

**BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA**

APPLICATION OF OKLAHOMA NATURAL GAS )  
COMPANY, A DIVISION OF ONE GAS, INC., FOR )  
A FINANCING ORDER APPROVING )  
SECURITIZATION OF COSTS ARISING FROM )  
THE FEBRUARY 2021 WINTER WEATHER )  
EVENT PURSUANT TO THE "FEBRUARY 2021 )  
REGULATED UTILITY CONSUMER )  
PROTECTION ACT" )

CAUSE NO. PUD 202100079

**FILED**  
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COURT CLERK'S OFFICE - OKC  
CORPORATION COMMISSION  
OF OKLAHOMA

**TESTIMONY**

**IN SUPPORT OF JOINT STIPULAITON**

**OF**

**CORY SLAUGHTER**

**ON BEHALF OF**

**OKLAHOMA NATURAL GAS**

**November 18, 2021**

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1 **INTRODUCTION**

2 Q. Please state your name.

3 A. My name is Cory Slaughter.

4

5 Q. Are you the same Cory Slaughter that provided direct testimony in this cause?

6 A. Yes, I am.

7

8 **PURPOSE**

9 Q. Mr. Slaughter, what is the purpose of your testimony?

10 A. The purpose of my testimony is to support the Joint Stipulation and Settlement  
11 Agreement (the “Stipulation”) reached with the Public Utility Division (“PUD”).

12

13 **JOINT STIPULATION AND SETTLEMENT AGREEMENT**

14 Q. What are the utility requirements under Section 4(A) of the 2021 Regulated Utility  
15 Consumer Protection Act (“the Act”)?

16 A. The requirements are that the utility seeking securitization shall:

17 1) Provide the known extreme purchase and extraordinary costs, and estimates of  
18 any extreme purchase or extraordinary costs not yet finalized that are being  
19 requested for recovery through securitization;

1           2) Demonstrate the utility bill impacts of securitization and the degree of savings  
2           customers would experience related to issuing ratepayer-backed bonds in  
3           comparison with traditional utility financing; and

4           3) Facilitate a timely audit of all costs requested for recovery prior to the utility  
5           being authorized to recover costs through the issuance of a financing order.

6

7    Q.    What are the requirements of Section 4(C) of the Act?

8    A.    The requirement of Section 4(C) specifies that the Commission shall consider the  
9           following factors when determining whether costs from the winter weather event  
10          can be mitigated by securitization:

11          1) Substantial revenue requirement savings that may be incurred to the benefit of  
12          customers relying on lower carrying charges related to ratepayer-backed bonds  
13          rather than by conventional financing obtained by the regulated utility;

14          2) Customer utility bill impact that may be mitigated by mandating a longer  
15          amortization period for recovery than would otherwise be practicable or feasible  
16          for the regulated utility; and

17          3) The issuance of ratepayer-backed bonds that may be completed at a sufficiently  
18          low cost such that customer savings are not exhausted or offset.

1 Q. Did Oklahoma Natural provide the information required in Section 4(A) of the Act  
2 and provide information sufficient to support the Commission's determinations  
3 specified in Section 4(C) of the Act?

4 A. Yes, as agreed to by the parties in Paragraph 1 of the Stipulation, Oklahoma  
5 Natural provided all required information in Section 4(A) of the Act and showed,  
6 pursuant to Section 4(C) of the Act, that Securitization would provide significant  
7 benefits to customers as compared to traditional utility financing.

8

9 Q. What is the total amount of costs the parties agree should be securitized?

10 A. The total amount, as shown in Paragraph 4 of the Stipulation, is approximately  
11 \$1.357 billion.

12

13 Q. Is this amount less than originally requested?

14 A. Yes. The Company originally requested approximately \$1.371 billion but this  
15 number has been reduced to approximately \$1.357 billion due to a \$6.7 million  
16 reduction related to the settlement of a disputed invoice, and including reduced  
17 carrying charges until the date of bond issuance, and including upfront bond  
18 issuance costs.

