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

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TESTIMONY IN SUPPORT OF

JOINT STIPULATION AND SETTLEMENT AGREEMENT

BRANDY L WREATH

NOVEMBER 19, 2021

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INTRODUCTION

Q: Please state your name and your business address.

A: My name is Brandy L Wreath. My business address is Oklahoma Corporation Commission ("Commission"), Public Utility Division ("PUD"), Jim Thorpe Office Building, Room 580, 2101 North Lincoln Boulevard, Oklahoma City, Oklahoma 73105. I am the Director of the Public Utility Division.

Q: What is the purpose of this Testimony?

A: The purpose of this Testimony is to discuss PUD's process to reach the recommendations and settlement in this cause, as well as to address some public misconceptions on the statutorily required nonbypassable mechanism ("Mechanism"). All other provisions of the Settlement and process will be covered by Mr. Stroup and Mr. Bartolotta on behalf of PUD.

CASE PROCESSING

Q: Please provide a brief history of how PUD processed this Cause.

A: On April 29, 2021, Oklahoma Natural Gas Company ("Oklahoma Natural" or "Company") filed an Application for a financing order pursuant to the February 2021 Regulated Utility Consumer Protection Act ("Act") approving securitization of costs arising from the Winter Weather Event ("Event") of February 2021. This resulted in PUD preparing a plan to review the storm related costs, a consultation plan with ODFA and the State Treasurer's Office, and the retention of securitization experts to assist in the new area of regulatory financing never before handled by PUD or the OCC.

Q: Please describe the process utilized to plan the review of the storm related costs.

A: As is standard in annual fuel review cases, PUD set up a team to review the books and records of the company as covered by PUD witness Isaac Stroup. As Director, I worked with PUD Policy Advisor, Geoffrey Rush, to set the parameters for the team on which parts of the cause they would handle and which parts would be covered by the retained experts. PUD was responsible for making a recommendation of how much of the storm related costs should be passed through to customers following the statutory requirement for companies to be allowed to recover all prudently incurred fuel costs without mark up or profit. PUD would also be responsible for reviewing tariff language in consultation with the retained experts. This included recommendations from the experts on tariff provisions to reduce the risk rating of the bonds, such as the Mechanism.

Q: Please describe the process utilized to retain securitization experts in this cause.

A: Pursuant to the statute, PUD worked directly with ODFA and the State Treasurers office to retain securitization experts. While PUD could have hired separate experts, those costs would have further increased the cost of execution of the securitization and would be paid for by ratepayers under the provisions of the statute. Therefore, PUD worked with ODFA to share experts. This reduced the costs to ratepayers, ensured alignments of duties, and reduced the risk of conflicting recommendations that could result in an increased risk rating when the bonds are taken to market. Hilltop Securities Incorporated, Inc. ("Hilltop") was selected by ODFA and the State Treasurer through a public bid process. PUD then met with Hilltop to ensure they could fulfill the support duties needed at the OCC.

Q: What did PUD expect from Hilltop as the securitization experts?

A: First, Hilltop was not responsible or part of the review of books and records to determine the prudent pass-through amounts. Hilltop was to make recommendations related to risk reduction, tariff language, and ordering provisions. All of this was done with the assumed duty of reducing risk to ensure the lowest reasonable cost for ratepayers. Their focus was not to protect or benefit the utility. They were charged with taking all steps to make the bond issuance marketable at the lowest rate possible.

Q: Was the Mechanism included after guidance from Hilltop, the securitization experts?

A: Yes. While the statute required a provision to ensure customers could not avoid paying their fair share through fuel-switching that was not the only reason for its inclusion. I will admit, I was not happy when I first heard about the concept, but I later realized it was a necessary provision if we want to be statutorily compliant and have a better chance at higher bond rating with reduced costs to ratepayers while ensuring fair treatment to all ratepayers.

Q: Recently there has been considerable attention from the public surrounding the statutorily required nonbypassable mechanism. Please further explain the rationale behind this PUD recommendation.

