

**BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA**

COURT CLERK'S OFFICE - OKC  
CORPORATION COMMISSION  
OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF )  
OKLAHOMA GAS AND ELECTRIC COMPANY )  
FOR AN ORDER OF THE COMMISSION )  
AUTHORIZING APPLICANT TO MODIFY ITS )  
RATES, CHARGES, AND TARIFFS FOR RETAIL )  
ELECTRIC SERVICE IN OKLAHOMA )

CAUSE NO. PUD 201700496

**Summary of the Responsive Testimony of William W. Dunkel  
On Behalf of Mike Hunter, Oklahoma Attorney General**

Mr. William W. Dunkel submitted pre-filed responsive testimony in the case on May 2, 2018, on behalf of Mike Hunter, the Attorney General of Oklahoma. Mr. Dunkel testified regarding his firm and experiencing, noting that the majority of his firm's cases involve the representation of state utility regulatory commissions or their staffs.

**Credibility Issues in OGE's Depreciation Study**

Mr. Dunkel testified that, in the recent rate case for Public Service Company of Oklahoma ("PSO"), Cause No. PUD 201700151, the Commission completed "rejected" Mr. Spanos's depreciation study, correctly stating Mr. Spanos had "altered the data" and that there were other "irregularities." Mr. Dunkel testified that Mr. Spanos's depreciation study in this proceeding is not credible for similar reasons, for the following reasons.

First, OGE is proposing to double-recover the costs of removing asbestos from its plants, according to Mr. Dunkel. All of the future cost of removing asbestos from the production plants is included in ratepayer-supported Asset Retirement Obligations, which collect the funds for certain costs like asbestos remediation over the life of the plant. Yet Mr. Kopp also included the future cost of removing asbestos in his estimated decommissioning costs, which Mr. Spanos incorporated into his proposed depreciation rates. Including asbestos remediation twice through

asset retirement obligations and decommissioning cost estimates results in a double-recovery of these expenses.

Second, Mr. Dunkel testified that OGE is also proposing to double-recover the costs of removing wind farms. As with asbestos remediation costs, demolishing certain wind farms is included in ratepayer-supported Asset Retirement Obligations. Yet, again, Mr. Kopp also included the future cost of demolishing the wind farms in his estimated decommissioning costs, which Mr. Spanos then incorporated into his proposed depreciation rates.

Third, Mr. Dunkel explained that Mr. Spanos increased the estimated decommissioning costs by as much as 79 percent using a method called “escalation.” Mr. Spanos’s escalation of estimated decommissioning costs results in nearly a *triple recovery* of asbestos remediation and wind farm demolition costs.

Fourth, Mr. Spanos altered what he claimed was “book” and “historic” and “recorded” data across numerous accounts, according to Mr. Dunkel. Mr. Spanos did not disclose his alterations until the Attorney General requested that OGE disclose any differences between data used for the depreciation study and data recorded on OGE’s books. Mr. Spanos had removed all reimbursements OGE received for relocating lines during, for example, highway widening projects, even though such payments can be expected to recur in the future. Mr. Spanos’s alterations thus resulted in higher depreciation rates than necessary.

Fifth, Mr. Dunkel testified that Mr. Spanos relied on forecasts of the future, sometimes decades into the future, to develop depreciation rates. Yet, Mr. Dunkel explained, Mr. Spanos forecasted 2017 retirements in Account 373 would be over \$9 million, *at the beginning of 2017*. A few months later, Mr. Dunkel testified, the actual 2017 retirements were less than \$1 million. The fact that Mr. Spanos could not provide anywhere near a reasonable forecast in a short-range

forecast undermines the credibility of the long-range forecasts used in other parts of the depreciation study, Mr. Dunkel testified.

Sixth, Mr. Dunkel testified that Mr. Spanos violated accepted depreciation standards by mixing his long-term forecast data with the historical data used to develop depreciation studies. Mr. Dunkel provided materials from authoritative texts on depreciation discussing the use of data from *past occurrences* and adjusting that data for any changes to the future. By mixing this data, Mr. Dunkel explained, Mr. Spanos had lost a reality check on his forecasts, which have proven to be very inaccurate.

Overall, Mr. Dunkel recommended that the Commission again find that Mr. Spanos's depreciation study lacks credibility.

### **Depreciation Recommendations**

For mass accounts, Mr. Dunkel reviewed the historical data for each account and provided a recommendation on service life and Iowa curve for several accounts for which his recommendation differed from that of Mr. Spanos. For Account 373, Street Lighting and Signal Systems, Mr. Dunkel did provide a recommendation for depreciation rates that recognized OGE may experience shorter asset lives in the future as it transitions to LED lighting, but Mr. Dunkel did not accept Mr. Spanos's recommendation based on mixed historical and forecasted data.

For production units, Mr. Dunkel relied on the probable retirement dates used in OGE's most recent integrated resource plans, which showed various retirement years for units at the Horseshoe Lake Plant and the Seminole Plant. Mr. Spanos had used different, earlier retirement years for these units, tending to increase OGE's depreciation rates. Mr. Dunkel testified that Mr. Spanos did not use a later retirement date for *any* of the units for which his retirement year differed from the Company's integrated resource plans.

