

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)	DOCKET NO. 17-030-U
PLANT MODERNIZATION PLAN IS)	
CONSISTENT WITH THE PUBLIC INTEREST)	

DIRECT TESTIMONY

OF

REGINA L. BUTLER
DIRECTOR
ELECTRIC UTILITIES SECTION

ON BEHALF OF THE GENERAL STAFF OF THE
ARKANSAS PUBLIC SERVICE COMMISSION

NOVEMBER 15, 2017

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INTRODUCTION

Q. Please state your name and business address.

A. My name is Regina L. Butler and my business address is Arkansas Public Service Commission (Commission), 1000 Center Street, Little Rock, Arkansas 72201.

Q. By whom are you employed and in what capacity?

A. I am currently employed by the Commission's General Staff (Staff) as Director of the Electric Section. In that capacity, I am responsible for coordination and development of Staff's case in electric utility filings, including rate cases, certificate cases, rulemakings, and tariffs. I analyze utility company filings, identify and evaluate issues, develop positions on those issues and present those positions, when necessary, in written and oral testimony before the Commission.

Q. Please state your qualifications and background.

A. I have more than twenty-seven years of experience in utility accounting and regulation. I was employed by Entergy Services, Inc., for more than five years and served as an Accountant in Property Accounting and General Accounting. I was employed by Alltel Communications, Inc., for nine years and served in various capacities, including Supervisor in General Accounting and Revenue Analyst in Revenue Assurance. I joined Staff in April 2004 as a Rate Analyst. In June 2006, I was promoted to Audit Supervisor. In October 2008, I was

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1 promoted to Senior Rate Case Analyst. In October 2016, I was promoted to my
2 current position. My educational qualifications include a Bachelor of Business
3 Administration in Accounting from the University of Central Arkansas and a
4 Master of Business Administration from the University of Arkansas at Little Rock.
5 I am a Certified Public Accountant licensed to practice in Arkansas. Since joining
6 Staff, I have received specialized training, including the National Association of
7 Regulatory Utility Commissioners Annual Regulatory Studies Program at
8 Michigan State University. I have previously presented testimony before the
9 Commission concerning various ratemaking, revenue requirement, and policy
10 issues for electric utilities.

11 **PURPOSE OF TESTIMONY**

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

13 A. I address the Application Seeking a Declaratory Order Finding its Mustang
14 Generation Plant Modernization Plan is Consistent with The Public Interest
15 (Application) filed by Oklahoma Gas and Electric Company (OG&E or Company)
16 on August 15, 2017. Specifically, I address cost recovery issues associated with
17 the Mustang Plant as described in the Direct Testimony of Company witness
18 Donald Rowlett. Staff witness Clark Cotten addresses the need for the proposed
19 facilities. Staff witness Gerrilynn Wolfe addresses OG&E's proposed
20 depreciation rates for the Mustang Plant.

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COST RECOVERY

Q. How does OG&E propose to recover the costs associated with its Mustang Modernization Plan?

A. OG&E proposes to seek recovery of the new Mustang combustion turbines (CTs) through its Formula Rate Plan Rider (Rider FRP) approved in Docket No. 16-052-U.¹ OG&E's first filing under Rider FRP will be made in October 2018 and will include the projected year of April 1, 2019 through March 31, 2020.

Q. Did OG&E estimate the revenue requirement for the Mustang Plant?

A. Yes. Based on the estimated total cost of \$390 million, OG&E witness Rowlett provided an estimated Arkansas-jurisdictional revenue requirement of \$3.7 million for the term of the Company's first Rider FRP filing.²

Q. Do you agree with this estimate?

A. I agree that the method OG&E used to calculate the estimated revenue requirement is consistent with the requirements of Rider FRP. However, I have calculated an estimated Arkansas-jurisdictional revenue requirement of \$3.8 million by applying Staff witness Wolfe's proposed depreciation rates to the Company's most recent estimate of the total capitalized costs for the Mustang Plant by FERC account. The actual revenue requirement to be recovered will be reviewed in OG&E's October 2018 Rider FRP filing. Because the project will be

¹ Direct Testimony of Donald Rowlett, p. 15, lines 3-6.

