BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICATION OF PUBLIC SERVICE COMPANY	)	
OF OKLAHOMA, AN OKLAHOMA	)	
CORPORATION, FOR AN ADJUSTMENT IN ITS	)	
RATES AND CHARGES AND THE ELECTRIC	)	CAUSE NO. PUD 202100055
SERVICE RULES, REGULATIONS AND	)	
CONDITIONS OF SERVICE FOR ELECTRIC	)	
SERVICE IN THE STATE OF OKLAHOMA	)	

DIRECT TESTIMONY OF

MATTHEW A. HORELED

ON BEHALF OF

PUBLIC SERVICE COMPANY OF OKLAHOMA

APRIL 2021

TESTIMONY INDEX

EXHIBITS

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION WITH PUBLIC SERVICE COMPANY OF OKLAHOMA, AND BUSINESS ADDRESS.

A. My name is Matthew A. Horeled. I am Vice President, Regulatory and Finance for Public Service Company of Oklahoma (PSO or Company). My business address is 212 East 6th Street, Tulsa, Oklahoma 74119.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND BUSINESS EXPERIENCE.

A. I received a Bachelor of Arts, Honors degree in History from Loyola University Chicago in May 2001, and a Master of Business Administration degree with a concentration in Finance from Loyola University Chicago in August 2004. I was awarded a Juris Doctor from Valparaiso University School of Law in May 2005.

I began my utility industry career with American Electric Power Service Corporation in September 2007 as a Risk & Insurance Management Analyst with responsibility for managing numerous insurance programs. I transferred to the Corporate Planning and Budgeting Department in April 2010 as a Financial Analyst with emphasis on operating company forecasts. In that role, I prepared and reviewed short-term and long-term forecasts for PSO affiliate operating companies Kentucky Power and Indiana Michigan Power (I&M), as well as monthly analyses of budget to actual variances. In April 2014, I was promoted to Financial Analyst Principal. In March 2015, I transferred to I&M as Regulatory Analysis and Case Manager for I&M. In that role, I was responsible for the supervision, preparation, and filing of rate and regulatory matters in Indiana and Michigan. In February 2017, I was transferred and promoted to Director of Business

Operations Support for Kentucky Power, with responsibility for all corporate budgeting, financial management, and continuous process improvement for the company. In April 2018, I assumed the position of Director of Regulatory Services for Kentucky Power where I was responsible for the supervision and direction of Kentucky Power's Regulatory Services Department, which has responsibility for all rate and regulatory matters. I assumed my current position in January of 2019. I am responsible for all of PSO's regulatory activities as well as PSO's financial planning. My responsibilities include regulatory planning and execution, short and long-term financial forecasts, financial analyses, and monitoring financial results.

Q. HAVE YOU PREVIOUSLY TESTIFIED OR SUBMITTED TESTIMONY IN A REGULATORY PROCEEDING?

A. Yes. I recently testified in March of this year in Cause No. PUD 202000097. I testified in PSO's most recent base rate case, Cause No. PUD 201800097, and PSO's Select Wind Facilities case, Cause No. PUD 201900048. In other regulatory jurisdictions I submitted testimony in Case Nos. 2018-00311, 2018-00307, 2018-00035 before the Kentucky Public Service Commission. I submitted testimony on behalf of I&M before the Indiana Utility Regulatory Commission in Cause No. 38702-FAC72, Cause No. 38702-FAC73, Cause No. 38702-15 FAC74, Cause No. 43775 OSS-6, and Cause No. 44511-SPR1.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. My testimony:

1. summarizes the PSO case including introducing the Company witnesses;
2. explains the need for a change in PSO's base rates;
3. supports the cost recovery of the Oklaunion plant due to retirement in 2020 and Northeastern Unit 3 retiring in 2026;
4. supports the inclusion of the Company's market-based total compensation in rates;
5. supports the continuation of the Southwest Power Pool Transmission Cost ("SPPTC") Tariff and the Distribution and Safety Reliability ("DRS") Rider;
6. supports addressing the problem of aging distribution and transmission plant; and,
7. describes the new rate offerings.

III. RATE CASE SUMMARY

Q. PLEASE EXPLAIN WHY PSO FILED THIS APPLICATION FOR A BASE RATE ADJUSTMENT.

A. In case PUD 201800097 the Commission approved a Joint Stipulation and Settlement Agreement which, among other things, provided that PSO would file a Chapter 70 base rate case no earlier than October 2020 nor later than the end of October 2021.