Mr. Dunkel also made adjustments to remove the impact of past high inflation exceeding 10 percent year from his depreciation study. He explained that Mr. Spanos's net salvage calculations relied on dividing expenses in recent years by the original cost of plant, sometimes decades in the past. Mr. Dunkel explained that inflation in the mid-1970s and early 1980s was very high, sometimes in excess of 10 percent per year, as shown in the Consumer Price Index. By not removing the effect of this high inflation from the calculations, Mr. Dunkel explained, Mr. Spanos had assumed such high inflation would also occur in the future. Mr. Dunkel testified that he used a methodology explained in authoritative depreciation texts to remove the effects of past inflation shown in the Consumer Price Index, then add a more reasonable inflation assumption of two percent per year. He explained that two percent per year is the inflation target of the Federal Reserve System and close to the average rate of 2.06 percent evident for the last 20 years.

Mr. Dunkel also reviewed the decommissioning costs presented by Mr. Kopp. He testified that no decommissioning cost studies had been presented by OGE in its last rate case, Cause No. PUD 201500273. He explained, however, that the Commission had rejected contingency costs and escalation of estimated decommissioning costs in both of PSO's most recent rate cases, Cause No. PUD 201700151 and Cause No. PUD 201500208.

For contingency costs, Mr. Dunkel explained that Mr. Kopp had included them "to account for unknown costs." Mr. Dunkel testified that this category of cost is speculative and does not reflect the possibility that future decommissioning may cost *less* than the estimates provided by OGE. As one way that decommissioning costs may prove lower than estimates, Mr. Dunkel explained that Mr. Kopp had assumed all equipment would be sold for scrap from each site, even though some equipment at a retired plant would actually be relatively newer and able

to be repurposed. As an example of this occurring, Mr. Dunkel noted that the Generator Step-Up transformers for Mustang Units 1 and 2 had been repurposed on the new Mustang Units 6 and 7.

Regarding escalation, Mr. Dunkel explained that Mr. Spanos's escalation of estimated decommissioning costs increased the estimates by 79 percent. Mr. Dunkel testified that Mr. Spanos had estimated inflation would reduce the value of a dollar in 2049 to 46 cents in today's dollars. As an example of Mr. Spanos's application of this concept, Mr. Kopp had estimated that demolition of the Muskogee plant would cost \$41,412,607 in current dollars. Mr. Spanos divided that amount by dollars worth 46 cents to reach a demolition cost of \$89,755,602. Mr. Dunkel explained the shortcomings of this approach, however. He noted that current customers would not pay rates with dollars worth 46 cents, instead paying current dollars. He testified that this approach results in current ratepayers purchasing the equivalent of a \$10,000 government bond that matures in 2049 for only \$10,000. Consistent with the Commission orders in PSO's rate cases Cause No. PUD 201500208 and Cause No. PUD 201700151, Mr. Dunkel recommended that the Commission rely on a study that does not escalate estimated decommissioning costs.

Overall, Mr. Dunkel testified that Mr. Spanos's depreciation study is not credible, as summarized above. Mr. Dunkel recommended that the depreciation rates shown in the AG Proposed column of Exhibit WWD-2 should be adopted. He explained that the Attorney General's proposed depreciation rates would increase the annual depreciation expense by \$5,582,206 compared to the currently approved depreciation rates. By comparison, he explained, Mr. Spanos's proposed depreciation rates would increase the annual depreciation expense by \$49,841,473 compared to the currently approved depreciation rates. The comparison of the annual accrual under the Company's proposed rates, the Attorney General's proposed rates, and current rates is shown below.

**Table 10: Comparison of Annual Accruals based on 12/31/2016 Investments**

| Functional Category        | 12/31/16 Investment | Accrual Amount at Current Rates | OGE Proposed Supplement Accrual Amount | OGE Proposed Difference from Current | AG Proposed Accrual Amount | AG Proposed Different from Current | AG Proposed Difference from Company |
|----------------------------|---------------------|---------------------------------|--|--------------------------------------|----------------------------|------------------------------------|-------------------------------------|
| A                          | B                   | C                               | D                                      | E=D-C                                | F                          | G=F-C                              | H=F-D                               |
| Intangible Plant           | 81,405,418          | 8,000,997                       | 5,037,502                              | (2,963,495)                          | 5,037,502                  | (2,963,495)                        | 0                                   |
| Steam Production           | 2,040,036,529       | 36,559,036                      | 61,274,479                             | 24,715,443                           | 43,070,209                 | 6,511,173                          | (18,204,270)                        |
| Other Production           | 1,532,424,575       | 59,829,580                      | 59,940,673                             | 111,093                              | 54,801,923                 | (5,027,657)                        | (5,138,750)                         |
| Transmission Plt.          | 2,495,409,574       | 49,730,703                      | 60,923,367                             | 11,192,664                           | 57,343,417                 | 7,612,714                          | (3,579,950)                         |
| Distribution Plant         | 3,884,984,490       | 101,507,091                     | 113,885,762                            | 12,378,671                           | 96,549,465                 | (4,957,626)                        | (17,336,297)                        |
| General Plant              | 367,462,831         | 14,580,395                      | 17,836,292                             | 3,255,897                            | 17,836,292                 | 3,255,897                          | 0                                   |
| General Plant Resr. Amort. |                     |                                 | 1,151,200                              | 1,151,200                            | 1,151,200                  | 1,151,200                          | 0                                   |
| Total Depreciable Plant    | 10,401,723,416      | 270,207,802                     | 320,049,275                            | 49,841,473                           | 275,790,008                | 5,582,206                          | (44,259,267)                        |

**CERTIFICATE OF SERVICE**

On this 7th day of May, 2018, a true and correct copy of the above and foregoing *Summary of the Responsive Testimony of William W. Dunkel, on Behalf of Mike Hunter, Oklahoma Attorney General*, was sent via electronic mail to the following interested parties:

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*Cause No. PUD 201700496  
Oklahoma Gas and Electric Company  
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