

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

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

Rebuttal Testimony

of

Matthew J. Schuermann

on behalf of

Oklahoma Gas and Electric Company

September 21, 2023

1 integrating it into the OG&E system, and valid contingency costs. The total cost of the
2 project is approximately \$330.5 million. Because all these costs are necessary to construct
3 a project that everyone agrees is necessary, they should be eligible for recovery. Plus, no
4 parties have presented any evidence that the final contract costs, owner's costs, and
5 contingency costs are unreasonable.
6

7 **Q. Why are the costs of the project estimated to be higher than the \$249 million**
8 **contained in the RFP bid?**

9 A. These are several reasons why the costs have gone up. First, the bid was submitted by
10 OGE Energy Corp (who negotiated with General Electric (the Original Equipment
11 Manufacturer ("OEM") for a price for the CTs themselves) along with its joint venture
12 ("JV") partners for the balance of plant, engineering, procurement, and construction. As I
13 said in my Direct Testimony, it was many months between the submittal of the bid and the
14 finalization of the contracts that identified the final costs of the HL CTs. Typically, in
15 projects of this size and scope, bids are submitted using the best knowledge available at the
16 time the bid is prepared, and all bidders take some exceptions and clarifications to the scope
17 and terms of the contract. Between the time the bid is submitted, evaluation is conducted,
18 and a winning bidder is announced, changes occur with regard to market conditions, supply
19 chain constraints, etc. All of these changes are very typical in large construction projects.
20 Given the time between the crafting of the bid and the end of the RFP process, the original
21 pricing was no longer available, and OG&E had to engage in negotiations with the OEM
22 and JV to finalize contract pricing.

23 In the case of the contract for the purchase of the CTs, General Electric agreed to
24 manufacture, supply, deliver and provide technical support and assistance in connection
25 with the installation, commissioning, and testing of the HL CT equipment. The final
26 Contract Price is firm, fixed, and all-inclusive, covering payment of all costs of materials,
27 equipment, labor, transportation, engineering, manufacturing, and other services relating
28 to GE's performance of its obligations under the CT Procurement Contract. The pricing
29 from General Electric supporting the original bid was valid through November 30, 2022,
30 and OG&E had to renegotiate with General Electric to obtain the final CT Procurement
31 Contract. The awarded value of the CT Procurement Contract was approximately

1 \$9 million higher than the original pricing due to necessary costs to comply with technical
2 specifications. For example, the technical specifications included a closed cooling water
3 heat exchanger system that can withstand winter weather conditions such as those
4 experienced during the winter storm of 2021. Even though this was included in the
5 technical specifications referenced by the RFP documents and considered necessary by
6 OG&E's operations team, this was not part of General Electric's offered CT package. The
7 decision to include this led to a scoping and price increase from the base offering.

8 With regard to the JV contract for balance of plant, engineering, procurement and
9 construction, there were necessary changes in the scope of the project (such as a new
10 control room to replace the existing control room which will be retired and unavailable
11 after the decommissioning of the legacy units, fire pumps, and air compressors), and others
12 were safety and operational optimizations (such as arc resistant switchgear and moving
13 buildings to locations that allowed for future maintenance of the finished plant). Also,
14 there were inflationary forces that came into play between the date of the bid and the date
15 of the final contract. I will discuss later how OG&E mitigated these inflationary forces by
16 defining a set of variable cost items in an effort to lessen the delivered cost of the project
17 to customers.

18
19 **Q. Have any parties presented evidence that shows it was unreasonable for the CT**
20 **Procurement Contract to go up by approximately \$9 million and for the JV contract**
21 **to go up by \$27 million?**

22 **A.** No. No party presented evidence that the final costs of the contracts were too high. There
23 were extensive and complex negotiations that occurred with General Electric and the
24 engineering and construction contractors between the date of the bid and the finalization
25 of the contracts. These negotiations sought to protect customers by purchasing and
26 constructing the best generating units at the lowest reasonable costs.

27
28 **Q. Could you please explain the "Owner's Cost"?**

29 **A.** Owner's Costs are costs that will be incurred by OG&E in addition to the costs of
30 purchasing the equipment and third-party costs of construction. These Owner's Costs
31 include items such as internal labor, construction oversight, engineering oversight to ensure

1 design adequacy and technical compliance with specifications, project management to
2 ensure timely, on-budget compliance with the contracts and technical specifications, legal
3 fees related to negotiating the contracts and to handle disputes arising during construction,
4 and performance testing after the HL CTs are constructed in order to validate performance
5 to the design and technical specifications.
6

7 **Q. Is it reasonable to exclude these costs from the overall project costs?**

8 A. No. These costs are necessary for OG&E to oversee the construction of the project and
9 they are in addition to the cost of purchasing the equipment and the third-party engineering
10 and construction. OG&E would incur these types of costs no matter who won the bid.
11

12 **Q. Has any party presented evidence that these "Owner's Cost" estimates presented by
13 the Company were unreasonable?**

14 A. No, they have not.
15

16 **Q. Could you please describe the contingency costs?**

17 A. Contingency costs are costs that may occur if there are delays in project execution,
18 unforeseen complications with the project or price increases associated with materials and
19 supplies during the three-year construction process.
20

21 **Q. Is it reasonable to include contingency costs when presenting a long-term
22 construction project to this Commission?**

23 A. Yes. Of the \$18.8 million in the identified contingency budget, there is \$9 million
24 associated with variable cost items that will be purchased by the JV on an open-book basis.
25 These items are primarily large components that have price risk in the current supply chain
26 environment and the JV contract states the actual cost of these variable cost items will be
27 passed on to OG&E. This allows OG&E to take only the cost risk that is realized, instead
28 of the JV adding the whole potential range of the risk into the upfront price of the contract.
29 Also, there is a \$9 million cap on those variable cost items and anything above that is borne
30 by the JV, while anything below that is not charged to the project.

1 The other part of the contingency costs is to cover those items identified in the
2 project risk register, which is a proactive method for addressing and mitigating project risk
3 for issues which cannot be fully mitigated by the contracts. The list is developed by
4 combining known risks from previous projects with those identified and specific to this
5 project. Each risk has an estimated cost associated with it and is assigned impact and
6 probability scores, which are combined to create a risk score. The value of this risk score
7 is used to provide a weighted expected cost where the higher the risk score, the more likely
8 the risk and the impact of its total cost will be realized. The total cumulative estimate for
9 these weighted risk costs is \$9.8 million.

10
11 **Q. Are these types of contingency risk costs a normal part of the construction process?**

12 **A.** Yes. All of the cost that will be incurred on the project, even those that arise out of
13 identified contingency items, are necessary for the successful completion of the project.
14 All projects, especially projects of this size and complexity, carry risk and planning a
15 budget for the potential cost increases is standard industry practice. OG&E will work
16 diligently to ensure these impacts are minimal and any unrealized risk items will result in
17 a lower total project cost.

18 Not only are these costs a normal part of the construction process, but they are
19 critical to ensure total project costs are mitigated and kept as low as possible. Without
20 these types of contingency costs, the contracts with the engineering and construction
21 contractors would simply be higher to compensate the contractors for the risk of those
22 contingencies. These contingency costs are a tool for protecting customers by allowing
23 costs to remain lower if those contingencies do not materialize.

24
25 **Q. Has any party presented any evidence these contingency estimates were**
26 **unreasonable?**

27 **A.** No.

28
29 **Q. Does this conclude your prepared rebuttal testimony?**

30 **A.** Yes, it does.