

BEFORE THE ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN INTERIM RATE SCHEDULE)
OF OKLAHOMA GAS AND ELECTRIC COMPANY)
IMPOSING A SURCHARGE TO RECOVER ALL) DOCKET NO. 15-034-U
INVESTMENTS AND EXPENSES INCURRED)
THROUGH COMPLIANCE WITH LEGISLATIVE OR)
ADMINISTRATIVE RULES, REGULATIONS OR)
REQUIREMENTS RELATING TO THE PUBLIC HEALTH,)
SAFETY OR THE ENVIRONMENT UNDER THE)
FEDERAL CLEAN AIR ACT FOR CERTAIN OF ITS)
EXISTING GENERATION FACILITIES)

Direct Testimony

of

Sheri D. Richard

on behalf of

Oklahoma Gas and Electric Company

Sheri D. Richard
Direct Testimony

1 Q. **Please state your name, by whom you are employed, and your business address.**

2 A. My name is Sheri D. Richard. I am employed by Oklahoma Gas and Electric Company
3 (“OG&E” or “Company”) and my business address is 321 N. Harvey, 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 Director of Revenue Requirements 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 accounting in 1992, and in 1994, I became a
11 Certified Public Accountant licensed in Oklahoma. I also have a Masters of Business
12 Administration. Prior to joining OG&E, I was employed for 7 years by UICI, a state
13 regulated insurance company. I have been employed at OG&E for over 15 years working
14 in Financial and Regulatory Accounting, managing the Costing and Pricing department
15 and now serving as Director of Revenue Requirements.

16
17 Q. **Have you previously filed testimony before the Arkansas Public Service Commission
18 (the “Commission” or “APSC”)?**

19 A. Yes. In addition to my testimony in this docket, I have filed testimony in Docket Nos.
20 07-075-TF and 10-067-U.

21
22 Q. **What is the purpose of your Direct Testimony in this proceeding?**

23 A. The purpose of my testimony is to support the Company’s request for approval of an
24 interim surcharge to recover investment and expenses reasonably incurred in order to
25 comply with certain provisions of the Federal Clean Air Act (“CAA”) and in accordance
26 with A.C.A. §23-4-501 *et seq.* (“Act 310”). Per Order No. 7 in this Docket, my
27 testimony will update investments and expenses incurred from May 2015 through
28 December 2015 associated with the installation of Low NO_x burners with over-fire air
29 (“LNB/OFA” or “Low NO_x”) systems on the four affected coal units (Sooner 1 and 2 and

1 Muskogee 4 and 5) and on the three affected natural gas units at the Seminole Power
2 Plant. In addition, I will discuss the Company's Environmental Compliance Plan
3 ("ECP") and how OG&E meets the requirements for receiving approval for recovery as
4 set out in Act 310 for not only the LNB/OFA systems, but also for the Activated Carbon
5 Injection ("ACI") systems installed on all of the Company's coal units to achieve
6 emissions limits for Mercury under the Mercury and Air Toxics Standards Rule
7 ("MATS") rule. I will also address the proposed mechanism to recover the surcharge as
8 it now applies to ACI and the customer impacts of the surcharge.
9

10 Q. **Will OG&E comply with the procedures set out by the Commission in Order No. 4**
11 **in Docket No. 09-059-U (Entergy Arkansas Inc.) in this filing?**

12 A. Yes, except to the extent such directives were specific to said docket. For instance, the
13 interim surcharge on customer bills will be labeled differently and the requirement to file
14 in a base rate case is not applicable in this docket.
15

16 Q. **How will the Company reflect the surcharge for both LNB/OFA and ACI on**
17 **customer bills?**

18 A. The Company will reflect the interim surcharge on customer bills as a separate line item
19 labeled "Environmental Compliance Surcharge."
20

21 I. OVERVIEW OF THE PRESENT FILING

22

23 Q. **Please describe OG&E's previous filing in this docket.**

24 A. As discussed in the Direct Testimony of OG&E witness Donald R. Rowlett, filed on May
25 8, 2015, in this Docket, the Environmental Protection Agency ("EPA") has promulgated
26 regulations under the CAA (i.e., the Regional Haze Rule) that directly affects certain
27 existing OG&E coal and natural gas-fired generating facilities. The Regional Haze Rule,
28 *inter alia*, requires OG&E to take steps to meet new emission limits for nitrogen oxides
29 ("NO_x"). The Commission approved recovery of investment and expenses related to
30 Low NO_x in this Docket by its approval of a Joint Stipulation and Settlement Agreement
31 agreed to by the parties in the original Docket filing by Order No. 7.

