

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

Donald R. Rowlett

on behalf of

Oklahoma Gas and Electric Company

May 8, 2015

Donald R. Rowlett
Direct Testimony

1 Q. **Please state your name, by whom you are employed, and your 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, 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 Masters in Business Administration (1992), from Oklahoma City University. In
12 1983, I became a Certified Public Accountant. Since joining OG&E I have served in a
13 number of accounting and finance roles including serving as the Company’s Chief
14 Accounting Officer from 1996 to 2005. For the last ten years I have led OG&E’s
15 development of regulatory policies and currently serve as Managing Director of
16 Regulatory Affairs. Prior to joining OG&E, I was employed by Arthur Andersen & Co.
17 for approximately nine years as a financial consultant and audit manager. During my
18 employment, I performed audits of financial statements in a variety of industries.
19 Additionally, I participated in the preparation of filings with the Securities and Exchange
20 Commission (“SEC”) and provided clients with guidance on the financial reporting
21 requirements of the SEC and Generally Accepted Accounting Principles (“GAAP”).
22

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

24 A. Yes. In addition to testifying before the Arkansas Public Service Commission (“APSC”
25 or “Commission”), I have also testified on behalf of the Company before the Oklahoma
26 Corporation Commission on numerous occasions and the Environmental and Public
27 Works Committee of the United States Senate regarding America’s Climate Security Act
28 of 2007 (S. 2191).

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

2 A. The purpose of my testimony is to support the Company's request for approval of an
3 interim surcharge to recover investment and expenses reasonably incurred in order to
4 comply with certain provisions of the Federal Clean Air Act ("CAA"). The Company
5 makes this request in accordance with A.C.A. §23-4-501 *et seq.* ("Act 310"). I will
6 discuss the Company's environmental compliance plan and how OG&E meets the
7 requirements for receiving approval for recovery as set out in Act 310. In addition, I will
8 address the proposed mechanism to recover the surcharge and the customer impacts of
9 the surcharge.

10

11 **I. OVERVIEW OF THE PRESENT CAUSE**

12

13 Q. **Why is OG&E seeking the relief requested in this cause?**

14 A. The Environmental Protection Agency ("EPA") has promulgated regulations under the
15 CAA (i.e., the Regional Haze Rule) that directly affects certain existing OG&E coal and
16 natural gas-fired generating facilities. The Regional Haze Rule, *inter alia*, requires
17 OG&E to take steps to meet new emission limits for nitrogen oxides ("NO_x"). OG&E's
18 units are required to operate in compliance with the established limits, terms and
19 conditions of the rule, once the regulatory deadlines take effect. The deadline for
20 compliance with the Regional Haze NO_x emission requirements is January 27, 2017.

21

22 Q. **What is the Company's environmental compliance plan for the NO_x emission
23 requirements?**

24 A. To meet the NO_x emission requirements of the Regional Haze Rule, also known as the
25 Regional Haze State Implementation Plan ("SIP"), OG&E will install Low NO_x burners
26 with over-fire air ("LNB/OFA") systems on the four affected coal units (Sooner 1 and 2
27 and Muskogee 4 and 5) and on the three affected natural gas units at the Seminole Power
28 Plant. OG&E began installation of the LNB/OFA technology in Spring 2013 in order to
29 meet the deadline of January 27, 2017.

1 Q. **Please elaborate on the Regional Haze Oklahoma SIP.**

2 A. The EPA accepted and approved the Oklahoma Regional Haze SIP as it applies to the
3 Company's NO_x emissions. In order to continue operating in compliance with the lower
4 NO_x emission limits of the Regional Haze SIP, the Company must utilize Best Available
5 Retrofit Technology ("BART") to control NO_x emissions. The installation of LNB/OFA
6 systems on the seven affected generation units was determined as BART by the
7 Oklahoma Department of Environmental Quality. LNB/OFA will provide environmental
8 benefits by reducing the NO_x emission rates at the affected units. NO_x emission rates will
9 be reduced from the coal units by over 50%. In preparing the SIP, the Company also
10 considered both Selective Non-Catalytic Reduction ("SNCR") and Selective Catalytic
11 Reduction ("SCR") technologies for post-combustion NO_x control. Each of these
12 alternatives was deemed to be inferior to the SIP proposal due to either technical
13 problems (SNCR) or cost concerns (SCR). The SCR option is approximately fifteen
14 times more costly than the proposed plan, with only minimal incremental emissions
15 reductions. The Company is currently installing the LNB/OFA technologies in order to
16 meet the January 27, 2017 compliance date. In fact, the Company has already completed
17 the installation of the NO_x compliance technologies on four of the seven affected units.
18 The cost of complying with NO_x emissions is expected to be approximately \$99.4
19 million as compared to the 2008 BART estimate of \$100 million.

