

**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)
APPROVING A RECOVERY MECHANISM FOR)
EXPENDITURES RELATED TO THE)
OKLAHOMA GRID ENHANCEMENT PLAN)

Cause No. PUD 202 **000021**

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CORPORATION COMMISSION
OF OKLAHOMA

Direct Testimony

of

Donald Rowlett

on behalf of

Oklahoma Gas and Electric Company

February 24, 2020

Donald Rowlett
Direct Testimony

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

2 A. My name is Donald R. Rowlett. I am the Managing Director of Regulatory Affairs for
3 Oklahoma Gas and Electric Company ("OG&E"). My business address is 321 N. Harvey
4 Avenue, Oklahoma City, Oklahoma 73102.
5

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

7 A. I earned a Bachelor of Science degree in Business with an accounting emphasis (1980)
8 and a Master's in Business Administration (1992), from Oklahoma City University. I
9 have also completed all work, except for the dissertation, on a Ph.D. from Oklahoma
10 State University in Business Administration. I joined OG&E in 1989. I currently serve
11 as Managing Director of Regulatory Affairs where I am responsible for overseeing the
12 Company's economic regulatory activities with the Oklahoma Corporation Commission,
13 the Arkansas Public Service Commission and the Federal Energy Regulatory
14 Commission. I have served in various financial roles in the Company including ten years
15 as Vice President, Controller and Chief Accountant. As the Company's Controller I was
16 responsible for financial and operations accounting, federal, state and local income and
17 property taxes and budgeting. I have also made investor presentations and participated in
18 numerous public equity and debt offerings. Prior to joining OG&E, I was employed by
19 Arthur Andersen & Co. as a financial consultant and audit manager. During my
20 employment, I performed audits of financial statements in a variety of industries.
21 Additionally, I prepared filings with the Securities and Exchange Commission ("SEC")
22 and provided clients with guidance on the financial reporting requirements of the SEC
23 and Generally Accepted Accounting Principles ("GAAP").
24

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

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

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

2 A. The purpose of my testimony is to explain and support OG&E's request to establish an
3 Oklahoma Grid Enhancement Cost Recovery Mechanism ("Grid Enhancement
4 Mechanism" or "Mechanism") for the implementation of its Oklahoma Grid
5 Enhancement Plan ("OGE Plan"). In doing so I:

- 6 • Provide an overview of the Plan and briefly summarize the drivers for the Plan
7 and how it will provide important benefits for our customers;
- 8 • Explain how the Mechanism will allow OG&E to begin cost recovery of its OGE
9 Plan capital investments only after they are placed in-service and providing
10 benefits to customers;
- 11 • Show how the Mechanism includes multiple customer protections including, but
12 not limited to, an ongoing review of the Plan and investments and the reservation
13 of a prudence determination until the investments are reviewed in a full base rate
14 case review;
- 15 • Discuss regulatory lag and explain how the Mechanism mitigates but does not
16 fully eliminate regulatory lag;
- 17 • Provide an overview of the Commission's history in facilitating the
18 implementation of successful capital investment programs through the approval of
19 similar alternative cost recovery mechanisms;
- 20 • Address prior criticisms of alternative cost recovery mechanisms and explain
21 why they are not applicable to OG&E's current request;
- 22 • Provide information related to estimated customer bill impacts and demonstrate
23 how OG&E's rates will remain some of the lowest in the country after the
24 implementation of the Mechanism; and,
- 25 • Conclude with explaining why the Mechanism is in the public interest and
26 recommend that the Commission approve it as requested.