1 Q. **Please describe the Joint Stipulation and Settlement Agreement approved by Order**
2 **No. 7.**

3 A. As part of the Settlement Agreement, the parties agreed to not oppose up to two updated
4 Act 310 surcharge filings by the Company associated with updated investment and
5 expenses associated with the NO_x emission reduction efforts addressed in the Company's
6 initial filing of May 8, 2015. In addition, the parties agreed to a cost allocation that
7 followed the cost allocation from the Company's previous rate case, Docket No. 10-067-
8 U. Finally, the parties agreed to a recovery mechanism that incorporated the rate
9 structure that was consistent with Staff Witness Matthews' recommendations and the cost
10 allocation agreed to by the parties in calculating a recovery factor.

11

12 Q. **What relief is OG&E seeking in this Docket?**

13 A. The Company is requesting that the Commission approve the recovery of its continued
14 investments and expenses made to comply with the NO_x emissions requirements of the
15 CAA's Regional Haze Rule through an updated interim surcharge as addressed in the
16 Stipulation and Settlement Agreement previously approved by Order No. 7 in this
17 docket.¹ In addition, OG&E is requesting recovery of investment and expenses related to
18 the MATS rule which requires OG&E to take steps to reduce toxic air pollutants
19 including Mercury. OG&E's units are required to operate in compliance with the
20 established limits, terms and conditions of both of these rules, once their respective
21 regulatory deadlines take effect.

22

23 Q. **What are the respective regulatory deadlines for the NO_x project and for the ACI**
24 **project?**

25 A. The NO_x project compliance deadline is January 27, 2017 and the ACI project
26 compliance deadline is April 16, 2016. OG&E requested and received approval from the
27 Oklahoma Department of Environmental Quality ("ODEQ") a one year extension to
28 complete the ACI project in order to comply with MATS.

¹ Docket No. 15-034-U Order Nos. 7 and 8.

1 Q. **What is the Company's ECP for the ACI emission requirements?**

2 A. In order to achieve the emissions limits for Mercury and other toxics under the MATS
3 rule, OG&E is installing ACI systems on all of its coal units.

4

5 Q. **Please generally describe how the ACI emission technology works.**

6 A. With ACI, Powdered Activated Carbon ("PAC") is injected into the flue gas stream
7 upstream of the particulate collection equipment. Mercury in the flue gas is absorbed by
8 the PAC. The PAC, along with other particulate matter (fly ash), is removed in the
9 existing electrostatic precipitators.

10

11 **II. A.C.A. §23-4-501 ET SEQ. REQUIREMENTS FOR ACI**

12

13 Q. **Are the investments and expenses requested for ACI recovery currently recovered
14 in existing rates (Section 2 (a) (1) (A))?**

15 A. No. The Company's last rate case was Docket No. 10-067-U based on a test year of
16 December 31, 2009 and a *pro forma* test year ending December 31, 2010. None of the
17 costs to comply with the MATS rule were included in the last rate case, because they
18 were incurred after December 31, 2010. The first investment or expenses included for
19 recovery under the proposed interim surcharge occurred May 2014.

20

21 Q. **What cost period for ACI investment and expenses is the interim surcharge based
22 on?**

23 A. The Company is including costs incurred from May 2014 through December 2015 in this
24 filing for ACI and is also updating costs for the Low NO_x to include additional costs
25 from May 2015 through December 2015.

26

27 Q. **Were the investments and expenses reasonably known and measurable at a time
28 that allowed for recovery in the Company's last general rate case (Section 2 (a) (1)
29 (C))?**

30 A. No. The MATS rule was not approved by the EPA until April 16, 2012. The Company's
31 last rate case included pro forma costs through December 31, 2010. Therefore, no costs

1 were incurred or could be included for recovery as part of the Company's last general
2 rate case.

3
4 **Q. Please explain how the investments and expenses requested for recovery through the**
5 **interim surcharge were reasonably incurred (Section 2 (a) (1) (B)).**

6 A. The Company will submit, concurrently with this filing through workpapers, substantial
7 evidence supporting the costs expended to date including, copies of contracts, order cost
8 detail, Authorizations for Expenditures ("AFEs"), and documentation of the procedures
9 for allocation of overheads and other indirect costs assigned to the environmental
10 projects. This information will substantiate how all costs were reasonably incurred.

