

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICATION OF PUBLIC SERVICE)
COMPANY OF OKLAHOMA (PSO) FOR)
APPROVAL OF THE COST RECOVERY OF THE)
SELECTED WIND AND SOLAR FACILITIES)
(RENEWABLE RESOURCES); A)
DETERMINATION THERE IS A NEED FOR THE)
RENEWABLE RESOURCES; APPROVAL FOR) CASE NO. PUD 2022
FUTURE INCLUSION IN BASE RATES FOR)
COST RECOVERY OF)
PRUDENT COSTS INCURRED BY PSO FOR)
THE RENEWABLE RESOURCES; APPROVAL)
OF A TEMPORARY COST RECOVERY RIDER;)
APPROVAL OF CERTAIN TREATMENT OF)
FEDERAL PRODUCTION TAX CREDITS; AND)
SUCH OTHER RELIEF THE COMMISSION)
DEEMS PSO IS ENTITLED)

DIRECT TESTIMONY OF

MATTHEW A. HORELED

FOR

PUBLIC SERVICE COMPANY OF OKLAHOMA

NOVEMBER 2022

TESTIMONY INDEX

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1 I. INTRODUCTION

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

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

7 Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND
8 BUSINESS EXPERIENCE.

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

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

1 was transferred and promoted to Director of Business Operations Support for Kentucky
2 Power, with responsibility for all corporate budgeting, financial management, and
3 continuous improvement for the company. In April 2018, I assumed the position of
4 Director of Regulatory Services for Kentucky Power where I was responsible for the
5 supervision and direction of Kentucky Power's Regulatory Services Department, which
6 has responsibility for all rate and regulatory matters. I assumed my current position in
7 January 2019. I am responsible for PSO's regulatory matters, financial results and
8 financial plans in conjunction with other AEP organizations that impact PSO's
9 financial results. My responsibilities include all rate and regulatory matters, short- and
10 long-term financial forecasts, financial analyses, and monitoring financial results.

11 Q HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN A REGULATORY
12 PROCEEDING?

13 A. Yes. I filed testimony and have testified in the following six cases before this
14 Commission: PUD 201800097, PUD 201900048, PUD 202000097, PUD 202100040,
15 PUD 202100055 and PUD 202100076. I submitted testimony in Case Nos. 2018-
16 00311, 2018-00307, and 2018-00035 before the Kentucky Public Service Commission.
17 I submitted testimony on behalf of I&M before the Indiana Utility Regulatory
18 Commission in Cause No. 38702-FAC72, Cause No. 38702-FAC73, Cause No. 38702-
19 15 FAC74, Cause No. 43775 OSS-6, and Cause No. 44511-SPR1.

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II. EXECUTIVE SUMMARY

PSO’s request is being made pursuant to Title 17 O.S. § 286(C) (Section 286) for a determination of need and cost recovery of the Company’s proposed purchase of three solar facilities and three wind facilities totaling approximately 995.5 MW (Collectively, the Renewable Resources or Facilities) to satisfy a portion of PSO’s future capacity requirements. The Company is requesting the approval of the acquisition of each of the following facilities from Invenergy:

Table 1

	Wind		
	Flat Ridge IV	Flat Ridge V	Lazbuddie
Size (Nameplate Megawatt (MW))	135	153	265
Planned COD	December 2025	December 2025	April 2025
State	KS	KS	TX
County	Kingman & Harper County	Harper County	Parmer County
Location (RTO)	Southwest Power Pool (SPP)	Southwest Power Pool (SPP)	Southwest Power Pool (SPP)

	Solar		
	Chisholm Trail	Algodon	Pixley
Size (Nameplate Megawatt (MW))	103.5	150	189
Planned COD	December 2025	December 2025	April 2025
State	KS	TX	KS
County	Sedgwick County	Terry County	Barber County
Location (RTO)	Southwest Power Pool (SPP)	Southwest Power Pool (SPP)	Southwest Power Pool (SPP)

1 Total project costs for the Renewable Resources, including purchase price and owner's
2 costs, are expected to be approximately \$2.47 billion. The Company expects this
3 addition to generate approximately \$1 billion of PTC benefits over the life of the
4 projects.

5 The Company is further seeking additional regulatory approval of the following:

- 6 • OCC approval of a temporary Renewable Resources Rider to provide
7 allocation of costs between the classes of service and recovery of the cost
8 of the Renewable Resources between the date of commercial operation date
9 (COD) and ultimate inclusion in base rates in a subsequent base rate case.
- 10 • OCC approval of requested depreciation rates for the Facilities.
- 11 • OCC approval for requested treatment of Renewable Energy Credits
12 (RECs).
- 13 • OCC approval of PSO's request to provide customers with the earned PTC
14 benefit over a twenty-year term with the deferred PTCs recorded as a
15 regulatory liability on PSO's balance sheet and credited to rate base with
16 customers receiving a carrying charge at PSO's weighted average cost of
17 capital.

