

BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
 OKLAHOMA GAS AND ELECTRIC COMPANY)
 SEEKING A DECLARATORY ORDER)
 FINDING ITS MUSTANG GENERATION)
 PLANT MODERNIZATION PLAN IS)
 CONSISTENT WITH THE PUBLIC INTEREST)**

DOCKET NO. 17-030-U**SETTLEMENT AGREEMENT**

Comes now the General Staff of the Arkansas Public Service Commission (“Staff”), the Office of the Arkansas Attorney General Leslie Rutledge (“AG”) and Oklahoma Gas and Electric Company (“OG&E”), hereby collectively referred to as the “Settling Parties”, who agree to the following terms in settlement of all outstanding issues in the above-referenced docket.

1. PROCEDURAL SCHEDULE AND RECORD DEVELOPMENT:

OG&E filed its application, direct testimonies and exhibits (collectively the “Application”) with the Arkansas Public Service Commission (“Commission”) on August 15, 2017, seeking an order from the Commission finding that OG&E’s decision to construct a natural gas-fired combustion turbine generation facility in the State of Oklahoma is consistent with the public interest. After conducting extensive discovery, Staff and the AG filed Direct Testimony on November 15, 2017.

Subsequent to the filing of the Application by OG&E and the filing of the Direct Testimony by the Staff and the AG, the Settling Parties, in an attempt to enter into a settlement of the issues identified in this matter, met to discuss the outstanding issues, with each party being a strong advocate for its respective position. The result of such settlement discussions is that the Settling Parties to this agreement (the “Settlement Agreement”) have agreed to settle this case in its entirety based upon the following terms and conditions as outlined below.

2. **OG&E'S MUSTANG GENERATION PLANT MODERNIZATION PLAN:**

The Mustang Generation Plant Modernization Plan (the "Mustang Plan"), in part, consists of the retirement of OG&E's existing four natural gas-fired steam generation units located at its Mustang plant near OG&E's major load center, Oklahoma City. Two of the units were retired at the end of 2015, and the Modernization Plan calls for the retirement of the remaining two units at the end of 2017. The Modernization Plan also calls for the replacement of the capacity of the four (4) retiring natural gas steam turbines with seven (7) natural gas-fired, quick start combustion turbine ("CTs") at the existing site.

The existing Mustang steam units were brought into service in the 1950s and are some of the oldest natural gas steam generation units of their type and size operating in the United States. All of these units are well beyond the average life of these types of units. Retirement of the old Mustang steam units, and their replacement with the new highly efficient quick start natural gas-fired CTs, allows OG&E to take advantage of a well-established Mustang Plant site, with existing infrastructure in place, and to provide reliability benefits to OG&E's transmission system and the Southwest Power Pool. The quick start CTs also complement the increasing wind resources on OG&E's system and CTs will be better able to respond to the Southwest Power Pool Integrated Marketplace market signals due to their capability to have multiple starts per day, and also to come off-line quickly when not needed. OG&E believes that the facilities, i.e., the quick start CTs, chosen to replace the capacity currently provided by its steam generation units and the location of such new generation facilities at the existing Mustang Plant site is consistent with the public interest.

3. **SETTLEMENT ISSUES AND AGREEMENT:**

The Settling Parties agree as follows:

- A. The Settling Parties agree that the Mustang Plan, as specifically modified and addressed below, is consistent with the public interest.
- B. The quick start combustion turbines are needed to maintain OG&E's generating capacity and reserve requirements.
- C. The replacement of the retiring capacity at the Mustang site is critical to maintain reliable operation of the transmission system.
- D. The Settling Parties agree to utilize the depreciation rates presented in Table 2 of Staff witness Gerrilynn Wolfe's Direct Testimony.
- E. The Settling Parties agree that OG&E will use the depreciation rates previously approved in Order No. 8 of Docket No. 16-052-U for any plant assets that are added to plant accounts, other than those listed in witness Wolfe's Table 2, as a result of approval of the Mustang Plan.
- F. OG&E agrees to submit a comprehensive dismantlement study to support any future depreciation rate change requests that include terminal net salvage.
- G. The Settling Parties agree that while it is consistent with the public interest to approve the Mustang Plan, including the combustion turbines and their location at the current Mustang Plant site, OG&E's failure to specifically follow Ark. Code Ann. § 23-18-104, Construction of Power-generating Facilities Outside the State, warrants an adjustment for failing to comply with these specific Arkansas requirements and procedures. The Settling Parties agree that the appropriate adjustment is to require OG&E to credit Arkansas ratepayers \$300,000 annually for four (4) years for a total of \$1.2 million. This downward adjustment is based solely on OG&E's failure to comply with

Ark. Code Ann. § 23-18-104 by not obtaining the express written approval of the Commission prior to commencing construction of any power-generating facility to be located outside the boundaries of this state.

- H. The mechanism used to apply the \$300,000 annual credit to OG&E's customers' bills will be OG&E's Energy Cost Recovery Rider. The credit will be applied to each customer class based on the base rate revenues approved in Order No. 8 of Docket No. 16-052-U. The credit will be applied at a rate of \$25,000 per month for forty-eight (48) months.
- I. The Settling Parties agree that it is reasonable and in the public interest for the credit to implement the adjustment for failing to comply with these specific Arkansas requirements and procedures as soon as practical. Therefore, the Settling Parties agree that the credit will begin in the first billing cycle of the month immediately following the issuance of the Commission's Order in this proceeding adopting the terms of this Settlement Agreement.
- J. Consistent with OG&E's proposal, the Settling Parties agree that it is appropriate to include the cost of the Mustang Plan in OG&E's Formula Rate Plan filings and to provide recovery through that tariff mechanism.

4. **RIGHTS OF THE SETTling PARTIES:**

- A. This Settlement Agreement is made upon the explicit understanding that it constitutes a negotiated settlement which is in the public interest. Nothing herein shall constitute an admission of any claim, defense, rule or interpretation of law, allegation of fact, principle, or method of ratemaking or

cost-of-service determination or rate design, or cost-of-service allocation methods or factors or terms or conditions of service, or the application of any rule or interpretation of law, that may underlie, or be perceived to underlie, this Settlement Agreement.

- B. This Settlement Agreement is expressly contingent upon its approval by the Commission without modification. The various provisions of the Settlement Agreement are interdependent and unseverable. All parties shall cooperate fully in seeking the Commission's approval of the Settlement Agreement. The Settling Parties shall not support any alternative proposal or settlement while this Settlement Agreement is pending before the Commission.
- C. Except as to matters specifically agreed to be done or occur in the future, no party shall be precluded from taking any position on the merits of any issue in any subsequent proceeding in any forum. This Settlement Agreement shall not be used or argued as establishing precedent for any methodology or rate in any future proceeding.
- D. In the event the Commission does not accept, adopt, and approve this Settlement Agreement in its entirety and without modification, the Settling Parties agree that this Settlement Agreement may be declared null and void and of no effect by any party. In that event, however, the Settling Parties agree that: (a) no party shall be bound by any of the provisions or agreements hereby contained; (b) all parties shall be deemed to have reserved all their respective rights and remedies in this proceeding; and (c) no party shall

introduce this Settlement Agreement or any related writing, discussion, negotiations, or other communications or any type in any proceeding.

Respectfully submitted,

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