27
28 Q. **Before presenting your testimony, please identify the OG&E witnesses and purposes
29 of their testimonies.**

30 A. Table 1 lists OG&E's witnesses and a brief description of the purpose of each testimony.

Table 1: OG&E Witness List

Witness	Title	Purpose of Testimony
Donald R. Rowlett	Managing Director, Regulatory	Supports the Establishment of the Oklahoma Grid Enhancement Cost Recovery Mechanism
Zachary Gladhill	Director, Grid Integration and Innovation	Introduces the OGE Plan, Explains the Drivers for it and Provides the Cost/Benefit Information
Patrick Dalton	Manager, Distributed Energy Resources, ICF	Provides Third-Party Review of the OGE Plan and its Expected Benefits
Kandace Smith	Manager, Grid Integration and Innovation	Explains How the OGE Plan was Developed and How it Will be Implemented
Andrea Dennis	Vice President, Transmission and Distribution Operations	Provides a Detailed Explanation of the Four Major Investment Categories and How They Improve Operations for the Benefit of Customers
Gwin Cash	Manager, Cost of Service and Rate Administration	Explains the Mechanics of the Oklahoma Grid Enhancement Cost Recovery Mechanism

Relief Requested

1 Q. **Please generally describe the Plan.**

2 A. OG&E's Plan is a five-year asset deployment plan that is focused on upgrading aging
3 physical infrastructure while also modernizing key grid technologies, operational and
4 communications systems, and planning tools and processes. The plan will be prioritized
5 every year based on up-to-date information about existing system conditions, emerging
6 technology, customer trends, and future requirements. Ultimately, the Plan will result in
7 a modernized grid that is more reliable, resilient, flexible, and efficient, while at the same
8 time maintaining affordability and enhancing service for customers.

9
10 Q. **Why is OG&E's Plan to modernize its grid necessary?**

11 A. As is more fully discussed in the testimony of Witness Gladhill, OG&E, like other
12 utilities across the country, is facing an increasing number of challenges to its grid.
13 Extreme weather, unrelenting threats of cyber and physical attacks, and a rising number
14 of technologies that increase load and strain on infrastructure assets add to the complexity
15 of delivering a reliable and resilient grid.¹ Adding to this, are increased customer
16 expectations of the grid. "A century ago, if a customer lost power, the lights went out.
17 But today's lifestyle is built on electricity—it powers our irrigation system, mobile

¹ Bowman, Paul, Matt Kirchner, Chris Klausner, Arron Lewis, David O'Connor. 2020 Black & Veatch Strategic Directions: Smart Utilities Report, p. 36. Available online at: <https://www.bv.com/2020-smart-utilities>.

1 phones, smart thermostats, air conditioners, hairdryers, TVs, computers and other electric
2 dependent assets. With more customers' lives relying on electric-enabled technologies,
3 expectations for minimal (nonexistent) interruptions are much higher.”² To address these
4 challenges and demands by creating a more reliable and resilient grid, OG&E must move
5 forward with its plan to enhance its grid into one that is more capable of serving the
6 needs of the 21st Century.
7

8 **Q. What relief is OG&E requesting regarding its Plan?**

9 A. OG&E is requesting approval of a Mechanism for the five year deployment that allows
10 OG&E to begin recovery of the revenue requirement associated with the capital
11 investments including the return on (debt cost and equity return), the return of
12 (depreciation expense), as well as taxes associated with the investment. The Mechanism
13 will not include any operation and maintenance costs. The costs will be collected on an
14 interim basis, until they are reviewed for prudence in a base rate case. OG&E's proposed
15 Mechanism is structured very similarly to the Distribution Reliability and Safety Rider
16 that was recently approved for Public Service Company of Oklahoma (“PSO”).
17

18 **Q. Is OG&E requesting preapproval of the prudence of its Plan and associated**
19 **investments?**

20 A. No. OG&E is not seeking pre-approval of the prudence of its Plan and associated
21 investment. As stated above, OG&E's proposal is that, as occurs with any other plant
22 additions, any determination concerning the prudence of the investments should be
23 reserved until a future general rate case(s). This means that OG&E will bear the burden
24 of showing in the future that the purported benefits of its Plan have been or will be
25 delivered to customers. Any revenues that are collected through the Mechanism that are
26 related to costs that are not ultimately deemed prudent and not included in rate base will
27 be returned to customers through a true-up provision in the Mechanism.

² *Id.*, p. 12.