18 The Company's most recent Integrated Resource Plan (IRP), submitted to the
19 Commission in October 2021 (2021 IRP), was based upon a twelve percent summer
20 planning reserve margin (PRM), rather than the recently revised Southwest Power Pool
21 (SPP) PRM of fifteen percent. The 2021 IRP (exhibit C) evidences that PSO has a need
22 for additional capacity beginning in 2023 for 40 MW, growing to 80 MW in 2024 and
23 to 733 MW in 2025 based on SPP's twelve percent summer PRM in effect at that time.
24 The fifteen percent PRM mentioned above would add approximately 130 MW to these
25 capacity requirements. After reviewing various alternatives to fulfill the need for
26 additional capacity, it was determined that the preferred plan would be to acquire 4,150
27 MW of new renewable resources including 1,400 MW of wind generation for each of

1 the years 2024 and 2025 and 900 MW of solar generation in 2024 and 450 MW of solar
2 generation in 2025. PSO witness McMahon provides an explanation of the Company's
3 IRP and the preferred plan chosen to address PSO's capacity needs.

4 In response to this capacity need established in the 2021 IRP, PSO prepared and
5 issued Request for Proposals (RFPs) requesting up to 1,350 MW of Solar and 2,800
6 MW of wind resources. The Company's selection of the Renewable Resources was
7 conducted through an Independent Evaluator (IE) monitored RFP process done in
8 accordance with the Oklahoma Corporation Commission (OCC or Commission)
9 competitive bidding rules (OAC 165:35-34-1 *et. Seq.*).

10 The bidding process prohibited affiliate bidding and resulted in a robust bidder
11 response. As a result of the competitive bidding process, PSO has executed six
12 Purchase Sale Agreements (PSAs) with Invenergy LLC (Invenergy) that are contingent
13 upon the Commission making a determination that the Renewable Resources will be
14 used and useful for customers after COD has been achieved and therefore eligible for
15 cost recovery pursuant to Section 286.

16 PSO's ownership of the Renewable Resources will be beneficial for customers
17 for numerous reasons that I discuss later in my testimony. In addition, many of PSO's
18 customers have goals to reduce their carbon footprint. Adding additional renewable
19 resources to meet PSO's capacity needs will help contribute to our customers achieving
20 those goals and provide additional opportunities for economic development activities.

21 PSO is requesting that the depreciation, return, operation and maintenance
22 (O&M) expense, and property taxes associated with the Renewable Resources be

1 recovered through the Renewable Resources Rider until cost recovery can be
 2 accomplished through base rates.

3 The following witnesses testify to the following topics:

Table 2

Witness	Testimony Summary
Matthew A. Horeled	Need for Renewable Resources, PSO Policy, and Recovery Mechanism Request
Scott T. Bolan	RFP Process, Purchase and Sale Agreements
Beth E. Lozier	Description of Renewable Resources, Total Project Capital and O&M Costs
James F. Martin	RFP Economic Evaluation, Capacity Requirements, and Confirmation Analysis
James McMahan	Discussion of the Company's 2021 IRP and Confirmation Analysis
Kamran Ali	Deliverability Assessment and Congestion Modeling
Chad M. Burnett	Fundamental Forecast and Economic Impacts
David A. Hodgson	Federal Tax Credits
Noah K. Hollis	Credit Metrics and Financing
Alex E. Vaughan	Customer Impacts, Recovery Mechanisms, and Accounting Treatment

III. RECENT EVENTS SUPPORT REQUESTING APPROVAL
OF THE RENEWABLE RESOURCES

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- Q. WHY HAS PSO FILED THIS CASE?
- A. PSO filed this case seeking Commission approval to obtain Company-owned wind and solar renewable resources for a capacity need as identified in its 2021 IRP to serve customers as well as various regulatory approvals related to those resources.
- Q. DID PSO RECENTLY RECEIVE APPROVAL TO PURCHASE 675 MW OF WIND GENERATION?
- A. Yes. The Commission approved a settlement agreement that found PSO's purchase of 675 MW of wind resources from the North Central Energy Facilities (NCEF) would be used and useful for customers. Order No. 708933 was issued in case PUD 201900048 on February 20, 2020. Although the NCEF provided 675 MW of nameplate capacity, their primary purpose for purchase was driven by the energy cost savings to customers. NCEF will conservatively save PSO customers approximately \$156 million over a fifteen-month time period in fuel costs in PSO's current fuel factor approved in October 2022.
- Q. WHAT EVENTS HAVE OCCURRED SINCE THE COMMISSION ISSUED ITS ORDER IN PUD 201900048?
- A. PSO's 2021 IRP shows a need for additional capacity resources that will be filled by the Renewable Resources. Other subsequent events have only exacerbated the need and enhanced the value of the resources presented in this application. These events include:
- SPP has approved an increase in the summer PRM from a minimum of twelve percent to a minimum of fifteen percent;

- 1 • The SPP approved a new policy for determining a generation unit's capacity
2 accreditation which is anticipated to be phased-in during the 2024-2028 timeframe;
3 and,
4 • The Inflation Reduction Act (IRA) became law in August 2022.

