

**BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA**

IN THE MATTER OF THE APPLICATION OF )  
OKLAHOMA GAS AND ELECTRIC COMPANY ) Case No. PUD2025-000038  
FOR COMMISSION PREAPPROVAL OF NEW )  
GENERATION CAPACITY PURSUANT TO )  
17 O.S. § 286(C) AND RIDER COST RECOVERY )

Direct Testimony

of

Charles B. Walworth

on behalf of

Oklahoma Gas and Electric Company

May 19, 2025

Charles B. Walworth  
*Direct Testimony*

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

2 A. My name is Charles B. Walworth. My business address is 321 North Harvey, Oklahoma  
3 City, Oklahoma 73102.  
4

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

6 A. I am employed by Oklahoma Gas and Electric Company (“OG&E” or “Company”) and its  
7 parent company OGE Energy Corp. as the Chief Financial Officer (“CFO”).  
8

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

10 A. I have Bachelor of Business Administration and Bachelor of Science degrees from the  
11 University of Oklahoma and a Master of Business Administration degree with a  
12 concentration in Finance from the University of Notre Dame. I am also a Certified Public  
13 Accountant in the State of Oklahoma. I joined OGE Energy in January 1999 as an intern  
14 at the Enogex subsidiary and became an analyst in June of 1999. Following a brief absence  
15 to pursue a graduate degree, I joined the Corporate Finance and Treasury group in 2005,  
16 where I held the positions of analyst, manager, Assistant Treasurer, Treasurer, and now  
17 CFO.  
18

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

20 A. Yes, I have.  
21

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

23 A. The purpose of my testimony is to explain OG&E’s request for Construction Work in  
24 Progress (“CWIP”) for Horseshoe Lake Units 13 and 14 (“HL 13 & 14”) and discuss the  
25 customer benefits of CWIP. I will also discuss the importance of recovering costs  
26 associated with the selected resources through the Generation Cost Recovery (“GCR”) Rider.  
27 Finally, I will explain the necessity to include a return on the capacity purchase  
28 agreements (“CPAs”) in order to mitigate negative credit impacts associated with imputed  
29 debt.

