

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR COMMISSION AUTHORIZATION OF A)
PLAN TO COMPLY WITH THE FEDERAL CLEAN)
AIR ACT AND COST RECOVERY; AND FOR)
APPROVAL OF THE MUSTANG MODERNIZATION)
AND COST RECOVERY)

CAUSE NO. PUD 201400229

FILED
JAN 26 2015

COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

Rebuttal Testimony

of

Donald R. Rowlett

on behalf of

Oklahoma Gas and Electric Company

January 26, 2015

Donald R. Rowlett
Rebuttal 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”) and my business address is 321 N. Harvey, P.O. Box 321, Oklahoma City,
4 Oklahoma 73102.

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. **Did you previously file direct testimony in this proceeding?**

10 A. Yes.

11
12 Q. **Have you reviewed the responsive testimony filed in this cause?**

13 A. Yes.

14
15 Q. **What is the purpose of your Rebuttal Testimony?**

16 A. I will respond to the Responsive Testimony filed by the intervening parties on December
17 16, 2014. My Rebuttal Testimony will focus on some of the key themes raised by the
18 Responsive Witnesses.

19
20 Q. **How would you summarize this case?**

21 A. After an exhaustive effort, the Company has proposed a plan to provide safe and reliable
22 electricity while complying with costly and burdensome federal environmental mandates.
23 The cost of compliance and reliability is extremely expensive. OG&E believes its plan
24 strikes the proper balance between keeping costs as low as possible and protecting
25 customers from the risk of still further federal environmental regulatory mandates while
26 maintaining a level of fuel diversity. The plan includes not only the specific
27 modifications that will be made to existing units, but the replacement of old power plants
28 with new more efficient generation. This new generation will have greater flexibility to
29 operate in an SPP marketplace with greater levels of renewable energy.

1 I. **General Observations of Responsive Testimony**

2 Q. **Do you have any general observations about the Responsive Testimony filed in this**
3 **cause related to the Environmental Compliance Plan?**

4 A. Yes. After reading all the responsive testimony in this cause, I was particularly reminded
5 that OG&E is the only party that has an obligation to have adequate generation to supply
6 customers' needs. For over a century, OG&E has embraced this obligation that is also
7 confirmed by Commission rules. Commission rules state:

8 Reliability of Supply. The generating capacity of a utility's plant,
9 supplemented by the electric power regularly available from other sources
10 or firm contracts for electric power by a utility which operates no
11 generating plants, must be sufficiently large to meet all normal demands
12 for service and provide a reasonable reserve for emergencies.¹

13 This obligation sets OG&E apart from those parties in this cause who have a business or
14 social agenda. They are free to render an opinion without having accountability for
15 providing electric service to the public at large.

16 The Responsive Testimony regarding the Environmental Compliance Plan
17 ("ECP") provided by those parties reflect either their own self-interested agendas and/or
18 polar opposite positions.

19 While the Wind Coalition wants OG&E to install more wind, Oklahoma
20 Cogeneration advocates for a solution that would allow its own facility to be utilized by
21 OG&E. Oklahoma Energy Results wants OG&E to conduct an RFP so that its wind
22 developer and Independent Power Producer ("IPP") members could sell their products to
23 OG&E. Sierra Club advocates for the conversion of all coal units to natural gas and the
24 Oklahoma Industrial Energy Consumers ("OIEC") recommends OG&E preserve all its
25 coal units by installing scrubbers on all four Regional Haze-affected coal units.

26
27 Q. **Are you saying OG&E has no agenda in this cause?**

28 A. No. My point is that our agenda is a broader one. OG&E must meet the obligation to
29 serve all of its customers at the lowest reasonable cost. That obligation includes making

¹ OAC 165:35-25-3(d)

1 a managerial decision as to what is in the best interest of those customers, now and in the
2 future.

3 In implementing its Scrub/Convert plan, OG&E has selected a reasonable plan; a
4 plan that balances the need to preserve fuel diversity with the need to address future
5 regulatory risks. As the Commission well knows, OG&E and the State of Oklahoma
6 fought the EPA on Regional Haze all the way to the U.S. Supreme Court. In doing so,
7 OG&E delayed the impact of the federal mandate on our customers for years.
8 Unfortunately, OG&E and the State of Oklahoma were not successful in their legal fight
9 and OG&E has responded by crafting a reasonable and balanced plan that meets the legal
10 requirements at the lowest reasonable cost to its customers. Now, OG&E seeks approval
11 of that plan and asks that the Commission grant timely cost recovery as provided by law.
12 It is easy for other parties to criticize certain assumptions contained in the IRP economic
13 analysis which supports this decision. OG&E has been studying these environmental
14 alternatives for years, considering future risks and trying to stick to a set of overall
15 objectives. OG&E had to make the difficult decisions that led to this case based on its
16 obligation to serve its customers; decisions that it believes best positions OG&E and its
17 customers to handle the future.

18
19 **Q. What are your general observations regarding the timing of the cost recovery**
20 **proposed by the Company?**

21 **A.** Some parties desire to delay the cost recovery of the ECP investments beyond the point
22 when customers are receiving benefits from the equipment and facilities that are in
23 service and included in the plan. OG&E has exercised every possible procedural and
24 legal remedy in its effort to reach a more reasoned, common sense approach to
25 complying with the environmental objectives of the Clean Air Act ("CAA"), resulting in
26 a delay for any rate increase to customers. OG&E has now raised money from investors
27 and is currently spending money to comply with the environmental mandates. Investors
28 have an expectation of fair treatment based on a history of fair treatment by this
29 Commission and the most recent legislative actions codified in 17 O.S. §286(B). To
30 delay cost recovery until orders are issued in future OG&E rate cases would not represent

1 fair treatment. In fairness to OG&E and in compliance with State law, cost recovery
2 should begin with an order in this case.
3

4 **Q. Do you have any general observations about the Responsive Testimony filed in this**
5 **cause related to the Mustang Modernization Plan?**