5 This case is PSO's response to fulfilling the need to obtain necessary capacity resources
6 in the most beneficial way for customers.

7 Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

8 A. The remainder of my testimony is arranged as follows:

- 9 • Section IV discusses the benefits of the proposed Renewable Resources.
10 • Section V discusses the benefits of ownership.
11 • Section VI discusses PSO's compliance with Title 17 O.S. § 286(C).
12 • Section VII describes the RFP process outlined in Subchapter 34 of the
13 Commission's Electric Rules and employed by PSO to select the facilities PSO
14 proposes to acquire.
15 • Section VIII explains the regulatory treatment PSO is requesting for the
16 proposed acquisitions including customer impacts, recovery mechanisms, and
17 accounting treatment.
18 • Section IX discusses economic development.
19 • Section X is the conclusion.

20

21 IV. THE RENEWABLE RESOURCES BENEFIT CUSTOMERS

22 Q. WHY DOES PSO REQUEST AUTHORITY TO ACQUIRE THESE RENEWABLE
23 RESOURCES?

24 A. The 2021 IRP (exhibit C) evidences that PSO has a need for additional capacity
25 beginning in 2023 for 40 MW, growing to 80 MW in 2024 and to 733 MW in 2025
26 based on SPP's twelve percent summer PRM in effect at that time. The fifteen percent
27 PRM mentioned earlier would add approximately 130 MW to these capacity
28 requirements. After reviewing various alternatives to fulfill the need for additional

1 capacity, the preferred plan determined that the optimal selection was to acquire 4,150
 2 MW of new renewable resources including approximately 1,400 MW of wind
 3 generation for each of the years 2024 and 2025 and 900 MW of solar generation in
 4 2024 and 450 MW of solar generation in 2025. PSO witness McMahon provides an
 5 explanation of the Company's 2021 IRP and the preferred plan chosen to address PSO's
 6 capacity needs.

7 Q. WHAT FACILITIES DOES THE COMPANY PROPOSE TO ACQUIRE?

8 A. The Company is requesting the approval of the acquisition of each of the following
 9 facilities from Invenergy¹:

Table 1

	Wind		
	Flat Ridge IV	Flat Ridge V	Lazbuddie
Size (Nameplate Megawatt (MW))	135	153	265
Planned COD	December 2025	December 2025	April 2025
State	KS	KS	TX
County	Kingman & Harper County	Harper County	Parmer County
Location (RTO)	Southwest Power Pool (SPP)	Southwest Power Pool (SPP)	Southwest Power Pool (SPP)

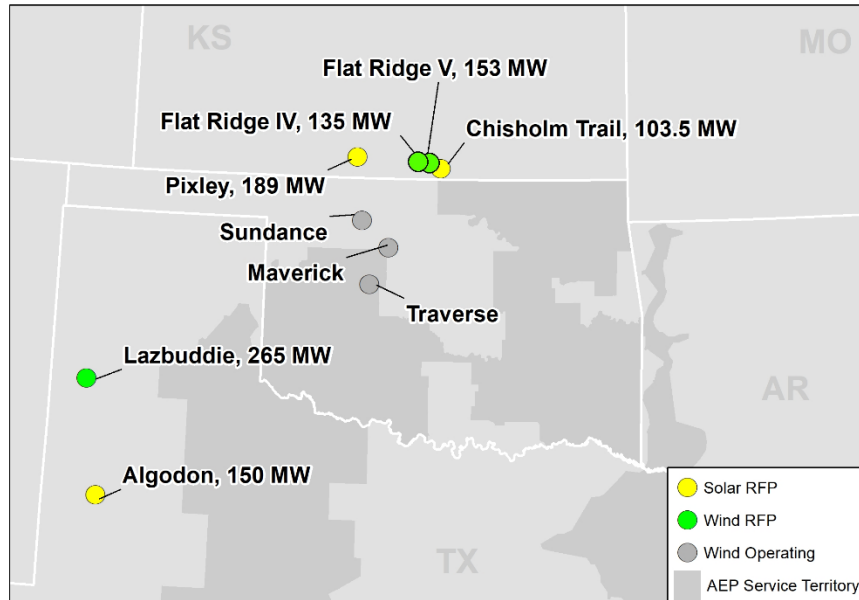
	Solar		
	Chisholm Trail	Algodon	Pixley
Size (Nameplate Megawatt (MW))	103.5	150	189
Planned COD	December 2025	December 2025	April 2025
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Location (RTO)	Southwest Power Pool (SPP)	Southwest Power Pool (SPP)	Southwest Power Pool (SPP)

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¹ A map of the facilities is attached hereto as Table 2

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Table 2



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3 Q. CAN YOU PROVIDE A HIGH-LEVEL OVERVIEW OF THE CONTRACTS
 4 GOVERNING THE PURCHASE AND SALE OF EACH OF THE FACILITIES?