1 phones, smart thermostats, air conditioners, hairdryers, TVs, computers and other electric
2 dependent assets. With more customers' lives relying on electric-enabled technologies,
3 expectations for minimal (nonexistent) interruptions are much higher.”² To address these
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24 of showing in the future that the purported benefits of its Plan have been or will be
25 delivered to customers. Any revenues that are collected through the Mechanism that are
26 related to costs that are not ultimately deemed prudent and not approved by the
27 Commission to be included in rate base will be returned to customers through a true-up
28 provision in the Mechanism.

² *Id.*, p. 12.

1 Q. **How will the costs be collected through the Mechanism?**

2 A. Projects will be submitted to the Commission for inclusion in the mechanism on a
3 quarterly basis after they are in-service and benefitting customers. As part of that
4 submission, documentation will be included to support each project, and it will be
5 reviewed by PUD prior to any cost recovery beginning.
6

7 Q. **Will the quarterly submissions be the only information provided to support the**
8 **projects submitted for cost recovery?**

9 A. No. In addition to the quarterly submittals, the Company will also provide an annual plan
10 detailing the projects that will be completed in the following year. This will ensure that
11 there is a thorough review of and understanding as to what projects will be executed for
12 each year of the Plan. Please see the testimony of Witness Smith for a discussion of the
13 annual investment plans and the detail that will be included with each one.
14

15 Q. **How does granting the proposed mechanism benefit customers?**

16 A. To build on the progress made with its Smart Grid deployment and System Hardening
17 programs, it is now time to more aggressively address the system needs and enhance the
18 grid to a more reliable and resilient system that is capable of serving increasing needs of
19 our customers. The most obvious benefit of the Mechanism is that it will allow for the
20 necessary improvements which will directly benefit customers. Another key benefit is
21 that the Mechanism calls for an ongoing, enhanced review of OG&E's grid and the
22 proposed improvements, which will ensure that the Commission is kept fully abreast of
23 any grid enhancement activity and associated costs. Another benefit is that the
24 Mechanism will spread cost recovery out to avoid customer rate shock that can otherwise
25 occur by waiting until a base rate case to include all of the costs at one time. Finally, the
26 Mechanism reduces the barrier of regulatory lag.
27

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

29 A. No. The Mechanism reduces the amount of lag that the Company would otherwise incur
30 without it, but it does not fully eliminate lag. Because the Mechanism is structured such
31 that projects may not be submitted for cost recovery until after the investments are in-

1 service providing benefits to customers, there will still be lag in between the investments
2 going in-service and cost recovery commencing. OG&E will also be incurring other
3 regulatory lag for other investments and expenditures that are outside of the Plan.
4

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

6 **A.** If regulatory lag is not addressed, it can create a financial barrier for OG&E to make the
7 investments necessary to modernize its grid. This is because OG&E's current rates will
8 not be sufficient to cover the incremental investment that will occur with the Plan which
9 could challenge OG&E's opportunity to maintain its financial health. This is particularly
10 true when considering that OG&E's Plan is comprised of non-revenue producing
11 investments. Mitigating lag will enable OG&E to maintain its financial health and to
12 move forward with the improvements as planned. Without a reasonable means of
13 mitigating lag, the Company will have to reassess its ability to commit to the planned
14 level of investment in this program and consider performing small pieces of the Plan over
15 a much longer period with its existing revenues, which will delay important benefits and
16 potentially essential improvements for customers.
17

18 **Q. How do you respond to those that argue that regulatory lag is an incentive for**
19 **utilities to operate more efficiently?**

20 **A.** Relying on regulatory lag as an incentive for utility efficiency penalizes a utility that is
21 operating efficiently, like OG&E. The efficient utility operator has very few, if any,
22 options to offset the impacts of regulatory lag, whereas the inefficient operator may have
23 many ways. The primary levers available to manage regulatory lag are to improve
24 operational efficiency and reduce the level of capital investment. As I discuss later,
25 OG&E's rates are among the lowest in the country. I believe the low rates enjoyed by
26 OG&E's customers can be attributed to rigorous regulatory oversight and intense focus on
27 operational efficiency by OG&E's management and members. To assume that there are
28 significant efficiency gains available to offset the regulatory lag brought about by an
29 increased level of capital investments assumes that past regulatory oversight has been lax.
30 OG&E is a proven efficient operator.