6 A. Yes. The intervenors that oppose the Mustang Modernization Plan failed to accept or
7 chose to ignore several facts about the existing Mustang units: (i) the existing Mustang
8 units are at the very end of their useful lives and need to be retired; (ii) the capacity
9 associated with the existing Mustang units must be replaced; (iii) the Mustang site is very
10 valuable for a myriad of reasons and should be preserved; and (iv) OG&E has
11 demonstrated a need for combustion turbines in its generation portfolio. Technical
12 experts from OG&E's power supply, resource planning, environmental permitting and
13 transmission operations departments have all provided thoughtful and reasoned testimony
14 supporting these facts and the rationale for the plan. OG&E is not required to
15 competitively bid the replacement generation, but other parties argue that OG&E should
16 ignore the clear benefits of using OG&E's Mustang site and instead delay OG&E's
17 management decision in order to conduct a competitive bidding process. OG&E is
18 confident a competitive bidding process would not have resulted in any lower cost to
19 customers.
20

21 **Q. Sierra Club filed four pieces of Responsive Testimony in this cause. How would you**
22 **characterize the Sierra Club's position in this case?**

23 A. The Sierra Club's position in this case is that of a narrowly focused special interest group
24 seeking to pursue an anti-fossil fuel agenda. In this case and in various legal actions, they
25 have made it clear the organization's agenda is unaffected by the cost impact to
26 Oklahoma utility customers. No official representative of the Sierra Club has come
27 forward to provide sworn testimony in this case. However, I find it interesting that Sierra
28 Club's consultants have attempted to make their case against the Company retaining
29 some fuel diversity by suggesting that natural gas is a cleaner fuel. As this Commission
30 is aware, the Sierra Club has a very active "Beyond Coal" campaign that has the main

1 objective of “replace dirty coal with clean energy.”² However, if you look at the Sierra
2 Club website, the Beyond Coal campaign only wants to replace coal generation with
3 “clean energy solutions such as wind, solar, and geothermal.”³ Natural gas is not listed as
4 a fuel with which Sierra Club advocates replacing coal. In fact, Sierra Club has a
5 “Beyond Natural Gas” campaign. That campaign believes that “we cannot transition
6 from one fossil fuel to another and expect to see major climate benefits. We need to move
7 beyond natural gas.”⁴
8

9 **Q. What are some of the things that the Sierra Club states about natural gas?**

10 A. On its Beyond Natural Gas website, the Sierra Club states “[n]atural gas is not part of a
11 clean energy future.”⁵ On another part of the Beyond Natural Gas website, the Sierra
12 Club states that “[n]atural gas is just another dirty, dangerous fossil fuel that will divert us
13 from the path to clean energy, sound economics, and healthy communities.”⁶ On one
14 webpage labeled “Natural Gas is a Menace to Our Air, Water, Local Communities, and
15 Climate,”⁷ the Sierra Club even goes as far as to say that switching from coal to natural
16 gas will actually increase global temperatures. The Sierra Club states “the latest studies
17 from the International Energy Agency (IEA) reveal that a switch from coal to gas would
18 lead to a global temperature rise of more than 3.5 degrees Celsius.”⁸ The Sierra Club also
19 states that “[n]atural gas is also a major threat to our climate” and “increasing reliance on
20 natural gas displaces the market for clean energy and harms human health and the
21 environment in places where production occurs.”
22

23 **Q. What do these statements demonstrate?**

24 A. They demonstrate how extreme Sierra Club is. Not only do they want to move beyond
25 coal, but they also want to move beyond natural gas. It should be noted that Sierra Club
26 also has campaigns called “Beyond Oil” and “Nuclear Free Future” in which it “remains
27 unequivocally opposed to nuclear energy.”

2 See <http://content.sierraclub.org/COAL/about-the-campaign>

3 *Id.*

4 See <http://content.sierraclub.org/naturalgas/why-move-beyond-natural-gas>

5 See <http://content.sierraclub.org/naturalgas/protect-our-climate>

6 See <http://content.sierraclub.org/naturalgas/clean-up-drilling>

7 See <http://content.sierraclub.org/naturalgas/protect-our-climate>

8 *Id.*

1 Q. **How does OG&E approach its environmental responsibilities?**

2 A. OG&E has a duty to provide our customers safe, reliable and economical electricity when
3 they need it and in quantities sufficient to allow them to accomplish their tasks. The
4 Company carries out these objectives in an environmentally responsible way by meeting
5 the requirements of environmental laws and regulations. Embracing the extreme
6 positions of the Sierra Club would be irrational, irresponsible and contrary to the interests
7 of our customers.

8

9 **II. Timing of Cost Recovery**

10 Q. **Have the parties raised issues regarding cost recovery in this cause?**

11 A. Yes. The following issues have been raised by various parties:

12 (1) Cost recovery for the ECP should only be considered in a rate case and
13 therefore should not be considered in this case.⁹

14 (2) Use of a rider to recover costs: Mr. Garrett argues rider recovery should
15 be reserved for situations where such treatment is statutorily authorized or
16 where the parties agree to such treatment.¹⁰ Mr. Chriss advocates rejecting
17 construction work in progress (“CWIP”) regulatory treatment “for
18 approved ECP and/or MMP costs that the Commission determines should
19 be recovered per a mechanism approved in this cause.”¹¹ Both Mr. Garrett
20 and Mr. Chriss state MMP costs should not be included in the proposed
21 EGP rider.¹²

22 There are some additional cost recovery issues, such as Dr. Roach’s recommendation that
23 the MMP be deferred until the completion of a competitive procurement and “conditions”
24 recommended by Dr. Roach that will be addressed later in my testimony.

25

26 Q. **Do these arguments conflict with the text of 17 O.S. §286(B)?**

27 A. Yes. The arguments that the Commission should not provide cost recovery through a
28 rider conflict with 17 O.S. §286(B). That statute clearly states that if an environmental

⁹ Responsive Testimony of Dr. Roach: Page 14, lines 18-19; Responsive Testimony of Mr. Garrett: Page 7; Responsive Testimony of Mr. Chriss: Page 4, lines 1-3.

