

**BEFORE THE CORPORATION COMMISSION OF OKLAHOMA**

IN THE MATTER OF THE APPLICATION OF )  
OKLAHOMA GAS AND ELECTRIC COMPANY )  
FOR COMMISSION AUTHORIZATION OF A ) CAUSE NO. PUD 201400229  
PLAN TO COMPLY WITH THE FEDERAL CLEAN )  
AIR ACT AND COST RECOVERY; AND FOR )  
APPROVAL OF THE MUSTANG MODERNIZATION )  
AND COST RECOVERY )

Direct Testimony

of

Sheri Richard

on behalf of

Oklahoma Gas and Electric Company

August 6, 2014

Sheri Richard  
*Direct Testimony*

1 Q. **Please state your name, the position you hold, your employer and business address.**

2 A. My name is Sheri Richard. I am the Director of Revenue Requirements at Oklahoma Gas  
3 and Electric Company (“OG&E” or “Company”). My business address is 321 N.  
4 Harvey, Oklahoma City, Oklahoma 73102.

5  
6 Q. **Briefly summarize your education and professional qualifications.**

7 A. I earned a Bachelor of Science degree in accounting in 1992, and in 1994, I became a  
8 Certified Public Accountant licensed to practice in Oklahoma. I also have a Masters of  
9 Business Administration. Prior to joining OG&E, I was employed for 7 years by UICI, a  
10 state regulated insurance company. I have been employed at OG&E for over 14 years  
11 working in Financial and Regulatory Accounting, managing the Costing and Pricing  
12 department and now serving as Director of Revenue Requirements.

13

14 Q. **Have you previously testified before the Commission?**

15 A. Yes. I have testified before the Oklahoma Corporation Commission (“OCC” or  
16 “Commission”) in Cause Nos. PUD 200800059, PUD 200800398, and PUD 201100087.  
17 I have also testified on behalf of the Company before the Arkansas Public Service  
18 Commission.

19

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

21 A. My testimony explains OG&E’s request to recover both the costs to comply with the  
22 Regional Haze and the Mercury and Air Toxics Standards rules and the costs to  
23 modernize the Mustang facility through a periodic rate adjustment mechanism called the  
24 Environmental and Generation Plan (“EGP”) rider and through OG&E’s Fuel Cost  
25 Adjustment rider (OG&E’s fuel adjustment clause) or (“FAC”). I am also offering  
26 additional reporting to ensure full transparency of costs to be included in the EGP rider. I  
27 will also explain the customer bill impacts from implementing the EGP rider and from  
28 the proposed changes to the FAC.

1 Q. **How is your testimony organized?**

2 A. My testimony is organized into the following sections:

3 Section I: Requested Cost Recovery

4 Section II: Cost Recovery Calculation

5 Section III: Cost Category Explanation

6 Section IV: Allocation and Customer Impact

7

8

### **SECTION I: REQUESTED COST RECOVERY**

9

10 Q. **What recovery is the Company requesting in this cause?**

11 A. The Company is requesting a return on and recovery of the capital investment and  
12 recovery of other expenses and taxes through the EGP rider and the air quality control  
13 systems consumables (“AQCS”) costs recovery through the FAC for the environmental  
14 compliance plan and Mustang plant modernization projects.

15

16 Q. **Why is OG&E seeking cost recovery through a rider?**

17 A. OG&E is seeking recovery through a rider for the following reasons: A large part of the  
18 costs requested for recovery through the EGP rider are required to comply with rules and  
19 regulations as mandated by the Clean Air Act (“CAA”), specifically the Regional Haze  
20 Rule (“RHR”) and the Mercury and Air Toxics Standards (“MATS”) rule. These federal  
21 mandates are outside the control of OG&E. In addition, these costs are substantial. The  
22 proposed capital costs to comply with the CAA requirements and for the Mustang plant  
23 modernization is approximately \$1 billion. When compared to the Company’s current  
24 net generation assets of approximately \$2 billion, this is a substantial investment. In  
25 addition to the considerable capital costs, there are O&M costs that are incremental and  
26 recurring in nature.