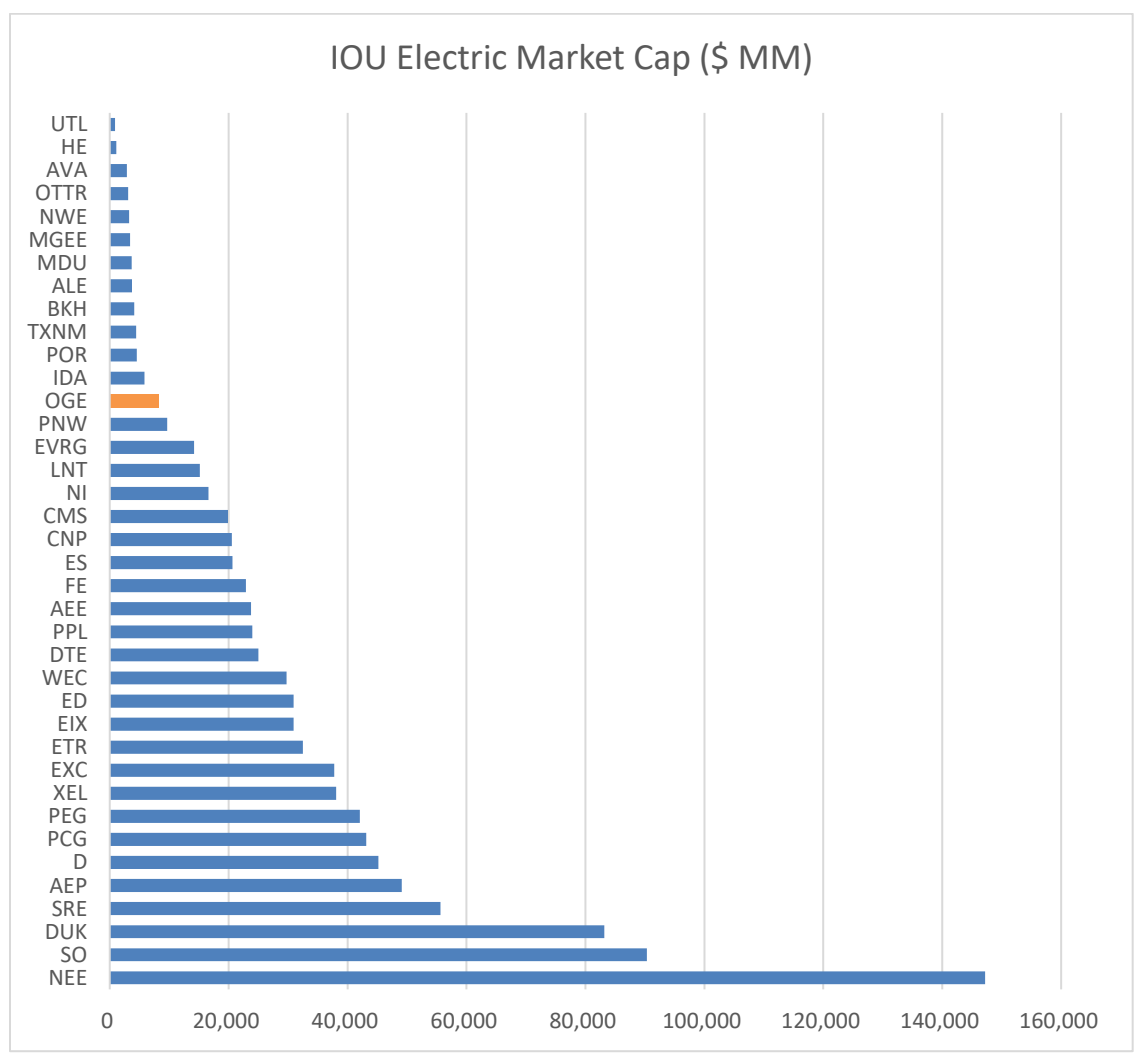
**INTRODUCTION**

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Q. Please describe OG&E’s position in the market as an Investor-Owned Utility (“IOU”).

A. Due to industry consolidation, OG&E’s parent company is one of the smaller electric IOUs in the market. Further, as industry consolidation has occurred, many utility holding companies now cover multiple jurisdictions across the U.S., whereas OG&E is headquartered in Oklahoma City and predominantly operates in the state of Oklahoma. Table 1 shows the equity market capitalization for IOUs as of December 31, 2024.

**Table 1: Investor-Owned Utility Market Capitalization<sup>1</sup>**



<sup>1</sup> EEI 2024 Q4 Stock Performance Table XI. Market Capitalization.

1 Q. **Why is OG&E's market capitalization and single operating company status relevant?**

2 A. Investors of larger, multi-jurisdiction utilities enjoy a diversified portfolio of geographies,  
3 economic conditions, and regulatory environments. This prevents a single adverse event  
4 from significantly impacting the company. Adverse market, operational or other non-  
5 controllable events and regulatory decisions can have a larger impact on a single operating  
6 company like OG&E with limited diversification since there is little or no levels of  
7 consolidated financials through which to "filter" these adverse impacts.

8 There are advantages to being a smaller and more local electric company as well.  
9 Since OG&E is primarily located in Oklahoma, with a smaller service area in Arkansas, it  
10 can be solely focused on serving its local customer base and community. OG&E can focus  
11 on the goals and priorities of its customers and the State of Oklahoma, without being pulled  
12 in conflicting different directions. The challenges come from competing for capital across  
13 the nation, and on terms acceptable and attractive to investors to ensure OG&E maintains  
14 some of the lowest electric rates in the nation.

