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	)	Cause No. PUD 202000021
APPROVING A RECOVERY MECHANISM FOR	)	
EXPENDITURES RELATED TO THE	)	
OKLAHOMA GRID ENHANCEMENT PLAN	)	

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Rebuttal Testimony

of

Donald R. Rowlett

on behalf of

Oklahoma Gas and Electric Company

September 14, 2020

Q. **Would you please state your name and business address?**

A. My name is Donald R. Rowlett. My business address is 321 North Harvey, Oklahoma City, Oklahoma, 73102.

Q. **Are you the same Donald R. Rowlett that previously filed direct testimony in this proceeding?**

A. Yes.

Q. **What is the purpose of your Rebuttal Testimony?**

A. I will respond to the Responsive Testimony filed by certain intervening parties on August 25, 2020. My Rebuttal Testimony will focus on some of the key themes raised by the responsive witnesses. First, I reiterate this Cause is about a request for a temporary cost recovery mechanism ("Mechanism"), not a case involving a pre-approval request or a predetermination of prudence. Second, I will address the need for the requested Mechanism, from both customers and the Company's perspective. Third, I will explain why the Mechanism will not shift risks to customers. Finally, I address some of the points raised by OIEC witnesses Norwood and Garrett, and PUD Staff witness Champion, including the appropriateness of OG&E's request. OG&E is also filing testimony of witnesses Dennis, Gladhill, Cash, and Smith to rebut certain responsive testimony that asserts the Oklahoma Grid Enhancement Plan ("OGE Plan" or "Plan") is not needed or is unsupported by reasonable analysis. Any failure to address each and every assertion or claim made by other parties in this Cause does not indicate the Company's acquiescence or agreement with such assertion or claim.

<u>OG&E's Requested Relief</u>

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

A. As explained in the Application and Direct Testimony, OG&E is requesting approval of a temporary Mechanism to begin recovery of the revenue requirement associated with the capital investments, including the return on (debt cost and equity return), and the return of (depreciation expense), as well as taxes associated with the investment. The costs will be collected on an interim basis over the five-year deployment period, until they are reviewed for prudence in a base rate case. OG&E's proposed Mechanism is structured very similarly to the Distribution Reliability and Safety Rider that was recently approved for Public Service Company of Oklahoma ("PSO").

OG&E is not seeking pre-approval of its Plan and associated investment; nor is OG&E seeking a prudence determination at this time. OG&E will bear the burden of showing in the future that the purported benefits of its Plan have been or will be delivered to customers and if the Commission decides that any costs were not prudently incurred, OG&E will refund any cost recovery to customers. As such, OG&E bears any risk associated with these investments.

Q. **Do you have initial observations about the responsive testimony?**

A. Yes, in many respects, the responsive testimony[1] misinterprets my direct testimony by seeking, in effect and prematurely, to disprove prudency of the components of the OGE Plan, the scope of work selected by the Company and the expected benefits that will accrue to customers from the Plan. This misdirected approach relies on technical challenges to components of the Plan that invite the Commission to weigh evidence of future benefits and to make a final decision now rather than later. To be sure, proof that the Plan is prudent will be required later, when the benefits of the Plan can be demonstrated with empirical evidence, not results predicted by competing witnesses. When evaluating the testimony in this proceeding, it is important to remember that OG&E is seeking interim recovery of the capital cost of grid enhancement. The Company is not seeking pre-approval of any project, a finding or presumption of need, or a finding of prudence for projects deployed under the Plan. Much of the responsive testimony misses this crucial point.

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[1] Responsive Testimonies of Alverez p. 17 – 20, and p. 27, ln.7 *et seq*.; Alexander p. 15, ln. 16 – p. 16, ln. 6, and p. 20, ln. 13 – p. 21, ln. 5; Betchan p. 7, ln. 5-15, and p. 32, lns. 9-18; Bohrmann p. 16; and Norwood p. 9, ln. 16 – p. 14, ln. 2. Mr. Garrett goes so far as to assert, quite erroneously, that this Cause is in effect a request for preapproval of the investments proposed. Responsive Testimonoy of Garrett p. 12, ln. 13 – p. 13, ln. 3.

Q. **If the Company is not seeking pre-approval or a finding of prudency of the OGE Plan, why did it set forth details supporting the plan, such as the project selection process and projected plan benefits?**

A. As previously stated, OG&E is asking for approval of an interim cost recovery mechanism to support the Plan's investments. The Company provided ample evidence supporting the Plan to aid the Commission in making its determination, not to thwart a later prudence determination as has been suggested by certain intervenors. OG&E is presenting a transparent view of its Plan to shine a light on its path forward, a path that will ultimately lead to more informed prudence reviews of the Plan investments. The Company has every incentive to execute the Plan as cost effectively as possible with the understanding it must ultimately demonstrate the prudence in a subsequent Commission review.