27

28 Q. **How will the EGP rider benefit customers?**

29 A. The EGP rider benefits both customers and the Company by providing a smooth  
30 transition to full cost recovery over a period of years, mitigating rate shock, while still  
31 fairly compensating shareholders. As proposed, the EGP rider protects customers by

1 enhancing regulatory oversight with a true-up provision which ensures the Company only  
2 recovers its actual approved revenue requirement. In addition, regulatory oversight is  
3 also enhanced by supplementary reporting to track and audit the plan.  
4

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

6 A. For the EGP rider, the Company proposes to submit a report annually to the Commission  
7 staff. The Company will include in the report updated factors based on projected  
8 expenditures and adjusted or trued up for prior period over or under collections of  
9 revenue. The new EGP factors will become effective the first billing cycle of the month  
10 following the annual report.  
11

12 **Q. Please describe the supplementary reporting and review.**

13 A. For the EGP rider, the Company proposes providing the Commission staff supplementary  
14 reports annually detailing the projects to be included for recovery through the EGP rider  
15 for the next reporting period, the estimated costs associated with those projects, a  
16 comparison of prior period actual costs to previously supplied estimates, a brief  
17 description of the projects progress, as well as other workpapers and documentation  
18 supporting the projects and costs. This comprehensive set of reports is meant to provide  
19 staff greater detail for review and oversight of the environmental compliance projects and  
20 Mustang plant modernization. This allows staff the ability to review costs as they are  
21 incurred and included in the EGP rider, instead of reviewing all the costs after the  
22 projects are completed (see Exhibit SDR-1).  
23

24 **Q. Please generally describe the EGP rider being proposed in this cause.**

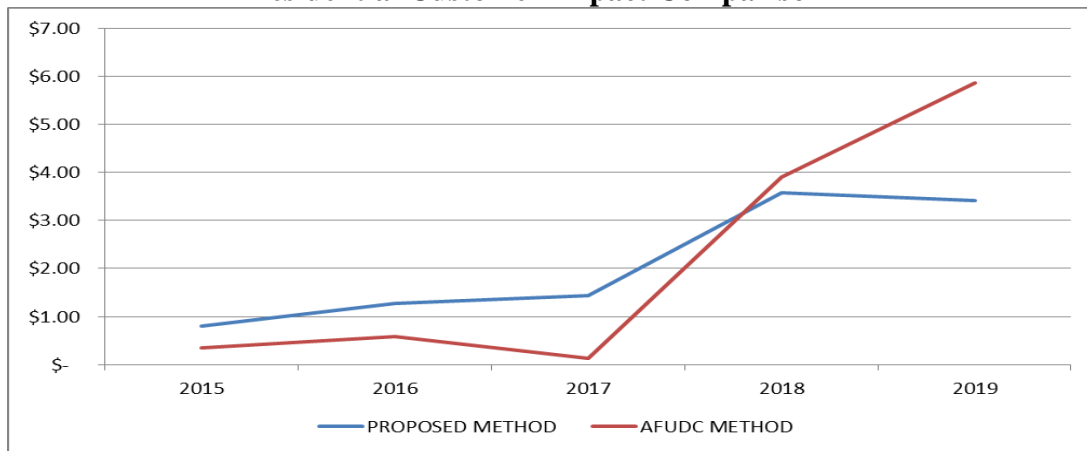
25 A. The EGP rider is designed to recover costs on a smoothed basis that are approved by the  
26 Commission in this cause. When approved, the EGP rider will be implemented the first  
27 billing cycle of the month following the Commission's final order in this cause and will  
28 continue until all approved EGP rider costs are included in base rates. The proposed EGP  
29 rider tariff is attached as Exhibit SDR-2.