5 A. Yes. Based on a robust competitive procurement process, the Company executed six
 6 PSAs with Invenergy for the Renewable Resources. The contracts govern the
 7 construction of the Renewable Resources by the Seller and the Company's purchase of
 8 100% of the equity interests of the project holding companies. The Company will be
 9 purchasing the project companies holding the wind facilities and the solar facilities
 10 upon their substantial completion. The RFP process and the PSAs are discussed in
 11 more detail by Company witness Bolan.

12 Q. WHAT IS THE EXPECTED TOTAL COST OF THE FACILITIES?

13 A. Total project costs for the Renewable Resources, including purchase price and owner's
 14 costs, are expected to be approximately \$2.47 billion as discussed by Company witness

1 Lozier. The Company expects this addition to generate approximately \$1 billion of
2 PTC benefits over the life of the projects as further discussed by Company witnesses
3 Vaughan and Hodgson.

4 Q. ARE THE EXPECTED COSTS GREATER THAN PREDICTED IN THE 2021 IRP?

5 A. Yes. Due to various market and economic conditions and supply chain issues, as
6 described by Company witness Bolan, expected costs are greater than contemplated
7 within the IRP. In response to these conditions, the Company evaluated the
8 appropriateness and value of the Renewable Resources within the context of the IRP,
9 by performing a Confirmation Analysis as described by Company witnesses Martin
10 and McMahon. The Confirmation Analysis confirmed that the addition of the
11 Renewable Resources was the least cost option over other alternatives to provide the
12 capacity needed for PSO's system.

13 Q. WHY IS TIMELY ACTION BY THE COMMISSION IMPORTANT?

14 A. Satisfactory regulatory approvals are conditions precedent to issuance of the Notices to
15 Proceed (NTP). NTP for the Pixley and Lazbuddie facilities must be issued by
16 September 2023, to support the project CODs by April 2025

17 Q. PLEASE SUMMARIZE THE CUSTOMER BENEFITS OF THE RENEWABLE
18 RESOURCES.

19 A. The Renewable Resources were determined to be the least cost resources, as compared
20 to other alternatives. The Renewable Resources will provide not only a part of the
21 capacity needed by PSO identified in PSO's 2021 IRP, but also a significant volume of
22 fuel-free energy that will provide a hedge against the risk of more volatile fuel prices
23 and potential future fuel price increases. The addition of the Renewable Resources

1 being added to PSO's generation mix will further diversify PSO's portfolio as
2 explained by Company witness Martin while taking advantage of PTC benefits. The
3 acquisitions are more economically beneficial than other generation alternatives as
4 demonstrated by the 2021 IRP and as discussed by Company witnesses Martin and
5 McMahan.

6 Q. WILL THE RENEWABLE RESOURCES PROTECT CUSTOMERS FROM THE
7 RISK OF FUTURE FUEL PRICE INCREASES?

8 A. Yes. The Renewable Resources would not be impacted if fuel prices increase in the
9 future, since they are powered by the wind and the sun. Current natural gas prices are
10 significantly higher than what they have been for the past few years, and they have
11 historically been quite volatile. During their expected lives, which should last decades,
12 the Renewable Resources will provide a physical hedge from the risk of increased
13 natural gas and power prices. An example of this, as I mentioned earlier, is the
14 Company's acquisition of the NCEF, which will conservatively save PSO customers
15 approximately \$156 million over a fifteen-month time period in fuel costs in PSO's
16 current fuel factor approved in October 2022.

17 V. UTILITY OWNERSHIP BENEFITS CUSTOMERS

18 Q. WHY IS IT IMPORTANT TO HAVE UTILITY OWNED RESOURCES AND NOT
19 ONLY PURCHASE POWER AGREEMENTS (PPAS)?

20 A. With PPAs already a significant part of the Company's generation portfolio, utility
21 ownership of the Renewable Resources provides better alignment and balancing of
22 utility and customer interests. Regulated utilities have an obligation to provide a cost-
23 effective and reliable supply of electricity for their customers. The utility's obligation

1 to serve, along with its long-term approach to resource planning, supports the utility-
2 ownership model and distinguishes it from PPAs, whose underlying resource owners
3 have no such obligation to serve. Further, utility ownership puts reliability at the
4 forefront by adopting design standards (including cold weather turbine packages) that
5 focus on a high facility availability throughout the year and especially during times of
6 grid stress. The reliability enhancing attributes of the Renewable Resources are further
7 discussed by Company witness Lozier.

8 Q. WHY DID PSO PURSUE ACQUISITION OF THE RENEWABLE RESOURCES
9 RATHER THAN ENTER INTO PPAs TO FULFILL ITS CAPACITY NEED?