The filing of this rate case, at the mid-point of the range of filing dates, satisfies that requirement.

I also discuss in more detail below PSO's efforts at transforming and innovating to position PSO's system for the future, and how those efforts that include becoming more efficient through the use of technology, contribute to the increase in rates that PSO is requesting in this application.

Q. HOW LONG HAVE THE CURRENT RATES BEEN IN PLACE?

A. PSO's current rates have been in place since the end of March of 2019, based on the historical test year ended March 2018 with post-test year updates to rate base through September 2018. If rates are changed at the end of October of this year (end of the 180-day period), that means the rates approved in cause PUD 201800097 will have been in place for two and a half years, based on rate base from just over three years ago. PSO has increased gross plant by over $700 million dollars from the amount of plant that the current rates are based upon (increases of approximately $68 million in Q4 2018, $266 million in 2019, and $398 million in 2020). In my opinion, that demonstrates how the settlement approved by the Commission in PUD 201800097 was truly in the public interest.

Q. ARE THERE SPECIFIC PROVISIONS OF THE SETTLEMENT APPROVED BY THE COMMISSION THAT YOU BELIEVE MADE IT POSSIBLE FOR PSO TO NOT FILE AT THE EARLIEST POSSIBLE TIME ALLOWED BY THE SETTLEMENT?

A. Yes. There were two very important tariffs that were approved, or modified, as part of the settlement. The first tariff was the expansion of the Southwest Power Pool Transmission Cost ("SPPTC") Tariff. Order No. 692809 expanded recovery of SPP expenses through the SPPTC Tariff by including all O&M expenses for Schedules 1A, 9, 11, and 12 of the FERC-approved OATT. By reducing the time to collect SPP billed costs, PSO has been able to make necessary grid investments of over $200 million in transmission plant to provide quality service to customers while still maintaining, for a reasonable time, an acceptable financial status. PSO is requesting to continue the SPPTC Tariff, with updates explained by Company witness Heather Whitney to (1) reset the level of SPP OATT expense recovered through base rates and (2) subject all SPP OATT Schedule 1A, 9, 11, and 12 expense to the SPPTC Tariff recovery mechanism.

Q. WHAT IS THE SECOND IMPORTANT TARIFF?

A. The settlement also provided for the creation of the Distribution Reliability and Safety Rider ("DRS Rider"). As explained by Company witness Steven Baker, this tariff has allowed PSO to make distribution investments to improve asset performance and monitoring capabilities and receive cost recovery with reduced regulatory lag. PSO is requesting an expansion of the DRS Rider to help facilitate much needed investments in the distribution system to support the transforming and innovation for the future.

Q. THE SETTLEMENT PROVISION REQUIRING PSO TO FILE A BASE RATE CASE DOES NOT NECESSARILY MEAN THERE IS A NEED FOR A BASE RATE CHANGE. WHAT ARE THE DRIVING FORCES BEHIND THE REQUEST FOR A CHANGE IN PSO'S BASE RATES?

PSO, like its peers, continues to see its industry transformed. This Commission has partnered with PSO along its transitional journey appropriately scrutinizing and approving PSO's past efforts at decarbonizing its grid through its Environmental Compliance Plan and its portion of the North Central Energy Facilities, modernizing its grid through Advanced Metering Infrastructure, and addressing technological improvements through the DRS Rider and the SPPTC Tariff mentioned previously. The Commission's support has been instrumental in PSO's ability to be forward-leaning through this transformational phase, while mindful of customer impact and its need to maintain its financial integrity. However, that ongoing constructive partnership is essential to continue moving forward. PSO internally conceptualizes this moving forward as a "STEP" into the future, making efforts towards Securing and Transforming an Efficient grid in accordance with a defined Plan that accomplishes its goals while maintaining financial health.

Q. EXPLAIN FURTHER PSO'S "STEP" FORWARD?

A. PSO views the STEP (or Security, Transformation and Efficiency Plan) as a framework or perspective for understanding and assessing its request for a rate increase in the context of its forward-leaning posture in transitioning into the future. The STEP is an umbrella-type concept encompassing the various requests and other programs described in various witnesses' testimonies. This process, or STEP forward, includes the relief we need to continue our transition from coal, which must include finalizing the Clean Air Act Regional Haze Rule ("RHR") with the approval of the accelerated depreciation of Northeastern Unit 3 ("NE Unit 3") to meet federal environmental requirements and the retirement of Oklaunion. It includes the Grid Transformation and Revitalization plan, as outlined by Company witness Steven Baker, that will bolster and strengthen the distribution grid to more reliably serve our customers. It includes the continuation of the SPPTC to strengthen the transmission grid through necessary improvements to update an aging system and accommodate an increasing amount of renewables on the grid, as discussed by Company witness Wayman Smith. It also includes customer offerings to enable efficient and effective deployment of electric vehicles, LEDs, and other technology in a way to best serve customers without compromising the grid.