15

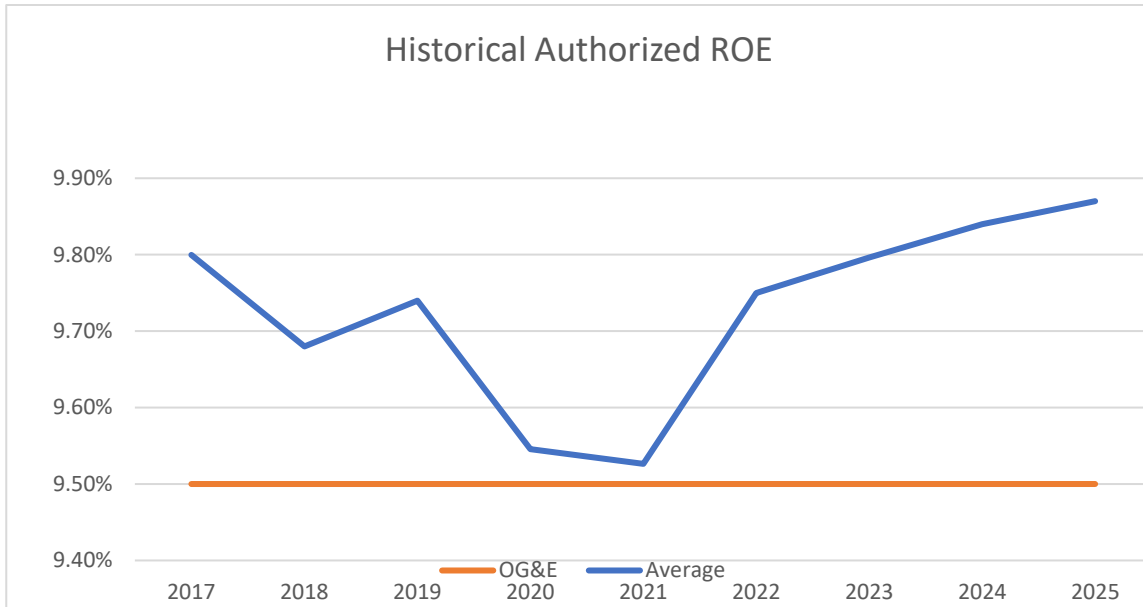
16 Q. **What else do investors consider when deciding where to invest their money?**

17 A. Another key metric investors care about is a utility's authorized return on equity ("ROE").  
18 ROE is what compensates investors for the cost of providing capital to the utility. The  
19 current average authorized ROE for vertically integrated electric utilities in the United  
20 States is 9.87%.<sup>2</sup> OG&E's authorized ROE is 9.50%. In fact, OG&E's ROE has remained  
21 9.50% since its 2015 rate review. The following chart shows OG&E's authorized ROE  
22 compared to the average authorized ROE for vertically integrated utilities over the same  
23 period.<sup>3</sup>

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<sup>2</sup> S&P Global: Major energy rate case decisions in the US – January-March 2025. (April 25, 2025).

<sup>3</sup> S&P Global Market Intelligence Table 3: Electric Authorized ROEs.



1           As you can see, the gap between the average ROE and OG&E’s authorized ROE  
 2           has been widening since 2021, and now in 2025 OG&E’s authorized ROE is even further  
 3           below average than it has been over the past decade.

4           Because OG&E is smaller and less diversified than other utilities in the market, and  
 5           has a lower authorized ROE than average, it has a disadvantage when competing for capital.  
 6           OG&E must find additional ways to attract capital and assure investors that it can remain  
 7           financially healthy in an ever-evolving landscape. As discussed in the Direct Testimony  
 8           of OG&E witnesses Kimber Shoop, Kelly Riley, and John Laws, OG&E is facing several  
 9           challenges and is working tirelessly to ensure the best outcome for customers. To protect  
 10          customers, the Company must ensure that it remains financially healthy as it addresses the  
 11          difficult challenges of resource adequacy and unprecedented load growth.

13   **Q. Is there evidence that investors are beginning to be concerned about OG&E’s**  
 14   **disadvantages in the market?**

15   **A.** Yes. In OG&E’s most recent credit rating, Moody’s gave OG&E a negative outlook. In  
 16   the credit opinion, Moody’s noted that among other things, OG&E’s Oklahoma jurisdiction  
 17   “lacks the type of more timely and automatic investment and operating cost recovery  
 18   framework seen in other states”.<sup>4</sup> The rest of my testimony will discuss a few things OG&E

<sup>4</sup> Moody’s Credit Opinion Oklahoma Gas and Electric Company (April 15, 2025).

1 is proposing through this Application to both protect customers and ensure it remains  
2 financially healthy.