10 A. Overall, ownership of the Renewable Resources will diversify PSO's generation
11 portfolio and offer numerous benefits for customers including:

- 12 • The ability to incorporate technological advancements and cost decreases in
13 technology after the in-service date, such as more efficient inverters or
14 turbines, storage co-location, and advanced winterization equipment, if
15 economical to do so, that can bring reliability and resource adequacy benefits
16 to customers.
- 17 • Ownership will allow PSO, on behalf of customers, to determine the
18 feasibility of running the facilities and supporting infrastructure beyond their
19 estimated depreciable life or of repowering facilities to maximize value to
20 customers.
- 21 • Control over facility operations throughout the life of the facilities and ability
22 to react to changes that may not be available under a PPA. Market conditions
23 or market rules pertaining to dispatch, forecasting, capacity markets,
24 frequency regulation, ancillary services, congestion and imbalance charges,
25 and other factors that continually evolve over time as the system shifts to
26 renewable generation. With direct operational control over this asset, the
27 Company would be better able to adapt to new market conditions than an asset
28 owned by a third party to preserve value and enhance customer
29 benefits. There would be no need to seek amendments to contractual
30 arrangements, to which a counterparty may or may not be amendable, to
31 conform to changing market conditions or rules, for example.

1 • The ability to manage congestion risk and preserve benefits of the renewable
2 facilities if congestion becomes a problem. The expected economic value of
3 existing and future wind and solar PPAs could be susceptible to erosion if
4 congestion grows in the SPP. In the event substantial congestion develops in
5 the future, project ownership provides PSO the option to construct a
6 generation tie-line, or transmission system upgrade, as a future risk mitigation
7 measure to relieve that congestion if, and when, it becomes economically
8 beneficial to do so. PPAs do not offer protection against congestion risks.

9 • Management of credit risk and metrics associated with PPAs.

10 • PSO, as a regulated public utility, has a duty to serve customers within its
11 service territory. Ownership of the renewable facilities subjects PSO to the
12 cost recovery oversight of the Commission regarding the prudence of how the
13 renewable facilities are maintained and operated.

14 Q. PLEASE DISCUSS FURTHER HOW FACILITIES OWNERSHIP AND
15 OPERATION WILL PROVIDE THE OPPORTUNITY TO MAXIMIZE VALUE TO
16 CUSTOMERS.

17 A. Ownership incentivizes the utility to meet its obligation to serve in a way that ensures
18 the benefits of that generation flow to its customers. Unlike the utility ownership
19 model, where utilities plan and operate resources to meet the energy and capacity needs
20 of their rate-paying customers at a reasonable cost, PPA owners negotiate each project
21 to maximize their own protection and financial well-being through various contractual
22 obligations within a PPA. Ownership allows the Company, on behalf of customers, to
23 have control of determining the feasibility of running the facilities beyond their
24 expected useful life, or to repower the facilities. These alternatives provide the
25 Company the ability to maximize the overall value to customers given the fuel-free
26 nature of the Renewable Resources. PSO's mix of PPAs in addition to ownership of
27 resources provides a good balance to provide reliable and cost-effective generation to
28 PSO's customers.

1 Q. ARE THERE ADDITIONAL BENEFITS TO ACQUIRING THE RENEWABLE
2 RESOURCES AT THIS TIME?

3 A. Yes. As discussed by PSO witness Hodgson, with the passage of the IRA there are
4 significant federal tax benefits available from pursuing the Renewable Resources now.
5 I discuss these benefits later in my testimony. These tax benefits serve to reduce the
6 cost of electricity for customers.

7 Q. PLEASE SUMMARIZE THE BENEFITS OF PSO OWNERSHIP OF THE
8 RENEWABLE RESOURCES.

9 A. The acquisition of the Renewable Resources will meet a portion of PSO's emerging
10 capacity need. Further, the Renewable Resources will:

- 11 • Provide customer value through delivery of PTCs associated with energy
12 production at the wind facilities and solar facilities;
- 13 • Continue PSO's strategy of diversifying its generation portfolio, including both
14 owned assets and PPAs, and mitigate fuel price volatility;
- 15 • Advance customers' sustainability and renewable energy goals;
- 16 • Assure that PSO will be in operational control of those assets needed to fulfill its
17 obligation to serve at all times.
- 18 • Provide options to manage congestion risk;
- 19 • Allow PSO to run the facilities longer than the depreciable life of the
20 Renewable Resources and to take advantage of new technology such as
21 battery storage, if economic to do so;
- 22 • Allow PSO to manage credit risk; and
- 23 • Subject PSO's operation and maintenance of the Renewable Resources to the
24 jurisdiction of the Commission for cost recovery purposes.

25

1 VI. PSO MEETS THE REQUIREMENTS OF TITLE 17 O.S. § 286(C)

2 Q. AT THE BEGINNING OF YOUR TESTIMONY YOU REFERENCE TITLE 17 O.S.
3 §286(C). HAS PSO, IN YOUR OPINION, COMPLIED WITH THE STATUTORY
4 REQUIREMENTS FOR THE COMMISSION TO GRANT PSO'S REQUESTED
5 RELIEF?

