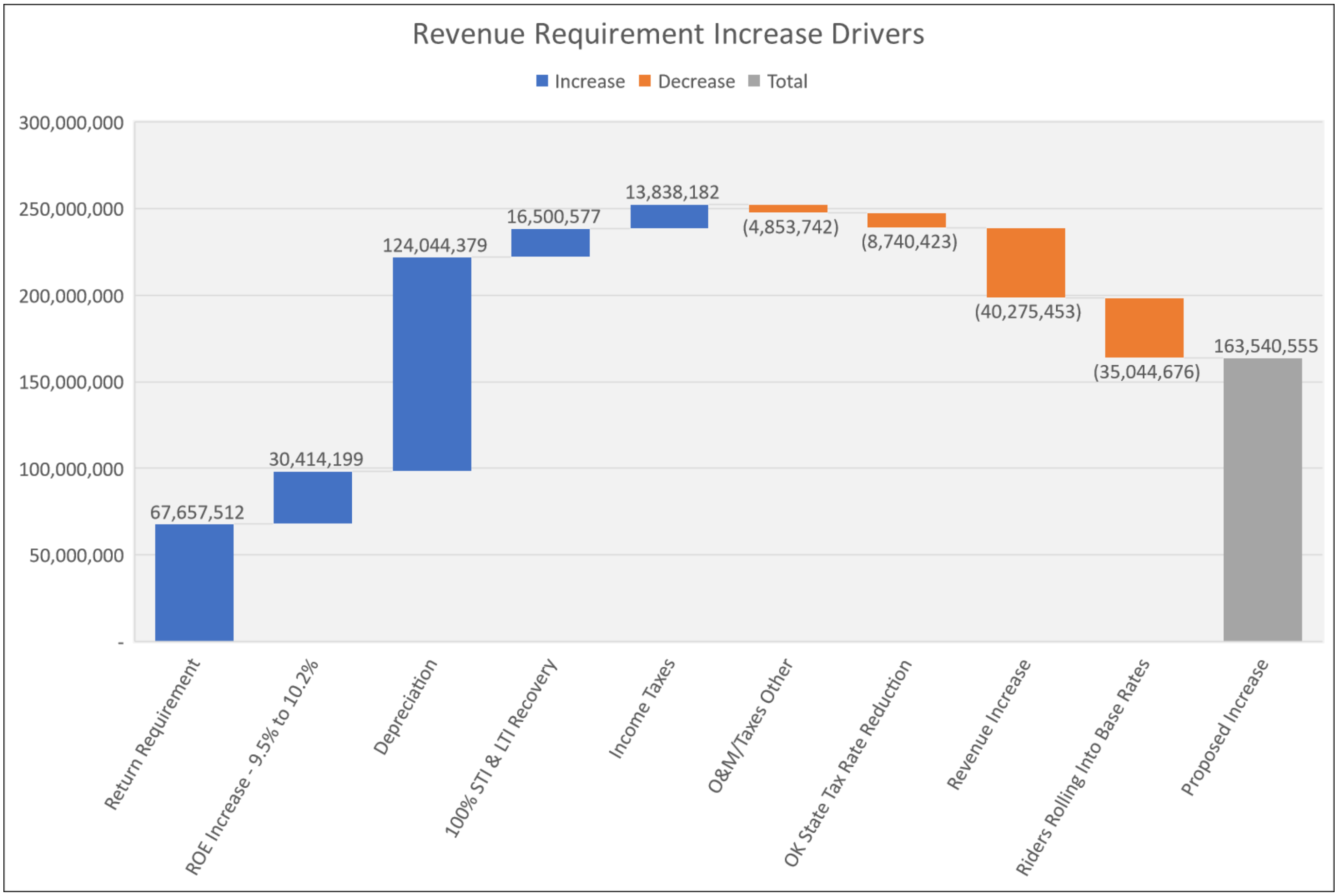
[4] OAC 165:70-1-2. Definitions. "**Test Year**" means the twelve (12) month period used in determining rate base, operating income, and rate of return.

[5] Application Package, Volume II, Section B, Schedule B-4.

[6] Application Package, Volume II, Section H, Schedule H-3.

Chart 1: Visual Depiction of Rate Increase Drivers



Q. **What impact will the proposed rate increase have on monthly residential electric bills?**

A. The average residential customer will see an increase in their bills of $9.98 per month when compared to current rates.

Q. **How will OG&E's rates compare to the national average after the proposed changes?**

A. OG&E's overall retail rates advantage remains approximately the same. OG&E's rates are currently well below the national average and will continue to be so even with the proposed change. Currently, OG&E's overall retail rates are 34% below that national average and residential rates specifically are 30% percent below the national average.[7]

DISCUSSION OF KEY ISSUES

Performance Based Rate Plan ("PBR")

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 and Investment Tax Credit Rider ("PTC-ITC"), and the Federal Tax Change ("FTC") Rider.

