

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

IN THE MATTER OF THE APPLICATION OF  
OKLAHOMA GAS AND ELECTRIC COMPANY  
FOR COMMISSION PREAPPROVAL PURSUANT  
TO 17 O.S. SECTION 286(C) FOR ACQUISITION  
OF CAPACITY THROUGH ASSET PURCHASE

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Cause No. PUD 201800159

**FILED**  
DEC 28 2018

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CORPORATION COMMISSION  
OF OKLAHOMA

Direct Testimony

of

Keith Mitchell

on behalf of

Oklahoma Gas and Electric Company

December 28, 2018

## I. INTRODUCTION

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

2 A. My name is Keith Mitchell. I am employed by Oklahoma Gas and Electric Company  
3 ("OG&E" or the "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 Chief Operating Officer at OG&E.  
8

9 Q. **Please state your educational qualifications and employment history.**

10 A. I graduated from the University of Oklahoma, with a Bachelor of Science in Chemical  
11 Engineering in 1984. Prior to joining Enogex in 1994, I was Vice President at Kansas  
12 Pipeline Operating Company, responsible for all marketing, supply, and transportation  
13 activities. I have over 30 years of diversified experience in the natural gas industry. From  
14 2002 to 2004, I was Vice President, Sales Support of Enogex, leading the contract  
15 management and technical sales support groups. I also served in other transportation and  
16 system planning positions. From 2004 to 2007, I served as Vice President, Transportation  
17 Services of Enogex. In 2007, I was named Senior Vice President and Chief Operating  
18 Officer of Enogex. In 2011, I was named President of Enogex and when Enogex became  
19 Enable Midstream, I was named Chief Operating Officer of Enable Midstream. In 2015, I  
20 began my current role as Chief Operating Officer of OG&E.  
21

22 Q. **Have you testified previously before this Commission?**

23 A. Yes. I testified in Cause No. PUD 200300226 on behalf of Enogex. This is my first time  
24 testifying at the Commission on behalf of OG&E.  
25

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

27 A. The purpose of my testimony is to support the Company's request for relief in this  
28 application, including Commission approval of OG&E's purchase of the AES Shady Point  
29 generating facility in Panama, Oklahoma and the Oklahoma Cogeneration facility in  
30 Oklahoma City, OK (together, the "Generating Facilities"). My testimony first discusses

1 the requested relief sought by the Company in this proceeding and how this pre-approval  
2 is being requested pursuant to 17 O.S. § 286(C). Second, I will provide an overview of the  
3 Generating Facilities to be purchased by the Company and will describe how and why such  
4 facilities were selected as the winning bidders in OG&E's recent 2018 Request for  
5 Proposals for Capacity ("2018 RFP"). Finally, I describe the Company's decision to  
6 acquire the Generating Facilities and why it makes sense for customers.

7  
8 **Q. What specific relief is OG&E requesting of the Commission in this proceeding?**

9 A. The Company is requesting that the Commission pre-approve: (i) the purchase of the AES  
10 Shady Point and Oklahoma Cogeneration generating facilities; and (ii) the proposed rider  
11 for recovery of the costs associated with those acquired facilities.

12  
13 **Q. You mentioned 17 O.S. § 286(C) above, what is your understanding of that statute?**

14 A. That statute allows rate-regulated electric utilities like OG&E to file an application seeking  
15 Commission approval "to construct a new electric generating facility, to purchase an  
16 existing electric generating facility or enter into a long-term contract for purchased power  
17 and capacity and/or energy." The statute further provides that a utility must show a need  
18 for the generation or contract and requires that the Commission consider reasonable  
19 alternatives before issuing an order on the utility's application.

20  
21 **Q. In your opinion has OG&E complied with the requirements of the 17 O.S. § 286(C)?**

22 A. Yes. OG&E established a need for this new generating capacity in its 2018 Integrated  
23 Resource Plan ("IRP"). After the IRP, the Company then initiated a competitive bidding  
24 process under the Commission's competitive bidding rules (OAC 165:35-34) to assess  
25 reasonable alternatives for meeting that need and the various market opportunities.

26  
27 **Q. What additional witnesses are presenting testimony to support the Company's  
28 position?**

29 A. OG&E Witness Leon Howell discusses the IRP and the need for new generating capacity.  
30 Mr. Howell also describes the 2018 RFP and how the Company evaluated bids received in  
31 the 2018 RFP, including the consideration of various quantitative and qualitative factors.