1 Q. How much of this amount is related to actual extreme gas purchase costs?

2 A. As shown in Paragraph 2 of the Stipulation, approximately \$1.284 billion, or 94%  
3 of the total, is the actual cost of extreme gas purchases made on behalf of  
4 Oklahoma Natural's customers.

5

6 Q. What costs make up the difference?

7 A. The difference, discussed in Paragraph 3 of the Stipulation, is extraordinary costs  
8 and other associated costs related to Oklahoma Natural's financing of the extreme  
9 gas purchases in February 2021, Oklahoma Natural legal and consulting costs, as  
10 well as Oklahoma Development Finance Authority ("ODFA") upfront costs for the  
11 issuance of bonds.

12

13 Q. What recovery period is included in the Stipulation?

14 A. As shown in Paragraph 4(a), the settlement includes an agreement of the parties  
15 to a 25 year scheduled maturity period for cost recovery or a shorter period if  
16 deemed necessary to obtain the most favorable securitization terms for customers.  
17 This recovery period will provide the balance needed between minimizing  
18 customer impact and maximizing savings from low interest rates.

1 Q. Does the Stipulation propose a time period within which the ODFA should  
2 endeavor to issue bonds?

3 A. Yes, in Paragraph 4(b) the stipulating parties agree that the ODFA should issue  
4 bonds and provide Oklahoma Natural with the resulting funds as soon as feasible  
5 in 2022 but no later than December 31, 2022.

6

7 Q. Is there an agreement on the carrying charge until bonds are issued?

8 A. Yes, in Paragraph 5 the stipulating parties agree that the carrying charge shall be  
9 based on the actual costs of the credit facilities, loan agreements or other debt  
10 financing used to finance the deferred cost related to the event. This carrying  
11 charge will be assessed until bonds are issued and proceeds are received from  
12 the ODFA.

13

14 Q. Are there significant savings through securitization as compared to traditional utility  
15 financing?

16 A. Yes, as mentioned in my rebuttal testimony, securitization with a 25 year recovery  
17 period will save customers up to approximately \$700 million as compared to  
18 traditional utility financing utilizing the company's weighted average cost of capital.

1 Q. Section 4(C)(3) of the Act states that the Commission must consider whether  
2 issuance of bonds may be completed at a sufficiently low cost such that customer  
3 savings are not exhausted or offset. Would the issuance of securitized bonds be  
4 at a sufficiently low cost so as to not offset savings?

5 A. Yes. The upfront issuance costs are estimated at \$18.9 million. The ongoing  
6 annual financing costs of securitization are estimated at \$1.1 million. These  
7 expenses are significantly less than the estimated savings achieved through  
8 securitization.

9  
10 Q. How will any additional funds received by Oklahoma Natural be treated under  
11 securitization?

12 As shown in Paragraph 4(c) of the Stipulation, the parties agree that pursuant to  
13 Section 4(G) of the Act, after the issuance of ratepayer-backed bonds, if Oklahoma  
14 Natural receives any funds to compensate it for Extreme Purchase Costs or  
15 Extraordinary Costs subject to the Financing Order, or if actual amounts are  
16 determined to be lower than estimated amounts securitized by the Financing  
17 Order, then as soon as practicable, these amounts shall be credited to customers  
18 by offsetting the monthly rolling Unrecovered Purchase Gas Cost "UPGC" balance  
19 within the Company's gas cost recovery mechanism (i.e. Purchased Gas

1 Adjustment Clause or “PGA”).” If the amount being credited impacts the current  
2 monthly PGA rate by more than \$0.25, the amount shall be deferred and amortized  
3 to the PGA over a period long enough so as to have an estimated impact of no  
4 more than \$0.25; provided that the period for deferral and amortization shall not  
5 extend longer than 5 years. All amounts returned to customers under  
6 Subparagraph 4(b) of the Stipulation shall bear carrying costs at the rate  
7 authorized in Paragraph 5 of the Stipulation.  
8

9 Q. What would the estimated residential impact have been if the extraordinary costs  
10 had not been deferred for recovery through securitization?