Q. HOW DOES THE REQUESTED RATE INCREASE SUPPORT THIS NECESSARY STEP FORWARD FOR PSO?

There is increased political and environmental emphasis on green energy infrastructure, which drives responsible planning activities to phase out coal generation. This transition requires the acceleration of the depreciation expense for PSO's portion of the coal-fired Oklaunion Power Plant ("Oklaunion") that was retired in September of 2020, and the coal-fired NE Unit 3 that will be retired in 2026. PSO, like many of its peers in the electric industry, also has a need to replace aging grid infrastructure to address customer expectations, including reliability and resiliency, and the next anticipated transformative changes to our industry, including increased renewable penetration, electric vehicle ("EV") charging stations, and distributed generation. PSO's SPPTC Tariff has supported needed security improvements resulting from aging transmission infrastructure while helping to maintain PSO's financial integrity. However, as described in the testimony of Company witness Wayman Smith, there is still much that needs to be done, to continue this transformation and innovation of the grid for the future. Similarly, Company witness Steven Baker described the unaddressed needs that remain on the distribution system. The cost of replacing an aging grid infrastructure, investing in new renewable wind generation assets, the rising cost of doing business, meeting evolving customer needs, and transitioning away from coal create financial pressures where PSO's returns become inadequate to continue attracting sufficient capital. Thus, to attain the financial performance necessary to attract capital and serve customers at the high-level to which they have become accustomed, PSO has filed this application which proposes to address our financial issues during this period of transition.

Q. WHAT OTHER INDICATIONS ARE THERE THAT PSO IS IN A TRANSFORMATIONAL STAGE?

A. No one disputes that our industry, and our country, are transitioning toward renewable resources. Investors and individual customers are demanding electric utilities pursue less polluting generating facilities and invest in renewable resources. An example of customer desire for renewable resources can be found in a recent PSO filing (PUD 202000097) that proposed building a 10.9 MW solar facility on the Fort Sill military base located near Lawton. Walmart Inc. provided testimony in that case which set forth Walmart's corporate renewable energy goals. Walmart's witness Perry's Responsive Testimony stated the following on page 14 lines 4-9:

"Walmart has long had aggressive and significant company-wide renewable energy goals, and on September 21, 2020, announced new targets, including: (1) to be supplied 100 percent by renewable energy by 2035 and . . . . Having the opportunity to purchase RECs, especially ones attributable to resources located in Oklahoma, is important to Walmart and its efforts to reach its renewable energy goals."

Another example of transition is distributed generation. Unlike today, where electricity travels "one way" from power plants through the wires to customers, in the future electricity flows will be bi-directional and always changing, implying growing needs for local balancing by the operator of the distribution network.

One more example of evolution requiring improvements to the distribution system is the move in the automobile industry to electric vehicles. This move will require PSO to be ready to serve these new loads which will require an adequate distribution system. Further, to reduce the cost of providing service to charging stations for the expansion of electric vehicles, innovative rates will need to create a situation where customers will charge their vehicles off-peak to avoid, or at least delay, the need to build new generation. We have begun that process in this case by introducing new tariffs to provide electric vehicle charging. Those tariffs are described in the testimony of Company witness Jennifer Jackson.

Q. HOW HAS PSO BEEN ABLE TO RESPOND TO THE DESIRES OF CUSTOMERS TO BE SERVED FROM RENEWABLE RESOURCES?

A. As stated earlier, PSO has been transitioning away from coal-fired plants and is moving to more renewable resources like PSO's 675 MW ownership of the North Central Energy Facility, a part of which achieved commercial operation in April of this year.

Q. YOU MENTIONED DISTRIBUTED GENERATION (DG) EARLIER. DO YOU CONSIDER DG PART OF THE ELECTRIC INDUSTRY TRANSITION?

A. Yes. Although there is not significant DG penetration on PSO's system at the present time, as I explained earlier, that will not be the case in the future. As Company witness Steven Baker testifies, the distribution system was not designed for two-way power flows. The distribution system will have to transition to accommodate the expected future levels of DG. Company witness Steven Baker discusses the plans to meet the future distribution needs of customers to accommodate DG and provide system reliability and resiliency.