6 A. Yes. My understanding is that PSO's request complies with the requirements of
7 Section 286(C) that states in pertinent part:

8 An electric utility subject to rate regulation by the Corporation
9 Commission may elect to file an application seeking approval by the
10 Commission to construct a new electric generating facility, to
11 purchase an existing electric generation facility or enter into a long-
12 term contract for purchased power and capacity and/or energy,
13 subject to the provisions of this subsection. If, and to the extent that,
14 the Commission determines there is a need for construction or
15 purchase of the electric generating facility or long-term purchase
16 power contract, the generating facility or contract shall be
17 considered used and useful and its costs shall be subject to cost
18 recovery rules promulgated by the Commission. The Commission
19 shall enter an order on an application filed pursuant to this
20 subsection within two hundred forty (240) days of the filing of the
21 application, following notice and hearing and after consideration of
22 reasonable alternatives.

23 PSO's application seeks a determination that the purchase of the Renewable Resources
24 is a reasonable alternative to meet the identified need for capacity and provides a source
25 of low-cost energy from renewable resources that diversify PSO's portfolio. As further
26 discussed below, the testimony in support of the application demonstrates a need for
27 the purchase of the Renewable Resources to meet PSO's need for additional capacity,
28 and that PSO conducted an IE-monitored RFP process in accordance with Commission
29 Rules. The RFP drew a robust response, and the Company was able to conduct a
30 comprehensive evaluation of reasonable alternatives.

1 Q. HOW DOES PSO DEMONSTRATE A NEED FOR THE RENEWABLE
2 RESOURCES?

3 A. As stated previously, PSO's 2021 IRP identified a total of 4,150 MW of resources
4 comprised of up to 2,800 MW of near-term wind generation to be added in 2024 and
5 2025, and an additional 900 MW of solar generation to be added in 2024 and 450 MW
6 of solar in 2025, as economic resource additions to its generation portfolio to help PSO
7 satisfy a portion of the capacity needs identified in the 2021 IRP which is covered in
8 more detail in Company witness McMahon's testimony. PSO has an obligation to
9 serve and meet the capacity needs of its customers. The acquisition also adds fuel
10 diversity to PSO's portfolio.

11 Q. SECTION 286 REQUIRES THE COMMISSION TO CONSIDER REASONABLE
12 ALTERNATIVES. HOW DOES PSO'S APPLICATION PRESENT AND
13 FACILITATE CONSIDERATION OF REASONABLE ALTERNATIVES TO THE
14 RENEWABLE RESOURCES?

15 A. The Company's testimony in support of the application presents the identification and
16 analysis of reasonable alternatives in two phases. First, as described in the testimony
17 of Company witness McMahon, PSO's 2021 IRP process considers various supply-
18 and demand-side resource alternatives. Acquiring the proposed wind and solar
19 generation resources at this time is part of the preferred plan that resulted from the IRP
20 process of examining alternatives to ensure a reliable supply of capacity and energy to
21 customers at the least reasonable cost.

22 The second step in reviewing reasonable alternatives is the RFP process, which
23 is discussed in more detail in the testimony of Company witness Bolan.

1 The RFPs considered the various bid proposals and selected the proposals that
 2 best meet the need identified in the IRP preferred plan. In addition, as discussed in the
 3 testimonies of Martin and McMahon, the Company performed additional analysis (the
 4 Confirmation Analysis) to confirm that the addition of the Renewables Resources was
 5 the least cost option compared to other alternatives. The evidence presented with
 6 respect to identifying and analyzing reasonable alternatives allows the Commission to
 7 consider reasonable alternatives as required by the statute.

8

VII. THE SUCCESSFUL RFP PROCESS COMPLIED WITH
COMMISSION COMPETITIVE BIDDING RULES

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11 Q. DID THE COMPANY ISSUE RFPs TO ACQUIRE THE RENEWABLE
 12 RESOURCES?

13 A. Yes. PSO employed the competitive bidding process outlined in Subchapter 34 of the
 14 Commission's Electric Rules to identify and evaluate alternatives for the economical
 15 wind and solar resources identified by PSO's 2021 IRP. PSO designed its RFPs to be
 16 a market test of reasonable alternatives to meet its need for economical wind and solar
 17 resources which take advantage of tax credits which have been further enhanced by the
 18 IRA, particularly those resources with lower risk of congestion as measured by
 19 deliverability into the AEP West Zone², and for the feasibility of economically
 20 mitigating current and future transmission congestion risk as explained further by
 21 Company witness Ali. The Commission's rules express a preference for competitive

² AEP West Zone consists of the region of the SPP made up of the PSO and SWEPCO transmission system.

1 procurement by conferring a “presumption of prudence” when a utility “employ[s] the
2 competitive bidding procedures set for in this subchapter.” OAC 165:35-34-1.

