

BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
OKLAHOMA GAS AND ELECTRIC COMPANY)	
SEEKING A DECLARATORY ORDER FINDING)	DOCKET NO. 17-030-U
ITS MUSTANG GENERATION PLANT)	
MODERNIZATION PLAN IS CONSISTENT)	
WITH THE PUBLIC INTEREST)	

Direct Testimony

of

Donald Rowlett

on behalf of

Oklahoma Gas and Electric Company

Donald Rowlett
Direct Testimony

1 Q. **Please state your name, your employer, and business address.**

2 A. My name is Donald R. Rowlett. I am employed by Oklahoma Gas and Electric Company
3 (“OG&E” or “Company”) and my business address is 321 N. Harvey Ave, P.O. Box 321,
4 Oklahoma City, Oklahoma 73101.

5
6 Q. **What position do you hold with OG&E?**

7 A. I hold the position of Managing Director of Regulatory Affairs at OG&E.
8

9 Q. **Please state your educational qualifications and employment history with OG&E.**

10 A. I earned a Bachelor of Science Degree in Business with an accounting emphasis (1980)
11 and a Master’s in Business Administration (1992) from Oklahoma City University. I have
12 also completed all work, except for the dissertation, on a Ph.D. degree from Oklahoma
13 State University in Business Administration. In 1983, I became a Certified Public
14 Accountant. I joined OG&E in 1989. I currently serve as Managing Director of
15 Regulatory Affairs where I am responsible for overseeing the Company’s economic
16 regulatory activities with the Oklahoma Corporation Commission, the Arkansas Public
17 Service Commission, and the Federal Energy Regulatory Commission. I have served in
18 various financial roles in the Company, including ten years as Vice President, Controller,
19 and Chief Accountant. As the Company’s Controller, I was responsible for financial and
20 operations accounting, federal, state, local income and property taxes, and budgeting. I
21 have also made investor presentations and participated in numerous public equity and debt
22 offerings. Prior to joining OG&E, I was employed by Arthur Andersen & Company as a
23 financial consultant and audit manager. During my employment, I performed audits of
24 financial statements in a variety of industries. Additionally, I prepared filings with the
25 Securities and Exchange Commissions (“SEC”) and provided clients with guidance on the
26 financial reporting requirements of the SEC and Generally Accepted Accounting
27 Principles (“GAAP”).

1 Q. **Have you testified previously before the Arkansas Public Service Commission**
2 **(“APSC” or “Commission”)?**

3 A. Yes, including most recently in Docket No. 16-052-U, OG&E’s recently settled general
4 rate case and Docket No. 15-034-U, OG&E’s filing under Act 310 of 1981, as amended
5 by Act 1000 of 2015. I have also testified before the Oklahoma Corporation Commission
6 (“OCC”), and before the Environmental and Public Works Committee in the United States
7 Senate.

8
9 Q. **What is the purpose of your Direct Testimony in this proceeding?**

10 A. My testimony supports OG&E’s request for approval of the Company’s plans to
11 modernize the Mustang generating plant. I explain why the Company decided to retire the
12 old Mustang units, how strategically important the existing Mustang site is for reliability
13 of the OG&E transmission system, and why quick-start Combustion Turbines (“CTs”) are
14 the best technology to be installed at the Mustang site. I will then discuss the procedural
15 background of this application and why the Company is bringing this application at this
16 time. My testimony also explains why OG&E believes such plans are reasonable and
17 should be approved by the Commission as being consistent with the public interest.

18
19 Q. **What is the Mustang modernization plan?**

20 A. The Company has decided to replace the capacity of the steam units at the Mustang plant
21 with natural gas-fired, quick-starting combustion turbines at the existing plant site. The
22 existing Mustang generating units were brought into service in the 1950s and those units
23 are some of the oldest generation units of their type and size currently operating in the
24 United States. All of Mustang’s steam units are well beyond the average life for this type
25 of unit. OG&E Witness Burch testifies in detail about both the need to retire the old
26 Mustang units and the selection of the new CT technology.

