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 AUTHORIZING APPLICANT TO MODIFY ITS RATES, CHARGES, AND TARIFFS FOR RETAIL ELECTRIC SERVICE IN OKLAHOMA	)))))))	PUD 2023-000087

REBUTTAL TESTIMONY OF MICHAEL P. GORMAN

ON BEHALF OF

THE FEDERAL EXECUTIVE AGENCIES

Scott A. Hodges attorney for the Federal Executive Agencies ("FEA"), hereby submits the Rebuttal Testimony of Michael P. Gorman in the proceeding referenced above.

Respectfully submitted,

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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 AUTHORIZING APPLICANT TO MODIFY ITS RATES, CHARGES, AND TARIFFS FOR RETAIL ELECTRIC SERVICE IN OKLAHOMA	)	**CASE NO. PUD2023-000087**

Rebuttal Testimony of

Michael P. Gorman

for Cost of Service and Rate Design Issues

On behalf of

Federal Executive Agencies

May 16, 2024

BRUBAKER & ASSOCIATES, INC.

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 AUTHORIZING APPLICANT TO MODIFY ITS RATES, CHARGES, AND TARIFFS FOR RETAIL ELECTRIC SERVICE IN OKLAHOMA	)	**CASE NO. PUD2023-000087**

STATE OF MISSOURI)
) SS
COUNTY OF ST. LOUIS)

Affidavit of Michael P. Gorman

Michael P. Gorman, being first duly sworn, on his oath states:

1. My name is Michael P. Gorman. I am a consultant with Brubaker & Associates, Inc., having its principal place of business at 16690 Swingley Ridge Road, Suite 140, Chesterfield, Missouri 63017. We have been retained by the Federal Executive Agencies in this proceeding on their behalf.

2. Attached hereto and made a part hereof for all purposes is my rebuttal testimony which was prepared in written form for introduction into evidence in the Corporation Commission of the State of Oklahoma Case No. PUD2023-000087.

3. I hereby swear and affirm that the testimony is true and correct and that it shows the matters and things that it purports to show.

Michael P. Gorman

Subscribed and sworn to before me this 16th day of May, 2024.

SALLY D. WILHELMS
Notary Public - Notary Seal
STATE OF MISSOURI
St. Louis County
My Commission Expires: Aug. 5, 2024
Commission # 20078050

Notary Public

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OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF OKLAHOMA GAS AND ELECTRIC COMPANY FOR AN ORDER OF THE COMMISSION AUTHORIZING APPLICANT TO MODIFY ITS RATES, CHARGES, AND TARIFFS FOR RETAIL ELECTRIC SERVICE IN OKLAHOMA	)	**CASE NO. PUD2023-000087**

Rebuttal Testimony of Michael P. Gorman

I. INTRODUCTION

Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A Michael P. Gorman. My business address is 16690 Swingley Ridge Road, Suite 140, Chesterfield, MO 63017.

Q ARE YOU THE SAME MICHAEL P. GORMAN WHO PREVIOUSLY FILED TESTIMONY IN THIS PROCEEDING?

A Yes. On May 3, 2024, I filed Responsive Testimony regarding cost of service and rate design issues.

Q ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A I am testifying on behalf of the Federal Executive Agencies ("FEA"), consisting of certain agencies of the United States government which have offices, facilities, and/or

installations in the service area of Oklahoma Gas and Electric Company ("OG&E" or "Company"), from whom they purchase electricity and energy services.

Q WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A I will respond to the Responsive Testimony of Oklahoma Attorney General ("AG") witness Frank Beling and AARP witness Patrick Sullivan.

Q TO WHAT ISSUES FOR AG WITNESS FRANK BELING WILL YOU RESPOND?

A I will respond to his support for OG&E's proposed changed allocation of transmission plant from a four coincident peak Average and Excess ("4CP A&E") methodology to a 12CP, and his support for the Company's proposed allocation of wind production resources.

Mr. Beling also supports the Company's proposed classification of wind resources as 16% demand and 84% energy. In his support for this, he reviews wind resources independently of all other production resources used by OG&E in order to maintain system reliability and provide reliable firm service to its customers.

Q PLEASE SUMMARIZE YOUR RESPONSE TO MR. BELING.