1 Q. Does the Allowance for Funds Used during Construction (“AFUDC”) remove the
2 barrier of regulatory lag for the investments in the Plan?

3 A. No. AFUDC is a regulatory tool to defer the current cost of financing projects while they
4 are under construction and not providing current benefits to customers. Depreciation
5 expense is another significant cost of capital investment. As with the deferral of
6 financing costs, depreciation expense is suspended until a project goes into service.

7 Unlike large-scale generation or long duration transmission projects, AFUDC will
8 not apply to OGE Plan investments. The Company’s Plan is comprised of hundreds of
9 smaller and quickly constructed projects that will go in-service at varying times, many in
10 a matter of weeks. AFUDC is applied only to projects with durations of greater than 30
11 days.

12
13 Q. Have regulators recognized the importance of grid modernization improvements?

14 A. Yes. In July of 2018, the National Association of Regulatory Utility Commissioners
15 (“NARUC”) Board of Directors passed a resolution entitled “Supporting Infrastructure
16 Modernization Programs”, which supports the need for accelerating programs like
17 OG&E’s as shown from the excerpt below:

18 Whereas utilities across the nation are finding it necessary to make
19 investments in their electric transmission and distribution systems to
20 accommodate the rapid pace of technological developments and meet
21 increasing customer demands for an electric system that operates in a
22 smart, secure, reliable, resilient, and efficient manner;

23 Whereas specific investments may be required to protect the nation’s
24 electric system from the greater risk of disruption associated with growing
25 physical and cybersecurity threats from a variety of sources across the
26 nation and the world;

27 Whereas the upgrade and modernization of electric system infrastructure
28 on an accelerated basis can mitigate this risk by enhancing the security,
29 safety, reliability, and resilience of the electric grid.
30

31 Q. Did the NARUC resolution recognize regulatory lag as a disincentive to grid
32 modernization investments and recommended ways to address it?

33 A. Yes. In the resolution, regulatory lag is identified as a “near-term financial barrier of
34 traditional ratemaking policies” that could prevent timely recover of utility investments.

35 To address that barrier, the resolution encourages State commissions to consider

1 alternative rate-recovery mechanisms to “accelerate the modernization, replacement, and
2 enhancement of the nation’s electric system.” Please see the full NARUC resolution
3 attached as Direct Exhibit DRR-1.
4

5 **Q. Please discuss this Commission’s history in approving cost recovery mechanisms for**
6 **infrastructure investment programs.**

7 A. This Commission has a long history of supporting infrastructure improvements by
8 approving alternative cost recovery mechanisms. Most recently, the Commission
9 approved PSO’s Distribution Reliability and Safety Rider in Cause No. PUD 200180097,
10 which, based upon my understanding, allows for the recovery of capital investments
11 incurred for reliability and safety.

12 Specific to OG&E, the Commission has approved the following cost recovery
13 mechanisms related to infrastructure improvements:

- 14 • Smart Grid Program in Cause No. PUD 201000029 – mechanism to recover
15 Smart Grid investments.
- 16 • System Hardening in Cause No. PUD 200900212 – mechanism to recover a
17 combination of capital investment measures, including circuit hardening,
18 aggressive vegetation management, and pilot programs to install breakaway
19 connectors between poles and customers and to underground certain customer
20 service drops (altogether, the "System Hardening Program").
- 21 • Windspeed (RTSA Rider) Cause No. PUD 200800148 – mechanism to recover
22 the construction of a 345 kV transmission line from Woodward to Oklahoma
23 City.
- 24 • Sooner-Rose Hill & Sunnyside-Hugo Transmission Investments (STSA Rider)
25 Cause No. PUD 201200172 - Sunnyside-Hugo Project ("Sunnyside-Hugo") and
26 the Sooner-Rose Hill Project ("Sooner-Rose Hill") (collectively referred to as the
27 "Projects"), were constructed and placed in service by OG&E in the second
28 quarter of 2012. In Cause No. PUD 201100087 (OG&E’s Rate Case) the
29 Settlement Agreement allowed for OG&E to initiate recovery of these project
30 cost through the SPP Transmission Systems Additions Rider.
31

1 In addition to the OG&E dockets referenced above, the Commission has approved
2 the following similar mechanisms for PSO.