The Need for the Mechanism

Q. **Please explain the benefits of the proposed Mechanism.**

A. The Mechanism helps customers by enabling the Company to make important improvements to the grid by reducing regulatory lag, assisting the Company in funding the Grid Enhancement Plan between rate cases and being able to attract capital. Further, the Mechanism creates a more transparent process for the plan by inserting multiple stakeholder and PUD Staff reviews along the five-year plan deployment.

Q. **Please explain how the Mechanism reduces regulatory lag.**

A. The Grid Enhancement Plan is not like typical large-scale investment projects such as power plants or transmission lines that go in-service all at once. Instead, it is comprised of hundreds of smaller and quickly constructed projects that will go in-service at varying times. The Mechanism allows the Company to begin recovery after projects are placed in service. This makes sense given there are multiple and varied series of capital projects within the Plan that begin providing customer benefits upon completion. Without the Mechanism, the Company would not be able to begin cost recovery even though the assets are in service and benefiting customers.

It is important to remember that OG&E is not seeking a single dollar of cost recovery for any projects that are under construction. It is only after projects are completed (and reported as such to the PUD Staff in a quarterly report) where cost will be included in the Mechanism.

Q. **Does the Allowance for Funds Used during Construction ("AFUDC") remove the barrier of regulatory lag for the investments in the Plan?**

A. No. AFUDC stops when a project is placed in service. As just discussed, the Plan is comprised of hundreds of smaller projects that will go in-service quickly which means AFUDC will stop when these projects are placed in service.

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

A. No. The Mechanism reduces the amount of lag the Company would otherwise incur, but it does not fully eliminate lag. Because the Mechanism is structured such that projects may not be submitted for cost recovery until after the investments are in-service providing benefits to customers, there will still be lag in between the investments going in-service and cost recovery commencing. Again, although the Mechanism reduces lag, it does not eliminate it.

Q. **OIEC Witness Garrett states that OG&E can manage lag by investing less than a level equal to depreciation. Do you agree?**

A. No. Our routine spend on the capital investment for our system is normally within the levels of depreciation. OG&E is attempting to go beyond matching capital investment with the level of depreciation. As more fully described by Witness Smith and Gladhill, OG&E is trying to build out the grid of the future and cannot do so by spending at routine levels.

Q. **Is it reasonable to match investment levels with depreciation recoveries?**

A. No. Current depreciation recoveries are not enough to cover replacement of today's assets at today's costs. The current book value for distribution pole plant in Oklahoma is approximately $319 million. Distribution pole depreciation is only $4.3 million per year in Oklahoma. There are approximately 314,000 poles older than 40 years of age. To replace just the poles older than 40 years of age, would cost approximately $2.7 billion which is approximately 8.5 times the current book value. Using just the $4.3 million per year in depreciation, it would take 628 years to replace just these poles. This methodology alone would increase the risk of outages to customers.

Q. **OIEC Witness Garrett claims that by filing traditional rate cases, OG&E could limit regulatory lag to just 3 months. Do you agree?**

A. Perhaps if it was a single discreet investment like a power plant where the Company could time the rate case to correspond with the plant going into service, but not in the case of these types of investments. In his overly simplified example, all new investment would have to be made on the last day of the pro forma test year period and then a new rate case would have to be filed every three months. The reality is that investments are made over time. Even if OG&E files an annual rate case, investments made during the first month of the test year would have a lag of 20 months, so the average lag for investments made during the test year and pro forma period would be 11.5 months. To the extent that the Company is not continually filing rate reviews, this average would extend even further.

Q. **Why is reducing regulatory lag important?**

A. If regulatory lag is not addressed, it can create a financial barrier for OG&E to make the investments necessary to modernize its grid. As recognized by some intervenors, OG&E funds its capital investment by customer growth and operating efficiencies between rate cases. But, OG&E is not currently in a position to take advantage of either option to reach beyond its typical investment levels. Customer growth is nearly flat at roughly 1% and OG&E is already a very efficiently run utility. As OG&E looks to the next few years, it needs the Mechanism to help match the recovery with the customers receiving benefits/service. This is especially important because these are non-revenue producing investments not tied to new load.