27
28 **OG&E’s Mustang Decision**

29 Q. **Can you describe the situation OG&E faced regarding the Mustang Power plant?**

30 A. OG&E management faced an intricate web of difficult interrelated considerations and
31 decisions in 2014. As I explain more fully below, the Company had a very old set of steam

units that needed to be retired for a number of financial, operational, reliability and safety reasons. With such retirements, OG&E had a need for new capacity and a very strategically valuable Mustang generating site located near OG&E's largest load center of Oklahoma City. OG&E also realized that it had an opportunity to utilize this important Mustang site by leveraging the existing facility's air permit, infrastructure and workforce. As estimated by Burns and McDonnell, utilizing the existing site OG&E reduces the total investment required by \$45 million. At the same time, OG&E saw a need for more quick-start CTs and determined that, not only were CTs the lowest cost option studied in the IRP, but they were the only realistic option at the Mustang site. Also, and most importantly, continued use of the Mustang site and CTs in particular would be able to provide reliability benefits to the transmission system, complement increasing wind resources on the transmission system and be able to respond better to market signals.

Q. Given those facts, what decision did OG&E ultimately make?

A. OG&E management decided to move forward with the retirement of the old units, take advantage of a well-established Mustang plant site with key reliability benefits and existing infrastructure and replace the obsolete units with new quick start natural-gas fired CTs.

Q. Does OG&E believe that this decision is reasonable and consistent with the public interest?

A. Absolutely. The need to retire the Mustang units was clear and difficult to rationally dispute. That left the need to replace the capacity. The Company's operational people strongly believed that the capacity needed to be located in close proximity to our largest load center, which is Oklahoma City. The Mustang plant site had unique benefits to the security of the transmission grid, a significant amount of the necessary infrastructure already in place, a trained and skilled workforce and, importantly, the support of the community in which it is located. Witnesses McAuley and Nickell explain in greater detail why the Mustang site is so valuable. Selecting CTs also made sense. These quick start units accommodate greater amounts of variable generation such as wind and solar power and add dynamic, next generation technology to the new regional market. Given

1 these factors, OG&E believes that the decision was reasonable and consistent with the
2 public interest.

3
4 **Q. Please elaborate on the age of the old Mustang units and the need to retire them by**
5 **2018.**

6 A. The generating units at the Mustang site were reaching the end of their lives. While the
7 Mustang units were based on the most advanced technology available in the 1950s, they
8 were becoming obsolete. Significant investment was necessary to maintain the units'
9 reliability and safe operations. Faced with these concerns and the safety concerns of
10 operating high pressure and high rotating speed parts on such old units, OG&E made the
11 decision to retire those units as soon as practicable. Mustang Units 1 & 2 became
12 operational during the Truman Administration and were some of the oldest natural gas-
13 fired steam units in the United States before they were retired in 2015. Mustang Units 3 &
14 4 became operational in the Eisenhower Administration and are currently some of the
15 oldest units of their size and class in the United States. It not only was going to be
16 expensive to keep those old units operating, but there was no guarantee that the units
17 would not break down after investing over \$75 million. For example, as discussed by
18 OG&E Witness Burch, Mustang Unit 4 sustained a cracked rotor in 2010 and, if OG&E
19 had not discovered the crack, the unit could have sustained a catastrophic failure rendering
20 the unit inoperable and irreparable. With units of such advanced age, key components are
21 subject to failure at any time despite the best O&M practices.

22
23 **Q. How did OG&E approach its decision to construct CTs at the Mustang site?**

24 A. Having made the decision to retire the existing Mustang units, OG&E now had to decide
25 how to replace the capacity lost from those retirements. As detailed in the Company's
26 August 2014 Integrated Resource Plan ("IRP"), retiring the old Mustang Units reduces
27 OG&E's generating capacity by 480 MW. As this Commission is aware, OG&E must
28 have enough generation capacity to meet its load plus a reserve amount as determined by
29 the Southwest Power Pool, Inc. ("SPP"). With the retirement of the old Mustang Units,
30 OG&E's IRP shows that OG&E will need additional capacity beginning in the summer of
31 2018.

1 Q. **Once the need for additional capacity was established, how did OG&E narrow its**
2 **choice to install CTs at the Mustang site?**

3 A. OG&E had to choose the type of generation technology it needed to install and where it
4 needed to locate the capacity. Quick-starting CTs were highly desirable for several
5 reasons. This quick start ability allows the units to supply power during peak demand,
6 serve unscheduled demand, and supply ancillary services to the grid (such as operating
7 reserves and VAR support) while delivering better reliability, improved efficiency, better
8 load responses, improved operational flexibility and lower emission rates. Quick start
9 CTs can respond quickly to market signals in the SPP Integrated Marketplace ("IM"), are
10 capable of multiple starts per day and can come off-line quickly when not needed. Most
11 importantly, with the growth of highly variable renewable generating resources in the SPP
12 and OG&E's service territory, such quick-starting CTs are able to respond quickly to
13 changing conditions inherent with such variable generation resources like wind and solar.