- 3 • PSO AMI Rider – Cause No. PUD 201300217 – mechanism to recover costs
4 associated with Automated Metering Infrastructure.
- 5 • PSO Capital Investment Rider -- Cause No. PUD200900181- Mechanism to
6 recover certain capital investment cost related to generation, transmission, and
7 distribution investments.

8 In each of these dockets, the Commission recognized the importance of
9 infrastructure investment and authorized temporary alternative cost recovery mechanisms
10 to ensure that investment was made. Additionally, the Commission has also approved the
11 use of Performance Base Rates for ONG and CenterPoint, which provide a more
12 permanent solution to encouraging infrastructure investment.

13
14 **Q. Did these previous infrastructure programs benefit customers?**

15 **A.** Yes, OG&E customers benefitted from the deployment of AMI and system hardening, as
16 well as the construction of transmission projects, which may not have been possible if the
17 Commission had not addressed the barrier of regulatory lag by approving alternative cost
18 recovery mechanisms. It is also noteworthy to consider that OG&E has maintained some
19 of the lowest rates in the country with the various mechanisms in place.

20
21 **Q. Despite the Commission's extensive experience with cost recovery mechanisms, have**
22 **they been the subject of criticism in the past?**

23 **A.** Yes, over the years, some stakeholders have argued against the use of cost recovery
24 mechanisms claiming that they are "blank checks" that afford no customer protections,
25 that they shift all the risk away from shareholders and onto customers, and that they are
26 single-issue requests that should only be considered within the confines of a base rate
27 case.

1 Q. Are those criticisms applicable to OG&E's Mechanism that is at issue in this
2 docket?

3 A. No. Approval of OG&E's Mechanism will not result in a "blank check" or the absence
4 of customer protections. As explained previously and more fully in the testimony of
5 Witness Cash, the Mechanism only allows for the recovery of the revenue requirement
6 once a project has gone into service and has been authorized for temporary recovery by
7 PUD. Further, these costs will be subject to true-up and ultimately a prudence review in
8 a base rate case. In other words, the investments remain subject to the OCC's review and
9 approval in a future regulatory proceeding, and any disallowances will be refunded to
10 customers.

11 Any potential claim that all risk will be shifted to customers is false. OG&E's
12 request is to begin cost recovery of the Plan investments only after they are in-service,
13 providing benefits to customers, and have been reviewed by the PUD in each quarterly
14 submission. This means that OG&E will provide all of the upfront capital investment
15 necessary for customers to benefit from the Plan; customers provide none of the funds
16 necessary for OG&E to deploy the projects. Therefore, until the costs are found prudent
17 by the Commission in a future rate case proceeding, OG&E bears all the risk of the
18 investment. This type of review when used in conjunction with mechanisms similar to
19 OG&E's request ensures diligent and careful planning and operations.

20 Finally, this Commission has approved multiple cost recovery mechanisms
21 outside of a full base rate case review. This is likely because base rate cases can be very
22 time consuming and burdensome to all stakeholders. To address any notion of open-
23 ended recovery, this Commission has often tied approval of a recovery mechanism to a
24 sunset date or required that it be reviewed for continuation in a rate case that must be
25 filed by a date certain.

26 Customer Impact

27 Q. What amount of costs is OG&E proposing to recover through the Mechanism?

28 A. Table 2 reflects the estimated revenue requirement and the associated percentage change
29 to customer bills for 2020 and 2021, Direct Exhibit DRR-2 contains a more detailed
30 analysis. These amounts are subject to change based on each annual investment plan.
31

(Please see the testimonies of Witness Gladhill and Smith for a discussion on the development and necessity of annual investment plans.)