3  
4 **CONSTRUCTION WORK IN PROGRESS ("CWIP")**

5 **Q. What is the traditional way OG&E recovers costs when it invests in new generation?**

6 A. Traditionally, OG&E has recovered costs of investment using a mechanism called  
7 Allowance for Funds Used During Construction ("AFUDC"). AFUDC works by tracking  
8 the amount of capital spent on a project throughout construction and calculating a return  
9 on that amount based on the Company's Weighted Average Cost of Capital ("WACC").  
10 Throughout the construction process, this balance accumulates with compounding interest  
11 until the project is placed into service. Once the project is in service the entire balance that  
12 has accumulated is added to the total cost of the project, and everything is financed over  
13 the life of the project. In the case of new generation, that could be 30 years or longer.

14  
15 **Q. Does AFUDC result in customers paying more than if they had been paying capital  
16 as it is spent during the construction of the project?**

17 A. Yes. Since the balance continues to grow during the construction of the project and then  
18 is financed for a very long time after the project is placed into service, customers end up  
19 paying much more for the project than they would if they had been paying down the balance  
20 during the construction process. This is where the use of Construction Work In Progress  
21 ("CWIP") comes into play.

22  
23 **Q. Please explain how CWIP recovery works.**

24 A. CWIP recovery works by allowing a utility to recover the financing charges on its  
25 construction costs in real time during the construction period, instead of letting those costs  
26 accumulate and adding them to the capital investment placed in rate base after the project  
27 is placed in service. Similar to AFUDC treatment however, the direct costs of the project  
28 will not begin to depreciate or be charged to customers until after it is placed into service.

29 Allowing CWIP recovery: (1) reduces the amount of financing required by the  
30 utility; (2) reduces the overall amount of money ultimately charged to customers for the

1 project; and (3) avoids rate shock by providing more gradual rate increases as the project  
2 investment occurs.

3

4 **Q. Is OG&E requesting CWIP recovery in this case?**

5 A. Yes. OG&E is requesting CWIP recovery for the Horseshoe Lake Units 13 and 14 (“HL  
6 13 & 14”) project. CWIP recovery for HL 13 & 14 is in the public interest. It helps  
7 customers by lowering the total cost of the project, as well as lowering the monthly impact,  
8 and reduces rate shock. It helps the Company by allowing it to collect the financing costs  
9 of the project earlier, thereby improving cash flow and allowing OG&E to be better  
10 prepared to weather unforeseen economic impacts.

11

12 **Q. What is the impact of using CWIP for this particular project?**

13 A. As discussed earlier, paying financing costs in real-time through CWIP recovery avoids  
14 the compounding impact of AFUDC. The difference between these two methods is  
15 estimated to be approximately \$190.5 million and is shown in Exhibit CBW-1. That means  
16 that customers will pay \$190.5 million less over the life of the asset with CWIP than with  
17 the traditional AFUDC method. While OG&E would be earning less of a return over the  
18 long run using CWIP, its cash flows are greater during construction.

19

20 **Q. Does the Federal Energy Regulatory Commission and other states utilize CWIP for  
21 specific investment types?**

22 A. Yes. FERC has allowed for CWIP recovery for transmission projects for more than a  
23 decade. Many states allow for CWIP recovery for various utility investments. In just the  
24 past year Kansas,<sup>5</sup> Missouri,<sup>6</sup> and Arkansas,<sup>7</sup> all passed legislation authorizing CWIP  
25 recovery for new construction of certain types of generation facilities. Due to the benefits  
26 of CWIP recovery, utilities in those states have an advantage when attracting capital. It is

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<sup>5</sup> HB 2527: [https://www.kslegislature.gov/li/b2023\\_24/measures/HB2527/](https://www.kslegislature.gov/li/b2023_24/measures/HB2527/)

<sup>6</sup> SB 4:

[https://www.senate.mo.gov/25info/bts\\_web/Bill.aspx?SessionType=R&BillID=66#:~:text=SB4%20%2D%20Modifies%20and%20creates%20new%20provisions%20relating%20to%20Utilities&text=SS%232%2FSB%204%20%2D,new%20provisions%20relating%20to%20Utilities.&text=These%20provisions%20are%20similar%20to,%2FHB%201836%20\(2024\).](https://www.senate.mo.gov/25info/bts_web/Bill.aspx?SessionType=R&BillID=66#:~:text=SB4%20%2D%20Modifies%20and%20creates%20new%20provisions%20relating%20to%20Utilities&text=SS%232%2FSB%204%20%2D,new%20provisions%20relating%20to%20Utilities.&text=These%20provisions%20are%20similar%20to,%2FHB%201836%20(2024).)