² *Id.* at lines 19-21.

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1 completed and final costs will be known at the time of the Company's first Rider
2 FRP filing, actual costs will be reflected at the time of the filing.³

3 **Q. Are there any issues associated with OG&E's request related to the**
4 **Mustang Plant?**

5 A. Yes. Company witness Rowlett describes two issues associated with OG&E's
6 decision to construct the Mustang Plant that must be addressed. First, Mr.
7 Rowlett acknowledges that OG&E has failed to comply with Ark. Code Ann. § 23-
8 18-104 which requires the Company to obtain the express written approval of the
9 Commission prior to commencing construction of generating facilities outside of
10 the state.⁴ Second, OG&E did not comply with Section 4.6 of the Commission's
11 *Resource Planning Guidelines for Electric Utilities* (Resource Planning
12 Guidelines), which requires a self-build option to be compared to market
13 opportunities identified through a competitive bidding process. According to Mr.
14 Rowlett, the Company did not conduct a competitive bidding process for the
15 capacity that would be needed after the retirement of the old Mustang units
16 because the Company had investigated other existing generation in and around
17 OG&E's service territory and determined that none of those alternatives were
18 available in 2018 or consistent with the Company's needs.⁵

19 **Q. Are you recommending an adjustment due to OG&E's failure to comply**
20 **with the requirements of Ark. Code Ann. §23-18-104?**

³ *Id.* at lines 21-23.

⁴ *Id.* at 12, lines 4-7.

⁵ *Id.* at 13, line 4-10.

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1 A. Yes. Ark. Code Ann. § 23-18-104(c) states that failure to comply with the
2 requirements of this section shall constitute grounds for disallowance of all of the
3 costs and expenses associated with the facility. Because Staff witness Cotten
4 has found that constructing the new generation facilities at the Mustang Plant is
5 in the public interest, I do not recommend a disallowance of the entire investment
6 in the seven new CTs at the Mustang Plant. However, an adjustment is
7 warranted due to OG&E's failure to comply with the requirements of Ark. Code
8 Ann. §23-17-104. In lieu of a disallowance of the entire investment in the seven
9 new CTs at the Mustang Plant, I recommend a downward adjustment to the
10 amount OG&E is allowed to recover in rates. Specifically, I recommend that the
11 Commission implement this adjustment by requiring OG&E to credit Arkansas
12 ratepayers \$300,000 annually for four years for a total of \$1.2 million. The effect
13 of this adjustment is to the recovery of the revenue requirement associated with
14 the seven CTs installed at the Mustang Plant from OG&E's ratepayers during the
15 first four year of those units' operation. Although I am not recommending the
16 downward adjustment on this basis, I provide the following solely for the purpose
17 of demonstrating the order of magnitude. The \$300,000 credit to Arkansas
18 customers is comparable in effect to reducing OG&E's authorized return on
19 equity on OG&E's investment in the seven new CTs located at the Mustang Plant
20 by 150 basis points. The downward adjustment I recommend is based solely on
21 OG&E's failure to comply with Ark. Code Ann. §23-18-104. The parties can

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1 address the mechanism through which this bill credit will flow to OG&E's
2 ratepayers in subsequent filings in this docket.

3 **RECOMMENDATIONS**

4 **Q. Please summarize your recommendations.**

5 A. I recommend that recovery of the revenue requirement for the seven CTs
6 installed at the Mustang Plant be addressed in OG&E's Rider FRP. Due to
7 OG&E's failure to comply with the requirements of Ark. Code Ann. § 23-18-104. I
8 also recommend that OG&E be required to credit Arkansas ratepayers \$300,000
9 annually for four years for a total of \$1.2 million as discussed herein.

10 **Q. Does this conclude your testimony?**

11 A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served on all parties of record by electronic mail via the Electronic Filing System this 15th day of November, 2017.

/s/ Justin A. Hinton
Justin A. Hinton