14 Of OG&E's approximately 7000 MW of generating capacity, quick start CTs only
15 currently constitute about 150MW; a very small percentage of OG&E's current generation
16 fleet. As discussed by OG&E Witness Nickell, in a region that has seen wind generation
17 reaching 54% of the total generation in the SPP and representing about 20% of the total
18 SPP capacity, it is concerning for transmission system operators when that generation is
19 being relied on and the wind stops blowing. The SPP needs quick starting generation to
20 step in and replace that generation if Mother Nature intervenes. Adding 462 MW of
21 flexible, quick start CTs in a market containing such high levels of wind and solar
22 improves reliability. Since reliability is one of the key objectives in every decision that
23 OG&E makes, the Company believes that additional CTs are essential to ensure reliability
24 on the grid.

25
26 Q. **Were there any SPP studies that confirmed the need for CTs and specifically at the**
27 **Mustang site?**

28 A. Yes. Most recently, the SPP conducted a voltage stability study to investigate the impact
29 of variable wind generation levels on voltage stability on the SPP transmission system.
30 The results of the study showed that even at wind generation levels much lower than those
31 levels currently experienced, the Oklahoma City area (the Company's largest load center)

1 could experience system overloads and voltage collapse under certain circumstances (like
2 the loss of a key transmission line). As testified by Witness Lanny Nickell, Vice President
3 of Engineering at the SPP, quick start CTs at the Mustang site are critical to mitigate those
4 overloads and limit exposure to any voltage collapse situations, especially in an
5 environment of fluctuating wind generation. This study, and the testimony of Mr. Nickell,
6 validates OG&E's view that the location of the CTs at Mustang is important for system
7 reliability reasons. In his testimony, Mr. Nickell concludes that "the availability of
8 generation at Mustang is critical to reliable system operations in the Oklahoma City area.
9 The generation OG&E has chosen, fast-start CTs, provides a valuable reliability tool to
10 more quickly respond to system loading and voltages in the largest load center of
11 Oklahoma."

12
13 **Q. Were there any other reasons that demonstrated that quick start CTs made sense at**
14 **the Mustang site?**

15 **A.** Yes. CTs made sense because CTs constituted the least cost option of the resource
16 planning scenarios studied in the 2014 IRP and was the only technology that actually
17 made sense at the Mustang site. It would not make sense to construct a Combined Cycle
18 Unit at the Mustang Site because it would be restricted based on permit-based emission
19 restrictions to operations at a capacity factor between 27% and 38%. Such a low capacity
20 factor would not justify the additional level of capital investment necessary to build a
21 Combined Cycle plant.

22
23 **Q. Why did OG&E focus on installing its new generation only at the Mustang site?**

24 **A.** There were several reasons why OG&E decided to install the CTs at the Mustang site.
25 The largest benefit to the utilization of the Mustang site is the value that the site brings
26 from a reliability perspective. As testified by OG&E Witness McAuley, CTs at the
27 Mustang site would be the perfect solution for managing increases or decreases in voltage
28 to stabilize the transmission system. Further, the site's connection to both the 138kV and
29 69kV transmission systems on the west side of Oklahoma City provides specific

1 operational and reliability benefits including reduced line losses, reduced line congestion
2 and cost, voltage control support, and support for the Company's system restoration plan¹.

3 Moreover, it is extremely rare to have a site that is both favorably situated near a
4 load center and has many of the necessary attributes that are required to operate the
5 facility and transmit the electricity that is produced. The Mustang location already has the
6 necessary infrastructure in place to support a generating facility, including a secure
7 property, roads, facilities to support operations and maintenance, water supply and rights,
8 fuel supply facilities, and most importantly, existing switchyard interconnections to both
9 the 138kV and 69kV transmission systems. As discussed by OG&E Witness Burch,
10 utilizing this existing infrastructure at the Mustang site is estimated to save OG&E
11 between \$45 and \$50 million compared to replicating that same infrastructure at a new
12 greenfield facility.