¹⁰ Responsive Testimony of Mr. Garrett: Page 7.

¹¹ Responsive Testimony of Mr. Chriss: Page 16, lines 12-14.

¹² Responsive Testimony of Mr. Chriss: Page 17, lines 11-17; Responsive Testimony of Mr. Garrett: Page 6-7.

1 compliance plan is approved by the Commission, “the equipment or facilities specified in
2 the approved utility plan are conclusively presumed used and useful. The utility may
3 elect to periodically adjust its rates to recover the costs of the expenditures.” That is, if
4 the Commission approves a reasonable plan to comply with environmental regulatory
5 obligations, there is a presumption of the equipment and facilities being used and useful
6 and ready for cost recovery upon approval and the utility may elect to implement a rider.
7

8 **Q. As stated above, some parties have recommended that ECP and MMP cost recovery**
9 **be delayed until OG&E’s next base rate case. Do you agree with those**
10 **recommendations?**

11 **A.** No. When the Commission arrives at a decision as to what a reasonable ECP is, there is
12 no need to delay the cost recovery of that ECP. OG&E has litigated the environmental
13 issues and effectively delayed the accompanying rate increases for years. OG&E is now
14 spending money on being in compliance with the environmental laws and regulations and
15 the recovery of those costs is a proper topic for Commission consideration in this docket.

16 Further, the ECP expenditures being made are not the same type of expenditures
17 made historically when building a new power plant. The expenditures are being made to
18 ensure the generating units, currently in service providing needed capacity and energy to
19 customers, will meet newly imposed environmental requirements. The expenditures are
20 not being made to meet new load growth, but are being made to ensure the generating
21 units currently in service can continue to be used to meet customers’ needs and comply
22 with SPP capacity requirements. The plants will continue to be in service and producing
23 electricity benefiting customers while the upgrades are being constructed. For the
24 upgrades being constructed, OG&E’s Accounting department will accumulate just the
25 upgrade costs in the construction work in progress accounts until the new equipment is
26 installed and the work is completed on the existing units.

27 There is no need to wait to determine cost recovery in a future rate case. No party
28 disputes the fact that OG&E must take action to comply with the environmental
29 requirements of MATS and Regional Haze. In addition, all parties understand the strict
30 deadlines that OG&E faces. As stated earlier, once the Commission determines a

1 reasonable ECP, and once the Commission determines that OG&E's MMP is in the
2 interest of customers, cost recovery should begin as set forth in the statute.

3
4 **Q. Has the Commission recently recognized that Oklahoma utilities are facing new**
5 **challenges?**

6 A. Yes. In a recent Order issued in Cause No. PUD 201200079, dated October 16,
7 2014, the Commission stated the following:

8 "The Commission recognizes that electric utilities are facing new
9 challenges that might justify appropriate variance from traditional
10 approaches. As long-standing models are challenged or altered, the
11 Commission is willing to consider innovative approaches and solutions
12 and believes it has the legal authority and responsibility to do so. While
13 the Commission acknowledges it is a body of limited jurisdiction, it
14 possesses general supervisory authority, implied incidental powers, and
15 broad latitude and discretion in how it sets rates without the need for
16 specific statutes or rules for each of its methodologies or actions."¹³

17 The Commission has acknowledged that utilities are facing new challenges. The
18 positions advocated by Mr. Garrett, Dr. Roach and Mr. Chriss are not only contrary to the
19 clear intent of 17 O.S. §286(B), but also ask the Commission to ignore its "broad latitude
20 and discretion in how to set rates" in favor of a unwarranted reliance on a general rate
21 case treatment.

22
23 **Q. Do you have any comments regarding Mr. Chriss' recommendation to require**
24 **Commission approval of the annual ECP revenue requirements?**

25 A. In my opinion, such a requirement is not necessary. The statute quoted by Mr. Chriss
26 states that the reasonableness of the costs to be recovered "shall be subject to
27 Commission review and approval."¹⁴ The statute does not say that the review and
28 approval shall be on an annual basis. As stated by Witness Richard, the EGP rider is
29 designed to recover costs that are approved by the Commission in this cause on a
30 smoothed basis. The costs will be audited and reviewed periodically to ensure that

¹³ PUD 201200079 Order No. 631897, Page 2.

¹⁴ Responsive Testimony of Mr. Chriss: Page 19, line 9-11.

1 imprudent costs do not flow through the rider and no over-recovery occurs. If, after its
2 audit, the Commission Staff believes additional action is required, they can initiate a
3 proceeding before the Commission. To automatically open a separate case each year
4 would not be an efficient use of the Commission's time and limited resources.
5

6 **Q. A second issue raised by Mr. Garrett and Mr. Chriss was their opposition to the use**
7 **of a rider, or adjustment rate mechanism, to collect both the ECP and MMP costs.**
8 **Do you have comments regarding their testimony?**

9 A. I disagree with the testimony of both witnesses regarding the use of a rider to timely
10 collect costs. I will first address the manner that this Commission has used riders and/or
11 adjustment clauses in the past. Next, I will discuss what Mr. Garrett has stated as a
12 "general rule" on when the use of riders should be permitted. I will then address the
13 testimony of Mr. Chriss regarding inclusion of CWIP in the rider.
14

15 **Q. Please describe riders/adjustment clauses for electric utilities in Oklahoma.**

16 A. What are today commonly called riders are the same as an adjustment clause. An
17 adjustment clause is based on a formula that does not change until changed by an order of
18 the Commission. The inputs to the formula change based on actual changes in cost. A
19 formula rate allows costs (examples are fuel, taxes, and carrying costs on investment)
20 and/or credits (fuel, off-system sales profits, renewable energy credits "RECs") to be
21 charged or credited to customers without the need for a full rate case. An adjustment
22 clause can be constructed to change monthly, quarterly, annually or any time frame
23 determined by the Commission. I know of no adjustment clause tariff approved by this
24 Commission that did not provide for audit and verification of the costs or credits passed
25 through the adjustment clause tariff as well as a true-up (usually on an annual basis) and
26 subject to refund for costs not properly included in the adjustment clause.
27