A: Had it not been for Commission action, later supported by the securitization statute, the costs from the Winter Event would have already been billed to customers. Residential customers would have seen single month bills well in excess of a thousand dollars had the Commission not acted to allow Oklahoma Natural to establish a regulatory asset. The legislature also proactively passed the Act, which permits the OCC to issue an order removing the large debt from Oklahoma Natural's books, and for it to be securitized through ratepayer revenue backed bonds. This allows the expense to be collected from customers slowly over time at very low interest rates. This treatment also ensured the utility does not profit from the fuel expense pass-through. As stated previously, one of the requirements of this Act, is that the recovery mechanism be non-bypassable, which is defined by the Act as follows (emphasis added):

> "Nonbypassable mechanism" shall mean that the payment of the utility customer charges under this act shall not be modified or avoided by any utility customer at an address located within a utility service area **by switching providers, switching fuel sources or materially changing usage**…"

The Mechanism would satisfy this portion of the Act by ensuring customers could not avoid payment of the securitization charges by switching to alternative power sources. Second, it was meant to provide more certainty to investors that the full amount of the bonds would be repaid, and by increasing certainty, minimize the interest rates of the bonds. Most importantly, it was an effort to ensure the burden of those that could afford to switch would not be passed to those who could not afford to do so.

Q: Was the Mechanism intended to make it more difficult for customers to pursue electrification or leave Oklahoma Natural for any other reason?

A: Absolutely Not. The Mechanism in no way was intended to prevent customers from leaving Oklahoma Natural. First, the Mechanism would only apply if a customer is disconnecting for the purpose of switching fuel sources, which is listed specifically in the definition "nonbypassable mechanism" as mandated by the Act. Second, it is only intended to collect the amount of securitization charge fairly assigned to the customer as agreed to in the Joint Stipulation in this cause. Again, had it not been for Commission action, the entire balance of approximately $1.3 billion would have already been billed to customers. Finally, the Mechanism helps bring certainty to investors that the securitization balance of the ratepayer backed bonds will be repaid. If the mechanism is deemed bypassable by investors, the ratepayer backed bonds can be expected to be perceived as more risky than if the surcharge was bypassable, and could be expected to end up costing customers more in the form of increased interest rates due to a lower bond rating.

Q: Please explain why the Mechanism is critical to consumer protection.

A: Without this Mechanism, customers that can afford to switch to alternative power would be able to avoid paying their allocated share of the natural gas commodity related storm experience. The amount they avoid is then passed back to the remaining ratepayers. While this Mechanism is a new concept for PUD to support, it is the fair, just, and reasonable approach to a very difficult situation. It is simply not fair for those with the financial ability to switch to pass burden to those who cannot.

Q: Is this an attempt by PUD to protect the gas utilities from customers switching fuel sources?

A: Absolutely Not. As long as the debt is securitized, the utilities are not impacted in any way by the debt servicing, or customer payments. Fuel switching of this type is solely at the discretion of the customer. However, the decision to switch now has adverse impacts on the remaining ratepayers and must be addressed.

Q: What could happen if the Mechanism is not included in the final financing order?

A: First, while I am not an attorney, it is clear a party may appeal to the Supreme Court to challenge any financing order that does not include the Nonbypassable Mechanism or some other methodology as required by Statute.

Second, according to Hilltop it could result in a lower bond rating, which results in a HIGHER interest rate. In a worst-case scenario, the bonds could fail on the offering and be handled through traditional ratemaking subject to the potential costs at a weighted average cost of capital. Based on the information already in the record, the following shows what each financing option and subsequent rating could do to consumer costs.

Finance Option:	Interest Cost/ Taxes	Savings over Cost of Capital
Traditional Rider	$1.9 billion	N/A
A-Rated Bond	$ 720 million	$1.17 billion
AA-Rated Bond	$ 670 million	$1.23 billion
AAA-Rated Bond	$ 620 million	$1.27 billion

The preceding assumes a bond term of 25 years. A shorter term bond may result in lower interest rates and reduced concern regarding fuel switching. However, the reduction in the term of the bond will result in greater annual payments of principal, causing the need for higher rates to be paid by customers offsetting or exceeding the reduced cost of interest expense due to lower interest rates or reduced concerns regarding fuel switching

Q: Can you project what risk rating would be applied with and without the Mechanism?