Q. **Is OG&E requesting the PBR run concurrently with the modified riders?**

A. No. If approved as proposed, the PBR would replace the aforementioned modified riders, as well as the Energy Efficiency Program Rider ("EEP"), upon issuance of a final order in the first PBR filing. The modified riders are necessary to recover the Company's prudently incurred costs while keeping rates stable for customers. However, if approved, the PBR will replace these riders and provide a streamlined process through which all Company costs may be reviewed.

Table 1

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

[7] 2021 Edison Electric Institute Typical Bills and Average Rates Report, Winter.

Q. **What are the benefits to the proposed PBR Plan?**

A. As described in the Direct Testimony of Company witnesses Zachary Quintero and Jennifer Nelson, the proposed PBR Plan will balance utility and ratepayer interests, accomplish gradualism in rate adjustments, decrease regulatory costs, lessen regulatory lag, provide closer supervision of utility performance through annual reviews, and reduce the need for cost recovery outside base rates. In addition, the PBR facilitates investment in critical infrastructure, encourages cooperation between the Company and its stakeholders, and provides a regulatory framework through which operational savings and potential over-earnings can be returned to customers.

Q. **How would the proposed PBR operate?**

A. The PBR Plan is similar to those already approved for Oklahoma's natural gas utilities. Beginning in July 2023, the Company would file its first of five annual rate review applications. The application would include schedules, workpapers, supporting testimony, and a cost of service study consistent with the PBR Plan described in Mr. Quintero's Direct Testimony. For the twelve months ending March 31 of the same year, the Company would determine whether its earned return fell within a 100 bps deadband around its authorized ROE. If the earned return was 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 was more than 50 basis points above than the target rate of return, the Company will return 75% of the over-earnings to its customers. Within the 100 bps deadband, no rate change would occur. The inputs, adjustments, and procedural timing of the PBR are further described in Mr. Quintero's Direct Testimony.

Q. **Did OG&E develop its own PBR proposal to account for differences between Oklahoma's electric and natural gas utilities?**

A. Yes. While fundamentally very similar, OG&E developed its PBR Plan to address concerns raised in a past electric utility PBR request.[8] Specifically, some of these remedies include filing an annual cost of service study, closing riders upon

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8 See Cause No. PUD 201800097

commencement of the PBR Plan, and filing OG&E's PBR at a different interval than the gas utilities.

Q. **Does the PBR weaken the Commission's authority to set just and reasonable rates?**

A. No. The PBR Plan sets a schedule of known rate investigations that allow all stakeholders to issue data requests, make recommendations, and put forth evidence to the Commission concerning OG&E's books, records, and operations. The Commission will make findings based upon this annual review process. The PBR actually increases oversight of the utility's rates while allowing for gradual rate adjustments that provide benefits to the Company and its customers.

Q. **Is OG&E proposing a general rate case as part of its PBR Plan?**

A. Yes. The Company is requesting a five-year term, which would begin in 2023. The Company would file a Chapter 70 general rate case no later than the end of 2028.

Q. **How is the proposed PBR Plan consistent with the public interest?**

A. Company witness Jennifer Nelson evaluated the PBR Plan by comparing it to other annual rate review mechanisms across the country, analyzing trends in the electric industry, and aligning the PBR Plan with sound ratemaking principles and regulatory objectives. As further described in Ms. Nelson's testimony, the PBR Plan would provide important benefits to customers while enabling OG&E to invest in the necessary capital to provide safe, reliable service.

<u>Extension and Expansion of the Grid Enhancement Mechanism</u>

Q. **Will you describe the Grid Enhancement Plan?**

A. The Grid Enhancement Plan is designed with the objective of making OG&E's power delivery system more reliable, resilient, flexible, and efficient, while focusing on affordability and improving customer experiences. As discussed by OG&E Witness Kandace Smith, the plan is focused on upgrading aging physical infrastructure while also modernizing key grid technologies, operational platforms, and communications systems, as well as planning tools and processes. The strategic investments will modernize and optimize our system while providing benefits to customers.

Q. **Is OG&E proposing to continue its Grid Enhancement Mechanism ("GEM")?**

A. Yes. OG&E believes that the GEM is an important recovery mechanism for the Company as it implements its five-year Grid Enhancement Plan.

Q. **Why is the continuation of the GEM necessary?**

A. OG&E seeks to continue implementation of its Grid Enhancement Plan. This is especially important after the October 2020 ice storm and the February 2021 Winter Weather Event. OG&E wants to continue its efforts to aggressively fortify, update and protect its power delivery system. The GEM will help OG&E reduce regulatory lag associated with the Grid Enhancement projects while also allowing for an ongoing, enhanced review of OG&E's grid and the proposed improvements. The GEM and its process will ensure that the Commission is kept fully abreast of any grid enhancement activity and associated costs. The GEM will spread cost recovery out to avoid customer rate shock that can otherwise occur by waiting until a base rate case to include all of the costs at one time.