Q. **Is the Mechanism important for OG&E to remain competitive in attracting capital necessary to deliver safe and reliable electric service?**

A. Yes. OG&E is a wholly owned subsidiary of OGE Energy Corp which has a market capitalization of approximately $6.4 billion as of August 28, 2020. This market capitalization in part includes OGE's investment in Enable Midstream Partners with a current value of approximately $670 million as of the same date. So, that would put the value of OG&E in the context of $5.7 billion. This puts OG&E towards the smaller end of the utility universe with many dwarfing OG&E in size. See below Chart 1:

Chart 1

Company	**Market Cap**
NextEra Energy, Inc.	136.7
Dominion Energy, Inc.	65.8
Duke Energy Corporation	59.1
The Southern Company	55.1
American Electric Power Company, Inc.	39.1
Xcel Energy Inc.	36.5
Exelon Corporation	36.0
Sempra Energy	35.8
WEC Energy Group, Inc.	29.7
Eversource Energy	29.4
Public Service Enterprise Group Incorporated	26.4
Consolidated Edison, Inc.	23.9
DTE Energy Company	22.9
PPL Corporation	21.2
Edison International	19.8
Entergy Corporation	19.8
Ameren Corporation	19.5
PG&E Corporation	18.0
CMS Energy Corporation	17.3
FirstEnergy Corp.	15.5
Avangrid, Inc.	14.8
Alliant Energy Corporation	13.5
The AES Corporation	11.8
CenterPoint Energy, Inc.	10.9
NiSource Inc.	8.5
Pinnacle West Capital Corporation	8.3
UGI Corporation	7.2
OGE Energy Corp.	6.4
MDU Resources Group, Inc.	4.7

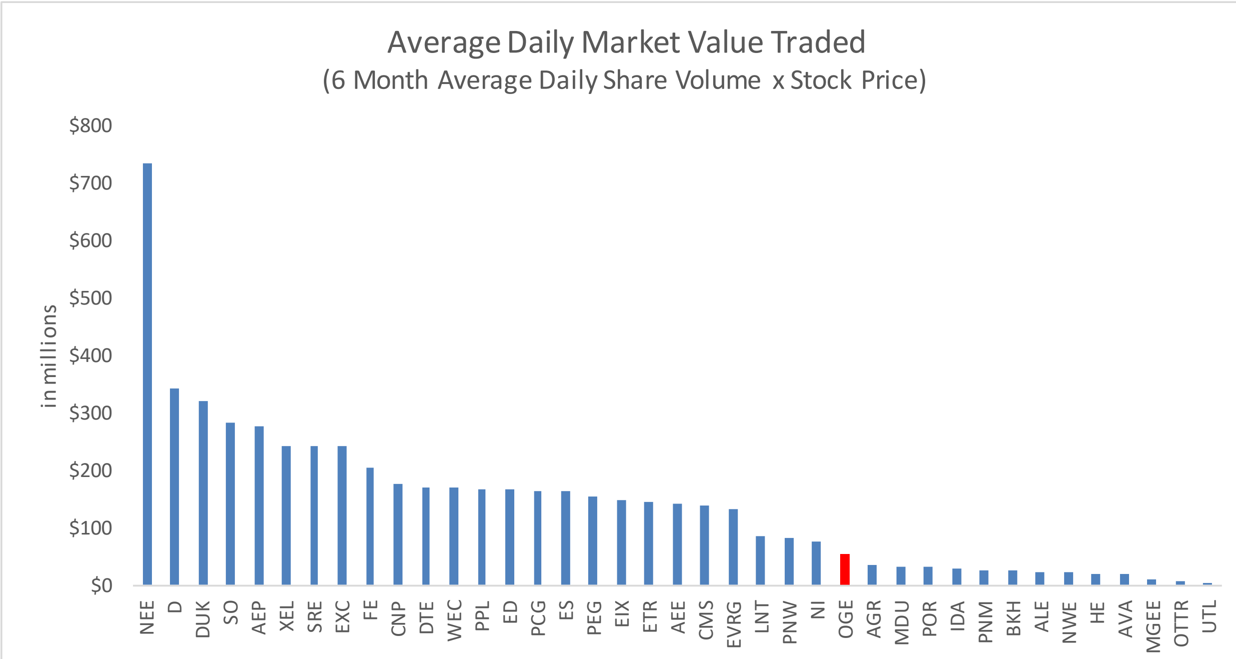
IDACORP, Inc.	4.5
Hawaiian Electric Industries, Inc.	3.8
Black Hills Corporation	3.5
PNM Resources, Inc.	3.5
Portland General Electric Company	3.4
ALLETE, Inc.	2.8
NorthWestern Corporation	2.6
MGE Energy, Inc.	2.4
Otter Tail Corporation	1.6
Chesapeake Utilities Corporation	1.3
Unitil Corporation	0.6