11
12 **Q. Please further describe the process for ensuring OG&E's cost for the equipment**
13 **and installation needed to meet the MATS rule requirements were reasonable.**

14 A. The equipment for the ACI projects was competitively bid. In addition, the installation
15 vendors were either competitively bid or selected through a competitive sourcing process
16 based on several factors such as experience, safety, financial stability and cost.

17
18 **Q. Please explain how the investments and expenses were incurred to comply with**
19 **legislative or administrative rules, regulations, or requirements (Section 2 (a) (1)**
20 **(D)).**

21 A. As stated above, the Company is making these expenditures in order to comply with the
22 mandatory requirements of the MATS rule related to Mercury emission limits.

23
24 **Q. Please explain how the investments and expenses relate to the protection of the**
25 **public, health, safety or the environment (Section 2 (a) (1) (E)).**

26 A. The Federal CAA was established to protect the public from airborne contaminants. The
27 MATS rule reduces emissions of toxic air pollutants from new and existing coal and oil-
28 fired electric utility steam generating units ("EGUs"). MATS applies to EGUs larger
29 than 25 megawatts (MW) that burn coal or oil for the purpose of generating electricity for
30 sale and distribution through the national electric grid to the public.

1 Q. **Please explain how the investments and expenses cannot otherwise be recovered in a**
2 **prompt and timely manner (Section 2 (a) (1) (F)).**

3 A. OG&E does not have a mechanism to collect in a prompt and timely manner the costs
4 requested for recovery in this Docket. There is no current rider provision that allows
5 recovery of the costs of these investments and expenses other than the Act 310 provisions
6 being requested. OG&E has committed to file by December 31, 2016. However, this
7 option does not provide for timely recovery.²

8
9 Q. **Are the investments and expenses mandatory, a condition of continued operation or**
10 **previously approved by the Commission (Section 2 (a) (1) (G))?**

11 A. Yes. As stated above, the Company is mandated by the EPA to comply with the
12 requirements of the MATS rule. The Company cannot continue to operate the affected
13 units beyond the compliance date without adding the emission control.

14

15 **III. INTERIM SURCHARGE UPDATE FOR LNB/OFA**

16

17 Q. **What amount of costs is requested for recovery in this updated filing?**

18 A. OG&E is requesting recovery of reasonably incurred costs made through December 31,
19 2015. Since the Company's initial filing in this cause, the net investment in LNB/
20 OFA has increased approximately \$12.4 million for a total net investment of \$54.6
21 million as of December 31, 2015. For the same time period, the depreciation and
22 property tax expense related to the additional investment in LNB/OFA has increased
23 approximately \$550,000 for a total of \$1.4 million. These increased investment and
24 expenses result in an increased revenue requirement of approximately \$172,000
25 for a total revenue requirement of \$645,000 as shown in the chart below. The total
26 costs are shown in more detail in Direct Exhibit SDR-1 to this testimony.

² Docket No. 15-021-U Order No. 4, p 23.

1 Q. **When will OG&E implement its interim rate schedule?**

2 A. The Company plans to implement a surcharge subject to refund to recover costs to
 3 comply with the environmental mandates mentioned above starting on the first billing
 4 cycle of February, 2016. The interim surcharge shall remain in effect until the
 5 investments or expenses associated with the interim surcharge can be included in the
 6 Company’s next general rate filing and included in the Company’s base rates.

7
 8 Q. **Has the Company determined an annual revenue requirement for the costs that
 9 would be recovered through the proposed ECP rider?**

10 A. Yes. As shown below, the Company calculated an annual revenue requirement as
 11 described in Docket No. 15-034-U, Order No. 7, which is based upon the Company’s
 12 most recently approved return on rate base adjusted for income taxes for any Plant In
 13 Service costs and an Allowance for Funds Used During Construction (“AFUDC”) for any
 14 applicable Construction Work in Progress (“CWIP”) costs.

Chart 1: Low NO _x Revenue Requirement (\$ Millions)		
Line No.	Description	Annual Cost
1	Net Capital Investment	\$ 54.6
2	Return	4.5
3	O&M Expense	-
4	Depreciation	1.0
5	Property Tax	0.4
6	Annual Revenue Requirement	\$ 5.9
7	AR 2015/2016 Revenue Requirement	\$ 0.6

15 **IV. RECOVERY MECHANISM FOR ACI**

16
 17 Q. **What costs will be collected through the proposed ECP Rider?**

18 A. All costs associated with the Company’s environmental compliance plan to comply with
 19 MATS would be collected through the ECP rider.