20
21 Q. **What relief is OG&E requesting of the Commission in this proceeding?**

22 A. The Company is requesting that the Commission approve the recovery of its investments
23 and expenses made to comply with the NO_x emissions requirements of the CAA's
24 Regional Haze rule through an interim surcharge. In addition, the Company requests
25 approval of its proposed recovery mechanism, the Environmental Compliance Plan
26 ("ECP") rider (Direct Exhibit DRR-1), to collect this interim surcharge.

1 **II. A.C.A. §23-4-501 ET SEQ REQUIREMENTS**

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

A. No. The Company’s last rate case was Docket No. 10-067-U based on a test year of December 31, 2009 and a *pro forma* test year ending December 31, 2010. None of the costs to comply with the Regional Haze Rule were included in the last rate case, because they were incurred after December 31, 2010. The first investment or expenses included for recovery under the proposed interim surcharge occurred mid-year 2012.

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

A. No. The Regional Haze SIP was not approved by the EPA until December 28, 2011. The Company’s last rate case included pro forma costs through December 31, 2010. Therefore, no costs were incurred or could be included for recovery as part of the Company’s last general rate case.

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

A. The Company will submit, immediately following the filing through workpapers, substantial evidence supporting the costs expended to date including, copies of contracts, order cost detail, Authorizations for Expenditures (“AFEs”), and documentation of the procedures for allocation of overheads and other indirect costs assigned to the environmental projects. This information will substantiate how all costs were reasonably incurred.

Q. Please further describe the process for ensuring OG&E’s cost for the equipment and installation needed to meet the Regional Haze SIP requirements were reasonable.

A. The equipment for the LNB/OFA projects was competitively bid. The equipment for all

1 of the affected coal units was in one bid package, with a separate bid package for the
2 Seminole natural gas units, providing improved pricing for multiple units of common
3 equipment. In addition, the installation vendors were selected through a competitive
4 sourcing process based on several factors such as experience, safety, financial stability
5 and cost.

6

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

10 **A.** As stated above, the Company is making these expenditures in order to comply with the
11 mandatory requirements of the CAA related to Regional Haze NO_x emission limits. The
12 Regional Haze SIP pertaining to NO_x was approved by the EPA.¹

13

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

16 **A.** The Federal Clean Air Act was established to protect the public from airborne
17 contaminants. The Regional Haze rule requires the states, in coordination with the
18 Environmental Protection Agency, the National Park Service, U.S. Fish and Wildlife
19 Service, the U.S. Forest Service, and other interested parties, to develop and implement
20 air quality protection plans to reduce the pollution that causes visibility impairment to the
21 environment.

22

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

25 **A.** OG&E does not have a mechanism to collect in a prompt and timely manner the costs
26 requested for recovery in this Docket. There is no current rider provision that allows
27 recovery of the costs of these investments and expenses other than the Act 310 provisions
28 being requested. The only other option is the filing of a general rate case, which can take
29 up to ten months after it is filed before any rate relief is implemented. It also requires

¹ 76 Fed. Reg. 81,728 (December 28, 2011)

1 many months of preparation and it is very time consuming and expensive to prepare and
2 process the filing.

3
4 **Q. Are the investments and expenses mandatory, a condition of continued operation or
5 previously approved by the Commission (Section 2 (a) (1) (G))?**

6 A. Yes. As stated above, the Company is mandated by the EPA's CAA to comply with the
7 requirements of the Regional Haze rules. The Company cannot continue to operate the
8 affected units beyond the compliance date without adding the emission control
9 technology to reduce nitrogen oxide emissions as required in the SIP. The Company is
10 installing the LNB/OFA systems during each unit's normal off-peak outage to allow the
11 units to be available to meet customer's peak energy needs.

12
13 **III. RECOVERY MECHANISM AND CUSTOMER IMPACTS**

14
15 **Q. What costs will be collected through the proposed ECP Rider?**

16 A. All costs associated with the Company's environmental compliance plan to comply with
17 Regional Haze SIP would be collected through the ECP rider.

18
19 **Q. What amount of costs is requested for recovery in this filing?**

20 A. OG&E is requesting recovery of reasonably incurred costs made through April 30, 2015.
21 These costs are \$42.2 million for net capital investment and \$1 million for expenses
22 including depreciation and property tax related to the LNB/OFA projects. These costs
23 are shown in more detail in Direct Exhibit DRR-2 to this testimony.