Q. **Does the proposed Mechanism eliminate regulatory lag for OG&E?**

A. No. The Mechanism reduces the amount of lag that the Company would otherwise incur without it, but it does not fully eliminate lag. Because the Mechanism is structured such that projects may not be submitted for cost recovery until after the investments are in-service providing benefits to customers, there will still be lag between the investments going in-service and cost recovery commencing. In addition, OG&E will also be incurring other regulatory lag for other investments and expenditures that are outside of the Plan.

Q. **Why is it important to reduce regulatory lag?**

A. If regulatory lag is not addressed, it can create a financial barrier for OG&E to make the investments necessary to modernize its grid. This is because OG&E's current rates will not be sufficient to cover the incremental investment that will occur with the Plan which could challenge OG&E's opportunity to maintain its financial health. Mitigating lag will enable OG&E to maintain its financial health and to move forward with the improvements as planned.

Q. **Is the Company seeking to continue the GEM for recovery of all categories of the Grid Enhancement Plan?**

A. No. Currently, OG&E only includes project costs related to Grid Automation, Communications Systems, and Technology Platforms and Applications in the GEM. No Grid Resiliency project costs are included in the GEM. OG&E proposes to continue with that same scope.

Q. **Does the Company propose to include any other costs in the GEM?**

A. Yes. As explained by OG&E Witness Smith, after the October 2020 ice storm, OG&E identified five potential Weather Hardening categories of non-routine, targeted upgrades to infrastructure. OG&E proposes to include these Weather Hardening projects in the GEM as well.

Q. **How does the GEM work?**

A. As projects are completed and placed into service for the benefit of customers, the costs of the completed projects are included in the GEM on a quarterly basis. Factors are adjusted quarterly after OG&E submits reports to interested parties that identify the projects placed in service along with the associated revenue requirements associated with those investments. The reports are submitted by the 15th day of the month following quarter end. All parties have 30 days to object to any project or calculation. The cost recovery does not begin until the Commission staff has reviewed the reports and agreed to the updated factors.

Q. **Is the cost recovery in the GEM subject to later prudency reviews?**

A. Yes. All prudence determinations regarding the Grid Enhancement projects included in the GEM will ultimately be made in a subsequent base rate case. All cost recovery through the GEM is subject to true-up and refund if the Commission determines that a project was not prudently undertaken.

Q. **What is OG&E proposing for the extended term of the GEM?**

A. OG&E proposes that the GEM be extended though the end of 2024 so that the Grid Enhancement Plan can be fully implemented. However, as explained above, if OG&E's proposed PBR Plan is implemented after 2023, the GEM would be closed at that time and the annual Grid Enhancement investment plan would be recovered through the annual PBR Plan filings.

Q. **What OG&E witnesses are filing testimony on the topic of Grid Enhancement?**

A. As mentioned above, OG&E Witness Kandace Smith is submitting testimony that discusses the Grid Enhancement projects completed in 2020 and 2021 and OG&E's request for the continuation of the GEM. She will also describe the Grid Enhancement Plan as previously proposed in Cause No. PUD 202000021 and the new Weather Hardening projects. In addition, OG&E Witness Jason DeStigter has also prepared testimony that explains his independent cost benefit analysis performed to comply with the settlement agreement reached in Cause No. PUD 202000021.

Return on Equity

Q. **What Return on Equity ("ROE") is OG&E seeking in this proceeding?**

A. OG&E is seeking a 10.2% ROE in this proceeding. This proposed ROE is based on OG&E witness Bulkley's recommendation which fairly compensates investors, maintains OG&E's credit strength, and based on current market conditions, attracts the capital required for investments.

Q. **What will be OG&E's cost of capital based on the recommended ROE and capital structure?**

A. OG&E's current capital structure includes 46.63% long-term debt with a weighted average cost of 4.5% and 53.37% equity. At the recommended 10.2% ROE the overall rate of return ("ROR") would be 7.54%.

Q. **Why is a reasonable ROE important?**

A. Investing in infrastructure is a long-term commitment that typically serves customers for many decades. Stable and predictable authorized ROEs are important to investors who are committing a significant amount of capital to these investments. In exchange for this commitment of capital, investors require adequate and stable returns over the life of these investments.

Investors have many options when it comes to investing their capital, and OG&E must compete with other investment opportunities for that capital. A reasonable authorized ROE is a key factor in keeping our cost of capital from escalating. A reasonable ROE is needed to obtain new financing and maintain a company's financial integrity, which helps keep debt costs low, therefore, benefiting customers. An authorized ROE affects a company's cash flows and credit metrics and indicates regulatory support in the jurisdiction in which it operates. A reasonable ROE gives investors confidence in investing in that regulatory environment because it supports a utility's ability to attract capital efficiently. It is essential that the process of determining the allowed ROE provides stable, predictable, and adequate returns that are needed to attract the investment necessary to provide quality, reliable service to customers.