A For the reasons outlined below, Mr. Beling's support for use of a 12CP allocation methodology for transmission capacity costs is not reasonable, and it does not produce a fair and cost-based allocation of the transmission capacity costs that OG&E needs in order to provide reliable firm service to its retail customers. Reliance on the Southwest Power Pool ("SPP") marketplace allocation of transmission costs as a proxy for OG&E transmission cost allocation is not reasonable. SPP's Integrated Marketplace spans a larger geographic area that includes areas that peak in the

summer and other areas that peak in the winter. OG&E's service area is much smaller than the SPP market and has a clear peak period in the summer. SPP plans for necessary transmission capacity to carry out an integrated marketplace, that is not similar to OG&E's need for transmission capacity. For these reasons, SPP's allocation of transmission capacity is not a reasonable basis for allocating the transmission capacity costs that OG&E needs to serve its customers' demands. OG&E's need for transmission capacity is based on its peak period demands, and therefore, a 4CP A&E allocator is more reasonable and reflective of cost causation than is a 12CP allocation.

For wind production facilities, the methodologies and critique offered by Mr. Beling are not applied to OG&E's portfolio of production resources and do not reflect how OG&E plans for production capacity nor uses its production portfolio to provide reliable firm service to its customers Further, Mr. Beling fails to account for how non-wind production resources' capacity is needed to back up wind production resources, and the corresponding amount of non-wind production capacity that is needed to maintain system reliability due to the variable nature of wind resources. Mr. Beling's statement that wind resources reduce energy costs is overly simplistic and does not fully account for OG&E's need to incur cost of capacity to reduce energy costs. The combination of production capacity and energy cost management is most accurately reflected in the continued use of a 4CP A&E production demand allocator for all production capacity resource fixed cost. OG&E designs its production resource portfolio to ensure customers' peak demands and energy demands are reliably served despite the variable output of wind production resources. To accommodate this, OG&E must invest in a production portfolio capacity that can serve peak demands, have the operational flexibility to respond to unexpected

events, and to accomplish these objectives at reasonable costs. Mr. Beling's assessment of wind resource energy benefits without regard to the inclusion of non-wind resources to ensure the reliability and resiliency of the resource portfolio is imbalanced and inaccurate.

Further, Mr. Beling's characterization of the 4CP production cost allocator is also misplaced. The allocator is a 4CP A&E methodology, which takes into account the capacity needed to serve both average energy demands, and the additional capacity needed to serve demands in excess of average up to the peak demands of the system.

Q PLEASE SUMMARIZE YOUR RESPONSE TO AARP WITNESS PATRICK SULLIVAN.

A Mr. Sullivan takes issue with the Company's use of classifying distribution infrastructure into customer and into demand components. Mr. Sullivan argues that certain distribution infrastructure such as transformers should not be classified in part as customer, but should be fully allocated on demand. He proposes a basic customer methodology in lieu of the Company's proposed Zero Intercept methodology for any portion of distribution costs that should be allocated based on customers. In doing this, he ignores significant distribution-related infrastructure whose costs are incurred in order to connect customers to the system, and is not dependent on the demands customers place on that infrastructure. For these reasons, Mr. Sullivan's proposed change in the classification of distribution plant as proposed by the Company should be disregarded.

II. RESPONSE TO AG WITNESS FRANK BELING

II.A. Allocation of Transmission Plant

Q WHY DOES AG WITNESS BELING SUPPORT THE COMPANY'S USE OF A 12CP VERSUS A 4CP ALLOCATION OF TRANSMISSION CAPACITY COSTS?

A He acknowledges that OG&E's transmission capacity is now planned as part of the SPP Integrated Marketplace. Further, he states nowhere in the SPP planning process does it rely on a 4CP methodology in assessing the capacity need within SPP, and notes that SPP utilizes a 12CP allocator when assigning costs across its footprint.[1]

Q DO YOU AGREE WITH MR. BELING THAT SPP DOES NOT RELY ON A 4CP IN DESIGNING TRANSMISSION CAPACITY ACROSS ITS FOOTPRINT?

A Generally yes, however, as noted in my Responsive Testimony, the SPP footprint ranges from Texas up through the Canadian border in the mid part of the country. Utilities and load centers within its footprint include summer-peaking utilities such as OG&E, and winter-peaking utilities in parts of North and South Dakota. As such, in planning its process, SPP plans for its entire footprint, and therefore likely does not utilize a 4CP methodology. However, SPP does utilize methodologies within zones of its footprint in order to ensure that it has adequate transmission capacity to reliably provide service during periods when load centers' demands are placed on the marketplace.

[1]Beling Responsive Testimony at 10.

Q SHOULD THE COMMISSION ACCEPT MR. BELING'S RATIONALE FOR CHANGING FROM A 4CP A&E METHOD OF ALLOCATING TRANSMISSION COSTS TO A 12CP?