3 Q. PLEASE OUTLINE THE MAIN STEPS IN THE RFP PROCESS.

4 At a high level, the RFPs included the following:

- 5 • Draft RFPs posted online (9/15/21)
- 6 • Bidders Technical Conference (11/3/21)
- 7 • RFPs Issued (11/17/21)
- 8 • Notice of Intent (11/21/21)
- 9 • Q&A Deadline (1/5/22)
- 10 • Proposal Due Date (1/13/22)
- 11 • Final Project Selection-Begin Negotiations (5/6/22)
- 12 • Execute Definitive Agreements (November 2022)

13 The Commission involvement was through the selection of an Independent
14 Evaluator (IE). The IE participated in the process at various stages, including being
15 present by video conferencing for the bid openings and reviewing the Company’s
16 process for selecting the Renewable Resources from the RFP bids.

17 Q. WERE AFFILIATE BIDS SUBMITTED IN RESPONSE TO THE RFPs?

18 A. No. The RFPs prohibited affiliate bids.

19 Q. HOW WOULD YOU DESCRIBE THE RESPONSE TO THE 2021 RFPs?

20 A. The Company was pleased with the robust response from the market. The Company
21 received 17 bids representing 5 unique wind and 12 unique solar projects totaling over
22 4,600 MW on January 13, 2022, in response to the RFPs. The projects were located in
23 Oklahoma, Texas, Kansas, and Missouri.

24

1 VIII. PSO IS REQUESTING FAIR REGULATORY TREATMENT

2 Q. WHAT SPECIFIC REGULATORY TREATMENT IS THE COMPANY
3 REQUESTING FOR THE PROPOSED ACQUISITION OF THE WIND AND
4 SOLAR FACILITIES?

5 A. The Company is requesting that the Commission issue an order finding, among other
6 things:

- 7 • That there is a need for the wind and solar facilities and that they are used and
8 useful pursuant to 17 O.S. § 286(C) as I explained earlier in my testimony.
- 9 • That PSO's RFP process complied with the Commission competitive bidding
10 rules and properly considered reasonable alternatives to the selected projects as
11 explained in my testimony.
- 12 • That the Commission establish a temporary rider as described by Company
13 witness Vaughan that provides for recovery of the costs of the Renewable
14 Resources until inclusion in PSO's base rates.
- 15 • That the Renewable Resources shall be depreciated at a 30-year rate for wind
16 and 35-year rate for the solar facilities, as reflected in Company witness
17 Vaughan's customer impact.
- 18 • That any proceeds from the sale of Renewable Energy Credits shall flow
19 through the Company's Fuel Adjustment Clause.
- 20 • That the PTCs be credited to customers over a twenty-year period and the
21 deferred PTCs be recorded by PSO as a regulatory liability on its balance sheet
22 and credited to rate base with customers receiving a carrying charge at PSO's
23 weighted average cost of capital through the Renewables Resources Rider as
24 described by Company witness Vaughan.

25 Q. HOW IS PSO PROPOSING TO RECOVER THE COST OF THE RENEWABLE
26 RESOURCES?

27 A. PSO is proposing the Renewable Resources Rider that becomes effective after each of
28 the Renewable Resources attains COD and ends when the costs have been recovered
29 after the Commission includes the Renewable Resources in base rates. The Renewable
30 Resources Rider would include depreciation, return, O&M expense, property taxes, and

1 PTC benefits. The testimony of Company witness Vaughan further describes the
2 Renewable Resources Rider and how the costs will be allocated between customer
3 classes.

4 Q. WHY IS COST RECOVERY NECESSARY BEFORE PSO FILES A BASE RATE
5 CASE?

6 A. An investment of this size requires a return to support PSO's cash flow and credit
7 metrics. PSO witness Hollis addresses this issue in more detail in his testimony.

8 Q. WHAT IS THE EXPECTED CUSTOMER IMPACT FROM THE RENEWABLE
9 RESOURCE RIDER?

10 A. Witness Vaughan details the customer impact in his testimony. The average residential
11 customer using 1,100 kWh will see a total net increase of approximately \$3.48/month
12 (2.6% total bill) when all facilities are included in the rider. The total PSO retail average
13 will be an increase of approximately 2.1% when all facilities are included in the rider.

14 Q. WHAT DEPRECIATION RATES ARE BEING REQUESTED FOR THE
15 RENEWABLE RESOURCES?

16 A. PSO is seeking approval of a 30-year depreciation rate for wind and a 35-year life for
17 the solar facilities. The proposed depreciation rates are utilized in the analysis of PSO
18 witness Vaughan. The Commission has approved a 30-year depreciation rate for wind
19 facilities in prior cases.

20 Q. HOW DOES PSO PROPOSE TO USE RECs TO BENEFIT CUSTOMERS?

21 A. PSO is proposing to reduce fuel expense by crediting the proceeds from the sale of
22 RECs to the fuel adjustment clause. This same treatment has been approved by the
23 Commission in prior cases.