Q. WHAT LEVEL OF RATE INCREASE IS PSO REQUESTING TO MEET THE NEEDS REQUIRED TO MAKE THE TRANSITION YOU HAVE DESCRIBED?

A. PSO is requesting a base rate increase of approximately $243 million. This increase is to address a revenue deficiency based on a test year ending December 31, 2020, adjusted for known and measurable changes to test year levels. As explained by Company witness Heather Whitney, some revenue is being moved from riders to base rates which results in base rate offsets of approximately $70.5 million and a net revenue increase of approximately $172.4 million. The total bill impact for an average residential customer using 1,100 kWh is approximately 11%.

Q. WHAT ARE THE PRIMARY DRIVERS OF PSO'S REVENUE DEFICIENCY?

A. The primary changes to PSO's cost of service are as follows (dollars in millions):

	Gross Base Rate Increase ($M)	Base Rate Offset ($M)	Net Base Rate Increase ($M)
Return On and Of Invested Capital (a)	$ 119.2	$ (17.2)	$ 102.0
Accelerated Depreciation	45.1	-	45.1
Southwest Power Pool Expense	84.1	(53.3)	30.8
Other	(5.5)	-	(5.5)
Total	$ 242.9	$ (70.5)	$ 172.4

(a) Base Rate Offset includes DRS and WFA revenue.

Q. PLEASE DESCRIBE THE MAJOR CHANGES IN THE COST OF SERVICE.

A. *Rate Base*

As previously discussed, PSO has increased gross plant by over $700 million dollars from the amount of plant that the current rates are based upon (increases of approximately $68 million in Q4 2018, $266 million in 2019, and $398 million in 2020). These gross plant additions are supported in the testimonies of Company witnesses Steven Baker, Wayman Smith, and Daryll Jackson. In addition, a pro-forma adjustment to include a non-operating loss ("NOL") related to the Deferred Tax Asset in rate base has been made to be consistent with tax normalization rules. This pro-forma adjustment is explained in the testimony of Company witness David Hodgson.

Depreciation

As more fully discussed by Company witness Jason Cash, depreciation expense has increased due to both higher levels of depreciable plant, the proposed increase in depreciation rates, and the need to accelerate the depreciation on the Oklaunion and NE Unit 3 investments. Total requested increased depreciation expense due to the proposed increase in depreciation rates is approximately $57 million, $52 million of which relates to production plant.

Operation and Maintenance (O&M)

Operation and maintenance expenses have increased largely due to higher SPP transmission service costs. Company witness Jim Jacoby supports the SPP Regional Transmission Operation (RTO) process and Company witness Wayman Smith discusses SPP RTO expense.

The requested level of O&M also reflects PSO's request to fully recover its total compensation paid to employees, including incentive-based compensation. Because the Company designs its compensation to be market competitive (see Company witness Andy Carlin), and requests only the target level of compensation in rates, the compensation is not in excess of what is required to attract, develop and retain a well-trained and qualified workforce. Employee compensation is a necessary expense. When a necessary expense is disallowed, the Company's ability to earn its authorized return is diminished. Management should be allowed the discretion to formulate and execute a compensation plan that meets the company's financial goals while still providing customers with safe and reliable power in a cost-effective manner without fear of being disallowed an expense that no party claims is unreasonable nor not market driven.

Taxes

Income tax expense has grown due to the tax effect of the increased level of rate base. Property taxes have increased due to higher levels of taxable plant.

Revenues

There was a temporary change to PSO's customer load mix during the test year due to the COVID-19 pandemic, which has been addressed by the Company through an atypical proforma adjustment to test year revenues. Commercial and industrial load decreased while residential load increased. As discussed by Company witnesses Earlyne Reynolds and Chad Burnett, the impact of this adjustment increases test-year kilowatt hours sold, and therefore reduces the revenue deficiency.