1 Q. **What amount of costs is requested for recovery in this filing?**

2 A. OG&E is requesting recovery of reasonably incurred costs made through December 31,
3 2015. These costs are \$18.4 million for net capital investment and \$500,000 for expenses
4 including depreciation and property tax related to the ACI projects. These costs are
5 shown in more detail in Direct Exhibit SDR-1 to this testimony.

6

7 Q. **Is the Company proposing a security deposit to ensure prompt payment for any
8 over collections of costs?**

9 A. No. OG&E's ECP rider recovery request is less than 0.97% of the Company's total
10 annual revenue. In addition, the Company has a credit rating of A according to Fitch,
11 S&P and Moody's credit rating agencies. Therefore, the Company requests no security
12 deposit be required by the APSC.

13

14 Q. **Has the Company determined an annual revenue requirement for the ACI costs that
15 would be recovered through the proposed ECP rider?**

16 A. Yes. As shown below, the Company calculated an annual revenue requirement of
17 approximately \$217,000 for January 2016 through December 2016. The revenue
18 requirement was calculated so as to produce annual revenues to which the Company
19 would be authorized had the investments and expenses been included in OG&E's most
20 recent rate determination by the APSC. As shown below, the Company calculated an
21 annual revenue requirement as described in Docket No. 15-034-U, Order No. 7, which is
22 based upon the Company's most recently approved return on rate base adjusted for
23 income taxes for any Plant In Service costs and an Allowance for Funds Used During
24 Construction ("AFUDC") for any applicable Construction Work in Progress ("CWIP")
25 costs. These costs will be recovered through the ECP rider as a result of the Company's
26 environmental compliance plan for the MATS.

Chart 2: ACI Revenue Requirement (\$ Millions)		
Line No.	Description	Annual Cost
1	Net Capital Investment	\$ 18.4
2	Return	1.5
3	O&M Expense	-
4	Depreciation	0.3
5	Property Tax	0.2
6	Annual Revenue Requirement	\$ 2.0
7	AR 2015/2016 Revenue Requirement	\$ 0.2

V. CUSTOMER IMPACTS

1
2
3 **Q. What is the estimated customer impact of the ECP rider, as it pertains to**
4 **LNB/OFA?**

5 **A.** As displayed below, Chart 3 shows the average bill impact by class for the LNB/OFA
6 portion of the ECP rider.

Chart 3 - Proposed ECP Factor - Low NO _x Only							
Class	Average Monthly kWh	Average Monthly kW	ECP Rider Factor By Class (per kWh)	ECP Rider		Total Monthly Impact	
				Factor by Class (per kW)	Monthly Impact per kWh		
Residential	1,000		0.000286		\$ 0.29	\$ 0.29	
General Service	1,800		0.000285		\$ 0.51	\$ 0.51	
P&L SL2	65,000	180	0.000061	0.086063	\$ 3.97	\$ 15.49	
P&L TOU SL2	511,000	1,100	0.000114	0.041001	\$ 58.25	\$ 45.10	
						\$ 103.36	

7 **Q. What is the estimated customer impact of the ECP rider, as it pertains to ACI?**

8 **A.** As displayed below, Chart 4 shows the average bill impact by class for the ACI portion
9 of the ECP rider.

Chart 4 - Proposed ECP Factor - ACI Only							
Class	Average Monthly kWh	Average Monthly kW	ECP Rider Factor By Class (per kWh)	ECP Rider Factor by Class (per kW)	Monthly Impact	Monthly Impact	Total Monthly Impact
					per kWh	per kW	
Residential	1,000		0.000096		\$ 0.10		\$ 0.10
General Service	1,800		0.000096		\$ 0.17		\$ 0.17
P&L SL2	65,000	180	0.000020	0.028930	\$ 1.30	\$ 5.21	\$ 6.51
P&L TOU SL2	511,000	1,100	0.000038	0.013783	\$ 19.42	\$ 15.16	\$ 34.58

1 Q. What is the estimated total customer impact of the ECP rider, as it pertains to both
2 LNB/OFA and ACI?

3 A. As displayed below, Chart 2 shows the average bill impact by class for the LNB/OFA
4 portion of the ECP rider. Please see Direct Exhibit SDR-2 for the associated billing
5 factors by class.