A No. SPP does plan for system peak across its footprint. In its planning criteria, SPP states:

> **4. PLANNING RESERVE MARGIN**
>
> The Planning Reserve Margin ("PRM") shall be fifteen percent (15%). If a Load Responsible Entity's Firm Capacity is comprised of at least seventy-five percent (75%) hydro-based generation, then such PRM shall be nine point eight nine percent (9.89%).
>
> Determination of the PRM will be supported by a probabilistic Loss of Load Expectation ("LOLE") Study, which will analyze the ability of the Transmission Provider to reliably serve the SPP Balancing Authority Area's forecasted Peak Demand. The LOLE study will be performed in accordance with Attachment AA of the SPP OATT.
>
> * * *
>
> **5. REGIONAL TRANSMISSION PLANNING**
>
> **5.1 CONCEPTS**
>
> For the purposes of Section 5 of the SPP Criteria the transmission system shall be defined as facilities under the functional control of the SPP Open Access Transmission Tariff (OATT) or the Bulk Electric System (BES). The transmission system shall be capable of performing reliably under a wide variety of expected system conditions while continuing to operate within equipment and electric system thermal, voltage, and stability limits. The transmission system, at a minimum, shall be planned to withstand all single element contingencies and maintenance outages over the load conditions of all applicable seasonal models as required for each planning process. Extreme event contingencies which measure the robustness of the electric systems should be evaluated for risks and consequences.[2]

As outlined above, SPP does plan to meet the system peak, but SPP's planning is targeted to create a robust integrated marketplace that requires transmission capacity to serve native load reliability, to engage in inter-market

[2]Southwest Power Pool: "SPP Planning Criteria Revision 4.4," March 29, 2024 at 9-10, emphasis added.

transactions, and to support the bulk power electrical system's thermal, voltage and stability limits. While SPP's planning encompasses its entire market footprint, the operation of the SPP marketplace entails far more services than those used only by OG&E to maintain reliable firm service to its retail customers. Also, SPP's large market footprint includes load-serving entities that peak in the summer like OG&E and load-serving entities that peak in the winter like entities operating in North and South Dakota. The peaking across the SPP footprint is not limited to the summer period like it is for OG&E.

Q DO YOU AGREE THAT BECAUSE SPP ALLOCATES TRANSMISSION CAPACITY BASED ON 12CP THAT IT IS REASONABLE FOR OG&E TO ALLOCATE TRANSMISSION CAPACITY IN A SIMILAR MANNER?

A No. As noted above, and in my Responsive Testimony, SPP operates a marketplace that spans from Texas to Canada in the central part of the country. Because certain load-serving areas peak in the winter and others peak in the summer, allocating capacity on a 12CP prevents unjustified shifts in capacity costs to or between load-serving entities whose native loads peak either during the winter period or a summer period. In significant contrast, OG&E is only a summer-only peaking utility, and allocating capacity costs within OG&E's retail service area based on customers' contribution to that 4CP summer peaking period reasonably and fairly allocates transmission capacity within OG&E's retail service area.

II.B. Allocation of Wind Production Resources

Q DOES MR. BELING SUPPORT THE COMPANY'S PROPOSED CLASSIFICATION OF WIND RESOURCES AS 16% DEMAND AND 84% ENERGY?

A Yes. He acknowledges that this classification of wind resources is different than all production resources in the Company's cost allocation process.[3] He states this is reasonable, because in his view, wind production resources generally produce only energy benefits.[4] He states that in his view a pure cost-based allocation of these resources would be on a strict energy allocation basis because high-load factor customers have greater benefit from wind resources than do lower-load factor customers, simply because of their increased use of energy relative to demands.[5]

Q DO YOU AGREE WITH MR. BELING'S CHARACTERIZATION OF THE BENEFITS PRODUCED BY WIND RESOURCES?

A No. Significantly, Mr. Beling's assessment of the benefits of wind resources is done independent of cost of other production resources that are needed to back up wind resources, and ensure that OG&E has the production resources available to provide service to customers during all periods, even during periods when wind resources are not available. That is, OG&E must design its production resources to back up inadvertent wind resources. That is, when wind stops blowing and wind resources stop producing energy, OG&E must have the ability to ramp up other production resources to ensure its customers' energy demands are served. The capacity resources needed to provide firm, reliable service, maintain the resilience of the system, and also maintain such factors as power quality, and phase reliability; require

[3]Beling Responsive Testimony at 11.
[4]*Id*. at 13.
[5]*Id*.