13
14 **Q. What other key factors led OG&E to focus on the Mustang site for the location of the**
15 **new CTs?**

16 **A.** OG&E also had the ability to utilize emission "netting" to combine the retirements of the
17 old units with the construction of the new units and obtain a permit without a "net"
18 increase in emissions. This emission "netting" allows OG&E to maximize the benefit of
19 newer, more efficient generation at the Mustang site. Emissions netting simplifies the
20 process to obtain a permit from the Oklahoma Department of Environmental Quality
21 ("ODEQ") by allowing the emissions from the new units to be offset by that of the
22 agency-approved and permitted historic operations ("emission window") thereby creating
23 no new environmental impacts that would require further evaluation by the ODEQ. This
24 process essentially eliminates the risk of not being able to permit generation in the
25 Oklahoma City metro area.

26 Netting uses a window of historical emissions from the old units and requires
27 emissions from any new units to fit into the level of emissions within that historical
28 window. But, in 2014, this emission window was closing – a historical window of
29 favorable emissions that would have allowed OG&E to maximize the number of MWs at

¹ As discussed in greater detail by Company witness McAuley on page 10, lines 3-26.

1 the Mustang site was going to become stale for use in the netting process. Thus, OG&E
2 was going to lose the ability to operate critical MWs of generation at the site if it did not
3 move forward with an air permit application at the ODEQ in summer 2015. Moreover, the
4 netting process required that OG&E have the new CTs in service by 2018.

5 Absent netting, incremental new generation that is not authorized through a netting
6 process would likely have to obtain a major source construction permit under the Clean
7 Air Act. The additional time, expense and uncertainty associated with a major source
8 construction permit could affect the viability of the project at the Mustang site.

9
10 Q. **Does OG&E have any new information in this proceeding that validates the**
11 **Company's decision to construct the new Mustang CTs?**

12 A. Yes. Since the dismissal of Docket No. 16-014-U, OG&E decided to seek outside
13 validation of (i) its decision to retire the old Mustang units and (ii) its belief that that CTs
14 are needed for transmission system reliability, especially CTs located at the Mustang site.
15 OG&E engaged Black & Veatch to conduct an independent review of OG&E's decision to
16 retire the old Mustang units. To address the question of whether CTs at Mustang are
17 needed for transmission system reliability, OG&E requested that Lanny Nickell, Vice
18 President of Engineering at SPP, provide an independent assessment of the need for CTs
19 at Mustang. As discussed above, Mr. Nickell testifies that CTs are indeed essential and
20 that SPP believes that the Mustang location is a critical location for these CTs in order to
21 maintain the reliability of the system.

22
23 Q. **What was the conclusion of Black & Veatch in its review of OG&E's decision to**
24 **retire the old Mustang Units?**

25 A. Black & Veatch concluded that OG&E made the prudent decision to avoid spending
26 additional capital on the old Mustang units and instead, retire those units slightly early.
27 After its review of the facts, in September 2016, Black & Veatch issued a study entitled
28 "Evaluation Report: Mustang Power Plant Retirement Consideration" in which it provided
29 its independent assessment of OG&E decision to retire the old Mustang units. Black &
30 Veatch reviewed numerous documents and data related to the status and operating
31 condition of Mustang Units 1, 2, 3 and 4 and the numerous capital projects needed in

1 order to keep those units running for the full 65 years. OG&E has requested the leader of
2 the Black & Veatch's review, Witness Phillip Webster, to provide testimony in this docket
3 to explain his analysis and conclusions.

4 Q. **Does the Black & Veatch study and the Nickell testimony confirm OG&E's belief**
5 **that it's Mustang Modernization Plan is just, reasonable and consistent with the**
6 **public interest?**

7 A. Yes. This new information confirms what OG&E believed back in 2014 when it made the
8 decision to retire the old units and install CTs at Mustang. Given all the facts available to
9 OG&E in 2014, the Company believes that it made the right decision. Not only would
10 have continued investment in the old Mustang units been imprudent, OG&E needed new
11 CTs and locating them at the Mustang site was the reasonable action.

12
13 **History of the Regulatory Approval Process for Mustang**

14 Q. **Is this the first time OG&E filed an application seeking Commission approval of the**
15 **Mustang modernization plan?**

16 A. No. OG&E initiated Docket No. 16-014-U in March 2016 to request approval of the
17 Mustang plant modernization. A Motion for Interim Protective Order for Non-Disclosure
18 was filed on March 4, 2016 and the application in that docket was filed on April 13, 2016.