<sup>7</sup> SB 307: <https://arkleg.state.ar.us/Bills/Detail?id=sb307&ddBienniumSession=2025%2F2025R&Search=>

1 important for OG&E to remain competitive with other utilities in attracting capital, and the  
2 authorization of CWIP recovery for HL 13 & 14 would send a good signal to investors.

3

4 **Q. Does Oklahoma law provide for CWIP recovery for certain qualified investments?**

5 A. Yes. Senate Bill 998, which was enacted in May 2025, allows for CWIP recovery for new  
6 natural gas generation facilities. It is my understanding that the Horseshoe Lake 13 & 14  
7 generating units would qualify for CWIP treatment and rider recovery under the recently  
8 enacted SB 998 as they are natural gas fired capacity additions.

9

10 **Q. How do the rating agencies view mechanisms such as CWIP?**

11 A. Rating agencies view CWIP as credit accretive. The benefit is seen not only in the  
12 quantitative metrics but also in the qualitative evaluation of the regulatory recovery  
13 methodology. In the same credit opinion discussed above, Moody's takes note of the  
14 positive impact of the recently passed Act 373 in OG&E's Arkansas jurisdiction which  
15 allows for CWIP recovery.<sup>8</sup>

16

17 **Q. Please summarize the benefits of CWIP to customers?**

18 A. As described above, customers would directly save approximately \$190.5 million over an  
19 asset life of approximately 30 years. In addition to the overall cost savings, CWIP helps  
20 reduce rate shock. Rate shock can occur when a large project such as the one in this filing  
21 is placed into service and several years of construction costs are included in rate base all at  
22 once. By providing for a current return on construction costs, CWIP stabilizes rates and  
23 helps avoid rate shock to OG&E's customers by gradually allowing the impact of the HL  
24 13 & 14 units to be included in rates.

25

26

### **GCR RIDER**

27 **Q. How does OG&E propose to collect costs for HL 13 & 14 and the Capacity Purchase**  
28 **Agreements ("CPAs")?**

29 A. As discussed in the Direct Testimonies of OG&E witnesses Kimber Shoop and Gwin Cash,  
30 OG&E proposes to collect CWIP, and the revenue requirement associated with HL 13 &

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<sup>8</sup> Moody's Credit Opinion Oklahoma Gas and Electric Company (April 15, 2025)

1 14 through the GCR Rider. Recovery of CWIP would begin as OG&E begins incurring  
2 costs for the project, but OG&E would not begin collection of the revenue requirement  
3 until the units are placed in service. As discussed below, the GCR Rider will also recover  
4 the costs of the CPAs, plus a return on those CPAs.

5  
6 **Q. Why is rider recovery important for OG&E in this case?**

7 A. First, OG&E will need a mechanism to be able to collect the CWIP as it makes investment  
8 in HL 13 & 14. Second, rider recovery for the costs of the CPAs is also important because  
9 these are long term contractual purchases that can be separately tracked and monitored  
10 through a separate rider. Generally, rider recovery is viewed by rating agencies as  
11 constructive. Rider recovery will help protect OG&E's credit ratings and keep OG&E  
12 attractive to investors given its small size and lower than average ROE. Finally, rider  
13 recovery ensures timely cost recovery of the selected projects.

14  
15 **RETURN ON CPAs**

16 **Q. Please explain the financial strain that Capacity Purchase Agreements ("CPAs")**  
17 **place on the Company.**

18 A. CPAs create financial strain on a utility's balance sheet because they lock the Company in  
19 to paying a fixed amount on a regular basis, like payments for debt. Like debt, it puts a  
20 strain on cash flow because those dollars for the payment are tied up and cannot be used  
21 for anything else. In the case of a long-term Power Purchase Agreement ("PPA") or CPA,  
22 when OG&E signs the contract, it is locking up that amount of cash to go towards paying  
23 the contract for many years.