OG&E to design its portfolio production resources to have adequate capacity to operate its system in a reliable manner, and to operate that capacity in a manner that minimizes, to the fullest extent possible, energy costs. Reviewing wind resources independently of all other production resources ignores the Company's costs of investing in a portfolio of production resources that provides this benefit to customers in terms of system reliability, production resilience and ensures the ability to quickly adapt to changes in demands and resource availability, and to ensure customers enjoy high quality, reliable service from OG&E at reasonable costs.

Q DID MR. BELING OFFER AN ALTERNATIVE TO THE COMPANY'S PROPOSED CLASSIFICATION OF WIND RESOURCES BETWEEN DEMAND AND ENERGY?

A Yes. Mr. Beling observed that the Company's use of the SPP accredited capacity methodology for wind resources finds that 16% of the nameplate capacity is available to be credited toward the Company's resource adequacy obligations, but he nevertheless offers an alternative methodology which would suggest that only 10% of the nameplate capacity should be given capacity credit. He fashions his methodology in a method that is independent of OG&E planning reserves, SPP resource adequacy requirements, and ties Mr. Beling's assessment of the Cost of New Entry capacity requirements and energy credits from wind resources. Mr. Beling's assessment is completely devoid of any resemblance to OG&E's cost incurrence, or assessment of the benefits of its resource portfolio, investment decision-making process, and ultimately the costs and benefits of wind resources to OG&E's customers. For all these reasons, Mr. Beling's methodology that suggests that wind resources should only be given 10% capacity credit, rather than the 16% proposed by the Company, is not cost-based, not consistent with OG&E's resource adequacy obligations to SPP,

and is not part of the planning process that OG&E relies on to justify its capacity costs that are necessary to provide reliable service to its retail customers. Therefore, Mr. Beling's methodology should be disregarded.

III. RESPONSE TO AARP WITNESS PATRICK SULLIVAN

Q DOES AARP WITNESS PATRICK SULLIVAN TAKE ISSUE WITH THE COMPANY'S COST OF SERVICE STUDY?

A Yes. Mr. Sullivan takes issue with the Company's use of a Minimum System study to classify certain distribution accounts as customer and demand. He states that in another proceeding, an AARP witness identified alleged problems with the Company's regression analysis in its Minimum System study. Based on his understanding of another witness' concerns in another proceeding, Mr. Sullivan is proposing to disregard the Minimum System approach in this case, and instead consider using a basic customer methodology to classify a limited amount of distribution plant as customers.[6] Mr. Sullivan opines that the notion that distribution costs related to connecting customers to the system irrespective of the demands they place on the distribution system is fictitious.[7]

Q DO YOU AGREE WITH MR. SULLIVAN'S POSITION THAT THE COMMISSION SHOULD NOT RELY ON THE COMPANY'S ZERO INTERCEPT STUDY?

A No. It is generally accepted in cost of service that distribution plant has to be designed not only to have adequate capacity to meet the non-coincident demands of customers connected to distribution circuits, but the circuit must also be designed to

[6]Sullivan Responsive Testimony at 9-10.
[7] Id at 9

have adequate length of distribution conductors, land and towers in order to connect all customers to the distribution system. Hence, there are significant portions of the distribution infrastructure costs that are independent of the distribution demands, but simply are costs needed to be incurred to connect customers to the distribution system.

For example, there can be two distribution circuits: one three miles in length and one ten miles in length, with the same demands on the system. However, the cost of one distribution circuit is composed of ten miles of conductors, land, towers, etc. while the second circuit is composed of only three miles of the same distribution infrastructure. The costs of the two circuits are not the same even though the demands on the circuits are the same. To accurately allocate the costs of distribution infrastructure across customer classes, the costs should be classified as both customer and demand in order to accurately and fairly allocate the costs across rate classes that are connected to the distribution system.

In contrast, Mr. Sullivan's proposed customer methodology does not properly distinguish or classify distribution costs between customer and demand and does not properly allocate the distribution costs across rate classes. For these reasons, Mr. Sullivan's allocation of distribution costs should be disregarded.

Q DID MR. SULLIVAN ALSO AGREE WITH THE COMPANY'S PROPOSED USE OF A 12CP TRANSMISSION COST ALLOCATOR, AND CLASSIFICATION OF WIND PRODUCTION COSTS ON DEMAND AND ENERGY?

A Yes, however, he did not offer any additional evidence in support of these positions. For the reasons outlined in my responses to the Company and to AG, I disagree with Mr. Sullivan.

Q DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A Yes, it does.

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CERTIFICATE OF SERVICE

On this 17th day of May 2024, a true and correct copy of the *Rebuttal Testimony of Michael P. Gorman on Behalf of The Federal Executive Agencies* was sent via electronic mail to the following interested parties:

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