The Mechanism is important because OG&E competes for capital among all of the utilities. An investor has many choices and timeliness of recovery often affects their investment decisions

Q. **Does OG&E's size cause an issue with attracting capital?**

A. Yes. As mentioned earlier, OG&E is one of the smaller utilities in the country. Investors will naturally gravitate to the larger names as their size qualifies them to be included in various indices such as the S&P 500. They also enjoy higher trading volumes as shown in the chart below which investors value for liquidity purposes. This is relevant to large investors as a low average daily volume can make it hard to enter or exit a position in a stock.

Chart 2



Q. **Does the fact that OG&E is one of the few remaining primarily single state utilities that is significantly smaller than the larger regional utilities hamper its ability to provide its customers low rates?**

A. Not at all. In an S&P Global survey, OG&E was found to have the lowest average rates during both 2018 and 2019 of all the consolidated utility companies.

Q. **Does the fact that OG&E is one of the few remaining primarily single state utilities that is significantly smaller than the larger regional utilities hamper its ability to serve its customers through innovation?**

A. Absolutely not. OG&E has a long and proud history of bringing innovation to the industry. OG&E was an early adopter of wind power and one of the first to include owned wind in its generation fleet thereby offering its customers a choice for green power. OG&E pioneered the system-wide usage of smart meters which brought with it unprecedented customer interaction and paved the way for more efficient operations and reduced response times. The resulting nationally recognized Smart Hours program helped OG&E win the EEI's Utility of the Year award as well as helped secure a DOE grant which paid for a substantial portion of that investment.

Q. **Are there any other examples?**

A. Yes, I would also mention the Windspeed transmission investment which accelerated bringing the vast wind resources in northwest Oklahoma towards the primary load centers. This dramatic increase in wind generation has helped to drive down the market prices in the SPP which ultimately benefits our customers through lower power prices, despite the fact that OG&E does not own the generation.

Q. **Is there a common thread that ties all of these innovative projects together?**

A. Yes. In all of these instances, OG&E was granted recovery mechanisms outside of a general rate case.

Q. **How does this Mechanism and the process proposed by the Company help customers?**

A. OG&E is also proposing a transparent process in conjunction with the Mechanism to provide all intervenors and parties an inside look into the planning and implementation process for all the Grid Enhancement Plan projects.

Q. **Why is a transparent process beneficial to customers?**

A. In conjunction with the Mechanism, OG&E has proposed a process to keep stakeholders apprised of its planning process and provide a roadmap for adjudging the ultimate prudence determination. These multiple and varied set of projects will be requested by OG&E to be included in rate base in the next rate case proceeding. It will be more beneficial to examine each of those individual projects in a subsequent rate case within the context of an overall plan and the roadmap being offered with the Plan.

OG&E proposes to submit Annual Investment Plans to the PUD Staff. In addition, OG&E is open to submitting these plans to the other interested stakeholders in this Cause. It is at this stage that all parties may clearly see what OG&E is going to construct over the course of the next year. Then, OG&E has committed to submitting quarterly reports on how it has executed its plans before a single dollar of completed projects gets included in the Mechanism. Submittal of the annual plans and the quarterly reports give all interested stakeholders a roadmap for assessing the projects in the subsequent proceedings that will assess the prudence of the projects. Without the Mechanism and the process proposed by the Company to go with the Mechanism, there will not be as much transparency to interested stakeholders and no upfront input from those stakeholders into the overall Grid Enhancement Plan.

Q. **Are there any other clear benefits of the Mechanism to customers?**

A. Yes. Other than the obvious benefit of helping OG&E undertake a series of grid improvements that will improve reliability for all customers by proactively improving specific circuits, modernizing the grid and freeing up resources to focus on other improvements, the Mechanism will mitigate the initial impact on customers.

Q. **How will the Mechanism lessen the impact on customers?**

A. The Mechanism will gradually spread cost recovery out to avoid abrupt customer rate changes that can otherwise occur by waiting until a base rate case to include all of the costs at one time. The proposed Mechanism allows the Plan's plant to be layered into rates slowly over a period of many years. And it is important to note that the year over year impact to customers compared to current rates will be less than the Federal Reserve Bank's target for the rate of inflation. In its discussion of its inflation target, the Federal Open Markets Committee stated, "When households and businesses can reasonably expect inflation to remain low and stable, they are able to make sound decisions regarding saving, borrowing, and investment, which contributes to a well-functioning economy."[2] The OGE Plan will bring reliability improvement to customers, but customers will only see gradual increases in rates that are less than the target rate of inflation.