Table 2: OGE Plan Revenue Requirements

	Total	Residential	General Service	Power and Light	Large Power and Light	Other
2020 OGE Plan Revenue Requirement	\$1,531,562	\$905,617	\$195,368	\$319,077	\$56,567	\$54,933
2020 OGE Plan Customer Bill % Change		0.12%	0.12%	0.07%	0.02%	
2021 OGE Plan Revenue Requirement	\$16,247,891	\$9,561,636	\$2,021,108	\$3,365,456	\$721,440	\$578,251
2021 OGE Plan Customer Bill % Change		1.22%	1.28%	0.76%	0.27%	

Q. Do the revenue requirements shown in 2020 and 2021 represent annual revenue requirement amounts?

A. No. The amount shown for 2020 only represents the revenue requirement from September to December 2020, assuming the initial factor will become effective at that time. This factor will be based on the quarterly report submitted in August, which is based on June 2020 plant-in-service, as depicted in Chart 1 of witness Cash's testimony. Additionally, the 2021 amount assumes the investments are ratably placed in service throughout the year and are recovered in quarterly increments after each submission.

Q. Please describe the impact residential customers will see on their bills for 2020 and 2021?

A. In 2020, an average residential customer using 1,055 kwh can expect an annual increase of 0.12%, or a \$0.36 average monthly increase between September and December. In 2021, customers are expected to experience an incremental annual increase of 1.10%, or a \$1.18 average monthly bill increase. The year over year total bill change for the

1 remaining three years of the Plan is projected to be below 1.7% on an annual average
2 basis.

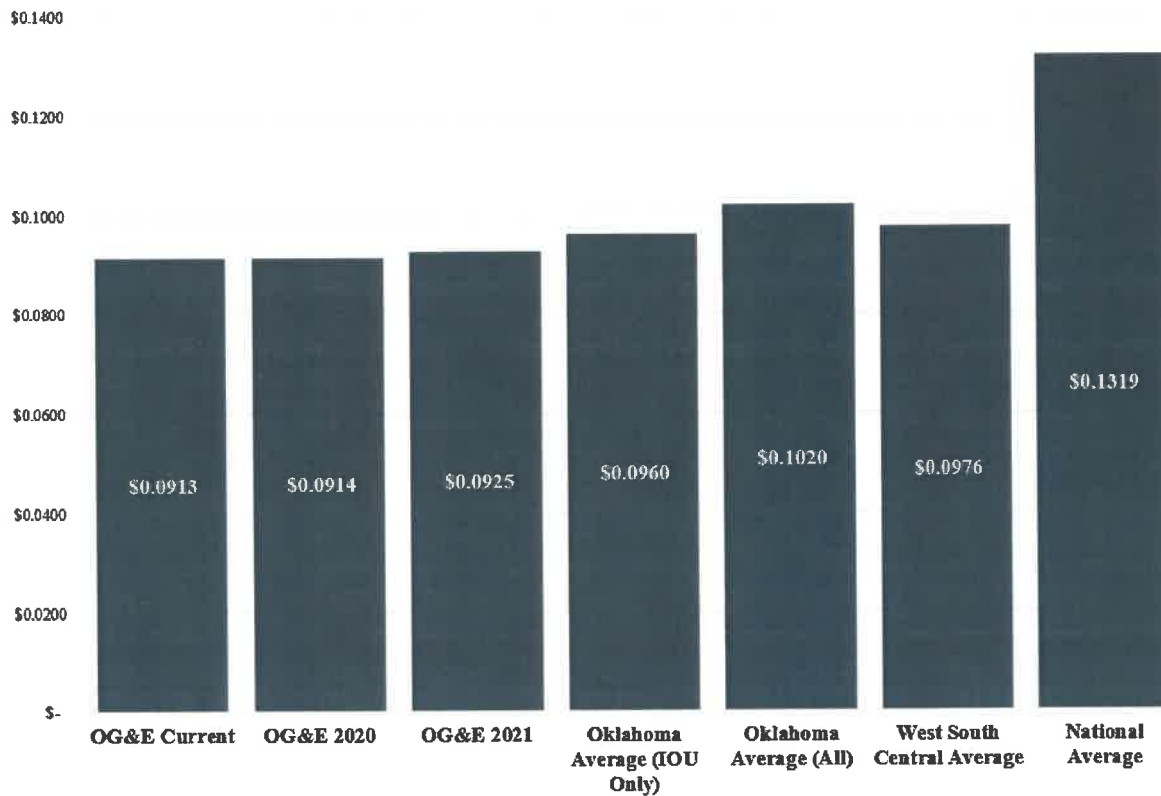
3
4 **Q. Is OG&E'S Plan a reasonable price for customers?**