24  
25 **Q. How do credit rating agencies view long-term PPAs and CPAs?**

26 A. Rating agencies take long-term obligations into account in their rating process.  
27 Specifically, S&P uses an adjustment referred to as Imputed Debt to reflect the financial  
28 strain that long term PPAs have on the Company. Imputed debt is a way to appropriately  
29 reflect the costs tying up a significant amount of cash in a long-term contract, such as a  
30 PPA or CPA. And it is used to adjust the metrics used to analyze OG&E, by reflecting  
31 long term PPAs or CPAs as debt.

1 Q. **How are the credit metrics of OG&E impacted by imputed debt?**

2 A. For credit metrics that are a ratio of cash flow generated by the business relative to debt,  
3 those metrics will deteriorate without this adjustment. Simply put, the amount of cash flow  
4 generated by the business would be the same, but debt increases due to the imputed debt.  
5 This is in effect a financial cost for the Company.

6

7 Q. **What is OG&E requesting in this case to mitigate the negative credit impacts of**  
8 **imputed debt?**

9 A. OG&E is requesting the Commission authorize a return on the Black Kettle CPA and  
10 Kiamichi CPA at OG&E's weighted average cost of capital ("WACC") to mitigate the  
11 effect of imputed debt. Both CPAs are long term contracts which will put strain on the  
12 Company's balance sheet. The requested return will help alleviate some of that strain and  
13 compensate the Company for the additional credit risk.

14

15 **CONCLUSION**

16 Q. **What are your recommendations to this Commission?**

17 A. I recommend the Commission approve CWIP recovery and cost recovery for HL 13 & 14  
18 through the GCR Rider to assist OG&E in attracting capital and remain financially strong  
19 as it meets load growth challenges in the next several years. In addition, I recommend  
20 recovery of the CPA costs plus a return on the Black Kettle and Kiamichi CPAs through  
21 the GCR Rider so that OG&E can mitigate the negative impacts of imputed debt and keep  
22 the Company's credit rating intact.

23

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

25 A. Yes.



**CERTIFICATE OF SERVICE**

I hereby certify that on the 19<sup>th</sup> day of May 2025, a true and correct copy of the foregoing was electronically served via the Electronic Case Filing System to those on the Official Electronic Case Filing Service List, or via electronic mail to the following persons:

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Deborah R. Thompson

Year	CWIP Collected	AFUDC Balance (Don't include gross up)	Gross Up on Equity Portion of AFUDC	Depreciation	Return on Rate Base	Amort of Gross Up	Total AFUDC Revenue Requirement
2026	\$ 12,023,622						
2027	\$ 23,880,282						
2028	\$ 39,034,914						
2029	\$ 44,534,642		hard-coded				
2030		\$ 111,148,539	\$ 27,510,034	\$ 3,334,456	\$ 9,971,135	\$ 2,573,266	\$ 15,878,858
2031		\$ 107,814,083	\$ 25,042,109	\$ 3,334,456	\$ 9,672,001	\$ 2,342,418	\$ 15,348,876
2032		\$ 104,479,626	\$ 22,795,581	\$ 3,334,456	\$ 9,372,867	\$ 2,132,280	\$ 14,839,603
2033		\$ 101,145,170	\$ 20,750,590	\$ 3,334,456	\$ 9,073,733	\$ 1,940,993	\$ 14,349,183
2034		\$ 97,810,714	\$ 18,889,054	\$ 3,334,456	\$ 8,774,599	\$ 1,766,867	\$ 13,875,922
2035		\$ 94,476,258	\$ 17,194,517	\$ 3,334,456	\$ 8,475,465	\$ 1,608,361	\$ 13,418,282
2036		\$ 91,141,802	\$ 15,651,997	\$ 3,334,456	\$ 8,176,331	\$ 1,464,075	\$ 12,974,862
2037		\$ 87,807,346	\$ 14,247,856	\$ 3,334,456	\$ 7,877,197	\$ 1,332,733	\$ 12,544,386
2038		\$ 84,472,889	\$ 12,969,681	\$ 3,334,456	\$ 7,578,063	\$ 1,213,173	\$ 12,125,692
2039		\$ 81,138,433	\$ 11,806,171	\$ 3,334,456	\$ 7,278,929	\$ 1,104,340	\$ 11,717,725
2040		\$ 77,803,977	\$ 10,747,040	\$ 3,334,456	\$ 6,979,795	\$ 1,005,269	\$ 11,319,520
2041		\$ 74,469,521	\$ 9,782,923	\$ 3,334,456	\$ 6,680,661	\$ 915,087	\$ 10,930,203
2042		\$ 71,135,065	\$ 8,905,297	\$ 3,334,456	\$ 6,381,527	\$ 832,994	\$ 10,548,977
2043		\$ 67,800,609	\$ 8,106,402	\$ 3,334,456	\$ 6,082,393	\$ 758,266	\$ 10,175,115
2044		\$ 64,466,152	\$ 7,379,177	\$ 3,334,456	\$ 5,783,259	\$ 690,242	\$ 9,807,957
2045		\$ 61,131,696	\$ 6,717,191	\$ 3,334,456	\$ 5,484,124	\$ 628,321	\$ 9,446,901
2046		\$ 57,797,240	\$ 6,114,592	\$ 3,334,456	\$ 5,184,990	\$ 571,954	\$ 9,091,400
2047		\$ 54,462,784	\$ 5,566,052	\$ 3,334,456	\$ 4,885,856	\$ 520,644	\$ 8,740,956
2048		\$ 51,128,328	\$ 5,066,721	\$ 3,334,456	\$ 4,586,722	\$ 473,937	\$ 8,395,115
2049		\$ 47,793,872	\$ 4,612,186	\$ 3,334,456	\$ 4,287,588	\$ 431,420	\$ 8,053,464
2050		\$ 44,459,415	\$ 4,198,427	\$ 3,334,456	\$ 3,988,454	\$ 392,717	\$ 7,715,628
2051		\$ 41,124,959	\$ 3,821,786	\$ 3,334,456	\$ 3,689,320	\$ 357,487	\$ 7,381,263
2052		\$ 37,790,503	\$ 3,478,933	\$ 3,334,456	\$ 3,390,186	\$ 325,417	\$ 7,050,059
2053		\$ 34,456,047	\$ 3,166,838	\$ 3,334,456	\$ 3,091,052	\$ 296,223	\$ 6,721,732
2054		\$ 31,121,591	\$ 2,882,741	\$ 3,334,456	\$ 2,791,918	\$ 269,649	\$ 6,396,023
2055		\$ 27,787,135	\$ 2,624,130	\$ 3,334,456	\$ 2,492,784	\$ 245,459	\$ 6,072,699
2056		\$ 24,452,679	\$ 2,388,720	\$ 3,334,456	\$ 2,193,650	\$ 223,439	\$ 5,751,545
2057		\$ 21,118,222	\$ 2,174,428	\$ 3,334,456	\$ 1,894,516	\$ 203,394	\$ 5,432,366
2058		\$ 17,783,766	\$ 1,979,360	\$ 3,334,456	\$ 1,595,382	\$ 185,148	\$ 5,114,986
2059		\$ 14,449,310	\$ 1,801,791	\$ 3,334,456	\$ 1,296,248	\$ 168,538	\$ 4,799,242
2060		\$ 11,114,854	\$ 1,640,153	\$ 3,334,456	\$ 997,114	\$ 153,419	\$ 4,484,988
2061		\$ 7,780,398	\$ 1,493,015	\$ 3,334,456	\$ 697,979	\$ 139,655	\$ 4,172,091
2062		\$ 4,445,942	\$ 1,359,076	\$ 3,334,456	\$ 398,845	\$ 127,127	\$ 3,860,428
2063		\$ 1,111,485	\$ 1,237,154	\$ 1,237,154	\$ 99,711	\$ 115,722	\$ 1,452,587
		\$ 1,908,420,410	\$ 294,101,723	\$ 111,274,207	\$ 171,204,395	\$ 27,510,034	\$ 309,988,636
						-	
		Total impact of AFUDC Recovery					\$ 309,988,636
		CWIP Collected during construction					\$ 119,473,460
		Difference					\$ 190,515,176