Q. **Does the State of Oklahoma benefit when Oklahoma utilities have an opportunity to earn reasonable ROEs?**

A. The investment community closely follows the business climate in Oklahoma including regulatory actions. Their ultimate aim is to provide guidance to investors across the nation and around the globe. Awarding a reasonable ROE sends a positive message while a lower ROE sends a negative message. Prudent investors do not expect ROE's that are higher than appropriate at the expense of customers since that would not be sustainable. At the same time investors are not interested in providing capital for below market returns.

Q. **What happens if the Commission authorizes an ROE that is below market expectations?**

A. As witness Bulkley explains in her testimony, if a utility is authorized a ROE below the level required by equity investors, the utility or its parent will find it difficult to access equity capital. Investors will not provide equity capital at the current market price if the earnable return on equity is below the level they require given the risks of an equity investment in the utility. The ultimate effect increases the cost from both debt and equity financing, thus increases the cost to customers.

<u>Depreciation</u>

Q. **Are there any changes to OG&E's depreciation rate schedules that you would like to address?**

A. Yes. OG&E is recommending a change in depreciation expense to account for the increased level of plant requested in this case as well as new depreciation rates. Our current depreciation rates are not reflective of the actual useful lives of the assets that are in service and underestimate the appropriate level of depreciation expense. OG&E Witness Spanos discusses the reasons why these service lives are unreasonably long. The effect of those inappropriately low depreciation rates is to increase customer costs in the long run. When depreciation rates are too low there remains an unrecovered investment as exhausted utility assets are retired. Customers are then forced to pay rates that include the investment for new plant as well as the unrecovered old investment. It is necessary to return to more reasonable and realistic service lives so that customers will not incur higher long-term costs.

Q. **Why is depreciation important?**

A. Depreciation is how the Company recovers its capital investment over the actual period of time those capital assets will be serving customers. Depreciation decisions by the Commission impact future costs to customers, future cost recovery and cash flows to the Company. Costs should be allocated over the service lives of the assets so that customers' rates reflect the costs of the assets over the time that those assets are used to serve those customers.

Consider the analogy of financing a car for an unreasonably long amount of time. If you finance a car too long, you may continue to pay for the car when you also have to begin paying for your next car. It is important to have your depreciation rates reflect the actual life of the assets, so customers do not have to pay for a return on assets that are retired, obsolete or replaced. That is, longer depreciable lives increase the risk of assets failing (or becoming functionally obsolete) prior to being recovered, thus creating potential stranded cost issues with which both the Company and the Commission will have to address at a later date.

Q. **Why is it important to reflect decommissioning costs for generation facilities in this depreciation study?**

A. Retirement of OG&E's generating plants is inevitable and the decommissioning costs to dismantle those plants are reasonable costs to include in rates. By collecting these costs slowly over time, OG&E can mitigate the impact on customers. Delaying the recovery of decommissioning costs will only increase the burden for customers in the future when the plants are no longer providing benefits.

<u>Incentive Compensation</u>

Q. **Should the Company be able to recover the costs of its total, market based compensation paid to employees?**

A. Yes. OG&E pays its employees a total compensation package composed of a base salary and incentive compensation. An attractive total compensation package allows OG&E to be competitive in the job market and attract and retain the necessary people to provide excellent service to our customers. OG&E must provide market-based compensation, which includes attractive incentive compensation.

Q. **Could OG&E remain competitive if it removed incentive compensation from its compensation packages altogether?**

A. A removal of incentive compensation from its compensation packages would require OG&E to increase base salaries to remain competitive. But, that is a sub-optimal approach. We strongly believe that it is important to link a portion of compensation to performance. Incentive compensation allows individual employees to be rewarded when they help the Company succeed in operating under safe conditions, achieving improvements in customer satisfaction, managing O&M costs, and generally running the utility well. While OG&E could just pay a base salary at a higher level, it would remove this important link between employee compensation and individual and Company performance.

Q. **Does it make sense that the Commission has continually excluded incentive compensation from rates?**

A. No. In every rate case, OG&E has recommended recovery of the total amount of compensation that it pays OG&E employees. Despite evidence that this incentive compensation is necessary to attract and retain employees and to keep up with market compensation practices, the Commission routinely disallows 100% of long-term incentive compensation and 50% of the short-term incentive compensation. The rationale for excluding these reasonable and necessary costs comes from the Company's inclusion of some financial metrics in assessing performance.

Q. **Does the Company agree with the rationale for such a disallowance of incentive compensation from rates?**

A. No. Incentive compensation is a very necessary and reasonable expense for the utility. It makes little sense to disallow those necessary expenses because some of the metrics are financial in nature and involve a review of the Company's financial performance. These financial metrics simply indicate how well run the Company is and they end up benefiting customers as well. Disallowance simply penalizes the Company for paying its employees compensation amounts that are required by the market.