Chart 5 - Proposed ECP Factor - All Projects							
Class	Average Monthly kWh	Average Monthly kW	ECP Rider Factor By Class (per kWh)	ECP Rider Factor by Class (per kW)	Monthly Impact	Monthly Impact	Total Monthly Impact
					per kWh	per kW	
Residential	1,000		0.000383		\$ 0.38		\$ 0.38
General Service	1,800		0.000380		\$ 0.68		\$ 0.68
P&L SL2	65,000	180	0.000081	0.114992	\$ 5.27	\$ 20.70	\$ 25.96
P&L TOU SL2	511,000	1,100	0.000152	0.054784	\$ 77.67	\$ 60.26	\$ 137.93

* Total Monthly Impact amounts do not add down due to rounding.

6 Q. Are any other tariffs affected by the Company's ECP for the Regional Haze SIP and
7 MATS rules?

8 A. No.

9

10 Q. Does this conclude your testimony?

11 A. Yes.

OKLAHOMA GAS AND ELECTRIC COMPANY
ECP REVENUE REQUIREMENT
Docket No. 15-034-U

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>Low Nox Annual Cost as of December 2015</u>	<u>ACI Annual Cost as of December 2015</u>	<u>Total</u>
<u>Rate Base</u>				
1	Plant in Service	\$ 51,365,556	\$ 18,409,755	\$ 69,775,311
2	Retirement Adjustment	\$ (1,199,436)	\$ -	\$ (1,199,436)
3	Plant in Service	\$ 50,166,120	\$ 18,409,755	\$ 68,575,875
4	Accumulated Provision for Depreciation	\$ (1,110,978)	\$ (25,480)	\$ (1,136,459)
5	Retirement Adjustment	\$ 1,199,436	\$ -	\$ 1,199,436
6	Accumulated Provision for Depreciation	\$ 88,458	\$ (25,480)	\$ 62,978
7	Net Plant in Service	\$ 50,254,578	\$ 18,384,275	\$ 68,638,853
8	Construction Work in Progress	\$ 4,315,936	\$ -	\$ 4,315,936
9	Total Rate Base	\$ 54,570,514	\$ 18,384,275	\$ 72,954,789
10	Rate of Return/PIS	8.20%	8.20%	
11	AFUDC Return/CWIP ¹	8.20%	8.20%	
12	Return on Net Plant in Service	\$ 4,120,875	\$ 1,507,511	\$ 5,628,386
13	Return on Construction Work in Progress	\$ 353,907	\$ -	\$ 353,907
14	Total Return on Rate Base	4,474,782	1,507,511	5,982,293
<u>Expenses</u>				
15	O&M Expense	\$ -	\$ -	\$ -
16	Depreciation Expense	\$ 959,472	\$ 305,763	\$ 1,265,235
17	Property Taxes at 0.87% based on gross plant	\$ 436,445	\$ 160,165	\$ 596,610
18	Total Expenses	\$ 1,395,917	\$ 465,928	\$ 1,861,845
19	Revenue Requirement @ 100%	\$ 5,870,699	\$ 1,973,438	\$ 7,844,137
20	AR Jurisdictional Allocation % ²	10.99%	10.99%	
21	AR Revenue Requirement	\$ 645,348	\$ 216,934	\$ 862,282

Notes

¹ Based on the Final Order from Docket 10-067-U, Order #6, Exhibit 1, p. 7 of 29. 5.93% grossed up for tax.

² Based on the Final Order from Docket 10-067-U, Order #6, Exhibit 1, p.4 of 29.

OG&E ECP Surcharge Rates*ACT 310, Docket No. 15-034-U***ECP Surcharge Rate**

<u>Customer Class</u>	<u>ECP Factor by Class per kWh</u>	<u>ECP Factor by Class per kW</u>
Residential	0.000383	
General Service	0.000380	
Power & Light		
Service Level 1 & 2	0.000081	0.114992
Service Level 3	0.000070	0.098584
Service Level 4	0.000029	0.039232
Service Level 5	0.000064	0.087883
Power & Light TOU		
Service Level 1	0.000168	0.035285
Service Level 2	0.000152	0.054784
Service Level 3	0.000170	0.059605
Service Level 4 & 5	0.000163	0.055617
Other	0.000185	

CERTIFICATE OF SERVICE

I, Lawrence E. Chisenhall, Jr., do hereby certify that a copy of the foregoing was served upon all parties of record via the APSC EFS this 29th day of January, 2016.

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