1 Q. **Is there an alternative recovery method for calculating the revenue requirement for**  
2 **the EGP rider?**

3 A. Yes. The Company calculated an alternative recovery through the EGP rider assuming  
4 an accrual of allowance for funds used during construction (“AFUDC”) on capital  
5 investment instead of the current return on capital expenditures. However, this AFUDC  
6 method does not mitigate rate shock for customers since a substantial amount of the  
7 projects subject to this cause will be placed in service in 2018 resulting in a large and  
8 sudden increase. The Company’s proposed method mitigates rate shock by gradually  
9 spreading the recovery over a longer period of time. The chart below illustrates how the  
10 impact on residential customer bills can be affected by this AFUDC method as compared  
11 to the Company’s proposed method.

**Chart 1**

**Residential Customer Impact Comparison**



This chart illustrates the annual incremental changes to a residential bill excluding the FAC impact

12 Q. **Does the Company prefer either method?**

13 A. The Company is supportive of the EGP rider as proposed which minimizes the rate shock  
14 to customers. However, either method of recovery is an acceptable regulatory treatment.

15  
16 Q. **Please describe the Fuel Adjustment Clause.**

17 A. The FAC is a rider that was established by the Commission to deal with the volatility of  
18 fuel costs. Previously, fuel cost recovery was built into base rates and only changed in a  
19 rate case. In the last rate case, the Commission approved the removal of variable fuel and  
20 fuel related costs from base rates. The FAC ensures that fuel and energy related costs

1 recovered from customers match actual costs. These costs which include energy  
 2 purchases and sales are passed directly on to our customers without a markup or profit for  
 3 the Company.  
 4

5 **Q. Are there changes in the amount of costs flowing through the Fuel Adjustment**  
 6 **Clause?**

7 A. The Company's environmental compliance plan includes a conversion of OG&E's  
 8 Muskogee 4 and 5 coal units to natural gas. Because of this change in fuel source, there  
 9 will be changes in the amount of costs flowing through the Company's FAC rider. Also,  
 10 AQCS costs associated with the planned emission control technology will flow through  
 11 the FAC.  
 12

13 **Q. Has the Company estimated the additional Fuel Adjustment Clause related costs?**

14 A. Yes. As shown below, the Company estimates a range of \$37 million in 2016 to \$153.4  
 15 million in 2019. These costs will flow through the FAC as a result of the Company's  
 16 proposed environmental compliance and Mustang plant modernization projects.

**Chart 2**  
**Fuel Impact Summary**  
 (\$ Millions)

<b>Total Impact -FAC Costs</b>	2016	2017	2018	2019
Fuel Cost Decrease Due to Less MWhs Produced	(58.9)	(56.1)	(30.3)	(136.7)
Increase Due to Additional Variable Costs	33.4	38.4	52.1	42.0
Reduction of O&M due to less MWhs Produced	(3.9)	(3.7)	(4.0)	(13.6)
SPP IM Sales and Purchases	66.4	64.1	34.3	263.0
<b>Total Impact per IRP</b>	<b>37.1</b>	<b>42.6</b>	<b>52.2</b>	<b>154.8</b>
<b>Adjustments</b>				
Less Flyash Sales	-	-	(0.4)	(0.4)
Less Costs included in EGP rider	-	-	(0.6)	(1.0)
<b>Net Total Impact - Adjusted FCA Costs</b>	<b>37.1</b>	<b>42.6</b>	<b>51.2</b>	<b>153.4</b>

17 **Q. What specific relief is OG&E requesting with regard to the Fuel Adjustment Clause**  
 18 **relating to environmental compliance costs?**

19 A. The Company is requesting approval of changes to the FAC tariff (see Exhibit SDR-3) in  
 20 order to include the costs of certain commodities needed for the operation of  
 21 environmental control equipment installed or to be installed at OG&E's coal-fired and

1 natural gas-fired generating plants. These commodities are generally referred to as  
2 AQCS costs, and they are products “consumed” in environmental control technology for  
3 reducing air emissions. Examples of such products include limestone, powder activated  
4 carbon, and ammonia. The AQCS costs will be recorded in FERC accounts 502 and 548.  
5 The FAC tariff modification is needed to include these FERC accounts in the list of  
6 recoverable accounts.