5 A. Yes. The quantitative and qualitative benefits outweigh these costs as more fully
6 described in the testimony of Witness Gladhill. Further, after including the projected
7 revenue requirements into OG&E's current rates, the Company's rates will remain some
8 of the lowest rates in the country. Table 3 shows how OG&E's current, proposed 2020,
9 and proposed 2021 residential total rates compare to regional and national rates as listed³
10 by the Edison Electric Institute ("EEI") for the Summer of 2019.⁴ As indicated in Table
11 3, OG&E's residential rates are, and will remain after inclusion of the Plan investments,
12 lower than the Oklahoma, regional, and national averages, without consideration of other
13 utilities' rates increasing in 2020 and 2021.

³ EEI *Typical Bills and Average Rates Report Summer 2019*.

⁴ The 2019 "Oklahoma Average (All)" data comes from the U.S. Energy Information Administration because EEI data for this category lags one year behind. The rate shown is the Oklahoma average for the period of July 2018 to June 2019.

Table 3: EEI Rate Comparison
EEI Rate Comparison - Residential



1 **Q. Do the Commission's rules support the investments included in OG&E's Plan?**

2 **A. Yes, in fact, the Plan will help the Company better comply with the Commission's Rules.**
3 The Commission's rules require electric utilities to have reliability programs that include
4 inspection, maintenance, repair and replacement standards. (OAC 165:35-25-14.) The
5 Commission has set minimum performance levels (OAC 165:35-25-18) and requires
6 electric utilities to have a program to identify and analyze a company's worst performing
7 circuits. (OAC 165:35-25-19.) The rules also require that electric utilities submit an
8 annual reliability report to the Commission. OG&E's Plan includes all of the standards
9 set forth in the Commission's rules at an enhanced level by the use of current technology
10 and increased investment in reliability and resiliency.

1 Q. **Is OG&E's request for the Mechanism in the public interest?**

2 A. Yes. The challenges and demands imposed upon the grid require attention at this time.
3 As more fully set out in OG&E witness Gladhill's testimony, in 2019 equipment failure
4 made up 27% of overall outage duration with storms excluded and this number is
5 expected to increase ten percent annually. To continue the current level of spending
6 knowing that equipment failure is worsening is not an acceptable plan to respond to the
7 challenges and demands on the grid. The recent events in California, although hopefully
8 an extreme example, have highlighted this need. A modernized grid that is safer, more
9 reliable, and resilient that is provided at a reasonable cost is in the public interest.
10 Further, OG&E's request to implement a Mechanism to support the implementation of
11 the Plan has been designed with added layers of customer protections. By providing
12 temporary relief, with subsequent rate case(s) to review the reasonableness and prudence
13 of OG&E's capital investments, OG&E can proceed with its needed Plan to deliver
14 significant benefits to customers all while maintaining some of the lowest rates in the
15 country.

16
17 Q. **What is your recommendation to the Commission?**

18 A. I recommend that the Commission approve and allow for the implementation of the
19 Oklahoma Grid Enhancement Cost Recovery Mechanism to recover the costs associated
20 with the Plan as requested by OG&E.