19
20 Q. **What was the outcome of Docket No. 16-014-U?**

21 A. After the filing of OG&E's application and after the General Staff of the Arkansas Public
22 Service Commission ("Staff") was able to review the application, OG&E had discussions
23 with the Staff about the application. Based on those discussions and the Staff's desire for
24 additional information in order to recommend approval of the Mustang project, OG&E
25 withdrew its application by filing a Motion to Dismiss in Docket No. 16-014-U. In its
26 Motion to Dismiss, OG&E requested that the Commission dismiss the application without
27 prejudice, stating that it had not yet received regulatory approval for the new Mustang
28 units in its Oklahoma jurisdiction and would file for approval at a later date subsequent to
29 OG&E's rate case in Docket No. 16-052-U.

1 Q. **Why did OG&E wait until April 2016 to file that initial application?**

2 A. In August 2014, OG&E filed an application seeking pre-approval of the Mustang
3 modernization plan at the OCC and sought relief in the form of an order by February
4 2015. The pre-approval process in Oklahoma is an optional proceeding that allows the
5 Company to seek a presumption of prudence prior to construction instead of waiting until
6 the plant is in service. The Company planned to seek approval from this Commission
7 after it received a final order from the OCC. However, due to circumstances outside the
8 Company's control, a final order from the OCC was not issued until December of 2015
9 and the final order declined to grant pre-approval of the Mustang modernization plan.
10 Without pre-approval in Oklahoma, OG&E did not have any certainty that the CTs would
11 ultimately be included in rate base and would not be able to receive that certainty until a
12 future rate case after the CTs are placed in service.

13 When OG&E did not receive pre-approval from the OCC, the Company needed to
14 decide whether to continue forward with its decision to construct the Mustang CTs and
15 preserve the critical Mustang site. OG&E made the decision to continue forward, which
16 led to the first application in Docket No. 16-014-U.

17
18 Q. **Does OG&E believe it should have filed an application earlier with regard to its**
19 **Mustang CT project?**

20 A. Yes. In retrospect, OG&E should have filed its application in Docket No. 16-014-U much
21 earlier instead of waiting until the OCC proceeding had concluded. OG&E believed it
22 would have enough time to file an application and receive an order in Arkansas before
23 construction commenced, but the Company was squeezed between a protracted OCC
24 process and the construction timeline.

25
26 Q. **Has OG&E begun construction of the new Mustang CTs?**

27 A. Yes. OG&E began construction in August 2016. The new CT capacity needed to be
28 operational when the old legacy Mustang 3 & 4 steam units are retired at the end of 2017.
29 Without those new CTs in operation, OG&E would not be able to meet its capacity
30 reserve requirements of the SPP. Also, in order to have the new CTs in service by the end

1 of 2017, the construction schedule was altered and had to begin earlier than originally
2 expected.

3
4 **Q. Did OG&E fail to comply with Ark. Code Ann. §23-18-104?**

5 A. Yes. By failing to obtain pre-approval of the Mustang CTs prior to their construction, the
6 Company did not comply with Ark. Code Ann. §23-18-104, which requires pre-approval
7 for the construction of generating facilities outside of the state of Arkansas. While there
8 may have been circumstances that resulted in OG&E's failure to file timely, those
9 circumstances do not ultimately provide a valid reason for this failure. OG&E clearly
10 should have planned its filings in Arkansas more effectively and apologizes. OG&E
11 commits to being diligent in the future to ensure this does not happen again.

12
13 **Customer Costs and Benefits**

14 **Q. How do OG&E Arkansas customers benefit?**

15 A. Arkansas customers benefit from the enhanced system reliability of the Mustang CTs
16 because they provide OG&E and the SPP with an additional tool to mitigate real-time
17 system reliability issues. Specifically, the need for and the reliability benefit of quick-start
18 CTs will grow as the amount of wind generation grows. As testified by OG&E Witness
19 Nickell, by the end of 2016, nearly 16,000 MWs of installed wind nameplate capacity was
20 operating in the SPP Balancing Authority Area footprint and participating in the SPP IM.
21 This represents approximately 20 percent of generating capacity in the SPP.
22 Approximately 7,500 MWs of additional wind generation capacity is currently on
23 schedule to be added to the SPP system by the end of 2018 and another 34,000 MWs of
24 wind nameplate is in SPP's generator interconnection study queue. With the amount of
25 wind growth that SPP expects to continue to see in its footprint, properly located quick-
26 start CTs are invaluable.