7  
8 **Q. Why is the Fuel Adjustment Clause the appropriate mechanism for cost recovery?**

9 A. The AQCS costs are used in the electricity generation process. The costs of these AQCS  
10 costs are variable and highly correlated to the amount of fuel consumed and electric  
11 generation produced by the Company’s generating units.

12  
13 **Q. Has the recovery of AQCS costs through the Fuel Adjustment Clause been  
14 previously approved by the Commission?**

15 A. Yes, the Commission has approved FAC recovery of AQCS consumables (limestone,  
16 activated carbon and ammonia) for Empire District Electric Company<sup>1</sup>.

17  
18 **SECTION II: COST RECOVERY CALCULATION**

19  
20 **Q. How has the EGP rider cost recovery been calculated for purposes of this  
21 application?**

22 A. The rider cost recovery calculation or revenue requirement calculation, as it is often  
23 called, is the same calculation used in base rate case applications to determine the  
24 required revenues needed by a utility to recover its costs.

25 The return on capital investment is calculated by multiplying net assets by a  
26 Commission approved rate of return (“ROR”), which is comprised of a return on equity  
27 and a debt interest weighted against each other plus a factor to collect for income taxes.  
28 That return is then added to operation and maintenance (“O&M”) expenses, depreciation,

---

<sup>1</sup> Empire District Electric Company OCC Cause No. PUD-201100082 Order No. 592623.

1 property taxes and amortization to arrive at the revenues needed by the utility to recover  
2 its costs.

3  
4 **Q. Please provide a chart showing the resulting calculation you describe utilizing the**  
5 **costs related to the environmental compliance plan and Mustang plant**  
6 **modernization.**

7 **A.** Chart 2 below shows the revenue requirement calculation results using the Company's  
8 estimated costs related to the environmental compliance plan and Mustang plant  
9 modernization. Line 1 is the average capital investment for each year shown on a  
10 cumulative basis meaning each subsequent year includes the capital investment from the  
11 prior year. Line 2 is the return on the average capital investment including tax and lines 3  
12 thru 6 include all other expenses. Line 7, the revenue requirement, is the sum of lines 2  
13 through 6.

**Chart 3**  
**Revenue Requirement Summary**  
(\$ Millions)

<b>Line No.</b>	<b>Description</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>
1	Average Capital Investment	\$ 117.8	\$ 276.0	\$ 504.4	\$ 862.7	\$ 1,087.1
2	Return	13.8	32.3	59.1	101.1	127.4
3	O&M Expense	-	0.8	0.9	10.9	23.6
4	Depreciation	1.1	5.5	6.1	24.3	47.3
5	Property Tax	0.5	1.9	3.6	6.4	10.6
6	Regulatory Asset Amortization	-	-	-	-	5.9
7	Annual Revenue Requirement	\$ 15.4	\$ 40.5	\$ 69.6	\$ 142.7	\$ 214.7
8	OK Annual Revenue Requirement	\$ 13.8	\$ 36.3	\$ 62.3	\$ 127.7	\$ 192.2

Chart may not add down due to rounding

14 **SECTION III: COST CATEGORY EXPLANATION**

15  
16 **Q. Will you explain the line items contained in Chart 2?**

17 **A.** Yes. I will provide an explanation for each of the categories shown on lines 1-6.

1 Q. **Please describe what is included in the average capital investment category shown**  
2 **on line 1?**

3 A. The average capital investment for each year includes expenditures made in that year,  
4 plus any prior year expenditures, for environmental control equipment, combustion  
5 turbines, preliminary survey and investigation costs as well as infrastructure and other  
6 expenditures such as roads, buildings, and railways. In addition, the average capital  
7 investment category includes two proposed regulatory assets.