Capital structure

The Company's capitalization as of test year ended March 31, 2018, filed in Cause No. PUD 201800097, consisted of 51.86% long-term debt and 48.14% common equity. The Company's capitalization as of test year ended December 31, 2020, shown in AP Schedule F-1 filed in this cause, consists of 46.95% long-term debt and 53.05% common equity. The increased proportion of common equity in the capital structure is primarily a result of the Company's efforts to protect the overall credit quality of PSO. PSO's cash flows have been under pressure in recent years due to the return of deferred taxes associated with the Tax Cuts and Jobs Act of 2017 and the Company's inability to accelerate recovery associated with the retirement of the Oklaunion Plant in 2020. To mitigate the negative impacts, PSO lowered its dividend to $11.3 million in 2019 and to $0 in 2020. This action has allowed the Company to retain equity in the capital structure and minimize its short-term and long-term debt borrowings, both viewed as credit positives by the rating agencies. As of the date of this filing, PSO's senior unsecured debt ratings at Moody's is Baa1, and at S&P and Fitch A-.

Q. WHAT OTHER WITNESSES WILL BE TESTIFYING ON BEHALF OF PSO?

A. My Exhibit MAH-1 contains the name, title and subject matter of Company's witnesses.

IV. OKLAUNION/NE UNIT 3 PLANT RETIREMENTS

Q. WHAT IS PSO'S PROPOSAL FOR RECOVERY OF THE UNDEPRECIATED PLANT BALANCE OF THE OKLAUNION PLANT RETIRED IN 2020 AND THE FUTURE RETIREMENT OF NE UNIT 3 IN 2026?

A. As stated earlier, PSO, like many other utilities in the United States, is moving away from coal and moving toward renewable sources and gas-fired generation. The retirement date of 2026 for NE Unit 3 was part of a settlement with the United States Environmental Protection Agency, the Oklahoma Department of Environmental Quality; the United States Department of Justice, and the Secretary for the Environment for the State of Oklahoma for PSO to be in compliance with the RHR and other environmental directives.

Oklaunion was retired by a vote of the co-owners of the plant for economic reasons. At the time the decision was made to retire Oklaunion the plant was marginally economic for PSO's customers and PSO voted to keep the plant open. However, as stated earlier, pressure to decarbonize our system and transition to renewables has only continued to grow.

Q. WHAT IS THE COMPANY PROPOSING FOR THE COST RECOVERY OF THESE TWO COAL GENERATION ASSETS?

The Oklaunion Plant retired in September 2020 and NE Unit 3 will be retired in 2026. PSO is proposing to change the depreciable life of NE Unit 3 to its retirement date of 2026 and to include PSO's share of the undepreciated balance of the Oklaunion Plant in the accumulated depreciation balance of NE Unit 3 and recover the undepreciated balance over the remaining life of NE Unit 3 (2026). Approximately $45 million of the requested production plant depreciation expense increase of $52 million is to recover the costs of Oklaunion and NE Unit 3 by 2026.

Q. WHY SHOULD THE COMMISSION APPROVE COST RECOVERY AS PROPOSED BY PSO WHEN THE COMMISSION SPECIFICALLY DENIED A SIMILAR REQUEST IN CAUSE PUD 201500208 TO DEPRECIATE NE UNITS 3 AND 4 OVER THE 2016 TO 2026 TIME PERIOD?

A. I am aware of the Commission's Order No. 657877 and agree that the order did reject a similar request based upon customer impact. PSO is asking the Commission to reconsider the issue. As pointed out in Company witness Jason Cash's testimony, assets should be depreciated over their useful life. The depreciable lives of both plants were increased over the objection of PSO in past proceedings. The service life of Oklaunion was extended to 2046 in cause PUD 201700151 (Order No. 672864). The depreciable life of NE Unit 3 was extended from 42 to 60 years in cause PUD 200600285 (Order No. 545168).

Q. WHAT LED TO THE RETIREMENT DATE FOR NE UNIT 3 BEING 2026?

A. I have been advised that PSO had to develop a plan to comply with the RHR and the Mercury and Air Toxics Standard ("MATS") rules passed as part of the Clean Air Act. These rules impacted Northeastern Units 2, 3 and 4, Southwestern Power Station Unit 3, and the Comanche Power Station. The company concluded that there were three options for getting NE Unit 3 to environmental compliance which were to close the plant, change the fuel for the plant (coal to gas), or install combustion or post-combustion environmental equipment, facilities and controls. For NE Unit 3, PSO chose an option of spending $256 million dollars and running the NE Unit 3 until 2026 as part of the environmental settlement. PSO could have invested in Flue Gas Desulfurization ("FGD") equipment at a cost of approximately $900 million for NE Units 3 and 4 and run the units for a longer time period to perhaps attain the depreciation life approved by the Commission at the request of interveners during rate proceedings. PSO at the time, and today, did not believe a $900 million investment in coal-fired generation was in the best interest of customers.