24
25 **Q. When will OG&E implement its interim rate schedule?**

26 A. The Company plans to implement a surcharge subject to refund to recover costs to
27 comply with the environmental mandates mentioned above starting on the first billing
28 cycle of June, 2015. The interim surcharge rider shall remain in effect until the
29 investments or expenses associated with the interim surcharge can be included in the
30 Company's next general rate filing and included in the Company's base rates.

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

3 A. No. OG&E’s ECP rider recovery request is less than 0.2% of the Company’s total
 4 company annual revenues. In addition, the Company has a credit rating of A according
 5 to Fitch, S&P and Moody’s credit rating agencies. Therefore, the Company requests no
 6 security deposit be required by the APSC.

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 of
 11 approximately \$500,000 for June, 2015 through May, 2016. The revenue requirement
 12 was calculated so as to produce annual revenues to which the Company would be
 13 authorized had the investments and expenses been included in OG&E’s most recent rate
 14 determination by the APSC. These costs will be recovered through the ECP rider as a
 15 result of the Company’s environmental compliance plan for the Regional Haze SIP.

Chart 1: Revenue Requirement (\$ Millions)		
Line No.	Description	Annual Cost
1	Net Capital Investment	\$ 42.2
2	Return	3.5
3	O&M Expense	-
4	Depreciation	0.6
5	Property Tax	0.4
6	Annual Revenue Requirement	\$ 4.5
7	AR 2015/2016 Revenue Requirement	\$ 0.5

16 Q. **Please describe the type of costs included in the capital investment category shown**
 17 **on line 1.**

18 A. The capital investment includes expenditures made from mid-year 2012 through April 30,
 19 2015, for environmental control equipment, preliminary survey and investigation costs
 20 and other related expenditures.

1 Q. **Please describe the return category on line 2 in Chart 1.**

2 A. This category is the yield on capital investment which is derived by multiplying the Rate
3 of Return (“ROR”) last approved by the APSC, adjusted for tax, by the plant in service
4 capital investment included on line 1. Also, where applicable, line 2 reflects the yield on
5 capital investment by multiplying an Allowance for Funds Used During Construction
6 (“AFUDC”) by the Construction Work in Progress (“CWIP”) capital investment included
7 on line 1.

8

9 Q. **How will the Company ensure any AFUDC recovered through the ECP rider is not
10 capitalized?**

11 A. OG&E will adjust its books and records to reflect no AFUDC accrual for any capital
12 investment return received on CWIP through the proposed ECP rider.

13

14 Q. **Please describe the type of costs that may be included in the O&M expense category
15 on line 3 of Chart 1.**

16 A. This category may include incremental costs for labor, insurance, utilities, materials and
17 related costs that are incurred as a result of the environmental compliance projects.

18

19 Q. **Does the O&M expense category include increases in costs for employment
20 compensation or benefits as a result of legislative or regulatory action?**

21 A. No. Increases in the cost for employment compensation or benefits as a result of legislative
22 or regulatory action are not included in the recovery request.

23

24 Q. **How will the Company ensure O&M costs included in base rates are not also
25 recovered in the proposed rider?**

26 A. All of the O&M costs included in the calculation of the revenue requirement are expected
27 to be incremental and therefore not part of base rates.

28

29 Q. **Please describe the depreciation expense category shown on line 4 of Chart 1.**

30 A. This category recovers the costs of the assets beginning when they are placed into

1 service. A depreciation rate was calculated and applied to each asset or asset group based
 2 on previously approved depreciation rates from the Company's last general rate case².

3

4 **Q. Please describe the property tax expense category shown on line 5 of Chart 1.**

5 A. This category assumes a 1% property tax calculated on the capital investment at the
 6 beginning of each year.

7

8 **Q. How will the Arkansas retail jurisdictional revenue requirement be allocated to the
 9 customer classes?**

10 A. As reflected on line 7 in Chart 1, the revenue requirement from line 6 is allocated to the
 11 Arkansas jurisdictional retail customer classes based on the production demand allocator
 12 used and approved in the Company's last base rate filing.

13

14 **Q. Why was a production demand allocator selected?**

15 A. The LNB/OFA systems are recorded in FERC production plant accounts. Therefore, the
 16 Company selected a production demand allocator previously approved by the APSC
 17 which were applied to these accounts in the last base rate filing.