1 OG&E Witness Judah Rose, Executive Director with ICF Consulting, provides testimony  
2 about his independent review of the 2018 RFP, how the 2018 RFP and the evaluation of  
3 bids was reasonable, how the Company weighed the various components of the qualitative  
4 and quantitative analysis, and why the purchase of AES Shady Point and Oklahoma  
5 Cogeneration facilities represents the most reasonable option for the Company. Finally,  
6 OG&E Witness Jason Bailey supports the Company's request that the Commission  
7 approve a cost recovery mechanism so the Company can recover the costs of the  
8 Generating Facilities when OG&E acquires them and they begin providing benefits to  
9 customers as OG&E-owned assets. Mr. Bailey will also explain the customer bill impacts  
10 from implementing the proposed rider.  
11

## 12 II. DESCRIPTION OF THE GENERATION FACILITIES

13 **Q. Please describe the AES Shady Point generating facility that OG&E is seeking to**  
14 **acquire.**

15 A. AES Shady Point is a generating facility located in Panama, Oklahoma with a total  
16 nameplate capacity of 360 MW, consisting of two identical 180 MW units. The facility  
17 has been in operation since January 1991 and, since that time, has been serving OG&E  
18 customers under a long-term Power Purchase Agreement ("PPA") as a cogeneration  
19 qualifying facility ("QF") under the federal Public Utility Regulatory Policies Act  
20 ("PURPA"). The facility utilizes circulating fluid bed ("CFB") technology that allows for  
21 lower nitrogen oxides (NO<sub>x</sub>) emissions due to staged combustion and lower combustion  
22 temperatures. Sulfur dioxide (SO<sub>2</sub>) emissions are also lower with this technology due to  
23 the introduction of limestone into the boilers during the combustion process. The facility,  
24 as currently constructed, is compliant with all current state and federal requirements.

25 CFB technology also allows for a variety of fuels or fuel blends to be used in the  
26 electric generation process. While the facility is currently coal-fired using both Powder  
27 River Basin coal and local Oklahoma-mined coal, the facility also has the ability to burn  
28 natural gas, tire-derived fuel and has even successfully tested burning shredded railroad  
29 ties. AES Shady Point also has the ability to blend different fuels. This optionality around  
30 diverse fuel supply is very attractive to OG&E and represents a flexibility that OG&E  
31 currently does not have in its generation fleet.

1 Q. **Does OG&E have any other generating facilities with CFB technology?**

2 A. No. This is a new technology in OG&E's generation fleet and provides new operational  
3 flexibility with regard to fuel options.  
4

5 Q. **What are some of the other important characteristics of the AES Shady Point facility?**

6 A. First, AES Shady Point is already well integrated into the OG&E transmission system.  
7 Since it is already considered a network resource for OG&E at the SPP, there will be no  
8 additional transmission upgrades needed before adding the facility to OG&E's generation  
9 fleet. Second, the plant already has the necessary infrastructure (and therefore has no  
10 construction risk), security protocols, permits, and water rights. The facility also has a  
11 trained workforce and a current inventory of replacement parts with a value of  
12 approximately \$4 million to facilitate continued operation and maintenance. In addition,  
13 AES Shady Point is near OG&E's Ft. Smith load center and will aid in voltage support.  
14

15 Q. **Does the AES Shady Point facility also have an attractive performance history?**

16 A. Yes. The AES Shady Point units have both had excellent Equivalent Availability Factors  
17 ("EAF"). EAF is a reliability metric defined by the National Electric Reliability  
18 Corporation ("NERC") that represents the equivalent hours of planned and unplanned  
19 outages, and derates to unit capability compared to the available hours in the period. In  
20 both 2016 and 2017, the EAF for the two AES Shady Point units were around 90% and  
21 higher than the benchmark values of comparable sized coal units using NERC's generating  
22 availability data system ("GADS"). Another metric used to measure operating  
23 performance is the Equivalent Forced Outage Rate ("EFOR"). EFOR measures the hours  
24 of unit failure (*i.e.*, unplanned outage hours and equivalent unplanned derate hours). In  
25 2016, the AES Shady Point units were at or below the EFOR benchmark of comparable  
26 coal units and in 2017, the EFOR value for each unit was a fraction of one percent and  
27 dramatically lower than the comparable units benchmark.  
28

29 Q. **Is AES Shady Point an important part of the local economy in Oklahoma?**

30 A. Yes. The facility is located in southeast Oklahoma and has a significant economic impact  
31 for that part of the state. The facility is located in a rural community about 20 miles from

1 the western border of Arkansas and about 10 miles north of Poteau, Oklahoma. The facility  
2 currently employs 69 people directly and provides significant economic benefits to the  
3 local economy in that part of the State. Not only is the facility responsible for a significant  
4 financial impact in the local job market and the economy, annual *ad valorem* taxes fund  
5 several county and education improvements.