1 Q. DID THE PASSAGE OF THE INFLATION REDUCTION ACT ENHANCE THE
2 VALUE OF THE RENEWABLE RESOURCES?

3 A. Yes. As explained in more detail in PSO witness Hodgson's testimony, the IRA is
4 expected to result in more federal income tax credits than before the IRA was passed.
5 The IRA also allows PSO to choose either Production Tax Credits (PTCs) or
6 Investment Tax Credits (ITCs) for the solar facilities. As discussed by PSO witness
7 Hodgson, the election of the PTC generates more federal income tax credits and is not
8 subject to normalization requirements of the ITC.

9 Q. PLEASE EXPLAIN PSO'S PROPOSED TREATMENT OF PTCs AND HOW THAT
10 TREATMENT BENEFITS CUSTOMERS.

11 A. The Renewable Resources are eligible to receive PTCs for ten years. As explained in
12 more detail by PSO witness Vaughan, if the PTCs are only credited to reduce costs to
13 customers over that ten-year period, there will be a much larger cost increase to
14 customers in year 11 than if the PTCs are provided to customers over the proposed
15 twenty-year period. The deferred PTCs will be recorded as a regulatory liability on
16 PSO's balance sheet and credited to rate base. Since customers will not be credited with
17 the PTCs until some future period, customers will receive a carrying charge at PSO's
18 weighted average cost of capital (WACC).

19 Q. ARE THERE OTHER BENEFITS FROM THE USE OF A TWENTY-YEAR
20 PERIOD BESIDES SMOOTHING OUT THE RATE IMPACT?

21 A. Yes. As explained by PSO witness Hollis, by use of the twenty-year period PSO's cash
22 flow will be improved which will enhance certain PSO credit metrics compared to a
23 ten-year period of crediting customers with the value of PTCs. Customers benefit when

1 a utility has good credit metrics which prevents a utility from being downgraded
 2 resulting in an increased cost of borrowing money.

3

4 IX. RENEWABLE RESOURCES IMPROVE
 5 ECONOMIC DEVELOPMENT OPPORTUNITIES

6 Q. IS THERE INTEREST FROM PSO CUSTOMERS AND PROSPECTIVE
 7 CUSTOMERS IN RENEWABLE RESOURCES?

8 A. Yes. Accessing renewable energy to meet sustainability goals or vendor requirements
 9 has become increasingly important to companies as they seek locations for expansions
 10 or new facilities. Numerous current and prospective customers have publicly stated
 11 sustainability and renewable energy goals, and they often seek assistance from PSO in
 12 achieving their goals. Table 3 below summarizes some of this publicly available
 13 information.

14

Table 3

Customer	Sustainability Goal
Energy Transfer	"Powering our assets through renewable energy sources in an established part of our operations when it is economically viable to do so"
International Paper Company	Reduce Scope 1,2, and 3 GHG emissions by 35% by 2030
Goodyear Tire & Rubber Company	Reduce CO2 intensity rate 25% by 2023
Oneok Partners	2.2 million metric ton reduction of combined Scope 1 and 2 emissions by 2030 (30% reduction from 2019)
Enterprise Products Partners	No specific target but state "We are committed to reducing the greenhouse gas (GHG) emissions intensity of our operations."
AT&T	Reduce our absolute Scope 1 and 2 GHG emissions by 63%
Phillips 66 Company	Reduce Scope 1 and 2 emissions 30% by 2030 and 50% by 2050
HP (formerly Hewlett-Packard)	Reduce HP value chain GHG emissions by 50% by 2030 (compared to 2019) and achieve net zero emissions by 2040
Walmart	Power 50% of global operations with renewable energy by 2025 and 100% by 2035.
Williams Companies	Reduce Scope 1 and 2 emissions 56% by 2030

1 Q. IS THERE A REGIONAL ECONOMIC DEVELOPMENT OPPORTUNITY FOR
2 OKLAHOMA BEYOND THOSE DISCUSSED ABOVE?

3 A. Yes. The Renewable Resources will have regional economic impacts from
4 construction and ongoing operations. In fact, the Company performed a study of the
5 economic impact of the Renewable Resources for the region. They will support
6 thousands of new jobs, create nearly \$4 billion in gross regional product, and provide
7 our state and local governments over half a billion in new tax revenues to be able to
8 provide better services to make our service territory even more attractive for future
9 economic development opportunities as discussed by Company witness Burnett.

10

11

X. CONCLUSION

12 Q. SHOULD THE COMMISSION APPROVE PSO'S APPLICATION?

13 A. Yes. Approval of PSO's application will allow PSO to begin acquiring the necessary
14 company owned capacity resources while taking advantage of the IRA's recently
15 enhanced PTCs. Approval will help PSO meet the enhanced SPP planning reserve
16 requirements and the future capacity accreditation standards. PSO and its customers
17 will additionally benefit from the purchase of the Renewable Resources because the
18 acquisitions will diversify PSO's generation portfolio with owned renewable resources,
19 which are fuel-free resources.

AFFIDAVIT OF MATTHEW A. HORELED

STATE OF OKLAHOMA)

COUNTY OF TULSA)

On the 8th day of November 2022, 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 8th day of November, 2022.

Barbara A. Postak

Notary Public

My commission expires: 11-12-2024

