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 GENERATION CAPACITY PURSUANT TO 17 O.S. § 286(C) AND RIDER COST RECOVERY	)))))	Case No. PUD2025-000084

Redacted Direct Testimony

of

Matthew J. Schuermann

on behalf of

Oklahoma Gas and Electric Company

December 19, 2025

Matthew J. Schuermann
Direct Testimony

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

A. My name is Matthew J. Schuermann. My business address is 321 N. Harvey, Oklahoma City, Oklahoma, 73102.

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

A. I am employed by Oklahoma Gas and Electric Company ("OG&E" or "Company") as the Vice President of Power Supply Operations.

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

A. I earned a Bachelor of Science Degree in Mechanical Engineering from the University of Oklahoma (2002) and a Master of Business Administration from Oklahoma State University (2008). I began my career with OG&E in 2000 as an engineering intern and began full-time employment in 2002 as a plant engineer. I have held various roles in the organization, with most being in leadership of the areas of operations, engineering, and planning for the generation fleet of the company. In my current position I oversee the operations and maintenance of all generation assets for the company as well as the long-term resource planning and supply adequacy strategies.

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

A. Yes, I have.

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

A. The purpose of my testimony is to discuss the contract that resulted from one of the winning bids selected from OG&E's 2024 All-Source Request for Proposal ("RFP"). Specifically, my testimony describes the selected resource, the negotiation process, the benefits of the project, and the cost associated with the contract.

Q. **What were the results of the RFP process?**

A. At the completion of the RFP process, OG&E selected seven projects to begin contract negotiations. Of those seven selected projects, three have withdrawn their bid pricing, three have received pre-approval from this Commission,[1] and one is the subject of this pre-approval case.

Q. **Which resource from the All-Source RFP is OG&E requesting pre-approval for in this case?**

A. OG&E is requesting pre-approval in this case for the Frontier Energy Storage Project (hereinafter "Frontier Energy Storage Project" or "Project"), which was bid by Deriva Energy.

RFP EVALUATION AND SELECTIONS

Q. **What types of resources were selected for negotiation out of the RFP process?**

A. OG&E selected the top 3 solar projects identified in the RFP analysis (which totaled 900 MWs of nameplate solar capacity), the top 2 battery projects (which totaled approximately 400 MWs of capacity), the top ranked existing thermal project (which was 450 MWs of capacity), and the top ranked new build thermal project (which was around 450 MWs of nameplate capacity). These selections are consistent with OG&E's approach to Fuel and Technology Diversity as described in OG&E's 2024 Integrated Resource Plan ("IRP").

Q. **How did the selected projects score in the RFP evaluation?**

A. The selected projects scored well in the RFP evaluation. The selections include the top five ranked projects based on the 2024 All-Source RFP's combined Quantitative and Qualitative Scoring methodology, as well as highly ranked projects with timing matched to OG&E's capacity needs and that provide a diverse portfolio. The projects selected for negotiation are highlighted in the table below.

[1] In PUD 2025-00038, approving the Black Kettle CPA, Kiamichi CPA, and HL 13 & 14.

Table 1 (Confidential)

[redacted]

Q. **How much accredited capacity would the selected projects provide annually as they are added?**

A. The profile of additions is shown in the table below for the selected projects.

Table 2 (Confidential)

[redacted]

Q. **Why were these projects selected for negotiation?**

A. [redacted] The Tenaska CPA offerings provide proven gas capacity performance with the ability to select various terms and quantities to fit the need profile and bridge to future opportunities. The Frontier Energy Storage Project is located near Ponca City, Oklahoma

and together with the Black Kettle project, brought the total battery storage selection to approximately 400 MW of capacity. The Horseshoe Lake 13 & 14 project provided the addition of new, incrementally dispatchable gas generation to the system. Its availability fits nicely into the profile of needs in 2030 and brings our total gas selection to approximately 900 MW, when combined with Tenaska.

Q. **Why were the other projects shown in the table not selected for negotiation?**

A. [redacted]

The remaining projects were not selected because they all ranked lower in RFP scoring, were not additive to us achieving the 2024 IRP objectives more than other projects, and because our profile of needs had been met by the projects already selected.