8

9 Q. **What is a regulatory asset?**

10 A. A regulatory asset is the capitalization of an incurred cost that would have otherwise been  
11 charged to expense. Upon regulatory approval, the Company may recover those costs  
12 over a defined period of time. The Company is requesting approval of two regulatory  
13 assets in its application. The two regulatory assets are for (i) stranded capital costs and  
14 (ii) O&M costs.

15

16 Q. **What are stranded costs?**

17 A. When assets are no longer actively supporting utility operations, the net asset amounts are  
18 removed from utility plant in service on the Company's books. The unrecovered portion  
19 of the capital cost is referred to as stranded costs.

20

21 Q. **Please describe the regulatory asset for stranded capital cost requested in this cause.**

22 A. The stranded capital cost is almost exclusively associated with the coal handling and  
23 processing and ash disposal equipment for Muskogee units 4 and 5. The proposed  
24 regulatory asset is designed to capture stranded capital cost associated with the  
25 conversion of the Muskogee coal units affected by RHR to utilize natural gas and are  
26 estimated to be \$35.6 million. The Company proposes to recover these stranded costs  
27 over 6 years beginning in 2018 through the EGP rider.

1 Q. **Is there the potential for other costs to be included in the regulatory asset for**  
2 **stranded costs?**

3 A. Yes. If the Mustang plant depreciation rates proposed by the Company are not approved  
4 there would be approximately \$10.8 million of stranded asset costs plus dismantlement  
5 costs. If the Mustang plant depreciation rates are approved, there will be no need for the  
6 regulatory asset and the additional depreciation expense will flow through the EGP rider.  
7 Witness John Spanos explains the new depreciation rates and why the rates are  
8 appropriate since existing units at the Mustang Facility are being retired.

9  
10 Q. **What will the Company do to ensure it does not over recover any stranded costs?**

11 A. As shown in Exhibit SDR-4, the Company has included a line to apply a credit for any  
12 stranded asset costs that are included in base rates as a reduction to the rider cost recovery  
13 calculation.

14  
15 Q. **Please describe the requested regulatory asset for O&M costs.**

16 A. OG&E expects to incur approximately \$0.5 to \$1 million in one-time O&M costs for  
17 witness fees, consulting and legal fees related to the Company's environmental  
18 compliance plan during 2014 and 2015. These costs are in addition to the Company's  
19 normal O&M. The Company proposes to recover these costs over 24 months beginning  
20 in 2015 through the EGP rider. This is similar treatment as approved by the Commission  
21 for rate case expenses.

22  
23 Q. **Please describe the return category on line 2 in Chart 2.**

24 A. This category is the yield on average capital investment which is derived by multiplying  
25 the ROR with tax or 11.7% by the average capital investment on line 1.

26  
27 Q. **Please describe what is included in the O&M expense category on line 3.**

28 A. This category includes incremental costs for labor, insurance, utilities, and materials that  
29 may be incurred as a result of the environmental compliance and Mustang plant  
30 modernization projects.

1 Q. **Are these labor costs already included in base rates?**

2 A. No. All of the labor costs included in the calculation of the revenue requirement are  
3 expected to be incremental and therefore are not currently part of base rates.  
4

5 Q. **Please describe the depreciation expense category shown on line 4.**

6 A. This category recovers the costs of the assets beginning when they are placed into  
7 service. A depreciation rate is calculated and applied to each asset or asset group based  
8 on a depreciation study. The Company contracted with Gannett Fleming to prepare a  
9 depreciation study and develop depreciation rates for the new emission control  
10 technology related to the Company's environmental compliance projects and to develop  
11 rates for the Mustang plant. Company Witness Spanos provides further details on this  
12 category.  
13

14 Q. **Please describe the property tax expense category shown on line 5.**

15 A. This category assumes a 1% property tax calculated on the capital investment at the  
16 beginning of each year.  
17