28 **Q. Are adjustment clauses fairly new?**

29 A. No. To my knowledge the first type of a widely used adjustment clause for Oklahoma
30 electric utilities (and gas utilities for that matter) was to recover fuel costs. I do not know
31 exactly how long fuel adjustment clauses have been approved for use by this

1 Commission, but a 1975 Order issued June 6, 1975, stated "...the Commission finds that
2 the fuel cost adjustment has been a part of the approved tariffs of utility companies for
3 many years."¹⁵
4

5 **Q. Besides fuel costs, you indicated that adjustment clauses have been approved for the
6 use of collecting taxes and carrying costs on investments, as well as passing on
7 credits for fuel cost reductions, off-system sales profits, and profits from the sale of
8 RECs. What other types of expenditures has this Commission approved for
9 adjustment clause treatment?**

10 **A.** This Commission has recognized for many years that adjustment clause tariffs are a very
11 useful regulatory tool for multiple topics. For example, in 1982 the Commission
12 approved the interest payments on fuel deficiency payments to be recovered through the
13 fuel adjustment clause.¹⁶

14 More recent examples include:

- 15 • Approval of a Rider for Generation Efficiency Performance for OG&E (Order No.
16 442352 issued in Cause No. PUD 200000020, June 28, 2000.)
- 17 • Vegetation Management riders for increased tree trimming and other expenses (OG&E
18 Order 567670 in Cause No. 200800387, March 19, 2009; and PSO's Interim Order
19 499907 issued in Cause No. PUD200300076, January 14, 2005 Final Order No.
20 504841 issued May 2, 2005.)
- 21 • Costs associated with extraordinary operation and maintenance expenses caused by ice
22 storms (OG&E's Order 558445 in Cause No. PUD 200800215, July 24, 2008; PSO's
23 Order No. 551330, issued in Cause No. PUD 200700397, March 13, 2008; and Empire
24 District Order 555782 in Cause No. PUD 200800031, June 25, 2008.)
- 25 • The recovery of certain Southwest Power Pool costs (OG&E Order No. 583894,
26 issued in Cause No. PUD 201000146, March 28, 2011 and Order No. 603488, issued
27 in Cause No. PUD 201200172, October 25, 2012)
- 28 • Pipeline Integrity Management Rider (ONG's Order 512287 in Cause No. PUD
29 200400610, October 4, 2005)

¹⁵ Order No. 25259 issued in Cause No. 110041.

¹⁶ *Id.*

- 1 • Costs associated with OG&E's Smart Grid Deployment (Order No. 576595, issued in
2 Cause No. PUD 201000029, July 1, 2010)

3
4 **Q. Has the Commission ever approved cost recovery for new generation projects for
5 regulated utilities?**

6 A. Yes. The Commission approved rider recovery for the Crossroads wind farm (OG&E
7 Order 577371 in Cause No. PUD 201000037, July 29, 2010) and OU Spirit wind farm
8 (Order No. 571788 in Cause No. PUD 200900167, November 25, 2009). The
9 Commission also approved a recovery rider when OG&E purchased its Redbud
10 generating facility (Order No. 559892 in Cause No. PUD 200800086, September 24,
11 2008). The Commission has granted rider recovery for other utilities' new generation
12 projects as well. Order No. 551330 issued in Cause No. PUD 200700397 on March 13,
13 2008, approved a Generation Cost Reconciliation Rider (GCR), which was designed to
14 recover costs associated with the peaking CT units at PSO's Southwestern and Riverside
15 Stations.

16
17 **Q. What is your overall observation of the use of adjustment clauses in Oklahoma?**

18 A. Adjustment clauses have been used for many years and have dealt with various subjects.
19 OG&E's current request for both the ECP and MMP costs to be contained in a rider is
20 consistent with prior actions of this Commission. Some parties have objected to
21 including the MMP costs in the same rider as ECP costs. OG&E proposed that the costs
22 of both the ECP and MMP be recovered through the same rider.

23
24 **Q. What is Mr. Garrett's "general rule" regarding the use of riders/adjustment
25 clauses?**

26 A. Mr. Garrett states "[a]s a general rule, rider-recovery should be reserved for situations
27 where such treatment is statutorily authorized or where the parties agree to such
28 treatment."¹⁷ The Commission in its orders recognized that it has the authority and
29 discretion to act without additional statutory authority. It appears Mr. Garrett has created

¹⁷ Responsive Testimony of Mr. Garrett; Page 7.

1 his own "general rule" in this case. I know of no Commission rule, order or state statute
2 that encompasses Mr. Garrett's "general rule."
3

4 **Q. Please discuss the regulatory framework generally used and accepted in Oklahoma?**

5 **A.** The regulation framework used in Oklahoma is generally described as cost of service/rate
6 base/rate of return regulation.

7 The cost of service is based on a historical test year adjusted for known changes
8 designed to reflect the level of costs incurred when rates are effective. Under typical
9 circumstances of stable investment and moderate inflation, utility managers have an
10 incentive to manage costs and increase productivity to offset inflations. Historically,
11 growth in the number of customers and increasing use by existing customers offset much
12 of the cost of new construction.

13 The amount of increase in investment and operating costs currently required by
14 the Company far exceeds possible cost management and productivity gains. Failure to
15 implement a rider would require constant rate cases for the next four years, otherwise it
16 would not be possible for the Company to earn an adequate rate of return. Moreover,
17 traditional rate case regulation inherently involves regulatory lag. The preapproval
18 statute recognizes that the Company should not be subjected to regulatory lag as a result
19 of complying with federally mandated environmental costs.
20

21 **Q. Mr. Chriss recommends disallowing CWIP if the Commission approves OG&E's**
22 **requested adjustment clause/rider. Do you agree?**

23 **A.** No. Mr. Chriss seems to ignore the fact that the environmental expenditures are currently
24 required to be made, and as provided in 17 O.S. §286(B), when the Commission approves
25 a compliance plan, the equipment and facilities are "conclusively presumed used and
26 useful." This concept of used and useful is set forth in Accounting for Public Utilities
27 where it is stated in Section 4.04(4) that Commissions "often allow CWIP in the rate base
28 where the plant additions ...are specifically being made to improve the environment...".
29 In my opinion that concept is applicable to this cause.