18

19 **Q. How will the Company reflect the surcharge on customer bills?**

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

22

23 **Q. What is the estimated customer impacts of the ECP rider?**

24 A. As displayed below, Chart 2 shows the average bill impact by class for the ECP rider.

Chart 2: Average Monthly Customer Impact			
Class	Average Monthly kWh	ECP Rider Factor By Class	Monthly Impact
Residential	1,000	0.0002193	\$ 0.22
General Service	1,800	0.0002156	\$ 0.39
Power & Light	130,000	0.0001624	\$ 21.11

² Docket No. 10-067-U Order No. 6

1 Q. Are any other tariffs affected by the Company's environmental compliance plan for
2 the Regional Haze SIP?

3 A. No.

4

5 Q. Does this conclude your testimony?

6 A. Yes.

Direct Exhibit DRR- 1
Pages 12-14 (including cover page)

ARKANSAS PUBLIC SERVICE COMMISSION

Original Sheet No. 78.0
 Replacing _____ Sheet No. ____
OKLAHOMA GAS AND ELECTRIC COMPANY
 Name of Company
 Kind of Service: Electric Class of Service: All
Part I. Schedule No. ECP
 Title: ENVIROMENTAL COMPLIANCE PLAN RIDER

PSC File Mark Only

- 78.1 **EFFECTIVE IN:** All territory served.
- 78.2 **PURPOSE:** The purpose of this rider is to recover the Arkansas retail jurisdictional portion of the annual revenue requirement for expenditures related to environmental compliance projects.
- 78.3 **APPLICABILITY:** This rider is applicable to all Arkansas retail rate classes.
- 78.4 **TERM:** The ECP rider will remain in effect until all costs are included in base rates or is terminated by order of the Commission.
- 78.5 **ENVIRONMENTAL COMPLIANCE PLAN RIDER (ECP) CALCULATIONS:**
 The following formula calculates the charges, on a per kilowatt-hour (kWh) basis, for each of the major rate classes and the combined minor rate classes.

The ECP factors for each class are calculated as follows

$$ECP \text{ Class Factor } (\$ \text{ per kWh}) = \frac{(A * B)}{C}$$

Where:

ECP Classes =

- **Residential** (including optional Residential tariffs);
- **General Service** (including optional General Service tariffs);
- **Power and Light** (including optional Power and Light tariffs);
- **Other**, which is the combination of all other rate classes such as Municipal Roadway and Area Lighting, Outdoor Security Lighting, Athletic Field Lighting, and Municipal Water Pumping.

ARKANSAS PUBLIC SERVICE COMMISSION

Original Sheet No. 78.1

Replacing _____ Sheet No. ____

OKLAHOMA GAS AND ELECTRIC COMPANY
Name of Company

Kind of Service: Electric Class of Service: All

Part I. Schedule No. ECP

Title: ENVIROMENTAL COMPLIANCE PLAN RIDER

PSC File Mark Only

- A = Arkansas Jurisdiction ECP Revenue Requirement
- B = Production Demand Allocator for the ECP class, adjusted to exclude jurisdictions not at issue
- C = Annual kWh for each ECP Class

Where:

- A) **Arkansas Jurisdiction ECP Revenue Requirement:** The revenue requirement will be calculated as described in Docket No. 15-034-U, and, shall be based upon the most recently approved return on rate base (ROR) adjusted for income taxes for any Plant In Service costs and an Allowance for Funds Used During Construction (“AFUDC”) for any applicable Construction Work in Progress (“CWIP”) costs. All prudently incurred project expenditures made by the Company and not recovered in existing approved base rates shall be recovered as part of this rider.
- B) **Allocation Factor:** The most recently approved production demand allocation factor.

EGP Class	Allocator Percentage*
Residential	31.7101%
General Service	9.3189%
Power and Light	58.3398%
Other	0.6312%

*Adjusted to exclude jurisdictions not at issue

- C) **Jurisdictional kWh:** The applicable annual Arkansas retail jurisdictional kWh for each class will be the most recently approved kWh by the APSC from the Company’s latest base rate filing.

**OKLAHOMA GAS AND ELECTRIC COMPANY
ECP REVENUE REQUIREMENT**

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>Annual Cost as of April 30, 2015</u>
<u>Rate Base</u>		
1	Plant in Service	\$ 33,990,824
2	Accumulated Provision for Depreciation	\$ (661,831)
3	Net Plant in Service	\$ 33,328,993
4	Construction Work in Progress	\$ 8,861,496
5	Total Rate Base	\$ 42,190,489
6	Rate of Return/PIS	8.20%
7	AFUDC Return/CWIP ¹	8.20%
8	Return on Net Plant in Service	\$ 2,732,977
9	Return on Construction Work in Progress	\$ 726,643
10	Total Return on Rate Base	3,459,620
<u>Expenses</u>		
11	O&M Expense	\$ -
12	Depreciation Expense	\$ 568,759
13	Property Taxes at 1%	\$ 428,523
14	Total Expenses	\$ 997,283
15	Revenue Requirement @ 100%	\$ 4,456,903
16	AR Jurisdictional Allocation % ²	10.99%
17	AR Revenue Requirement	\$ 489,934

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.

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 8th day of May, 2015.

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