27 Transmission system disturbances can have a ripple effect on the interconnected
28 transmission grid and a reliable system in Oklahoma City will help ensure a reliable grid
29 in Fort Smith, Arkansas. OG&E Witnesses Greg McAuley testifies, and Lanny Nickell
30 supports, that CTs located in the Oklahoma City area, will allow OG&E transmission

1 operators and the SPP to maintain a reliable transmission system and minimize or prevent
2 system disturbances, including impacts on the system in Arkansas.

3
4 **Q. Why did OG&E not conduct a competitive bidding process for the capacity needed**
5 **after the retirement of the old Mustang units?**

6 A. When OG&E made its decision to move forward with the CTs at the Mustang site, the
7 Company had investigated other existing generation in and around OG&E's service
8 territory, but none of those alternatives were available in 2018 or consistent with the needs
9 identified above. From OG&E management's perspective, there were no generating units
10 capable of providing the reliability and other benefits provided by CTs at Mustang.

11
12 **Q. Did OG&E engage in a competitive bidding process for the construction and**
13 **installation of the Mustang CTs?**

14 A. Yes, the Company competitively bid the equipment and installation being installed at the
15 Mustang site. The details of that competitive bidding process are detailed in the testimony
16 of OG&E Witness Burch, but OG&E issued thirty nine (39) different competitive bid
17 packages for equipment, materials and services, including labor. As described by Witness
18 Burch, OG&E was also able to avoid an Engineering, Procurement and Construction
19 ("EPC") contract by managing the construction process itself without an EPC Contractor.
20 In fact, OG&E has been able to reduce the overall construction cost of the Mustang CT
21 project by approximately \$45 million to date compared to the estimate provided in Docket
22 No. 16-014-U, thereby providing an economically executed project at a fair and
23 reasonable price that is beneficial to customers.

24
25 **Q. Did OG&E consider market opportunities as an alternative to replacing the**
26 **generation at the Mustang site?**

27 A. Yes, OG&E conducted an informal survey of the following generation plants located in
28 the SPP, but those plants were either not available or did not meet OG&E's needs for
29 quick-starting CTs close to the Oklahoma City metro area. The plants considered were:

- 30 1. Redbud, of which, OG&E presently owns 51% with the remaining portion owned
31 between Grand River Dam Authority ("GRDA") and Oklahoma Municipal Power

- 1 Authority (“OMPA”). Neither GRDA or OMPA were interested in selling their
2 portion of the Redbud plant;
- 3 2. McClain, of which, OG&E presently owns 77%, with OMPA owning the
4 remaining 23%. OMPA was not interested in selling their portion of the McClain
5 plant;
- 6 3. Spring Creek, the Spring Creek plant, located in OG&E’s service territory near
7 Oklahoma City, is owned by a Kansas utility, Westar Energy (“Westar”). Westar
8 stated they needed the capacity and if they were to sell the plant it would have be
9 at a full replacement price (a price which would exceed the current value of the
10 Spring Creek plant) since they would need to replace the capacity;
- 11 4. Oklahoma Cogeneration (“OC”), is a 120MW plant located in OG&E’s service
12 territory in Oklahoma City and is presently under contract with OG&E, to meet the
13 Company’s capacity needs until 2020. Not withstanding current contractual
14 obligations, rendering the plant unavailable, OG&E has had concerns about the OC
15 plant’s low capacity factor and unavailability for the SPP IM;
- 16 5. Oneta, a plant located in Tulsa, Oklahoma, is unable to provide the VAR support
17 needed for the Oklahoma City area, is a combined cycle plant that is not capable of
18 quick starting, and could need transmission system upgrades to allow for firm
19 transmission service;
- 20 6. Green Country, also located in Tulsa, has the same issues as Oneta. In addition,
21 Green Country plant is contracted until 2022; and
- 22 7. Dogwood, located in Missouri, is too far removed from the OG&E load area and
23 thereby not capable of supplying VAR support to Oklahoma City area, as well as,
24 not capable of quick starts.

25 As OG&E looks toward future capacity needs in the early 2020s, OG&E will continue to
26 study these potential alternatives. However, they do not fit the immediate need for more
27 quick-starting CTs near OG&E’s largest load center created by the retirement of the
28 existing Mustang units.