30 A closer look at the statute reveals that CWIP-type recovery is implied. When a
31 plan is approved, there is a presumption that equipment and facilities contained in the

1 plan are used and useful and the utility can elect to implement a rider to recover the
2 expenditures. Nothing in the statute refers to a requirement that the equipment and
3 facilities be in service before recovery can begin.
4

5 **Q. What are the implications to the requested rider if the Company uses the AFUDC**
6 **method over the CWIP approach?**

7 A. As mentioned by Witness Richard, under the Company's proposed EGP rider, as
8 individual components of the compliance plan are completed, the cost of depreciation,
9 associated O&M expenses and a return on those components will be included in the rider.
10 The only difference between the CWIP and AFUDC approaches is that during the period
11 the components are under construction, the financing costs and property taxes would be
12 recovered currently in the EGP rider under the CWIP approach. Under the AFUDC
13 approach, the financing cost would accumulate and compound (*i.e.*, interest on interest).
14 The accumulated financing cost (AFUDC) would be added to the plant costs. As the
15 components go into service, depreciation of plant including AFUDC would begin. This
16 depreciation expense would be included in the EGP rider.
17

18 **Q. Do you have any comments regarding Mr. Garrett's interpretation of OAC 165:35-**
19 **38-4?¹⁸**

20 A. Yes. Mr. Garrett's interpretation is flawed. 17 O.S. §286(B) is the basis for this rule and
21 the statute provides "The utility shall file a request for a review of its rates pursuant to
22 Section 152 of this title no more than twenty-four (24) months *after the utility begins*
23 *recovering the costs through a periodic rate adjustment mechanism.*" ¹⁹ (emphasis
24 added). The rule must be consistent with the statute and not, as Mr. Garrett would
25 suggest, requiring a periodic adjustment to be approved only in a rate case.

¹⁸ Responsive Testimony of Mr. Garrett: Page 38.

¹⁹ 17 O.S. §286(B)

1 **III. Conditions for Approval of Scrub/Convert Environmental Compliance Plan**

2 **Q. Did Dr. Roach recommend that the Commission approve OG&E's choice of the**
3 **scrub/convert environmental compliance alternative?**

4 **A. Yes, Dr. Roach stated:**

5 I recommend that the Commission approved OG&E's choice of its
6 Scrub/Convert Environmental Compliance Alternative, but to do so with
7 conditions. I recommend approval because this alternative appropriately
8 offers a diversified portfolio of actions in the face of uncertainties.²⁰

9
10 **Q. What were Dr. Roach's recommended conditions?**

11 **A. Dr. Roach made the following recommendations:**

12 For the two retrofitted coal units at the Sooner facility, I recommend that
13 approval be subject to the condition that, if these units are shut down at
14 any time prior to 2044, OG&E would not receive compensation of
15 stranded investment. Related to this is the condition that the recovery of
16 capital costs be over the assumed book life used in OG&E's analysis. In
17 addition, I recommend that OG&E be held to the capital cost and
18 operating performance that it assumed for the retrofitted Sooner plants.

19 For the two units at Muskogee, I recommend that OG&E be held
20 to the capital cost and operating performance that it assumed for these
21 converted plants. Operating performance here includes, for its converted
22 plants, heat rate, ramp rate, and cold and hot start times. Further, these
23 operating parameters would limit cost recovery for the participation of the
24 Muskogee units in the SPP market. For example, the assumed heat rate
25 curve for the converted Muskogee units would limit fuel cost recovery.²¹

²⁰ Responsive Testimony of Dr. Roach: Page 11, line 2-5

²¹ Responsive Testimony of Dr. Roach: Page 11, lines 12 to page 12, line 7.

1 Q. **Do you agree with Dr. Roach's recommendations?**

2 A. No. Dr. Roach's recommendations are not balanced between customers and utility
3 shareholders. While Dr. Roach would limit, for example, OG&E's recovery of the
4 capital cost assumed in the analysis, there is no corresponding provision for OG&E's
5 shareholders benefitting from costs being below those assumed in the analysis. It is not
6 sound regulatory policy for the Commission to impose a one-sided cost recovery
7 condition. There is a range of possible outcomes associated with each assumption used
8 in OG&E's 2014 IRP Update. Dr. Roach's proposal would effectively credit customers
9 for every variance that comes in lower and penalize the shareholders for every variance
10 that comes in higher. This in no way reflects a fair and balanced regulatory bargain.

11 For example, although customers will have the opportunity to enjoy the lower fuel
12 cost reflected by burning coal at the two retrofitted coal units at the Sooner facility, Dr.
13 Roach's conditions would disallow the costs of a portion of those coal units if they are
14 not allowed to operate for the full thirty years estimated in the IRP. If Dr. Roach took
15 issue with OG&E's long term fuel forecast, I assume he would recommend that OG&E
16 not be allowed to charge customers more than the fuel prices for coal and natural gas
17 contained in the long term base fuel price forecast in the IRP. That would certainly meet
18 Dr. Roach's goal of shifting all fuel related risks in the future to OG&E. As stated
19 earlier, Dr. Roach's approach is not balanced because OG&E only receives the risk
20 without the possibility of a reward.