Subsequent events that PSO communicated to the Commission and stakeholders in advance of its ECP resulted in enacted environmental requirements and a settlement, as mentioned earlier, that required NE Unit 4 to be retired in 2016 and NE Unit 3 in 2026. Although the investment would have been good for investors by increasing PSO's rate base, PSO concluded, and still believes, the settlement to be in the best interest of customers and would remove environmental doubt for NE Unit 3 caused by the use of coal as a boiler fuel in 2026.

PSO had no choice but to comply with environmental laws and regulations while at the same time meeting its obligation to provide reliable supplies of electricity to customers in the future. The Commission has approved the environmental plant investment for both the coal and gas units to be included as prudent investment in rate base. Both coal plants have provided decades of service to PSO's customers. PSO is now asking for the last element of the environmental costs to comply with the RHR, which is the accelerated depreciation of NE Unit 3. I believe, in light of these facts, that PSO's proposal for cost recovery of Oklaunion and NE Unit 3 is in accordance with sound depreciation principles, is fair for both customers and investors, and should be approved by the Commission.

V. SPPTC TARIFF AND THE DRS RIDER

Q. WHAT IS THE SPPTC TARIFF?

A. As stated previously, the SPPTC Tariff is a mechanism to collect costs imposed on PSO by its membership in the SPP for various transmission services. Three Company witnesses discuss transmission investment, transmission O&M expense, and SPP process and expenses: Wayman Smith (transmission capital and O&M expense); Jim Jacoby (the SPP Regional Transmission Operation (RTO) process and SPP practice and procedures); and, John Hackerott (operation of the SPPTC Tariff).

Q. WHAT CHARGES ARE INCLUDED IN THE SPPTC TARIFF?

A. The SPPTC Tariff contains expenses that are lawfully charged as contained in the Federal Energy Regulatory Commission (FERC) approved SPP Open Access Transmission Tariff (OATT). Specifically, the SPPTC Tariff contains what are termed Schedule 1A, 9, 11, and 12 OATT expenses. The specifics on these schedules is contained in the testimony of Company witness John Hackerott. Company witness Heather Whitney discusses updates to the SPPTC Tariff necessary to (1) reset the level of SPP OATT expense recovered through base rates and (2) subject all SPP OATT Schedule 1A, 9, 11, and 12 expense to the SPPTC Tariff recovery mechanism.

Q. ARE THESE EXPENSES NECESSARY FOR PSO TO PROVIDE ELECTRIC SERVICE TO CUSTOMERS?

A. Yes. Being a member of SPP and receiving transmission services from SPP is cost effective for customers. For example, being a member of SPP allows PSO to participate in the Integrated Marketplace (IM). Participation in the IM reduced the cost of energy for customers by providing generation available to PSO that is less expensive than PSO's own generation. For the test year, these energy savings were approximately $61 million.

Q. IS THE SPPTC TARIFF A GOOD METHOD TO RECOVER THESE COSTS?

A. Yes. Transmission services, as would be expected, entail a considerable cost that can fluctuate over time. The SPPTC Tariff allows for timely recovery of these costs and, with the true-up mechanism contained in the tariff, assures that customers pay only those expenses that are lawfully charged in the FERC-approved OATT. The SPPTC Tariff, with updates proposed by Company witness Heather Whitney, should be approved to continue to recover OATT charges billed to PSO by SPP.

As mentioned earlier, the SPPTC Tariff, by allowing timely cost recovery of SPP expenses, plays an important role in the financial health of PSO, and has helped make it possible for PSO to serve customers by investing hundreds of millions of dollars in electric plant.

Q. WHAT IS THE DRS RIDER?

A. The DRS Rider is a rider approved as part of the settlement in PSO's last base rate case. The rider currently provides for distribution capital costs related to reliability and safety that are not normal distribution replacement costs. O&M costs are not allowed to be recovered through the DRS Rider and the revenue requirement is limited to $5 million a year which would support investment of approximately $50 million according to Company witness Steven Baker. According to the terms of the tariff, the Commission must approve continuation of the DRS Rider in this case.

Q. SHOULD THE COMMISSION CONTINUE THE DRS RIDER?

A. Yes. As stated previously, the reduced time for cost recovery of distribution investments has been helpful in allowing PSO to make incremental distribution plant investment for the benefit of customers without seeking an earlier rate increase. The type of investments allowed to be included in the DRS Rider are necessary for a future secure and resilient grid, but more can be accomplished by expanding the scope of the rider. Company witness Steven Baker is supporting PSO's request to broaden the scope of the rider, which includes adding system hardening and resiliency projects, replacement of aging infrastructure, recovery of associated O&M expenses, and increasing the capital investment cap to $100 million annually. Making these suggested changes to the DRS Rider will be beneficial for both customers and PSO. The DRS

Rider will provide a more resilient, and therefore secure, infrastructure that will be able to better withstand Oklahoma's continuing harsh weather conditions and allow PSO to better respond to outages when they occur.