18 Q. **Please describe the regulatory asset amortization category shown on line 6.**

19 A. This category is for the amortization of the regulatory assets described above based on a  
20 6 year amortization period for the stranded cost regulatory asset and a 2 year amortization  
21 period for the O&M regulatory asset.  
22

#### 23 **SECTION IV: ALLOCATION AND CUSTOMER IMPACT**

24  
25 Q. **How will the revenue requirement be allocated to Oklahoma jurisdictional retail  
26 customers in the EGP rider?**

27 A. As reflected on line 8 in Chart 2, the revenue requirement from line 7 is allocated to the  
28 Oklahoma jurisdictional retail customer classes based on the production demand  
29 methodology agreed to in the Company's last general rate case. This methodology is  
30 commonly used for allocation of production assets that has been utilized in the past.

1 Q. **Please describe the EGP rider’s billing factor calculation.**

2 A. The billing factors for the customer classes identified in the EGP rider tariff are derived  
3 by dividing each class’s allocated costs by their respective projected annual kilowatt hour  
4 usage. These costs are based on a projected revenue requirement for that period, adjusted  
5 for any over or under collection from the previous year. However, in the first five years,  
6 each class’s billing factor will be limited to no more than an increase of 3.5% in a single  
7 year, exclusive of any over or under collection (see Exhibit SDR-2). This factor is  
8 calculated based on the class’s average customer bill utilizing the billing determinants  
9 from OG&E’s most recent rate case (Cause No. PUD 201100087).

10

11 Q. **What is the expected impact of the EGP rider on the average customer bill for the  
12 next 5 years?**

13 A. Utilizing the proposed allocations and estimated revenue requirements the EGP rider  
14 impacts are as shown in Chart 3 for the next five years.

**Chart 4**  
**EGP Rider Billing Impact**  
(\$/month)

Class	Average Monthly Bill	Average Monthly	2015	2016	2017	2018	2019	Total
Residential	\$ 108.51	1,100	\$ 0.80	\$ 1.27	\$ 1.44	\$ 3.57	\$ 3.42	\$ 10.50
General Service	\$ 185.61	1,800	\$ 1.33	\$ 2.13	\$ 2.41	\$ 5.98	\$ 5.72	\$ 17.58
Power & Light	\$ 2,982.53	43,000	\$ 21.22	\$ 33.89	\$ 38.24	\$ 95.08	\$ 91.00	\$ 279.43
Large Power & Light	\$209,584.22	4,100,000	\$ 1,526.34	\$ 2,437.33	\$ 2,750.76	\$ 6,838.93	\$ 6,544.83	\$20,098.18

15 Q. **Have you calculated what the overall customer bill impact is when including costs  
16 that flow through the FAC?**

17 A. Yes. Chart 5 shows the estimated bills by class for the EGP rider from Chart 3 above and  
18 FAC for 2015 through 2019. In this illustration, the bill impacts vary by year primarily  
19 due to changes in fuel costs and SPP Integrated Marketplace purchases attributable to the  
20 environmental compliance plan.

**Chart 5**  
**EGP Rider and FAC Billing Impact**  
(\$/month)

<b>Class</b>	<b>Average Monthly Bill</b>	<b>Average Monthly</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>Total</b>
Residential	\$ 108.51	1,100	\$ 0.80	\$ 2.74	\$ 1.63	\$ 3.88	\$ 7.26	\$ 16.30
General Service	\$ 185.61	1,800	\$ 1.33	\$ 4.59	\$ 2.73	\$ 6.49	\$ 12.16	\$ 27.31
Power & Light	\$ 2,982.53	43,000	\$ 21.22	\$ 90.95	\$ 45.81	\$ 106.89	\$ 240.24	\$ 505.10
Large Power & Light	\$209,584.22	4,100,000	\$ 1,526.34	\$ 7,683.36	\$ 3,446.16	\$ 7,923.95	\$20,265.32	\$40,845.12

1 Q. Does this conclude your testimony?

2 A. Yes.