21
22 Q. **Do you have any other observations regarding Dr. Roach's recommended**
23 **conditions?**

24 A. Yes. Although OG&E agrees with Dr. Roach's recommendations that the Commission
25 approve OG&E's choice of the scrub/convert environmental compliance plan, to require
26 OG&E to not be compensated if an assumption turns out to not be valid over a thirty year
27 time period is contrary to sound regulatory policy. Sound regulatory policy determines
28 whether OG&E made a reasonable decision based on the facts known by the Company at
29 the time the decision was made. Unsound regulatory policy involves reevaluating
30 whether the Company made a reasonable decision based on changes in circumstances
31 years later. Dr. Roach's conditions amount to unsound regulatory policy. OG&E must

1 act to comply with specific environmental compliance requirements. Dr. Roach seems to
2 believe that OG&E should predict the future perfectly in making its decision on how to
3 comply today. That is fundamentally unfair.

4 OG&E has demonstrated how uncertain future environmental regulatory risks are.
5 Dr. Roach's analysis also seems to discount the possibility that, if environmental
6 regulations did create new standards for the Sooner units, there would not be sufficient
7 new technology to address those environmental issues. There are probably hundreds of
8 different scenarios that could take place in the future. The question before the
9 Commission today is whether, based upon information known today, OG&E's selected
10 compliance plan is prudent.

11
12 **Q. Does Dr. Roach misinterpret the role that the IRP economic analysis plays in**
13 **OG&E's decision making process?**

14 **A.** Dr. Roach recommends conditions on OG&E's recovery based solely on alleged
15 "deficiencies" in OG&E's IRP economic analysis. As discussed by Witness Howell and
16 Witness Reed, Dr. Roach's allegations are erroneous. In addition, he has not properly
17 interpreted OG&E's use of the IRP economic analysis. That economic analysis, while
18 important, is only one tool used by management to make business decisions. OG&E also
19 based its decision on a number of objectives that it lists in the IRP and that Witness
20 Howell and I describe in our Direct Testimony. Those objectives include fuel diversity,
21 reliability, operational flexibility, and hedging against future regulatory risk. Dr. Roach's
22 recommendation distorts the weight given to the IRP economic analysis and ignores the
23 other objectives that OG&E used to make its decision. OG&E Witness Howell details
24 why Dr. Roach's assessment of the IRP economic analysis is flawed, why OG&E's IRP
25 analysis is not incomplete and how the analysis shows that the environmental compliance
26 plan is a low cost option. In my opinion, OG&E's decision was also made based on the
27 objectives identified by the Company and should be approved without Dr. Roach's
28 conditions.

1 **IV. Mustang Modernization Plan and Competitive Bidding**

2 **Q. What are the positions of certain intervenors on OG&E's Mustang Modernization**
3 **Plan ("MMP")?**

4 **A. Dr. Roach, Mr. Garrett, Mr. Norwood, Mr. Rose, and Mr. Peaco raise multiple issues**
5 **related to the MMP. They argue that OG&E should delay the retirement of the existing**
6 **Mustang units and should consider replacing the existing Mustang units with existing or**
7 **new combined cycle units. Those witnesses also argue that OG&E should conduct a**
8 **competitive procurement process for the Mustang replacement capacity.²² Dr. Roach**
9 **goes one step further and recommends that potential bidders in a competitive**
10 **procurement be allowed to build at the Mustang site.²³**

11
12 **Q. Please summarize OG&E's MMP and why you believe that it is a reasonable plan.**

13 **A. The MMP grew out of OG&E's understanding of four realities relating to the existing**
14 **Mustang units and OG&E's generation needs: (i) the existing Mustang units are at the**
15 **very end of their useful lives and need to be retired; (ii) the capacity associated with the**
16 **existing Mustang units must be replaced; (iii) the Mustang site is very valuable and**
17 **should be preserved; and (iv) OG&E has identified combustion turbines as a needed**
18 **enhancement to its generation portfolio. Technical experts from OG&E's power supply,**
19 **resource planning, environmental permitting and transmission operations departments**
20 **have all provided thoughtful and reasonable review of these four realities and provided**
21 **OG&E management with a recommendation on how to proceed. The result of these**
22 **recommendations was the MMP.**

23
24 **Q. Can you please discuss these four realities in greater detail and why the conclusions**
25 **reached by OG&E's subject matter experts are reasonable?**

26 **A. First, I would like to address the reason OG&E has decided to retire the existing Mustang**
27 **Units. As discussed in the testimony of Witness Burch, the existing Mustang units are**
28 **extremely old. To put their age into perspective, construction on Mustang Unit 1 actually**

²² Responsive Testimony of Dr. Roach: Page 14, lines 6-7; Responsive Testimony of Mr. Rose: Pages 4-5; Responsive Testimony of Mr. Peaco: Page 5, lines 14-17; Responsive Testimony of Mr. Garrett: Page 6; Responsive Testimony of Mr. Norwood: Page 33, lines 15-16.

²³ Responsive Testimony of Dr. Roach: Page 14, line 12-13.

1 began when Harry Truman was President of the United States. Witness Burch explains
2 several reasons why OG&E is retiring the existing Mustang units:

- 3 • OG&E's Mustang Units are some of the oldest in the country. Many generating
4 units have been retired well before 65 years and the average and median
5 retirement age of gas fired units across the U.S. is between 45-49 years old. Very
6 few gas fired units in the United States operate past 65 years. Based upon similar
7 class/size of units, there are only 6 operating units older than Mustang unit 3
8 operating today. There are no other units of a similar class/size older than
9 Mustang unit 4 still in operation.
- 10 • Continuing to operate these units has significant risks. The existing Mustang
11 Units have risks of increased investment in short-lived units, risks of catastrophic
12 failure, safety risks for our employees, and risks of unavailability of parts and
13 long outages.
- 14 • The SPP Integrated Market ("IM") has and will continue to put stress on the
15 existing Mustang Units. The implementation of the SPP IM has led to greater
16 amounts of "cycling" of the existing Mustang gas steam units, which increases the
17 risks of catastrophic failure and the operational integrity of the units.
- 18 • The decision to retire the Mustang units is consistent with OG&E's past approach
19 to retirements of gas units. OG&E is not proposing to retire these assets any
20 earlier than other units retired in the past. In fact, the existing Mustang units will
21 have been in operation longer than units previously retired by the Company.
- 22 • The Mustang units have become obsolete. Parts for units of this age are often
23 non-existent, not supported by manufacturers or were produced by manufacturers
24 that are no longer in business. This often requires that parts must be reverse
25 engineered and specially made at a significant expense and delay.