Q. **How do these selected resources from the RFP align with the stated goals and action plan from the 2024 Integrated Resource Plan?**

A. The 2024 IRP evaluated numerous types of generation resources with the goal of determining the best portfolio to meet the objectives and satisfy the load requirement. As detailed in the 2024 IRP, which can be found in Exhibit KMR-1, these objectives include capacity obligation, expected cost to customers, exposure to risks, fuel and technology diversity, reliability and resiliency, adaptability, portfolio age and environmental stewardship. Since it evaluates only generic resource options, the IRP cannot identify available market alternatives. OG&E therefore conducted an RFP process to identify resources actually available in the market to the Company. The RFP identified capacity resources that both meet the goals of the IRP and were available in the market at a reasonable cost. Not only do the selected resources address the large capacity needs of OG&E, but they also provide fuel and technology diversity, add new resources to balance portfolio age, add additional technology diversity, and improve adaptability, at the lowest reasonable customer cost. Specifically, the Frontier Energy Storage Project brings clear fuel and technology diversity to the OG&E generation mix as the first utility scale battery to be owned and operated by the company, which will provide resiliency to the system in a manner that is consistent with the environmental stewardship objective.

Q. **Does the Project subject to this pre-approval satisfy OG&E's capacity needs?**

A. No. The Project subject to this preapproval case only covers a portion of the capacity shortfall the Company has over the coming years. The addition of this capacity is an important progression towards meeting the Company's capacity requirements.

CONTRACT NEGOTIATIONS

Q. **Describe the negotiation process that followed the selection step of the RFP, specifically for the Frontier Energy Storage Project.**

A. The Frontier Energy Storage Project was offered by Deriva in two different capacity quantities, 151 MW and 302 MW. In addition, Deriva offered two different contracting structures for each capacity amount, *i.e.*, (i) a "Tolling Agreement" under which OG&E

would purchase the capacity and net energy from the project; and (ii) a Build Transfer Agreement ("BTA") under which OG&E would purchase the facility from Deriva. As described by Witness Riley, the initial analysis of the four options indicated the larger 302 MW quantity purchased through a Tolling Agreement contracting structure provided the lowest NPVCC and highest overall score. However, after analyzing the benefits of federal investment tax credits available to the Company if the Project were to be purchased, it was determined that the 302 MW option with an ownership structure provided the lowest NPVCC and highest overall score.

OG&E began negotiating with Deriva on the BTA in May 2025. During these negotiations, both sides had to consider proposed obligations of the buyer and seller, key dates that triggered certain provisions, termination rights, and credit terms, among other legal and commercial issues. This process required numerous meetings between the parties, followed by revisions of the contract documents, and subsequent iterations of these steps until the final agreement was reached. The BTA agreement was executed on December 8, 2025.

Q. **Please describe the Frontier Energy Storage Project.**

A. The Frontier Energy Storage Project is a 302 MW new construction Battery Energy Storage System ("BESS") located in Kay County, Oklahoma. It will be capable of providing 4 hours of generation capacity to the system with a total energy capability of 1,208 MWh. Construction of the project is expected to be completed at the end of 2027.

Q. **What are the benefits of the Frontier Energy Storage Project?**

A. The earlier availability of the Project, when compared to some other new construction projects, aligns with the timing of our capacity needs in the summer of 2028. It is a highly ranked project in the RFP scoring and will provide operational benefits to the system. Adding the Frontier Energy Storage Project to the Company's fleet provides significant benefits to OG&E's grid and customers. BESS projects enhance reliability by delivering rapid frequency response, allow for peak shaving, and enable greater integration of renewable resources by storing excess generation, and firming intermittent output. By reducing summer and winter peak demand and improving system efficiency, the Project

helps lower overall costs for consumers while minimizing emissions. In addition, this Project is interconnected directly to OG&E's transmission and can easily receive firm transmission service from the SPP, which is critical for serving the growing load on our system.

Q. **What are the key terms and provisions of the BTA contract with Deriva?**

A. Under the BTA, OG&E will acquire full ownership of the project upon Mechanical Completion, targeted for October 15, 2027, with Substantial Completion expected to occur by December 15, 2027. The BTA outlines key terms including milestone deadlines, liquidated damages, tariff risk-sharing, tax credit compliance, and performance guarantees.