Response to Arguments that the Mechanism Shifts Risk to Customers

Q. **Several witnesses contend that the OGE Plan transfers "all" risk of these investment to the customers. Is that correct?**

A. No, that is not correct. OG&E retains substantial risk of recovery because we hold the ultimate obligation to demonstrate to the Commission the prudence of the Plan. In this

[2] https://www.federalreserve.gov/faqs/economy_14400.htm

connection, the Company also has substantial incentives to manage its costs, contrary to the testimony of Mr. Alexander, Mr. Bohrmann and Mr. Alverez.[3] Because the Company bears the risk of ultimate cost recovery, it has every incentive to select projects that will best increase reliability and efficiency, and show demonstrable results. Why would OG&E not do so? The risk of recovery is on the Company because it must ultimately convince the Commission its investments are prudent and used and useful. That risk provides a strong incentive to implement the Plan so as to cause actual improvements. Without demonstrated results at reasonable cost, the investment remains at risk. That risk provides assurance of wise choices by the Company from year to year, prior to the prudence review. With this Mechanism, the Company is seeking to provide transparency and to shine a light on its internal planning process, so the Commission can see the rigorous efforts we are taking toward making the OGE Plan successful, and ultimately demonstrating prudence.

Q. **How will the Commission maintain supervision over the Plan?**

A. The Commission will have the final word for cost recovery on all aspects of the Plan when the elements ultimately are comprehensively presented in a prudence review. All cost recovery will be subject to true-up based on the Commission's ultimate decisions in the prudence review. Meanwhile, all capital costs recovered will be on an interim basis only, and subject to true-up. No costs will be recovered under the mechanism except for investments that have been actually placed in service.

Q. **Will the Commission's approval of the OGE Plan remove incentives from the Company to control costs, as suggested by responsive testimony?[4]**

A. No, that is an unfair characterization. As previously explained, the Company will be obliged to prove prudence of the investments comprising the Plan because the Company maintains regulatory risk of ultimate recovery, it has every incentive to select only those investments that will best serve the interests of reliability and safety, and of customer expectations for a grid that responds to their evolving needs.

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[3] Responsive Testimonies of Alexander p. 16, lns. 12-20, and p. 20, lns. 9-19; Alverez p. 22, lns. 1-31; and Bohrmann p. 37, lns. 3-11.

[4] Responsive Testimonies of Alverez p. 22, lns. 17-31; and Perry p. 13, lns. 7-17.

Q. **Many of the witnesses presenting responsive testimony say that the Commission's ultimate prudence review will be ineffective.[5] What do you say?**

A. Those contentions dishonor the judgement of the Commission and its willingness to conduct an honest and fair review of the prudence of the Plan. The notion that the Commission would not or could not fairly evaluate the Plan after it is placed in service is wrong, and inconsistent with expectations for Commission review of any plant-in-service. For example, as I understand traditional ratemaking, a generation plant in which a utility has invested hundreds of millions of capital dollars would be evaluated in a rate case after being placed in service. The OGE Plan is no different in that respect: evaluation of prudence upon substantial completion of the entire project does not reject traditional Commission review, it embraces that approach. And, as explained above, the transparent process of providing parties detailed information about the Plan and its execution assists the parties in reviewing the final projects in the ultimate prudence review.

Q. **Do you agree with certain intervenors that a reduction in ROE or the rate of return is required for the Mechanism?**

A. No. Since the risk remains on the Company and there is a potential refund obligation, a reduction in the return component contained in the Mechanism would be unfair. Again, the Company is not seeking pre-approval for these investments and will continue to carry the burden of demonstrating prudence in a subsequent case.

Q. **Witnesses Alverez and Garrett argue that conducting prudence reviews later with the possibility of disallowance would create financial distress for the Company if disallowances occur. How do you respond?**

A. This argument makes no sense. These are the same witnesses that believe we should just move forward with the plan and seek cost recovery in a general rate case after the projects are placed in service. The risk of disallowance exists in either case. Also, intervenors

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[5] Responsive Testimonies of Alverez p. 25, ln. 20 – p. 26, ln. 18; Bohrmann p. 22, ln. 7; and Garrett p. 16, ln. 7 – p. 17, ln. 11, and p. 33, ln. 31 – p. 34, ln. 2.

arguments are inconsistent, with their general assertion that the Mechanism shifts risks to customers while at the same time posing an existential threat to the Company.