Q. **Is the Commission's historical disallowance of 50% of the short-term incentive compensation performance measures consistent with the contribution of financial metrics to the level of cost?**

A. No. Even if the Commission were to exclude financial metrics from the amount of short-term incentives included in rates, 50% reduction does not reflect the amount of financial metrics used in the performance measures. The target breakdown for most OG&E Members between operational and financial metrics is approximately 65% and 35%, respectively. That 65% of the short-term incentives metrics can be broken down into the following categories: O&M (42%), Customer Satisfaction (5%) and Safety (18%).

Q. **Please explain the LTI program.**

A. The long-term incentive program is designed to motivate leaders at OGE to operate at a very high level of innovation, ownership, and strategic thinking. After benchmarking the long-term incentive plans of our peers, we determined that a mix of performance units and restricted units was the most common and best practice. The performance units are granted and then, dependent on the performance of the company, may or may not pay out at the 3-year cliff vesting schedule. However, the restricted stock units are designed to be time-based and help to retain the key talent by being granted and then vesting based on the 3-year cliff vesting schedule. These restricted stock units pay out if the employee continues to be employed through the vesting date. The restricted stock units were added to our mix of long-term incentive compensation in 2019 as 25% of the long-term incentive grant. In 2021, we will have our first tranche of restricted stock vest.

Q. **What is OG&E requesting with regard to the recovery of incentive compensation in this proceeding?**

A. The Company is recommending the inclusion of 100% of its short-term incentive and long-term incentive compensation in rates. However, OG&E believes that this Commission should at a minimum allow OG&E to include 65% short-term incentive compensation in rates because that percentage of short-term incentive compensation is based on operational metrics like O&M, customer satisfaction and safety. Also, since 25% of the long-term incentive is guaranteed to pay out every year if an employee stays and is not based on any performance metrics, OG&E believes that at least 25% of the long-term incentive compensation should also be included in rates.

Oklahoma Investment Tax Credit ("ITC") Inclusion in the Production Tax Credit ("PTC") Rider

Q. **What are Oklahoma ITCs?**

A. OG&E has received the benefit of state granted ITCs for a variety of generation-related investments in the past several years. These state ITCs are generated for five years and are calculated based on a percentage of investment in new depreciable property. OG&E began receiving these state ITCs in 2017 and they will begin rolling off OG&E's books next year.

Q. **What treatment is OG&E requesting for ITCs?**

A. OG&E is requesting that ITCs be included in the PTC Rider, which has already been established to track the difference between the PTCs customers are receiving in base rates versus the actual PTCs received from the OU Spirit and Crossroads wind farms operations. OG&E proposes to remove the state ITCs from base rates and instead include them in the PTC Rider so that those ITCs can be tracked and accurately accounted for as they are added, used and expired.

Q. **Are there any other reasons for this change?**

A. Yes. The ITCs are available for five years on a percentage of investment in qualified property. Beginning in the sixth year, the ITCs are no longer available. By implementing the tracking of ITCs in the PTC rider, the level of ITCs credited to customers can be adjusted to reflect the actual level of credits still benefitting customers.

Q. **Does this change impact the revenue requirement requested in this Cause?**

A. No. There is no impact to revenue requirement in this Cause.

<u>Southwest Power Pool Cost Tracker</u>

Q. **Please discuss the reasonableness of the Southwest Power Pool Cost Tracker ("SPPCT") charges, and specifically as it relates to OG&E's role as a member of the Southwest Power Pool ("SPP").**

A. OG&E is a member of the SPP Regional Transmission Organization ("RTO") and a participant in SPP's Integrated Marketplace ("IM"). As a member of the SPP RTO, OG&E has placed its transmission facilities under the functional control of SPP and under the SPP Open Access Transmission Tariff ("OATT"). As such, OG&E is subject to and a participant in the stakeholder process implemented by SPP as approved by the Federal Energy Regulatory Commission ("FERC"). OG&E's involvement and leadership in the SPP ensures the projects whose costs are recovered by the SPPCT undergo rigorous evaluation, prior to those costs being passed on to OG&E customers. OG&E witness Jason Thenmadathil discusses the specific costs associated with the SPPCT.

Q. **Please describe the stakeholder process at the SPP.**

A. OG&E actively participates in the resource-intensive stakeholder process to advocate for the most reliable, cost-effective outcomes for its customers. OG&E members retain positions on key stakeholder groups within their respective areas of expertise to represent our customers at every step of the process. Where a voting position is not possible, OG&E participates in all open group meetings and advocate. OG&E ensures that we have the right people in the right roles within the stakeholder process at SPP and we are in constant internal coordination with those subject matter experts. This coordination helps produce a consistent and deliberate approach to the various issues under consideration at the SPP.