6  
7 **Q. Please describe the Oklahoma Cogeneration facility.**

8 A. The Oklahoma Cogeneration facility is a natural gas-fired combined cycle facility located  
9 in Oklahoma City, Oklahoma with a nameplate capacity of 146 MW. It consists of one  
10 General Electric (“GE”) 7EA gas turbine generation unit, one heat recovery steam  
11 generator with supplemental duct firing capability, one single- extraction condensing steam  
12 turbine generator and associated balance of plant equipment. It began operations in 1989  
13 and for the entire operating history of the facility, all major equipment has been maintained  
14 and inspected under a long-term high value service agreement with GE and O&M services  
15 have been provided through separate service agreements, first with GE and then with  
16 NAES Corporation.

17 The Oklahoma Cogeneration facility is well positioned to serve OG&E, being  
18 centrally located in OG&E’s system in an industrial area of Oklahoma City. This location  
19 facilitates OG&E’s ability to use the facility to provide localized reliability support and to  
20 provide SPP-accredited capacity. OG&E is very familiar with this facility because it has  
21 been purchasing capacity and energy from Oklahoma Cogeneration under a Power Sales  
22 Agreement since 1989.

23  
24 **Q. What are some of the other important characteristics of the Oklahoma Cogeneration  
25 facility?**

26 A. The Oklahoma Cogeneration facility is in Oklahoma City, the Company’s largest load  
27 center and is already well-integrated into the OG&E transmission system. As with the AES  
28 Shady Point facility, since it is already considered a network resource for OG&E at the  
29 SPP, there will be no additional transmission upgrades needed before adding the facility to  
30 OG&E’s generation fleet. Also, the facility already has the necessary infrastructure (and  
31 therefore has no construction risk), security protocols, and permits. As with AES Shady

Point, the facility also has a current inventory of replacement parts with a value of approximately \$3.2 million to facilitate continued operation and maintenance.

OG&E is also very familiar with the combined cycle technology at the Oklahoma Cogeneration facility, as it has operated similar natural gas, combined cycle units for many years. This facility also has faster start-up times and better heat rates than other units operating in the SPP and will therefore provide the Company more flexible and efficient units for SPP IM dispatch.

**Q. Does the Oklahoma Cogeneration facility have an attractive performance history?**

A. Yes. The Oklahoma Cogeneration facility has experienced a quite favorable Equivalent Availability Factor ("EAF") in recent years. In both 2016 and 2017, the EAF for the Oklahoma Cogeneration was between 80% and 90% and comparable to the regional benchmark. Also, in 2016 and 2017, the Oklahoma Cogeneration facility had a very low EFOR value of under 1%, which is well below the regional benchmark of over 7%.

### **III. OG&E'S DECISION TO ACQUIRE THE GENERATING FACILITIES**

**Q. What steps did the Company take to ensure that the lowest reasonable cost option was selected for meeting the capacity need identified in the IRP?**

A. As explained by Witness Howell, OG&E first undertook an IRP process, which demonstrated a need for additional long-term capacity. The Company believed that it could elect not to continue the existing PPA with AES Shady Point and find cheaper alternatives for that capacity through a market opportunity. This is especially true right now, as there is excess capacity in the SPP footprint.

In order to assess those market opportunities, OG&E utilized the Commission's competitive bidding rules and issued the 2018 RFP to consider all options for meeting OG&E's capacity needs between 2019 and 2023. OG&E also retained the optionality to contract with one or multiple bidders to procure capacity resources and sought bids from a wide variety of utility scale electric generation sources. Moreover, OG&E did not limit the RFP to any specific technology, fuel source or type of generation.

1 Q. **What were some of the important requirements of bidders in the 2018 RFP?**

2 A. Although OG&E was attempting to be flexible in the amount and type of generating  
3 capacity it could select through the RFP, there were several important requirements that  
4 were imposed on bidders. The bidders were required to meet threshold requirements that,  
5 among other things, required that proposals be for long-term (30 year) capacity only.  
6 Witness Rose discusses the focus on such long-term capacity and why proposals for the  
7 sale of capacity and energy were rejected as non-conforming. Also, the bidders were  
8 required to design proposals that met the Company's specific SPP-accredited capacity  
9 needs.