<u>Response to OIEC Witnesses Garrett and Norwood and PUD Staff Witness Champion</u>

Q. **What are the fundamental issues raised by witness Norwood?**

A. OIEC witness Norwood testifies that "OG&E's proposed $810 million is not necessary because the company already provides extremely high service reliability."[6] It is the opinion of Mr. Norwood that there is no need for accelerated distribution investment which is a fundamental difference with the position of the Company. Please see Witness Gladhill's testimony for more discussion on this point.

Q. **Is there another fundamental difference between OIEC and the Company?**

A. Yes. OIEC witness Garrett believes the filing is unlawful and that the Commission should not deviate from what he terms "traditional" rate setting. To me his testimony can be summarized by Mr. Garrett's statement: "Timely prudence reviews of the Company's ongoing investments within traditional rate case proceedings would not run afoul of Oklahoma's pre-approval statute, used and useful laws, or common-sense regulatory policies."[7]

Ignoring for a minute Mr. Garrett's legal assertions, in my opinion there is a fundamental difference between us regarding the propriety of using an alternative method of cost recovery in the form of a temporary rate subject to refund for a major investment in OG&E's distribution system versus waiting until the investment is considered for inclusion in rate base after a prudence review.

Q. **What is your general comment to OIEC's position?**

A. If the Commission agrees with OG&E it is imperative to continue providing reliable service both now and in the future, then a temporary rate subject to refund should be

[6] Responsive Testimony of Norwood p. 4, lns. 28-29.

[7] Responsive Testimony of Garrett p. 9, ln. 16.

allowed to aid OG&E financially, and to increase rates to customers for the improved distribution system over a number of years rather than all at one time.

Q. **Has the Commission approved cost recovery mechanisms in the past?**

A. Yes. As I discussed in my Direct Testimony, the proposed Mechanism works in a similar manner as PSO's Distribution Reliability and Safety Rider ("PSO Rider"), which was approved by the Commission in Cause No. PUD 200180097. Just like the Mechanism being proposed by OG&E, the PSO Rider allowed for interim recovery with a refund obligation if the reliability and safety projects were ultimately found to be imprudent. In addition, as I identified in my Direct Testimony, there have been numerous temporary cost recovery mechanisms approved related to infrastructure improvements. Each of those cost recovery mechanisms authorized temporary cost recovery that helped enable further investment.

Q. **Do you agree with Mr. Norwood's conclusion that accelerated distribution investment is not needed because average reliability metrics are satisfactory?**

A. No. OG&E disagrees with Mr. Norwood with regard to how best to provide high service reliability in the future. It certainly does not make sense to believe service reliability is satisfactory based on average metrics like SAIDI. As discussed by Witness Smith, we do not make decisions to use air conditioning in Oklahoma based on the average temperature being between 58 and 62 degrees. We do not make those decisions on average temperature because it makes no sense. We decide to use air conditioning for when the temperature soars in the summertime. System reliability is the same way. We do not decline to invest in the grid based on average metrics. We focus on the circuit by circuit needs and the outages impacting those circuits. Please see the responsive testimony of Company witnesses Dennis, Gladhill, and Smith.

Q. **Mr. Norwood states that the forecasted reliability improvement attributable to the Mechanism is extremely small.[8] Can you provide an example of why it is important for the Company to invest in its Grid?**

A. Yes. The Grid Enhancement Plan is to allow OG&E to continue to provide adequate reliable service. The Company is attempting to get ahead of the problems associated with an aging distribution system rather than waiting until system reliability is a commonly known problem on OG&E's system.

I think OG&E's infrastructure problem is not unlike that of the high-profile State Capitol Building infrastructure problem. For most of us who just viewed the Capitol from driving by on Lincoln Blvd., the Capitol looked fine and did not look like it needed millions of dollars of investment that would take five years to complete. People who worked at the Capitol and some visitors realized there was a need for investment to maintain a safe and functional building. When part of the building's façade began to fall off and endanger people the legislature knew something more than barricades and over-head protection needed to be done to have a building to serve the needs of Oklahoma citizens in the manner they desired. A plan was developed to repair and remodel the Capitol, bids were taken, and the work was completed in five years. As stated previously, OG&E is attempting to stay ahead of the reliability issue rather than waiting and then trying to catch up.

OG&E's situation is similar. Most of the system looks fine to the average customer when they drive down the highway or view the system from their backyard. However, like the professionals that examined the State Capitol and many bridges, a review of OG&E's electrical system has surfaced some concerns and, upon closer inspection, have revealed that many assets have outlived their useful life and need to be replaced. Like the renovation of the State Capitol, or other physical structures, cost-effective technology should also be implemented along with the asset replacement to lower operating costs.