Q. **Can you comment on the various groups at the SPP that OG&E is involved in?**

A. Yes. Many OG&E members interact with various parts of SPP, which includes either following or being a voting member of a particular stakeholder groups in the SPP stakeholder process. These stakeholder groups are used to develop rules and policies that monitor and control the way the SPP operates as an RTO through its strategies, finances, transmission operations, market operations, supply adequacy, etc. In addition to issue working groups, OG&E also holds voting positions on key strategy and policy committees.

Q. **Could you please explain the SPP transmission planning process?**

A. The SPP's overall planning process is referred to as the SPP Transmission Expansion Plan, or STEP. The STEP is made up of several planning processes, one of which is the Integrated Transmission Planning Assessment, or ITP Assessment. The ITP Assessment, described more fully in Attachment O Section III of the SPP Open Access Transmission Tariff and the ITP Manual, is designed to produce an annual transmission planning report that assesses two, five and ten-year reliability, economic and policy needs.[9] The assessment requires and includes modeling input from a variety of stakeholders, primarily Transmission Owners within the SPP footprint, including OG&E, and concludes with a recommended portfolio of transmission upgrades to pursue potential economic opportunities or resolve system problems. The two primary SPP working groups tasked with overseeing the development and execution of the ITP assessment are the Economic Studies Working Group (ESWG) and the Transmission Working Group ("TWG").

While the two groups share overall responsibility for the assessment, including the study scope, load forecasts and generation locations, the ESWG is responsible for developing the scenarios, or "futures" to be studied. They are also responsible for developing the economic analysis to be included in the study.

The TWG is responsible for ensuring that the overall transmission topology is modeled as accurately as possible. They are also responsible for developing the various reliability and power flow models to be used.

Other groups with input into the ITP Assessment include Markets and Operations Policy Committee ("MOPC"), Regional State Committee ("RSC") and the SPP Board of Directors, who have final approval authority over the Assessment report as well as the Recommended Plan.

[9] https://www.spp.org/documents/63434/2020%20integrated%20transmission%20plan%20report%20v1.0.pdf

Q. **What specific relief is the Company requesting in this Cause?**

A. The Company is requesting the Commission to allow OG&E to transfer recovery of the SPP 1-A Administrative fee and the Schedule 12 FERC Assessment fee from base rates into the SPPCT Cost Tracker.

Q. **Please describe the Schedule 12 FERC Assessment Fee.**

A. Schedule 12 consists of charges assessed to the SPP from the Federal Energy Regulatory Commission. SPP assesses each public utility based on the actual megawatt hours of energy transmitted in interstate commerce during a calendar year.

Q. **When the SPPCT mechanism was initially established, did the parties settle at the time to exclude the SPP 1-A Administrative fee from the rider calculation?**

A. Yes, language regarding SPP 1-A Administrative fees was included in the Joint Stipulation and Settlement Agreement from PUD Cause No. 201000146. In summary, it stated that OG&E may not collect the 1-A fee through the cost tracker, but that it may include the cost in a general rate case. At the time, one of the reasons stated by the Commission Staff for exclusion of the cost from the tracker was that the costs do not possess the volatility to warrant recovery through a rider or cost tracker." See Responsive Testimony of Nicholas Fiegel, Cause No. PUD 201000146, at p. 7.

Q. **Since the signing of the Order in Cause No. PUD 201000146 in March 2011, does the Company have additional evidence to share which demonstrates the increasing nature and volatility of the SPP 1-A Administrative fee and the Schedule 12 Assessment fee?**

A. Yes, with actual data available, the Company has information to demonstrate the volatility in these fees since calendar year 2012. Please see the charts below.