OG&E's purchase obligations are contingent on regulatory approvals and Deriva's fulfillment of project development milestones. The transaction structure is designed to provide OG&E ownership and operation of the facility in order to qualify for investment tax credits. The value of the tax credit is expected to be 30% of the eligible project costs.

Under this structure, Deriva will be responsible for financing and constructing the project to Mechanical Completion, at which time OG&E will pay Deriva for [redacted] of the purchase price and own the facility. Thereafter, Deriva will serve as a construction manager and will receive the remainder of the purchase price, less any amount held back for punch list items at Substantial Completion (*i.e.*, the date on which the project reaches its commercial operation date).

The agreement includes detailed provisions for termination rights, liability caps, and indemnification to protect both parties. Deriva is constructing the Project through a series of primary subcontracts: (i) the BESS Supply Agreement for the provision of the battery energy storage system; (ii) the Balance of System Agreement for the construction and installation of the BESS; and (iii) two Transformer Supply Agreements.

Q. **Are battery energy storage systems a proven technology in the utility industry?**

A. In the United States, cumulative battery storage capacity exceeded 26 gigawatts in 2024, with an additional 19.6 gigawatts projected for deployment in 2025.[2] Utility-scale battery technology continues to mature and is increasingly adopted by the energy sector to enhance

[2] https://www.eia.gov/todayinenergy/detail.php?id=66164

grid reliability. These storage systems play a critical role in renewable firming, mitigating market price volatility, peak shaving, and supporting overall grid stability.

Q. **Does OG&E own and operate any battery storage today?**

A. The Frontier Energy Storage Project represents the first utility-scale BESS deployment for OG&E. Although the Company does not operate a utility-scale BESS, OG&E brings relevant experience from the 0.5 MW battery storage system we have owned and operated since 2024. While smaller in scale, this system has enabled us to conduct extensive research and development in battery operations, providing a solid foundation for safe and reliable BESS management.

Q. **Has OG&E partnered with an experienced engineering firm to ensure the project is designed and constructed to meet the utility's standard?**

A. OG&E hired Black & Veatch to help develop the technical specifications that were provided to potential bidders to establish a minimum operational standard. Black & Veatch was also retained to provide support as the owner's engineer. Black and Veatch has a strong understanding of BESS Utility-Scale Standards with over 21 GWh of BESS project experience. Their extensive experience in planning and executing BESS projects has provided them with a strong understanding of the available technologies and quality suppliers.

Q. **What was the bid price of the Project and is it different than the final negotiated price of the BTA?**

A. The Frontier Energy Storage Project was bid with a total purchase price of $[redacted] Following negotiations, and with the addition of one option for the Project which helps to ensure the project will qualify for the federal ITC, the total purchase price is $[redacted]

Q. **Describe the option that was selected during the negotiation of the BTA and why it is valuable to the economics of the project.**

A. The Project was bid to be eligible for federal ITCs. After selecting the project in the RFP and further evaluating the timeline associated with the contracting, regulatory approval and

construction processes, OG&E and Deriva wanted to ensure the eligibility of federal ITCs. Since the federal ITCs would reduce the overall cost of the project by 30%, OG&E needed certainty as to the availability of the tax credits by ensuring the Project would be completed within the four-year safe harbor period after its documented start of construction ("SOC") date. The Frontier Energy Storage Project SOC was established in 2023 with the construction of the Project's main power transformer, which meant that the facility would need to be in service by the end of 2027 in order to qualify for the tax credits.

In order to ensure that the project would be eligible for the federal ITCs, OG&E negotiated with Deriva to utilize a different transformer that has a SOC in 2024. This eliminates federal ITC eligibility risk as long as it is completed by the end of 2028. OG&E and Deriva are confident that the Project can be completed well before the end of 2028 and the tax credit will be realized and the value captured for customers.

Q. **Does the purchase price represent the total cost of the Frontier Energy Storage project?**

A. No. This cost does not include the associated owner's costs, contingency costs, allowance for funds used during construction ("AFUDC"), and taxes. Below I will discuss owner's costs and contingency costs.