11 A. The extraordinary gas costs would have been included within the Purchased Gas  
12 Adjustment (“PGA”) customer billing rate in April 2021. This would have resulted  
13 in a PGA rate of nearly \$100 per dekatherm in the billing month of April and a rate  
14 of more than \$60 per dekatherm in May through November. The resulting average  
15 residential bill would have been more than \$1,000 in April alone coupled with  
16 significantly higher than normal bills in May through November.  
17

18 Q. Have the stipulating parties agreed to a tariff to be utilized in recovery of the  
19 securitization fees?

1 A. Yes, as shown at Paragraph 7 of the Stipulation, the parties have agreed that the  
2 Winter Event Cost Recovery Mechanism (“WESCR”) Tariff attached to the  
3 Stipulation as Exhibit A should be approved by the Commission.

4  
5 Q. Will the securitization charge be based on a fixed or volumetric fee?

6 A. Per Paragraph 7(a) of the Stipulation, the securitization charge will be monthly and  
7 based on a fixed fee so as to be nonbypassable, as required by the Act and not  
8 affected by material changes in future customer usage.

9  
10 Q. What is the estimated monthly impact to residential customers of this fixed  
11 securitization fee?

12 A. The estimated impact to Option A residential customers using less than 50 Dth of  
13 natural gas per year is less than \$5 per month. The estimated impact to Option B  
14 residential customers using more than 50 Dth per year is less than \$8 per month.

15  
16 Q. Why is the charge higher for Option B than for Option A?

17 A. Residential Option A customers use less than 50 dekatherms of natural gas  
18 annually. Residential Option B customers use 50 dekatherms or more of natural  
19 gas annually. As will be discussed later, the allocation of the monthly securitization

1 fee is based upon actual usage during February 2021. The average Residential  
2 Option B customer used approximately 70% more gas than the average Option A  
3 customer.

4

5 Q. What about Low Income Heating Energy Assistance Program (“LIHEAP”)  
6 customers?

7 A. As proposed by Oklahoma Natural and included in Paragraph 7(d) of the  
8 Stipulation, the stipulating parties have agreed that LIHEAP customers will not be  
9 assessed any securitization charges.

10

11 Q. Will Voluntary Fixed Price (“VFP”) customers be assessed securitization charges?

12 A Per recommendation of PUD, and included in Paragraph 7(c) of the Stipulation,  
13 the stipulating parties have agreed that customers who were enrolled in VFP  
14 during the February 2021 winter storm will not be assessed any of the  
15 securitization fees going forward. This DOES NOT include customers who enroll  
16 in future VFP plan periods, but who were not enrolled during February 2021.

17

18 Q. What percent of an average residential bill is the securitization charge estimated  
19 to be?

1 A. The securitization charge is estimated to be approximately 7% of an average  
2 residential customer's bill in the first year. This percent will come down over time  
3 as the securitization charge declines over the 25 year recovery period.

4  
5 Q. How was the securitization charge allocated to the different sales customer tariffs?

6 A. As originally proposed, supported by PUD, and included in Paragraph 8 of the  
7 Stipulation, the parties have agreed to the allocation methodology set forth in  
8 Paragraph 4 of the WESCR Tariff 1211. The allocation of the fee was based on  
9 February 2021 actual usage for each tariff class.

10

11 Q. Does the Stipulation include an agreement on a proposed termination fee?

12 A. Yes, Paragraph 7(b) of the Stipulation includes an agreement to include a  
13 termination fee in the WESCR Tariff 1211.