21
22 Q. **Does this conclude your testimony?**

23 A. Yes.

CI-1/EL-2 Resolution Supporting Infrastructure Modernization Programs

Whereas the National Association of Regulatory Utility Commissioners (“NARUC”) and its members have long focused on electric system reliability, adequacy, and affordability, as well as electric system infrastructure security and delivery;

Whereas NARUC enjoys a close working relationship and cooperative partnership with a variety of federal and state agencies and organizations tasked with ensuring the safety, security, resilience, reliability, and efficiency of the nation’s electric system;

Whereas innovations in technology in areas including, but not limited to, electric vehicles, renewable energy generation, microgrids, energy storage, distributed energy resources (“DER”), demand response and energy efficiency are occurring at a rapid pace;

Whereas utilities across the nation are finding it necessary to make investments in their electric transmission and distribution systems to accommodate the rapid pace of technological developments and meet increasing customer demands for an electric system that operates in a smart, secure, reliable, resilient, and efficient manner;

Whereas specific investments may be required to protect the nation’s electric system from the greater risk of disruption associated with growing physical and cybersecurity threats from a variety of sources across the nation and the world;

Whereas the upgrade and modernization of electric system infrastructure on an accelerated basis can mitigate this risk by enhancing the security, safety, reliability, and resilience of the electric grid;

Whereas alternative rate-recovery mechanisms may help expedite the upgrade and modernization of the electric system by promoting timely rate recovery for utility investments in electric system infrastructure safety, security, resilience, reliability, and efficiency;

Whereas alternative rate-recovery mechanisms may help eliminate near-term financial barriers of traditional ratemaking policies such as “regulatory lag” and promote access to lower-cost capital; *and*

Whereas with proper planning, controls, and regulatory monitoring to ensure accountability and ratepayer benefit, the adoption of alternative rate policies may be very effective for advancing critical electric system safety and reliability upgrades; *now, therefore be it*

Resolved that the Board of Directors of the National Association of Regulatory Utility Commissioners, convened at its 2018 Summer Policy Summit in Scottsdale, Arizona, encourages regulators and industry to consider sensible programs aimed at accelerating investments in electric system infrastructure to help modernize and protect the nation’s electric system; *and be it further*

Resolved that, to the extent permissible, State commissions should explore and examine alternative rate recovery mechanisms to accelerate the modernization, replacement, and enhancement of the nation’s electric system.

Sponsored by the Committees on Electricity and Critical Infrastructure.

Adopted by the NARUC Board of Directors on July 18, 2018.

Oklahoma Jurisdictional Estimated Revenue Requirement (a)		
	<u>2020</u>	<u>2021</u>
Actual YE Plant in Service	\$89,000,000	\$261,200,000
Actual YE Accum. Depreciation	(\$1,035,892)	(\$8,059,525)
Actual YE ADIT Liability	(\$774,411)	(\$4,999,322)
Net Rate Base	\$87,189,697	\$248,141,153
Return Requirement Recovered	1,111,675 (b)	11,222,167
Depreciation Expense	345,297	4,442,249
Ad Valorem Taxes	80,545	828,220
Total Company Revenue Req.	1,537,518	16,492,636
Oklahoma Juris. Rev. Req.	1,531,563 (b)	16,247,892
Return on Rate Base with taxes	9.07%	9.07%

Total OGE Plan Impact		
	2020	2021
Res	0.12%	1.22%
GS	0.12%	1.28%
PL	0.07%	0.76%
LPL	0.02%	0.27%

Notes

- (a) Revenue Requirements for 2020 and 2021 are estimated based on plant going into service ratably throughout the year and only reflect cost recovery associated with actual plant in service that has been submitted in each quarterly report. The exhibit reflects recovery only commencing after the quarterly submission has been approved.
- (b) Represents a revenue requirement from September through December 2020. While an annualized revenue requirement for 2020 would be approximately \$11 million, the Company would only recover costs associated with Grid Enhancement one month after the 1st quarterly report has been submitted. For example, revenue requirement from September through November is based on actual plant-in-service submitted in the August report.