26
27 **Q. How do you respond to intervenor arguments that OG&E should have invested**
28 **additional funds into the existing Mustang units to prolong their useful lives?**

29 **A.** Burns and McDonnell produced a report that identified approximately \$60 million worth
30 of projects that could be performed on the existing Mustang Units that could potentially
31 maximize their useful lives. However, even if OG&E spent that \$60 million, Witness

1 Burch states that the stress of cycling and the other obsolete components of the existing
2 units could still lead to catastrophic failure. OG&E simply believes that it should not
3 throw good money after bad. If OG&E would have to retire these units anyway at some
4 point and the OG&E operations group believed that there was additional risk for
5 operating the existing units even after spending \$60 million, the most reasonable action is
6 to retire those units as soon as possible. OG&E's operations and resource planning
7 groups concluded that spending \$60 million to get a few extra years out of Mustang Units
8 3 and 4 made little sense. As stated by Witness Burch, it would be like replacing the
9 transmission in your car right before you took it down to the salvage yard.

10
11 **Q. Why did OG&E choose the retirement dates for Mustang Units 3 and 4?**

12 **A.** Intervenors have pointed to a Burns and McDonnell report that contained the aspirational
13 goal of keeping those units operational for the full 65 years. If OG&E could reach that
14 goal, Mustang Unit 3 would last until the end of 2020 and Mustang 4 would last until the
15 end of 2024. As explained above, there are operational reasons why OG&E believed it
16 was unreasonable to push the life of the existing Mustang units out to those dates.
17 Instead, OG&E is retiring those units at the end of 2017 because (i) OG&E needed to
18 move quickly to avoid the risk of catastrophic failure on these very old units; (ii) it was
19 far enough in the future to allow OG&E to permit and construct replacement generation
20 at the Mustang site; and (iii) not so far enough in the future that it would compromise the
21 Company's ability to use the existing air permits to maximize generation at the Mustang
22 site.

23 It should be noted that OG&E's chosen retirement dates for the Mustang Units are
24 actually closer to their depreciable lives approved in OG&E's last rate case than the
25 retirement dates contained in the Burns and McDonnell report. The currently approved
26 depreciation rates of Mustang Units 3 and 4 are based on retirement dates of 2017 and
27 2020, respectively. In other words, OG&E is only altering the retirement date for
28 Mustang Unit 4 from the date used in the last depreciation study by three years.

1 Q. **Can you please discuss the second reality that guided the Company in devising the**
2 **MMP?**

3 A. As explained by Witness Howell, the retirement of the existing Mustang Units creates a
4 need for generation capacity. This need arises in 2018 and the need is driven by OG&E's
5 requirement to meet SPP reliability requirements. Therefore, OG&E must replace the
6 existing Mustang units and must take the necessary steps to ensure that replacement
7 generation is available for the summer of 2018. In other words, OG&E must begin the
8 permitting, contracting, equipment manufacturing, and installation processes to coincide
9 with that date.

10

11 Q. **What is the third reality that drove OG&E's decision-making process on the MMP?**

12 A. As explained by Witnesses Burch, Turner and McAuley, there is enormous value
13 associated with the Mustang site. Witness Burch explains the advantages of locating the
14 replacement generation at the Mustang site, such as sufficient land close to Oklahoma's
15 largest load center, existing permits, a secure perimeter, storage buildings that will be re-
16 used, water rights, existing pipeline infrastructure, and existing switchyard and
17 transmission facilities. In addition, Witness Burch explains that Mustang would not need
18 to go to the SPP to study and receive new transmission interconnection agreements. Such
19 a process could lead to additional costs for transmission upgrades and a delay in project
20 development.

21 In addition, Witness Turner explains the benefits of using the existing Mustang
22 permits to site the new CTs at Mustang. She explains that it is becoming increasingly
23 difficult to site new generation in metropolitan areas as environmental regulations
24 become more restrictive. Utilizing emissions-netting at the Mustang site in the
25 permitting process provides certainty in the ability to obtain a permit for a new facility
26 and avoids the risk of trying to permit a generation facility with increasingly onerous
27 regulations.

28 Witness McAuley, who is in charge of ensuring reliability on the transmission
29 system, testifies that preserving generation at Mustang and, in particular, installing CTs
30 will be uniquely important for daily operations, voltage control and system restoration
31 situations.

1 Moreover, preserving the site will allow OG&E to continue to provide much-
2 needed ad valorem tax revenue to local government and schools. Additionally, the
3 Mustang site is already staffed with a highly skilled/trained workforce that would be
4 difficult to replace.

5 Lastly, taking action now provides a great deal of certainty around use of the site
6 and the amount of generation that can be located there. As time goes by, uncertainty will
7 only increase and will put the amount of generation and even the use of the site itself into
8 question.

9
10 **Q. What is the fourth reality?**

11 **A.** OG&E has a need for CTs because they provide unique operational benefits and enhance
12 the generation portfolio. OG&E witnesses have explained (i) how quick starting CTs
13 would provide a valuable tool in both voltage control and in the system restoration
14 process; (ii) how quick start CTs can respond quickly to market signals in the SPP IM,
15 are conducive for multiple starts per day and can come off-line quickly when not needed;
16 (iii) how CTs complement increasing amounts of intermittent renewable energy and
17 distributed generation in the region; (iv) how the need for additional CTs has been
18 identified by SPP in its most recent integrated transmission plans; (v) how CTs are the
19 lowest cost option at the Mustang site; and (vi) how CTs are the only technology that
20 OG&E can reasonably net into the Mustang site for permitting purposes.