Q. **What makes up the estimated owner's cost for the project?**

A. Owner's costs are costs that will be incurred by OG&E in addition to the costs of purchasing the project from Deriva. These owner's costs include items such as internal labor, construction oversight, engineering oversight to ensure design adequacy and technical compliance with specifications, project management to ensure timely, on-budget compliance with the contracts and technical specifications, legal fees related to negotiating the contracts and to handle disputes arising during construction, and performance testing after the storage facility is constructed in order to validate performance to the design and technical specifications.

Q. **What are the estimated owner's costs for the project?**

A. These costs are estimated to be approximately $[redacted] million of the total project cost.

Q. **Are owner's costs included in costs from bidders in their RFP submissions?**

A. Although bidders were asked to provide an estimate of these costs, most did not. The OG&E evaluation team included an estimate of typical owner's costs and contingency costs, at 20% of the total project cost, for all external bids received in the RFP that were offered in an ownership structure. For this particular bid, OG&E assumed approximately $[redacted] million in owner's costs and contingency costs (*i.e.*, 20% of the original bid price of $[redacted] million). During the negotiation process, OG&E was able to refine the estimated owner's costs and contingency costs, which as detailed below are estimated to be $[redacted] million.

Q. **Is it necessary to include owners' costs in the overall cost of the project?**

A. Yes. Any winning bid and subsequent project from the RFPs would have incurred internal costs in order to complete the project.

Q. **What are examples of contingency costs and why is it necessary to include a contingency budget in the overall cost of the Project.**

A. Contingency Costs are risks borne by the owner and may materialize during the construction process. There are two types of contingency costs associated with the Project: (i) tariff risk contingency; and (ii) construction cost contingency. OG&E estimates that its maximum exposure to tariff risk contingency costs is approximately $[redacted] million and the total construction cost contingency is approximately $[redacted] million.

Q. **What are the estimated tariff risk contingency costs for the Project?**

A. Given the changing tariff landscape and that the Project's components are being manufactured overseas, the BTA includes a "Change in Tariff" provision pursuant to which OG&E and Deriva share in the Project tariff risk. Of course, if there are no tariffs imposed during construction, these tariff risk contingency costs would not be applicable. [redacted]

[redacted]

Q. **Can you explain the construction cost contingency?**

A. These costs are estimated to be approximately [redacted] million. They were calculated using a risk register to identify and quantify the potential impact of a series of project execution risks that could be encountered in this particular contract construct.

Q. **What is the total cost estimate of the Frontier Energy Storage Project?**

A. The total all-in cost estimate is $393.8 million (excluding AFUDC and taxes). This is the total cost which includes Contract costs, Owner's Costs, and Contingency.

BTA Contract	$[redacted] million
Owner's Cost	$[redacted] million
Tariff Risk Contingency	$[redacted] million
Construction Cost Contingency	[redacted] million
Total Initial Estimated Cost	$393.8 million[3]

[3] This estimated cost does not include any AFUDC or taxes associated with the project. While OG&E does not pay Deriva for the project until Mechanical Completion in late 2027, the amount of AFUDC associated with the payments to Deriva will be small and the remaining AFUDC would be for owner's costs incurred during construction.

Q. **How does the final costs identified above compared with the Project costs evaluated in the RFP process?**

A. The 302 MW Deriva BTA bid (with estimated owner's costs and contingency costs) was evaluated at a total cost of $[redacted] million. Therefore, the final estimated Project costs of $393.8 million is slightly below the cost evaluated in the RFP process.

Q. **Do you have any recommendations for the Commission?**

A. Yes. I recommend the Commission grant pre-approval of the Frontier Energy Storage Project. Based on my experience, I believe this Project will provide significant value to customers and is reasonably priced.

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

A. Yes.

CERTIFICATE OF SERVICE

I hereby certify that on the 19th day of December 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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A. Chase Snodgrass

AFFIDAVIT

STATE OF OKLAHOMA)
)
COUNTY OF OKLAHOMA)

On the 18th day of December 2025, before me appeared Matthew J. Schuermann, to me personally known, who, being by me first duly sworn, states that he is the Vice President of Power Supply Operations for Oklahoma Gas and Electric Company ("OG&E") and acknowledges that he has read the above and foregoing document and believes that the statements therein are true and correct to the best of his information, knowledge, and belief.

Print Matt Schuermann

Signature _____

Subscribed and sworn to before this 19th day of December 2025.

_____
Notary Public

My commission expires: 10-17-2026

Seal