

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR COMMISSION PREAPPROVAL PURSUANT)
TO 17 O.S. SECTION 286(C) FOR ACQUISITION)
OF CAPACITY THROUGH ASSET PURCHASE)

Cause No. 201800159

PUD
FILED
DEC 28 2018

COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

Direct Testimony

of

Jason Bailey

on behalf of

Oklahoma Gas and Electric Company

December 28, 2018

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

2 A. The purpose of my testimony is to support the Company's request for a cost recovery
3 mechanism so the Company can recover the costs of purchasing the AES Shady Point
4 and Oklahoma Cogeneration facilities ("Generating Facilities"). I will also explain the
5 customer bill impacts from implementing the proposed rider.

6
7 Q. **How is OG&E proposing to recover its revenue requirement?**

8 A. The Company proposes to recover its revenue requirement through a new rider called the
9 Generation Capacity Recovery Rider ("GCRR"). The GCRR is designed to concurrently
10 recover the annual revenue requirement associated with the Generating Facilities.

11
12 The revenue requirement calculation is the same calculation used in base rate case
13 applications to determine the revenues required by a utility to recover its costs. The
14 return on capital investment is calculated by multiplying net rate base by the most
15 recently Commission-approved rate of return ("ROR") at the time, which is comprised of
16 return on equity and debt interest weighted against each other, plus a factor to collect for
17 income taxes. That return is then added to operation and maintenance ("O&M")
18 expenses, depreciation, property taxes, and reduced for applicable state investment tax
19 credits to arrive at the revenue requirement.

20
21 The rider is designed to begin the recovery of costs when the Company closes on the
22 Generating Facilities and they begin providing benefit to customers. The rider will
23 continue until all approved rider costs are included in base rates. If the rider is approved
24 by the Commission, the bills for Oklahoma retail customers will reflect the class
25 appropriate billing factors. Regardless of the exact billing timeframe associated with the
26 rider, a proposed true-up mechanism is an integral part of the rider. The proposed rider
27 tariff is attached as Direct Exhibit JB-1.

1 Q. **Please elaborate on the rider true-up provisions.**

2 A. The rider will have a true-up mechanism to track the recovered costs of the rider. For the
3 rider, the Company proposes to submit factor redeterminations annually to the
4 Commission staff. The Company will include in this submission the updated factors
5 based on a projected revenue requirement, adjusted or trued-up for prior period over-or-
6 under collection of revenue compared to actual revenue requirement. The new rider
7 factors will become effective the first billing cycle of the month following the annual
8 report.

9
10 Q. **Can you provide an estimate of the annual amount of revenue requirement for the
11 first year to be recovered in the GCRR?**

12 A. Yes. Based on the combined purchase price for both facilities of \$53.5 million, the
13 estimated annual non-fuel revenue requirement in the first year is approximately \$20.2
14 million. Please see the table below:

15 **Table 1**

OK Jurisdictional Non-fuel Revenue Requirement	
Plant in Service	\$ 53,500,000
Accumulated Depreciation	\$ (1,781,550)
Accumulated Def. Income Tax	\$ (57,453)
Net Rate Base	\$ 51,660,997
Return on Rate Base with taxes	9.29%
Return Requirement	\$ 4,877,786
O&M Expense	\$ 16,537,024
Depreciation Expense	\$ 1,781,550
Ad Valorem Taxes	\$ 363,800
State Investment Tax Credit	\$ (1,135,678)
Total Company Rev. Requirement	\$ 22,424,482
OK Jurisdictional Allocation	90.09%
Oklahoma Revenue Requirement	\$ 20,202,866

16
17
18

1 Q. **Can you describe the customer impacts of the GCRR?**

2 A. Based upon an annual revenue requirement of \$20.2 million, the average residential
3 customer impact, assuming 1,100 kWh of use per month, is an increase of \$1.16 per
4 month. This does not include the customer savings associated with the expiration of the
5 AES Shady Point and Oklahoma Cogeneration agreements.

6

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

8 A. Yes.

OKLAHOMA GAS AND ELECTRIC COMPANY
P. O. Box 321
Oklahoma City, Oklahoma 73101

Original Sheet No. XX.X0

Date Issued XXXXXX XX, XXXX

STANDARD PRICING SCHEDULE: GCRR
Generation Capacity Replacement Rider

STATE OF OKLAHOMA

EFFECTIVE IN: All territory served.