Any major renovation project needs to incorporate flexibility in its plan. For a building, that could mean being ready to address problems behind the wall board, such as electrical wiring and plumbing. OG&E has kept that needed flexibility in its Plan by

[8] Responsive Testimony of Norwood p. 5, lns. 1-2.

addressing issues on an annual planning basis with updated information about what is known about the system and its individual circuits.

Q. **If the Commission does not agree with Mr. Norwood and finds that OG&E's proposal to invest in the distribution system is reasonable, should the Commission reject Mr. Garrett's testimony and his legal arguments?**

A. Yes. I am not a lawyer, but it appears to me that some of Mr. Garrett's legal positions seem contrary to how this Commission has regulated electric utilities for many years. When I read his testimony, I thought he was saying that the Commission could only approve permanent rates and could never approve temporary rates subject to refund ("Oklahoma law requires that a used and useful determination must be made for utility assets before those assets can be recovered in rates").[9] I am aware of numerous occasions where the Commission has approved temporary rates for all three major regulated electric companies. It is hard for me to believe that if temporary rates were contrary to Oklahoma law that the practice would have been so common and approved for the different utilities.

Q. **Do you agree with OIEC Witness Garrett that OG&E's Plan precludes any meaningful prudence review?[10]**

A. No, that will not be the case. It has been my experience that the Commission has been able to conduct a meaningful prudence review of a utility's asset investments regardless of the length of time between rate cases. If this were not the case, I would think the Commission's rules found in Chapter 70 governing the filing of a general rate case would require a utility to file on a regular basis. There is no such provision because it is not needed for the Commission to adequately determine what assets should be placed in rate base. I would have also thought that the witnesses for PUD would have said something in their Responsive Testimony if they did not believe they could conduct a proper prudence review of the Plan investment. If anything, the Company has made it easier for the Commission and the parties to review the Plan projects and their associated costs.

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[9] Responsive Testimony of Garrett p. 15, lns. 8-9.

[10] *Id.* p. 16, ln. 7 – p. 17, ln. 11.

Q. **Do you have any rebuttal to the testimony of PUD witness Champion[11] and OIEC witness Garrett[12] regarding their recommendation that, in order to approve a rider, the costs must be: (1) largely outside the control of a utility, (2) unpredictable and volatile, (3) substantial and recurring, and (4) causing severe financial consequences to the company?**

A. Yes. Ms. Champion and Mr. Garrett both recommend the Commission adopt a standard that is contained in NRRI research papers written by Kenneth Costello in 2009 and 2014. Mr. Garrett relies upon the 2009 paper and Ms. Champion cites the more recent 2014 paper as authority for their recommendations. The standard cited by Ms. Champion and Mr. Garrett would require that three of the conditions (all four in the case of Mr. Garrett) be present for costs to be included in a rider or alternative rate making mechanism. These standards have not, to my knowledge, been adopted by either the National Association of Regulatory Utility Commissioners ("NARUC") or this Commission. Also, their recommended approach to riders is contrary to both this Commission's past practices and what is happening around the country. Their recommendations of using the above standard for approving the Mechanism is clearly out of step with current regulatory thinking in my opinion and should be rejected by the Commission.

Q. **Why do you contend that their recommendations are contrary to this Commission's past practices?**

A. The Commission has treated rider approval decisions on a case by case basis, not mechanically applying a rigid standard like the one proposed by Ms. Champion and Mr. Garrett. The Commission has approved several recovery riders for OG&E to address very different needs. These recovery riders and the history of those approved mechanisms are discussed in my Direct Testimony.

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[11] Responsive Testimony of Champion p. 23, ln. 17 – p. 24, ln. 13.
[12] Responsive Tstimony of Garrett p. 19, ln. 16 – p. 21, ln. 3.

Q. **Why do you say their recommendations are contrary to what regulators are proposing around the country?**

A. In my opinion their recommendations, based upon selected parts of the 2009 and 2014 research papers, are in conflict with the 2018 NARUC Board of Directors Resolution entitled Supporting Infrastructure Modernization Programs ("NARUC Resolution") that is attached to my Direct Testimony as Direct Exhibit DRR-1. The NARUC Resolution specifically "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 examine alternative rate recovery mechanisms to accelerate the modernization, replacement, and enhancement of the nation's electric system."