10  
11 Q. **Were you pleased with the responses received in the 2018 RFP process?**

12 A. Yes. We were very pleased with the number of bidders and proposals submitted. There  
13 were nineteen (19) bidders submitting ninety-four (94) distinct proposals. Of these 94  
14 proposals, forty-one (41) were for the acquisition of generating assets and fifty-three (53)  
15 were for PPAs. These proposals constituted more than 6,400 MW from existing and new  
16 generating facilities utilizing many types of fuels, including coal, natural gas, wind, solar,  
17 and batteries. The proposals also came from twenty-six (26) different locations within a  
18 350-mile radius of Oklahoma City, Oklahoma.

19  
20 Q. **Please explain how the Company analyzed proposals submitted in the 2018 RFP.**

21 A. Witnesses Howell and Rose both discuss the details of the bid evaluation process, but the  
22 Company performed a thorough bid evaluation process that employed a number of  
23 quantitative and qualitative criteria. OG&E requested an independent consultant (ICF  
24 Consulting) to perform the qualitative analysis and scoring, while OG&E took the lead in  
25 performing the quantitative scoring. When the two separately calculated scores were  
26 combined, a final ranking of bidders was generated.

27  
28 Q. **Did the Company eliminate any bids as non-conforming during the threshold  
29 evaluation process?**

30 A. Yes. Bids were deemed non-conforming for a number of reasons. Some bids were rejected  
31 because they were deemed incomplete for failing to submit the proper forms, documents,



1 information and data requested in the 2018 RFP. Also, some bids did not meet the size,  
2 timing and term requirements specified by the Company. That is, the Company specified  
3 that proposals were required to have between 50 MW and 500 MW accredited capacity, be  
4 available to begin supply to OG&E between 2019 and 2021, provide capacity to support  
5 OG&E's SPP planning reserve obligations, and, if a PPA, have a term of a minimum of 30  
6 years. Other reasons for finding bids non-conforming included: (i) non-demonstration of  
7 a high level of site control through executed land leases, options to lease, easements and  
8 other instruments of conveyance; (ii) unacceptable project conditions or contingencies; (iii)  
9 inadequate developer experience and financial ability to develop their respective projects.  
10 Several proposals were also deemed non-conforming if they made material and  
11 unacceptable changes to the form PPA Agreement attached to the 2018 RFP or they placed  
12 too much construction risk on OG&E and its customers. Finally, some PPA bids were  
13 deemed non-conforming if they offered both capacity and energy. OG&E would only  
14 consider capacity-only PPAs, as stipulated in the RFP, because OG&E only needed  
15 capacity and did not want to take on added energy price risk. Witness Rose elaborates on  
16 the reasons why proposals were rejected as non-conforming.

17  
18 **Q. How many bids passed the threshold evaluation?**

19 **A.** After the threshold evaluation, there were twenty-one (21) bids that were evaluated through  
20 the rigorous quantitative and qualitative scoring process. These projects included a number  
21 of existing asset acquisition proposals, utility-scale solar build/own/transfer projects, and  
22 power purchase agreements.

23  
24 **Q. How was the quantitative analysis performed?**

25 **A.** As explained by OG&E Witness Howell, there were two parts to the quantitative analysis.  
26 First, OG&E internally calculated a Net Present Value of Customer Costs ("NPVCC") for  
27 each of the conforming bids. This part of the analysis constituted 80% of the quantitative  
28 scoring. Second, for any PPA proposal in the 2018 RFP, OG&E also considered the  
29 projected costs of direct or inferred debt associated with the proposal. ICF Consulting  
30 performed this second part of the economic analysis, which constituted 20% of the  
31 quantitative scoring.

1  
2 **Q. Who conducted this qualitative analysis and what were the results?**

3 A. Judah Rose and his team at ICF Consulting conducted the qualitative analysis. His team  
4 reviewed each proposal and assigned a qualitative score to each one. The qualitative  
5 evaluation consisted of six non-economic criteria: (i) contract risk, cost and benefits; (ii)  
6 operational characteristics and viability; (iii) locational benefits, reliability, resiliency and  
7 security; (iv) overall project development risks; (v) resource diversity and scalability; and  
8 (vi) environmental impact. The AES Shady Point and Oklahoma Cogeneration generating  
9 facilities had two of the best qualitative scores among the projects evaluated. Witness Rose  
10 is submitting testimony explaining the details of that qualitative review.  
11

12 **Q. Did the final ranking produce any clear winners of the 2018 RFP?**

13 A. Yes. After the final quantitative and qualitative scores for each bid were combined to  
14 develop final overall rankings of the bids, the Generating Facilities (AES Shady Point and  
15 Oklahoma Cogeneration) were shown to be the clear winners. Out of 100 possible points,  
16 the Generating Facilities each scored over 80 points and beat the next highest bidder by 10  
17 points.  
18

19 **Q. When you looked beyond the RFP scores, did the acquisition of the Generating  
20 Facilities make sense?**

21 A. Yes. First, both of these generating facilities are already part of OG&E's operations. They  
22 are both interconnected with OG&E's transmission system and OG&E has designated both  
23 facilities as network resources with the SPP. There are no transmission upgrades needed  
24 to acquire or operate the Generation Facilities. Also, since these facilities have been  
25 providing power to OG&E for many years, OG&E is familiar with how these units operate  
26 and are dispatched.