PURPOSE: The purpose of this rider is to recover the Oklahoma retail jurisdictional portion of the annual revenue requirement for the generation capacity replacement approved in Cause No. PUD 201800XXX.

APPLICABILITY: This rider is applicable to all Oklahoma retail rate classes and customers except those specifically exempted by special contract.

TERM: The GCRR factors will be implemented the first billing cycle of the month following Commission approval of the generation capacity replacement in Cause No. PUD 201800XXX and will continue until such time that the generation capacity replacement is included in base rates.

GCRR FACTOR CALCULATION: The Company will calculate the GCRR factors using the following formula, on a per kilowatt-hour (kWh) basis, for each of the major rate classes and the combined minor rate classes and will be computed as follows:

$$GCRR Factor_{class} = \frac{(A + B) * C}{D}$$

Where:

- A = Oklahoma Jurisdiction Generation Capacity Replacement Revenue Requirement
- B = Annual True-Up
- C = Production Demand Allocator for each class
- D = Projected annual kWh for each class

And:

- A) **Oklahoma Jurisdiction GCRR Annual Revenue Requirement:** The revenue requirement shall be based upon the most recently approved return on rate base (ROR), income tax expense, O&M expense, depreciation expense, property tax, and reduced for applicable state investment tax credits. The revenue requirement will begin accruing effective the date of the final order in Cause No. PUD 201800XXX.
- B) **Annual True-Up:** The over or under amount will be the difference between actual revenue requirement and the Prior Period GCRR factor revenues net of the previous Prior Period True-Up.
- C) **Allocation Factor:** The most recently approved production demand allocation factor, adjusted to exclude jurisdictions not at issue.

Rates Authorized by the Oklahoma Corporation Commission:

Public Utilities Division Stamp

<u>(Effective)</u>	<u>(Order No.)</u>	<u>(Cause/Docket No.)</u>
XXXX X, 20XX	XXXXX	PUD 201800XXX

OKLAHOMA GAS AND ELECTRIC COMPANY
P. O. Box 321
Oklahoma City, Oklahoma 73101

Original Sheet No. XX.X1

Date Issued XXXXXX XX, XXXX

STANDARD PRICING SCHEDULE: GCRR
Generation Capacity Replacement Rider

STATE OF OKLAHOMA

Rate Class	Allocator Percentage*
Residential	46.7649%
General Service	8.9330%
Power and Light	25.0039%
Large Power and Light	16.0169%
Other	3.2813%

*Adjusted to exclude jurisdictions not at issue

D) **Projected kWh:** The applicable annual Oklahoma jurisdictional kWh for each GCRR class as determined by the Company.

RATE CLASSES:

Major Rate Classes = *Residential, General Service, Power and Light, and Large Power and Light*

Combined Minor Rate Classes (Other) = *Oil and Gas Producers + Public Schools (Small and Large) + Municipal Pumping + Municipal Lighting + Outdoor Security Lighting + LED Lighting*

ANNUAL RE-DETERMINATION: On or before February 15 of each year, re-determined GCRR rates will be submitted by the Company to the PUD and shall be implemented on the first billing cycle of April.

FINAL REVIEW: The final over/under balance for the GCRR will be refunded or collected through the Rider for Fuel Cost Adjustment.

Rates Authorized by the Oklahoma Corporation Commission:

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(Effective) (Order No.) (Cause/Docket No.)
Xxxx X, 20XX XXXXX PUD 201800XXX

OKLAHOMA GAS AND ELECTRIC COMPANY
P. O. Box 321
Oklahoma City, Oklahoma 73101

Original Sheet No. XX.X2

Date Issued XXXXXX XX, XXXX

STANDARD PRICING SCHEDULE: GCRR
Generation Capacity Replacement Rider

STATE OF OKLAHOMA

Attachment A

2019 GCRR FACTORS

Class	\$ per kWh
Residential	\$0.XXXXXXX
General Service	\$0.XXXXXXX
Power and Light	\$0.XXXXXXX
Large Power and Light	\$0.XXXXXXX
Other	\$0.XXXXXXX

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