

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE EMERGENCY)	
APPLICATION OF OKLAHOMA GAS AND)	
ELECTRIC COMPANY FOR AN ORDER OF)	CAUSE NO. PUD 202100039
THE COMMISSION APPROVING SPECIAL)	
REGULATORY TREATMENT FOR)	
EXTRAORDINARY COSTS ARISING FROM)	ORDER NO. <u>717355</u>
THE EXTREME 2021 WINTER WEATHER)	
EVENT OF FEBRUARY 2021)	

HEARING: March 11, 2021, in Courtroom B (virtual teleconference)
2101 North Lincoln Boulevard, Oklahoma City, Oklahoma 73105
Before Linda S. Foreman, Administrative Law Judge

APPEARANCES: William L. Humes and Kimber L. Shoop, Attorneys *representing*
 Oklahoma Gas and Electric Company
 Michael L. Velez, Deputy General Counsel *representing* Public Utility
 Division, Oklahoma Corporation Commission
 Jared B. Haines and A. Chase Snodgrass, Assistant Attorneys General
 representing Office of the Attorney General, State of Oklahoma
 Deborah R. Thompson, Attorney *representing* AARP
 Thomas P. Schroedter, Attorney *representing* Oklahoma Industrial Energy
 Consumers
 Ronald E. Stakem and Jack G. Clark, Jr., Attorneys *representing* OG&E
 Shareholders Association

ORDER GRANTING MOTION TO ESTABLISH REGULATORY ASSET

The Corporation Commission (“Commission”) of the State of Oklahoma being regularly in session and the undersigned Commissioners present and participating, there comes on for consideration and action the Motion to Establish Regulatory Asset, filed by Oklahoma Gas and Electric Company (“OG&E” or “Company”).

OG&E generates electricity from a variety of generating assets, including wind, solar, coal and natural gas. However, approximately 70% of OG&E’s resource portfolio is natural gas generation. In order to operate these natural gas-fired generating facilities, OG&E must contract for both the natural gas itself and for gas transportation to transport the gas to the individual generating facilities.

On February 12, 2021, Governor Stitt declared a state-wide emergency due to “[e]xtreme freezing temperatures and severe winter weather including snow, freezing rain, and wind beginning February 7, 2021, and continuing,” (the “2021 Winter Weather Event”). In his Declaration, the Governor stated “[t]here is hereby declared a disaster emergency caused by severe winter weather in all 77 Oklahoma counties that threatens the public’s peace, health, and safety.” This Commission subsequently issued two emergency orders relating to the extreme 2021 Winter

Weather Event and resulting conditions including, but not limited to, limited natural gas supply, prioritization of electric and gas service for public health, welfare, safety and security and the need for conservation efforts.

Natural gas markets throughout the region experienced a profound crisis due to the unusually cold and unusually persistent winter weather accompanying the 2021 Winter Weather Event. Demand for natural gas escalated dramatically in markets because of this weather crisis and prices rose on the spot and daily index markets accordingly. At the same time, the Southwest Power Pool, Inc. (“SPP”), which operates a wholesale energy market called the Integrated Marketplace (“IM”), also experienced unprecedented increases in electric energy prices stemming from high natural gas prices and other factors.

The extraordinary natural gas market and SPP IM price spikes caused the Company to purchase natural gas and wholesale energy at unusually high prices. To put this into perspective, OG&E’s cost of natural gas during the 2021 Winter Weather Event significantly exceeded the Company’s entire fuel cost for calendar year 2020.

Under normal circumstances, OG&E would include costs associated with fuel and SPP IM purchases in its Fuel Cost Adjustment (“FCA”), as provided by interim adjustment process set forth in the Company’s FCA tariff. In this instance, utilizing only the interim FCA process would create a burden (*i.e.*, bill impact) too excessive for customers, as it would require costs to be recovered over the remainder of 2021.

On February 25, 2021, OG&E filed a Motion to Establish Regulatory Asset. In that motion, the Company explained that OG&E’s parent company, OGE Energy Corp., has secured \$1 billion of interim financing to provide it liquidity to pay its fuel and purchased power costs incurred during the 2021 Winter Weather Event as they come due. OGE Energy Corp. will make the entire \$1 billion loan available to OG&E through a combination of an intercompany \$470 million loan and a \$530 million additional capital contribution. The Company expects this financing arrangement to be short-term in nature and will seek a more permanent solution in the future.

At the hearing on March 11, 2021, the parties to this Cause presented a proposed agreed order granting OG&E’s Motion to Establish Regulatory Asset, setting out proposed findings of fact supporting the establishment of a regulatory asset to which should be deferred the extraordinary costs incurred during the 2021 Winter Weather Event, providing for a limited waiver of tariff provisions and of Commission rules to prevent the immediate pass-through of these extraordinary costs to customers, and providing that decisions relating to the recovery of the deferred extraordinary costs should be addressed in this or another future proceeding.

Upon hearing evidence and statements of counsel presented at the hearing, the ALJ recommended the parties’ agreed order as reflected herein with such recommendation to become the order of the Commission upon the signature of a majority of the Commission.