What the NARUC Board of Directors is advocating be done by regulators is exactly what OG&E is asking this commission to do by the filing of this application. OG&E is attempting to accelerate the modernization, replacement and enhancement of its electric system and is asking for a temporary alternative cost recovery mechanism. Ms. Champion and Mr. Garrett are asking the Commission to restrict the Commission's rate making authority by adopting an arbitrary standard to apply to all factual situations including OG&E's grid modernization efforts. In my opinion their recommendations are contrary to what regulators, as represented by the NARUC Board of Directors Resolution, are advocating as sound regulation for grid modernization proposals.

Q. **Is there additional evidence that Ms. Champion and Mr. Garrett are outside the mainstream of contemporary ratemaking?**

A. Yes. In the 2009 paper relied upon by Mr. Garrett the author, Mr. Costello, is arguing against what he sees as regulatory bodies approving riders without applying highly restricted conditions that Mr. Costello advocates should apply. Mr. Costello states on page 1 that "[t]he recent approvals differ from past regulatory practices that sanctioned tracker only under highly restricted conditions." In other words, I interpret Costello's 2009 paper as recommending against the trend of regulatory bodies promoting broader application of alternative rate mechanisms. Mr. Garrett, by relying upon Mr. Costello's antiquated 2009 paper, is attempting to convince this commission to turn back the clock and return to a world of highly restrictive conditions for rider approval. As stated previously, this

Commission should consider his recommendation as being rejected by regulators in general. It is apparent to me that the NARUC Resolution is not supportive of Mr. Garrett's position which is more evidence that his recommendation, based upon his interpretation of a 2009 research paper, is outside the mainstream of contemporary rate making.

In the 2014 research paper that Ms. Champion cites as authority for her recommendation, she fails to mention that Mr. Costello has a section in his paper on alternative rate mechanisms entitle "Infrastructure surcharges" that addresses the specific need of improving a utility's infrastructure. Although written four years before the NARUC Resolution, it appears to me that Mr. Costello thought it appropriate in 2014 to discuss alternative rate mechanisms which included addressing the needs specific to infrastructure modernization. One of Mr. Costello's concerns for regulators regarding surcharges for infrastructure investment is the importance of retrospective reviews. He states on page 34 that "[r]egulators have long recognized the importance of retrospective reviews as a management incentive." OG&E's proposal is to have a retrospective review of the Grid Enhancement Plan investments conducted in base rate cases.

In addition, the 2014 research paper also cites several reasons why there is an increasing interest in alternative rate mechanisms. One of those reasons cited in the 2014 research paper is "non-revenue producing investments." On page 16-17, the paper states:

> Large capital expenditures, some of which are non-revenue producing…are a third reason for interest in alternative rate mechanisms. Many utilities, as well as an increasing number of commissions, feel that waiting for the utility to recover these costs until the completion of a new project or the next rate case could lead to serious cash-flow problems and, ultimately, "rate shock."

It appears to me that Ms. Champion is being selective in the parts of the 2014 research paper she relies upon and, by ignoring both Mr. Costello's Infrastructure surcharge discussion and the NARUC Resolution, has placed herself with Mr. Garrett outside of mainstream of contemporary regulation.

Q. **Has this Commission adopted the use of Ms. Champion and Mr. Garrett's proposed "standard" for rider approval?**

A. No. The Commission has stayed in the mainstream of regulation and has not adopted a single standard for rider consideration in past proceedings.

Q. **Please summarize your comments to Ms. Champion's and Mr. Garrett's recommendation as to how this Commission should review a request for cost recovery using a rider.**

A. Ms. Champion and Mr. Garrett both seem to attempt to rely upon the language they favor found in Mr. Costello's research papers. To me they have totally ignored (1) the NARUC Resolution on modernizing utility infrastructure, and (2) the past decisions of this Commission when considering rider approval. I believe the Commission should continue to reject their theories on when it is appropriate to implement a rider and approve OG&E's cost recovery plan as requested.

Q. **Are there any other points you would like to address?**

A. Yes. AG witness Bohrmann represents that OG&E's O&M costs have increased slightly more than inflation. I disagree with that assertion. The price deflator for personal consumption expenditures, provided by Bohrmann to represent inflation is over seven times higher than the increase in OG&E's O&M costs per customer. Just prior to making his claim that OG&E's costs have increased more than inflation, witness Bohrmann pointed out that the number of OG&E's customers has increased by 1.0 percent per year since 2015. Bohrmann mistakenly compares the increase of a fixed market basket of consumer goods, to the cost of serving a growing number of customers. Bohrmann overlooked the need to normalize the data before making his comparison. OG&E's O&M costs per customers have only increased 0.22 percent.

Q. **Does this conclude your Rebuttal Testimony?**

A. Yes.