Chart 1

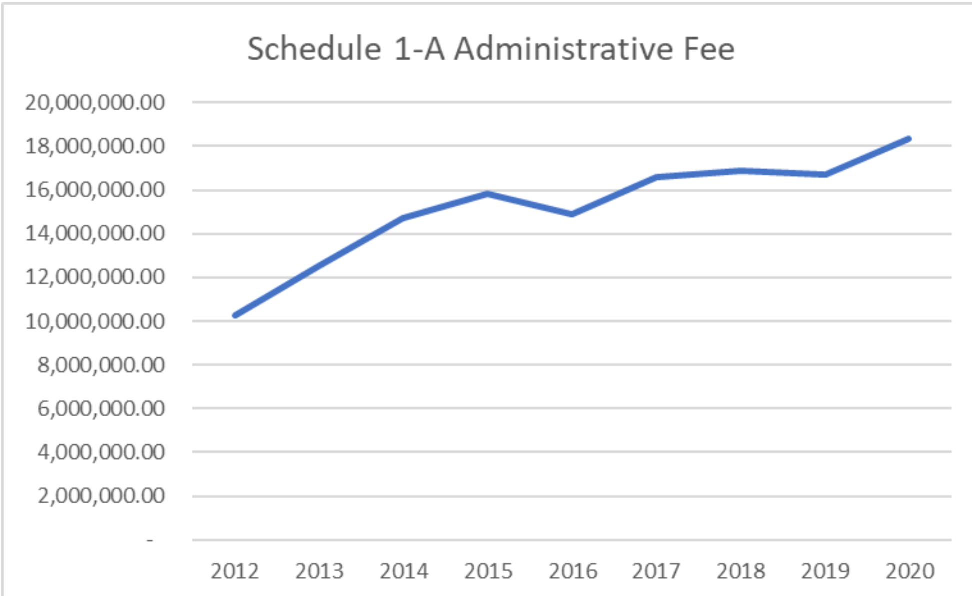
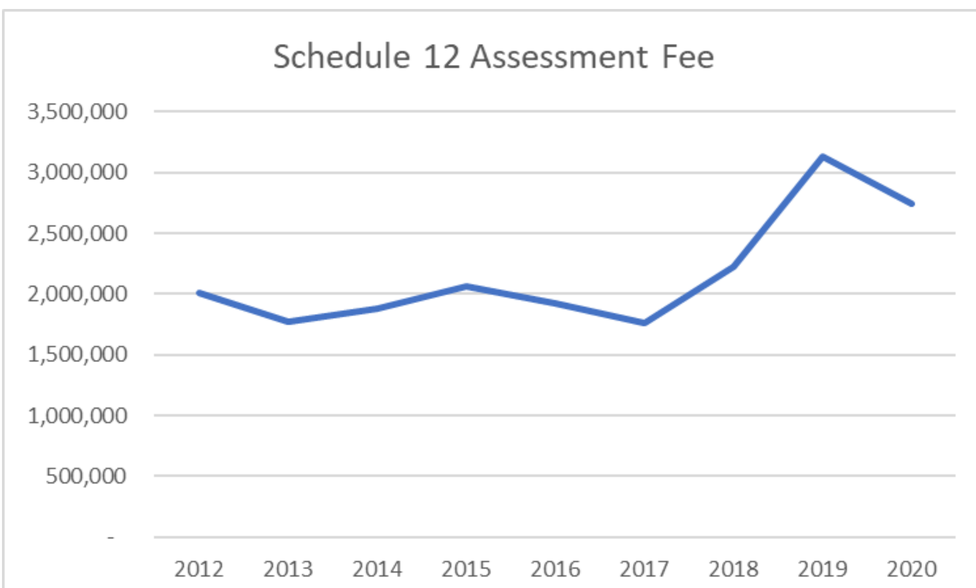


Chart 2



Q. **Has the Commission allowed other electric utilities in Oklahoma to include these specific fees in their respective SPP riders?**

A. Yes, it is my understanding that both Public Service Company of Oklahoma ("PSO") and Empire District both have SPP riders with the SPP 1-A Administration fee and the Schedule 12 Assessment fee included.

Q. **Will inclusion of these fees in the SPPCT allow this cost to be reviewed and presented to parties on an annual basis?**

A. Yes, with inclusion in the rider, parties to the cause have the ability to review the cost each year its incurred. Per Cause No. PUD 201700496, the Company is required to present an annual stakeholder meeting for the redetermination of the SPPCT Tracker. This annual meeting allows for the Company to present any changes to the administrative fee, along with other SPP related charges, to all parties involved in the current Cause when OG&E redetermines the SPPCT factor.

Q. **Please summarize the Company's recommendation.**

A. The Company requests the Commission now allow the SPP 1A Administrative Fee and the Schedule 12 FERC Assessment fee through the SPPCT Cost Tracker. With additional data available, the Company can now demonstrate the increasing and volatile nature of this fee. In addition, the annual stakeholder review for the SPPCT allows for all parties in this Cause to review the fees and any changes whenever the factor is adjusted. Finally, the Company would recommend similar ratemaking treatment for these fees as the other electric utilities in Oklahoma.

<u>Federal Tax Change Rider</u>

Q. **Is the Company requesting to modify its Federal Tax Change Rider in this Cause?**

A. Yes. The Company is requesting to modify the Federal Tax Change ("FTC") portion of the Federal Tax Change Rider, established in Cause No. PUD 201700496, to capture the effects of any Federal tax change occurring from the date new tax rates are implemented.

Q. **Please summarize the current Federal Tax Change Rider.**

A. The current rider has two sections. The first section, the Federal Tax Change ("FTC"), establishes a factor to credit back the difference between the prior 35% federal corporate tax rate and the current 21% established by the Tax Cuts and Jobs Act effective 2018. The current language in the tariff captures the temporary difference that occurred from January 1, 2018 to July 1, 2018 before new rates in Cause No. PUD 201700496 were implemented. As written now, this specific language is no longer needed as this difference was credited back to customers on an accelerated one-month basis following that rate case. The second section, the Amortization of the Regulatory Liability ("ARL"), trues up the difference between the ARL set in base rates versus the actual level of amortization. The ARL is included in current rates and this portion of the rider must continue.