Q. WHAT HAS BEEN PSO'S PRACTICAL EXPERIENCE APPLYING THE DRS RIDER RECOVERY MECHANISM APPROVED IN THE 2018 RATE CASE JOINT STIPULATION (PUD 201800097)?

A. While the DRS tariff has been helpful, as explained above, the limitations placed on the portfolio options, such as the time lag associated with recovery of expenditures, and the complexity of the DRS rider filing requirements, have made it difficult to implement work plans and reach the $5 million annual revenue cap. As a result, in addition to expanding the scope of the rider as detailed in the testimony of Company witness Steven Baker, PSO is proposing to modify the tariff shown in the redline of the DRS tariff sponsored by Company witness Jennifer Jackson.

VI. AGING INFRASTRUCTURE

Q. PLEASE DESCRIBE THE ISSUE OF AGING GRID INFRASTRUCTURE AND HOW IT CONTRIBUTES TOWARDS PSO'S NEED FOR MORE CONTEMPORANEOUS COST RECOVERY.

A. Even with the substantial investment the Company is making to maintain and replace its transmission and distribution systems, the average age of distribution and transmission plant continues to increase. As an example of the aging problem, there is a significant part of the distribution system currently serving customers that was placed in service before 1970 and is at, or beyond, the asset design life.

Q. WHAT ELSE NECESSITATES THE NEED FOR PSO TO MAKE ADDITIONAL INVESTMENT IN THE DISTRIBUTION SYSTEM?

A. While PSO has made great strides in improving overall reliability, as described in the testimony of Company witness Steven Baker, more improvement is required to achieve shorter duration outages and further overall power quality and security. Company witness Steven Baker discusses the way we report reliability measures is by removing major events. The customer, however, still experiences the outage durations associated with those major events. When major events are included, the SAIFI, SAIDI and CAIDI indices are worsened and show a decline in system reliability. The number one driver in the downward trend of reliability is the increase in age of distribution line and distribution substation equipment. As further explained in Company witness Steven Baker's testimony, for PSO to maintain system reliability, and improve power quality performance, the Company will have to make additional investment. To support that investment the DRS Rider should be expanded as discussed earlier.

The same problem of aging facilities exists for transmission plant and is set forth in the testimony of Company witness Wayman Smith where he discusses the problems caused by assets that have exceeded, in some cases far exceeded, their design life.

Q. DO YOU HAVE AN OPINION ON HOW THE COMMISSION SHOULD APPROACH THE PROBLEM OF AGING DISTRIBUTION AND TRANSMISSION PLANT?

A. Yes. I believe the approach should be the same approach that PSO is attempting to take in this case, which is to weigh reliability with affordability. By that, I mean I agree PSO cannot set investment levels so high that most customers can no longer purchase the quantities of electricity they desire, nor can PSO set investment levels so low that the result is poor quality of service and the lack of a secure system. PSO's requests in this case are, in my opinion, a balanced approach to attempt to provide quality, secure service at an affordable price. If PSO is granted the requested rate increase the rates paid by customers of PSO would still be competitive with electric rates in the region and 24 percent lower than the national average as compared to the other utilities' rates at the end of December 2020 and PSO's proposed rates which will not go in to effect until almost November of 2021. To me, this verifies that PSO's request is balanced between affordability and reliability.

VII. RATE OFFERINGS

Q. WHAT NEW RATE OFFERINGS IS PSO PROPOSING?

A. PSO is proposing Plug-In Electric Vehicle ("PEV") Charging Tariffs, an Economic Development Rate ("EDR"), and changes to lighting tariffs.

Q. WILL YOU PLEASE DESCRIBE PSO'S REQUEST TO ESTABLISH THE PEV CHARGING TARIFFS?

A. PSO is proposing three new rate schedules to accommodate the evolving PEV industry. For residential customers, the PEV tariff is time-of-day based with reduced rates to encourage charging during the off-peak hours. For general service customers, the PEV tariff is available for customers who have PEV charging stations available for public use. For commercial customers, the PEV tariff is available for customers charging fleet vehicles. Company witness Chad Burnett fully describes the need for these new tariffs in his direct testimony.