27 Second, as evidenced by recent EAF and EFOR data, OG&E is getting two well  
28 maintained generating units for a very attractive price. The acquisition costs for both  
29 Generating Facilities is approximately \$53.5 million. Since these facilities total  
30 approximately 500 MW, the cost of this new capacity equals approximately \$106/kW.  
31 Also, since the value of the capacity comes mostly from that low capital investment and

1 does not rely on market revenues to demonstrate value for customers, there is less market  
2 risk associated with these projects.

3 Also, these facilities both currently provide valuable jobs to Oklahomans and *ad*  
4 *valorem* taxes to their local communities. The acquisition of these facilities will ensure  
5 that these facilities will continue to contribute to their local economies.

6 Further, since these facilities are already existing generating assets, OG&E is not  
7 adding to the emissions profile of the State of Oklahoma and OG&E will continue to strive  
8 to reduce emissions of both of these plants through efficient operations.

9  
10 Q. **Is adding 500 MW at approximately \$106/kW a good deal for customers?**

11 A. Yes. Witness Howell explains that this was extraordinarily cheap capacity.  
12

13 Q. **Did OG&E conduct due diligence on the Generating Facilities before entering into**  
14 **the contracts for their acquisition?**

15 A. Yes. OG&E assembled a team to examine all types of corporate documents, real property  
16 documents (deeds, easements, encumbrances, surveys, zoning, etc.), insurance policies,  
17 contracts, financial documents/matters, governmental compliance matters, legal  
18 proceedings, environmental and safety matters, and auditor reports. OG&E's team also  
19 assessed operating data and engineering reports over the last 10 years, as well as the facility  
20 design data and documents. OG&E also conducted inspections of the facilities.  
21

22 Q. **When did OG&E enter into the contracts to purchase the Generation Facilities?**

23 A. OG&E entered into the contracts to purchase both the AES Shady Point and Oklahoma  
24 Cogeneration facilities on December 19, 2018.  
25

26 Q. **Is timely action by the Commission important?**

27 A. Yes. In order to have sufficient capacity by May 15, 2019, a timely Commission Order is  
28 necessary. If an order is not received by May 15, 2019, customers would have to bear the  
29 cost of a short-term capacity purchase for the summer of 2019. In addition, both contracts  
30 contain regulatory termination clauses that respectively allow the Company or the Sellers  
31 to terminate. Termination may occur if regulatory approval is not obtained for the AES

1 Shady Point contract by August 31, 2019 and in the case of the Oklahoma Cogeneration  
2 by September 3, 2019.

3  
4 **IV. CONCLUSION**

5 **Q. How would you characterize the present cause?**

6 A. OG&E seeks Commission approval to acquire the Generating Facilities under 17 Okla.  
7 Stat. 286(C). This statute allows a utility to elect to file an application seeking approval to  
8 purchase an existing electric generating facility. The statute says that “[i]f, and to the extent  
9 that, the Commission determines there is a need for...purchase of the electric generating  
10 facility..., the generating facility...shall be considered used and useful and its costs shall  
11 be subject to the cost recovery rules promulgated by the Commission.” The Commission  
12 is also charged with taking reasonable alternatives into consideration when it issues its final  
13 order.

14 OG&E has demonstrated the need for the Generating Facilities’ capacity in its IRP  
15 and shown that the Generating Facilities were the lowest reasonable cost bids in the 2018  
16 RFP. Moreover, the Company has shown that the acquisition of the Generating Facilities  
17 reduce costs to customers over the next five years compared to continuing to operate under  
18 the existing AES Shady Point PPA. OG&E respectfully requests that the Commission  
19 issue an order approving the acquisition as soon as practicable.

20  
21 **Q. Do you believe that pre-approval of OG&E’s acquisition of the Generating Facilities**  
22 **is in the public interest?**

23 A. Yes. I believe that the approval is in the public interest. These two facilities were the best  
24 options identified through the 2018 RFP and represent the lowest reasonable cost options  
25 for the Company. Moreover, these facilities have existing infrastructure, employees,  
26 proven operational success, and are important to the local and state economy.

27  
28 **Q. Does that conclude your testimony?**

29 A. Yes.