Q. **What modification do you propose for the FTC section of the rider?**

A. The Company recommends modifying this section to include language that allows OG&E to capture the effects of future tax changes that may occur before new rates are implemented in a subsequent rate case. Essentially, the Company recommends adjusting the temporary nature of this section to encompass any future federal corporate tax change.

Q. **Please explain why this is necessary?**

A. It is my understanding the two major political parties have varying policies on the federal corporate income tax rate. It is possible that during the current administration, the corporate tax rate could change, and then in a subsequent administration possibly change again. Such changes effect a regulated utility such as OG&E and its customers. Unless there is a regulatory mechanism in place, the Company is unable to anticipate such rate changes and file for rate cases to capture the updates on a timely basis. The tax change associated with the TCJA was a good example in that the Company was only able to change base rates on July 1, 2018, therefore a mechanism was necessary to record and give back the credit from the time tax rates were implemented to the time new base rates were established.

Q. **What does the Company propose?**

A. The Company proposes modifying the language to credit or charge Oklahoma retail customers the Oklahoma jurisdictional difference between what the Company recorded as income tax expense with the new corporate tax rate to what the Company otherwise would have recorded under the previous tax rate. Any difference between current and proposed tax rates would be projected for a full year and credited/charged to customers when new tax rates began, with a true up provision included. The Company would endeavor to file a rate case as soon as practical to capture such effects on a permanent basis in base rates.

INTRODUCTION OF OG&E WITNESSES

Q. **Please identify the OG&E witnesses and purposes of their testimonies.**

A. Table 2 lists OG&E's witnesses and a brief description of the purpose of each testimony.

Table 2: OG&E Witness List

Witness	Title	Purpose of Testimony
Donald R. Rowlett	Managing Director, Regulatory	Identifies each of the Company witnesses, outlines the relief requested, explains why OG&E is seeking a rate increase at this time and discusses key issues such as Performance Based Rates, the Grid Enhancement Plan, ROE, depreciation, incentive compensation and other rider and tariff changes.
Ann Bulkley	Senior Vice President, Concentric Energy Advisors	Provides independent analysis of the Company's cost of equity and recommends an allowed rate of return on equity ("ROE") in the range of 9.9% to 10.5% to allow the Company to both attract capital on reasonable terms and maintain financial strength.
John Spanos	Senior Vice President, Gannett Fleming Valuation and Rate Consultants, LLC	Sponsors the Company's Depreciation Study.
Kandace Smith	Manager, Grid Modernization	Support Grid Enhancement Projects completed to date and continuation of the GEM tariff.
Jason D. De Stigter	Director and Lead Utility Investment Planner, 1898 & Co.	Sponsors the Analysis of OG&E's Grid Enhancement Plan Business Plan for 2020 and 2021
Jennifer Nelson	Assistant Vice President, Concentric Energy Advisors, Inc.	Provides an assessment of the proposed PBR Plan and evaluates whether the PBR Plan is in the public interest.
Zachary Quintero	Lead Regulatory Coordinator	Sponsors the proposed PBR Plan.
Jason J. Thenmadathil	Manager Regulatory Accounting	Sponsors the Company's *pro forma* adjustments to operating expense and to remove rider cost from the test year in Schedule H.

Shelby Norton	Senior Regulatory Accountant	Sponsors the Company’s *pro forma* adjustments to operating expense.
James Fenno	Senior Regulatory Accountant	Sponsors the Company’s *pro forma* adjustments to rate base in Schedule B.
Jeremy Schwartz	Lead Pricing Analyst	Sponsors the *pro forma* revenue and sales adjustments to Schedule H
Gwin Cash	Manager, Cost of Service and Rate Administration	Supports the Company’s development of the jurisdictional and class allocations and class cost of service studies.
Lauren Maxey	Lead Cost Analyst	Supports tariff changes, modifications, and additions.
Bryan J. Scott	Director, Pricing and Load Research	Describes the goals, principles and information sources that impact development of OG&E’s rate design.
William H. Wai	Manager, Pricing	Sponsors OG&E’s proof of revenue (Schedule M-4) and updated tariffs (Schedule N).

CONCLUSION

Q. **Do you have any concluding remarks?**

A. Yes. OG&E is a company with rates well below the national average, offers electric service that is reliable and has customers who repeatedly rank the Company as the best in the region and among the best in the nation. For a relatively small investor-owned electric utility, OG&E is recognized in the electric utility industry as being a leader. The Company gained those distinctions through hard work, good planning, innovative thinking, and a strong focus on the customer in all that it does.

OG&E comes before the Oklahoma Corporation Commission with the request to increase rates and I believe the requested rate increase is fair, just and reasonable and in the public interest, OG&E respectfully requests that this increase in rates be granted.

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

A. Yes.