FINDINGS OF FACT AND CONCLUSIONS OF LAW

THE COMMISSION FINDS that it has jurisdiction in this Cause pursuant to Article IX, § 18 of the Oklahoma Constitution, 17 OKLA. STAT. §§ 151, 152, and 252.

THE COMMISSION FURTHER FINDS that notice was proper and given as required by law and the rules of the Commission.

THE COMMISSION FURTHER FINDS that on February 12, 2021, Governor Kevin Stitt declared a state-wide emergency (Executive Order 2021-06) due to “[e]xtreme freezing temperatures and severe winter weather including snow, freezing rain, and wind beginning February 7, 2021, and continuing.” The Governor stated that the emergency “threatens the public’s peace, health, and safety.”

THE COMMISSION FURTHER FINDS that natural gas markets throughout the region experienced a profound crisis due to the unusually cold and unusually persistent winter weather accompanying the 2021 Winter Weather Event. Demand for natural gas escalated dramatically in markets because of this weather crisis and prices rose on the spot and daily index markets accordingly. At the same time, the SPP, which operates the IM wholesale energy market, also experienced unprecedented increases in prices for natural gas and other factors which led to increases in SPP IM energy prices. The extraordinary natural gas market and SPP IM price spikes caused the Company to purchase natural gas and wholesale energy at unusually high prices. To put this into perspective, OG&E’s cost of natural gas during the 2021 Winter Weather Event significantly exceeded the Company’s entire fuel cost for calendar year 2020.

THE COMMISSION FURTHER FINDS that in order to maintain electric service to its customers, and to preserve electric service for human needs, health and safety, OG&E’s parent company, OGE Energy Corp., secured \$1 billion of interim financing and entered into an inter-company arrangement where OGE Energy Corp. would provide the necessary funds to OG&E in the form of a loan and an additional capital contribution to provide it liquidity to pay its fuel and purchased power costs incurred during the 2021 Winter Weather Event as they come due. The interest rate applicable to this financing arrangement is currently based on the U.S. dollar London Inter-bank Offer Rate (LIBOR) plus 75 basis points (approximately 1%), but is subject to refinancing by OGE Energy Corp. OG&E would typically include costs associated with natural gas and SPP IM purchases in its FCA, as provided by the adjustment process set forth in the Company’s FCA tariff. In this instance, utilizing only the FCA process would create a burden (*i.e.*, bill impact) too excessive for customers, as it would require costs to be recovered over the remainder of 2021.

THE COMMISSION FURTHER FINDS that to avoid harmful economic consequences to customers of the existing FCA process, OG&E shall instead defer to a regulatory asset account all fuel and purchased power costs incurred during the 2021 Winter Weather Event.

THE COMMISSION FURTHER FINDS the costs to be thus deferred should include all fuel and purchased power costs incurred during the 2021 Winter Weather Event. Requested for consideration by the Company are deferred costs, including carrying costs at OGE Energy Corp.’s

actual effective cost of credit facilities, loan agreements, or other debt financing used to finance the deferred costs relating to the 2021 Winter Weather Event. All such costs will be subject to a prudence review in this proceeding or in a future proceeding prior to collection from ratepayers.

THE COMMISSION FURTHER FINDS that OG&E shall segregate all deferred costs by detailed cost category and shall provide workpapers and supporting detail for the Commission to perform a subsequent review for prudence and reasonableness.

THE COMMISSION FURTHER FINDS that after all deferred costs have been accumulated and recorded, OG&E shall file a compliance report in this Cause detailing the extent of such costs incurred.

THE COMMISSION FURTHER FINDS that this deferral is for accounting purposes only. Decisions relating to recovery of the deferred account will be addressed at a later date in this or another future proceeding.

THE COMMISSION FURTHER FINDS that this Order is necessary and proper in this emergency situation, and that the actions hereby ordered are consistent with the public interest and constitute measures reasonably designed to protect the public from potentially debilitating financial consequences of the 2021 Winter Weather Event.

THE COMMISSION FURTHER FINDS that this proceeding shall remain open to undertake a prudency review of the fuel and wholesale energy costs incurred by the Company and to determine issues relating to the amortization period of the regulatory asset, the long-term carrying charge over the length of that amortization period, and the method for recovery from customers. Subject to consultation with and agreement of the parties, if a portion of the costs of the 2021 Winter Weather Event is recovered from customers during the pendency of this Cause, that portion of costs shall be deducted from the regulatory asset balance.

ORDER

THE COMMISSION THEREFORE ORDERS that the Motion to Establish Regulatory Asset is hereby granted, according to the Findings of Fact and Conclusions of Law set forth above.

THE ORDER SHALL BE EFFECTIVE immediately.

CORPORATION COMMISSION OF OKLAHOMA


J. TODD HIETT, CHAIRMAN


BOB ANTHONY, VICE CHAIRMAN


DANA L. MURPHY, COMMISSIONER

CERTIFICATION

DONE AND PERFORMED by the Commissioners participating in the making of this Order, as shown by their signatures above, this 18th day of March, 2021.

BY ORDER OF THE COMMISSION:




KYNDEL LEATHEROCK, Acting Secretary