21
22 **Q. What is your response to intervenors that want OG&E to conduct a competitive
23 procurement process to replace the Mustang capacity?**

24 **A.** Competitive bidding is not mandated by law or regulation in Oklahoma. Dr. Roach
25 agrees with that assessment when he states “the Oklahoma Statutes provide OG&E
26 flexibility in submitting its Application by not requiring a competitive procurement.”²⁴
27 As recognized by Dr. Roach, OG&E could elect to pursue competitive bidding to gain a
28 presumption of prudence or it could choose not to conduct competitive bidding and
29 instead justify the prudence of its decision in a Commission review.²⁵ OG&E chose the

²⁴ See Roach Testimony at page 19, lines 13-15.

²⁵ See Roach Testimony at page 18, line 16 to page 19, line 2.

1 second option. Competitive bidding is unwarranted due to the combination of (i) the
2 specific need for CT technology and the fact that existing CT capacity is not available for
3 acquisition in the market; and (ii) the unique qualities of the Mustang site.

4 Also, as described by Witness Burch, there are timing considerations involved in
5 netting emissions that would prevent OG&E from maximizing the ability to net emissions
6 if we wait too long to conduct competitive bidding and install the replacement capacity at
7 Mustang.

8
9 **Q. Is OG&E competitively bidding the equipment and installation of the replacement**
10 **CTs at Mustang?**

11 A. Yes. OG&E has issued RFPs for the CT equipment and will issue additional RFPs for
12 the installation work when the winning CT manufacturer is identified. OG&E has moved
13 forward with its RFP for the CT equipment so it could identify the emission profiles that
14 would go into the permit application that must be filed by August 2015.

15 **Q. What is your response to the suggestion by Dr. Roach that OG&E open up the**
16 **Mustang site to other bidders?**

17 A. First, that very suggestion by Dr. Roach is an admission that he sees value in preserving
18 the existing site. Second, Dr. Roach's recommendation that the Commission order
19 OG&E to provide its property to a third party is not only bad policy, but I am told it is
20 against the law.

21
22 **Q. Please explain why you believe it would be contrary to Oklahoma law.**

23 A. The plant and plant site are OG&E's property. Neither this Commission, OG&E's
24 customers or third party power vendors have any rights to force OG&E to allow them to
25 use OG&E's property.

26
27 **Q. Why is Dr. Roach's recommendation bad regulatory policy?**

28 A. Investors assume significant risk when committing capital to utility investments. These
29 are long lived assets that are not easily moved. Expropriation of Company assets would
30 have a severe chilling effect on future investment. It would also amount to the

1 Corporation Commission conducting the internal operation and management of OG&E
2 by dictating how it uses its own assets.

3
4 **V. Mr. Garrett's Debt Financing and ROE Recommendations**

5 **Q. Do you agree with Mr. Garrett's recommendation to finance the ECP entirely with**
6 **debt?**

7 **A.** No. The Commission should allow recovery by OG&E of all prudently incurred costs.
8 OG&E finances its capital expenditures with both debt and equity. The Company's
9 issuances of debt, equity and dividend policy are all coordinated to maintain a balanced
10 capital structure of approximately 53 percent equity and 47 percent long-term debt.
11 Denying the Company its actual cost of financing would punish equity investors by not
12 adequately compensating them for their investment. The ratio of equity to debt is an
13 important element of maintaining the Company's financial integrity. Financing such a
14 large investment solely with debt would be imprudent.

15
16 **Q. Do you agree with Mr. Garrett's recommendation to lower OG&E's return on**
17 **equity "ROE" from 10.2% to 9.75% and other off-sets?**

18 **A.** No. Mr. Garrett's recommendation on reducing OG&E's authorized ROE is based upon
19 data contained in the Regulatory Research Associates ("RRA") 2014 Third Quarter
20 Report which, according to Mr. Garrett, has a national average ROE granted to electric
21 utilities of 9.75%. To my knowledge the Commission has never determined an electric
22 utility's ROE in a manner recommended by Mr. Garrett.²⁶ The record is void of any
23 analysis of the risk profiles of the electric utilities included in RRA's publication and
24 whether or not they are comparable companies to OG&E with similar risk profiles. It is
25 my opinion that Mr. Garrett's recommendations should be rejected.

²⁶ Responsive Testimony of Mr. Chriss on behalf of Wal-Mart Stores East LP and Sam's East, Inc., pages 8-10, discusses authorized ROEs reported by SNL Financial. He does not appear to be recommending adoption of a specific ROE based upon SNL Financial information but appears to be using the information to support his argument that any cost recovery should only occur in a base rate case proceeding. This argument is addressed elsewhere in my testimony.

1 VI. Immediately Obtaining Additional Wind Resources

2 Q. **Mr. Rose, Mr. Norwood, Ms. Tripp and Mr. Goggin have all criticized OG&E for**
3 **not immediately obtaining additional wind resources. What is your response to their**
4 **concerns?**

5 A. As stated in the Direct Testimony of Witness Howell, OG&E has used wind as a source
6 of generation for over a decade. OG&E has been a leader in wind development in
7 Oklahoma and not only understands the value of wind, but realizes wind, under the right
8 circumstances, can be a source of energy cost savings for customers. As also stated by
9 Witness Howell, OG&E has certain concerns regarding transmission congestion. Even
10 with those concerns, OG&E will certainly be looking for opportunities to increase its
11 reliance on wind energy over the coming decade as transmission constraints are
12 addressed. In addition, the new Mustang CTs will support new wind generation across
13 the SPP footprint.

14 Another important point to be raised regarding wind is the fact that OG&E's ECP
15 and MMP are dealing with maintaining current capacity to not only meet the needs of
16 OG&E's customers, but to meet the reserve requirements of the SPP. Relative to its
17 nameplate capability, wind generation provides minimal capacity even under today's SPP
18 standards.

19 Although OG&E has been criticized by several parties in my opinion those
20 criticisms are not valid because OG&E has embraced wind and will continue to do so.

21
22 Q. **Does this conclude your testimony?**

23 A. Yes.