14

15 Q. Why is a termination fee included?

16 A. A termination fee was proposed and requested by PUD Witness Stroup in  
17 responsive testimony to address the issue of nonbypassability as defined by the  
18 Act. Per the Act, in order for the securitization to qualify as nonbypassable the  
19 customer charges cannot be avoided at an address by switching providers,

1 switching fuel sources, and must be paid by the customer for as long as bonds  
2 issued remain outstanding. Based on PUD's request, I filed rebuttal testimony  
3 including a termination fee that closely approximated the full remaining value of  
4 securitized costs that remain unpaid by a customer at a specific address at the  
5 time of disconnection.

6

7 Q. Is the termination fee included in the Stipulation quantified using the same basis  
8 as in your rebuttal?

9 A. The basis for the calculation is the same but the stipulated termination fee includes  
10 a cap on the amount of the fee.

11

12 Q. What is the proposed cap on the termination fee within the Stipulation?

13 A. The proposed termination fee can be found in the Applicability Paragraph of the  
14 proposed WESCR Tariff 1211 attached to the Stipulation as Exhibit A. The  
15 proposed fee contains a cap on the fee that is equal to 50% of the value of  
16 securitized costs that remain unpaid by a customer at a specific address at the  
17 time of disconnection prior to any collection of securitization charges. The  
18 breakeven point between the capped fee and the remaining unpaid securitized  
19 cost at disconnection occurs at year 13.

1 Q. Why has the proposed termination fee been significantly reduced?

2 A. There are several reasons why the stipulating parties believe the nonbypassability  
3 of the securitization fee is significantly reduced before considering a termination  
4 fee. Those reasons are:

5 1) The securitization charge is applicable to new customers. Oklahoma Natural's  
6 sales customer base has steadily grown for decades. Just over the last 20 years  
7 Oklahoma's residential customer count has grown by approximately 13%;

8 2) Oklahoma passed HB 3619 preventing a municipality or county from adopting  
9 ordinances, rules or codes that would restrict connections to natural gas utility  
10 providers, i.e., ban gas appliances;

11 3) If a fixed fee is approved, any reduction in individual customer usage would not  
12 affect collection of the securitization charge;

13 4) Customers who enroll in future plan periods for the Voluntary Fixed Price Plan  
14 will be subject to the securitization charge;

15 5) Based on 2020 rates, Oklahoma Natural maintains a significant cost advantage  
16 of 3.5 times compared to electricity;

17 6) The two largest electric companies serve the majority of our customers and will  
18 also have securitization charges; and

19 7) Per the American Gas Association, the cost of conversion of a standard home  
20 to electricity is nearly \$12,000.

1 Q. What is the estimated maximum or capped termination fee for a Residential Option  
2 A or Option B customer?

3 A. The estimated termination fee for Option A is \$35 per year remaining for the  
4 recovery of securitized costs and Option B is \$55 per year. As mentioned  
5 previously, the proposed termination fee is capped at 50% of the unpaid  
6 securitized cost prior to any collection of securitization fees. This cap is \$437.50  
7 for Option A and \$687.50 for Option B. Again, LIHEAP customers are assessed  
8 no charges related to securitization.

9

10 Q. Does Oklahoma Natural expect that this fee will be widely utilized?

11 A. No, based on the reasons previously discussed, the Company expects that this  
12 fee will be rarely applied.

13

14 **CONCLUSION**

15 Q. Mr. Slaughter, do you believe the Stipulation is fair, just, reasonable, and in the  
16 public interest?

17 A. I do.

18

19 Q. Why do you believe this to be true?

1 A. I believe the Stipulation fairly reflects the positions of the parties and accomplishes  
2 the goal of utilizing securitization as a means to minimize the customer bill impact  
3 of the February 2021 winter weather event to the fullest extent possible.

4

5 Q. Mr. Slaughter, does this conclude your testimony?

6 A. Yes, it does.

7

**CERTIFICATE OF SERVICE**

I hereby certify that on the 18<sup>th</sup> day of November, 2021, a full, true, and correct copy of the above and foregoing instrument was served on the following persons by **ELECTRONIC MAIL** to:

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**/s/ Curtis M. Long**