A: No. Part of the concern in this cause, as well as the other natural gas distribution utility causes, is that this type of securitization does not have an extensive history like the electric utility process. Natural gas service is also much easier, and cheaper, to switch off of than the electric grid for most consumers, thus making it an easier choice to fuel switch. Therefore, the effort was to include all reasonable risk reduction methodologies possible. As you can see, each rating is worth tens of millions of dollars in potential savings to ratepayers.

Q: What is provision 7(b.) of the Joint Stipulation?

A: Provision 7(b.) of the Joint Stipulation states:

> **Winter Event Securitized Cost Recovery Mechanism:** The Stipulating Parties agree that the WESCR Mechanism Tariff, attached hereto as Exhibit A, should be approved by the Commission. The WESCR Mechanism incorporates the following principles, as recommended by PUD:
>
> b. A termination fee pertaining to the "Nonbypassable Mechanism"

Q: Does PUD support this provision?

A: Yes. This provision results in a statutorily compliant tariff that protects ratepayers from undue burden that would result from other customers voluntarily bypassing their allocated portion of the storm costs.

Q: Are there any other misconceptions related to this process that you would like to address?

A: Yes. There have been comments in public forums related to utilities profiting from the increased natural gas prices during the event. It is important for the public to understand that the regulated utilities do not profit from the sale of natural gas.

Q: How can you assure the public that the utility does not profit from the sale of the natural gas commodity?

A: The public utilities purchase natural gas on the federally regulated natural gas market. This market is an internationally traded over the counter market with multiple delivery points. Utilities contract to purchase from suppliers based on their delivery locations within the natural gas transportation system. They must pay contracted prices or market prices. Most contract prices are at market, plus or minus depending on the contract provisions. The PUD, and other parties, audit these expenses every year to ensure they are passed through to consumers pursuant to the statute without markup or profit.

Q: Did Oklahoma Natural make money by producing and selling natural gas to the customers during the Winter Storm?

A: No. Oklahoma Natural does not own production and does not make any profit regardless of the price of the natural gas commodity. The extraordinary payments for natural gas went to the companies that delivered the physical commodity to the utility system for use by Oklahoma Natural Gas consumers.

Q: Does the OCC have any regulatory power over the price of the natural gas commodity on the open market?

A: No. The natural gas market, as stated previously, is a federally regulated over the counter market. The OCC has no authority to regulate or investigate the participants related to the commodity market. Those investigations are handled by the Federal regulators and the Oklahoma Office of the Attorney General as it relates to potential price gouging.

Q: Does the OCC have the authority to disallow the natural gas commodity expenses related to this Winter Storm?

A: The OCC is required by law to allow regulated utilities to recover all prudently incurred fuel costs. The Joint Stipulation in this cause finds the purchases were prudently incurred and therefore recoverable by Oklahoma law.

RECOMMENDATION

Q: What is the Public Utility Division's ("PUD") recommendation to the Oklahoma Corporation Commission ("Commission") concerning the Application filed by Oklahoma Natural Gas Company ("Oklahoma Natural") for a financing order pursuant to the February 2021 Regulated Utility Consumer Protection Act in Cause No. PUD 202100079?

A: PUD recommends the Commission approve the Joint Stipulation and Settlement Agreement ("Joint Stipulation") filed in this Cause on November 18, 2021. PUD believes this Joint Stipulation is fair, just, reasonable, and in the public interest.

I state, under penalty of perjury under the laws of Oklahoma, that the foregoing is true and correct to the best of my knowledge and belief.

Brandy Wreath

Brandy L Wreath

CERTIFICATE OF ELECTRONIC SERVICE

I, the undersigned, do hereby certify that on the 18th day of November 2021, a true and correct copy of the above and foregoing was sent electronically to:

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