Q. DO THE PROPOSED PEV TARIFFS PROVIDE BENEFITS TO PSO CUSTOMERS?

A. Yes. The proposed tariffs incent PEV charging during off-peak times when PSO's system costs are generally lower thereby optimizing the use of PSO's overall electric system. With the off-peak rates, additional kWh sales occur without requiring additional investment in generation assets by PSO. This increases the utilization of PSO's system and can provide downward pressure on electricity rates for all PSO customers as the fixed generation costs are spread over additional kWh sales.

Q. PLEASE DESCRIBE THE PROPOSED ECONOMIC DEVELOPMENT RATE (EDR).

A. The EDR is an incentive-based offering to help new and expanding businesses reduce costs and increase jobs. The intent of the rate is to encourage companies to locate and expand in PSO's service areas. The rate is necessary for PSO to compete with other utilities across the U.S. and Oklahoma that have an EDR and to support the economic development efforts of PSO communities. The EDR will provide additional savings for eligible companies. These savings can create economic benefits for companies during the initial years of operation or after a significant investment. Company witness Chad Burnett goes into more explanation on state and local economic benefits.

Q. HOW IS THE PROPOSED EDR STRUCTURED?

A. The EDR will be available to new commercial and industrial customers, or current customers, expanding the number of full-time employees to their operations. Customers creating 100 full-time jobs or more will be eligible for additional benefits. A company that takes service under the EDR will receive a credit on their bill for up to

36 months at varying levels as described in the proposed Rider. Company witness Jennifer Jackson will further explain the details of the EDR.

Q. WHAT ARE THE PROPOSED CHANGES TO LIGHTING?

A. PSO is proposing to offer only Light-Emitting Diode (LED) fixtures to new installations and to current installations when they need replacements. High-intensity discharge (HID) lighting is currently being phased out of production and that old technology is much less energy efficient than LED. Company witness Steven Baker describes the process and reasons for this change to LED fixtures in more detail.

VIII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. PSO's journey towards transformation and innovation, with the continued partnership and support of this commission, will help PSO accomplish our goals of keeping our grid secure and prepared for and compatible with new technologies, attracting new businesses to our state and continuing to meet the requests and needs of our customers for high quality service, today and in the future.

COMPANY WITNESS LIST

Name	Title	Subject Matter
Matthew A. Horeled	Vice President, Regulatory & Finance	Policy
Heather M. Whitney	Director, Regulated Accounting Services	Revenue Requirements and Accounting
Adrien M. McKenzie	Principal, FINCAP, Inc.	ROE
Zachory B. Wynek	Corporate Finance Analyst	Cost of Capital
Jason A. Cash	Accounting Senior Manager	Depreciation
Steven F. Baker	Vice President, Distribution Operations	Distribution
Wayman L. Smith	Director, West Transmission Planning	Transmission
Daryll Jackson	Vice President, Generation Assets	Generation
Therace M. Risch	Senior Vice President, Chief Information & Technology Officer	I.T. Capital
Brian J. Frantz	Director, Corporate Accounting	Affiliate Transactions
Andrew R. Carlin	Director, Compensation & Executive Benefits	Compensation
David A. Hodgson	Tax Accounting & Regulatory Support Manager	Income Tax, ADIT, Net Operating Losses
James Jacoby	Manager, RTO Policy SPP	Southwest Power Pool
V. John Hackerott	Regulatory Consultant Principal, Regulated Pricing and Analysis	SPPTC Tracker Expense
Chad M. Burnett	Director, Economic Forecasting	Load Forecast
Earlyne Reynolds	Regulatory Consultant Principal	Cost of Service
Jennifer L. Jackson	Manager, Regulated Pricing & Analysis	Rate Design

AFFIDAVIT OF MATTHEW A. HORELED

STATE OF OKLAHOMA)

COUNTY OF TULSA)

On the 26 day of April, 2021, before me appeared Matthew A. Horeled, to me personally known, who, being by me first duly sworn, states that he is Vice President, Regulatory and Finance for Public Service Company of Oklahoma 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.

Matthew A. Horeled

Matthew A. Horeled

Subscribed and sworn to before me this 26 day of April, 2021.

BARBARA A. POSTOAK
NOTARY PUBLIC
Commission # 08011506
My Commission Expires 11-12-2024
STATE OF OKLAHOMA

Notary Public

My commission expires: 11-12-2024