1 Q. **How will the Company seek recovery of the investment associated with the Mustang**
2 **Modernization Plan?**

3 A. Although the new Mustang CTs will be placed in service in late 2017, the Company will
4 not seek recovery until its first Formula Rate Plan (FRP) filing in October of 2018. The
5 first FRP filing will include a projected year of April 1, 2019 through March 31, 2020 and
6 will incorporate, among other things, the new Mustang CT investment. In accordance
7 with the FRP mechanics, if the Formula determines that the Company's rates warrant an
8 increase, OG&E would increase rates effective April 1, 2019. The FRP mechanics limit
9 the annual revenue increase by class to be no more than 4% of the filing year revenues.
10

11 Q. **Does the Company have an estimate of the cost of the Mustang Modernization plan?**

12 A. The Company currently estimates the cost of the Mustang plant to be \$355 million
13 excluding capitalized costs. Including capitalized AFUDC and Ad Valorem taxes the total
14 cost is estimated to be approximately \$390 million. The costs associated with the
15 Mustang CTs will be subject to review under the first formula rate filing in October 2018.
16

17 Q. **Has the Company estimated the Revenue Requirement associated with the Mustang**
18 **Modernization Plan?**

19 A. Yes. Utilizing a total cost of approximately \$390 million, OG&E estimates the Arkansas
20 jurisdictional revenue requirement to be approximately \$3.7 million during the term of the
21 first FRP. Because the project will be completed and final costs will be known by the
22 time of the first FRP filing, actual costs, including changes to O&M, depreciation, and
23 property taxes will be properly reflected at the time of the filing.

1 Q. **Has the Company determined the depreciation rates for the new Mustang CTs?**

2 A. Yes. The Company is requesting that depreciation rates (excluding dismantlement) for the
3 new Mustang CTs be set in the following amounts, for the FERC accounts listed below.

FERC Account	Rate
341-Structures and Improvements	3.00%
342-Fuel Holders, Producers and Accessories	2.95%
343-Prime Movers	3.45%
344-Generators	3.16%
345-Accessory Electric Equipment	3.10%
346-Miscellaneous Power Plant Equipment	3.31%

4 This request is based upon the analysis conducted for the Company's upcoming general
5 rate case in Oklahoma, anticipated to be filed at the end of 2017.

6

7 **Conclusion**

8 Q. **What additional witnesses are presenting testimony to support the Company's
9 position?**

10 A. The chart below lists each witness and the purpose of their testimony in support of the
11 Company's position.

OG&E Witness List		
Witness	Title	Purpose of Testimony
Donald R. Rowlett	Managing Director Regulatory	Identifies each of the Company witnesses, outlines the relief requested and explains OG&E's Mustang modernization plans.
Robert J. Burch	Director, Power Supply Services	Describes the Company's decision to retire the old Mustang units and to implement its Mustang Modernization Plan and the Company's contracting and construction processes
Phillip Webster	Senior Project Manager	Describes the study conducted by Black & Veatch which supports OG&E's decision to retire the existing Mustang units
Gregory McAuley	Director, RTO & Policy Development	Describes why, the Mustang site provides unique reliability benefits to the transmission system and why those benefits are important for both daily operations and system restoration situations, which is important to OG&E and its customers.
Lanny Nickel	Vice President of Engineering for the Southwest Power Pool, Inc.	Supports Witness McAuley's testimony by providing SPP's perspective on why CTs at Mustang are needed for reliable transmission operations

1 Q. **Is OG&E seeking cost recovery of the Mustang CTs in this filing?**

2 A. No. OG&E is not seeking recovery of the Mustang CTs through any rider or recovery
3 mechanism. The final costs of the Mustang CTs will be reviewed as part of the formula
4 rate review when the Mustang CTs are completed and placed in service by the end of
5 December 2017.

6

7 Q. **When will OG&E seek approval and cost recovery from the OCC?**

8 A. OG&E will seek approval and cost recovery from the OCC at its next general rate case,
9 which it anticipates filing by the end of 2017.

10 Q. **Do you believe that approval of the new CTs at the Mustang site is consistent with**
11 **the public interest?**

12 A. Yes.

13

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

15 A. Yes, it does.

CERTIFICATE OF SERVICE

I, Lawrence E. Chisenhall, Jr., hereby state that a copy of the foregoing instrument was served on all the parties of record via the APSC Electronic Filing System on this the 15th day of August, 2017.

/s/ Lawrence E. Chisenhall
Lawrence E. Chisenhall, Jr.