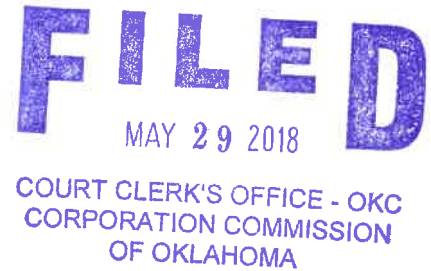


BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

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

CAUSE NO. PUD 201700496



Rebuttal Testimony

of

Donald R. Rowlett

on behalf of

Oklahoma Gas and Electric Company

May 29, 2018

Donald R. Rowlett
Rebuttal Testimony

1 Q. **Would you please state your name and business address?**

2 A. My name is Donald R. Rowlett. My business address is 321 North Harvey, Oklahoma
3 City, Oklahoma, 73102.

4
5 Q. **Are you the same Donald R. Rowlett that previously filed direct testimony in this
6 proceeding?**

7 A. Yes.

8
9 Q. **What is the purpose of your Rebuttal Testimony?**

10 A. I will respond to the Responsive Testimony filed by certain intervening parties on May 2,
11 2018. My Rebuttal Testimony will focus on some of the key themes raised by the
12 responsive witnesses. My failure to address each and every assertion or claim made by
13 other parties in this Cause does not indicate my acquiescence or agreement with such
14 assertion or claim.

15
16 **Mustang**

17 Q. **Have you reviewed the Responsive testimony of OK Cogen witness Athas and OIEC
18 witnesses Norwood and M. Garrett?**

19 A. Yes. I have reviewed OK Cogen and OIEC's testimony regarding the Mustang
20 Modernization project.

21
22 Q. **Is Mr. Norwood and OK Cogen witness Mr. Athas correct in their assertion that the
23 Company should have competitively bid the Mustang site?**

24 A. No. First, there is no statutory requirement or Commission rule which requires
25 competitive bidding in the case of the Mustang project. In Cause No. PUD 201400229,
26 the Commission found that competitive bidding was required for preapproval
27 applications under 17 Okla. Stat. 286(C), but there is no such requirement for the
28 Company to perform competitive bidding when not seeking preapproval under 286(C).
29 In the instant case, the Company is seeking a prudence review by this Commission to

1 include the cost associated with the Mustang project in its rate base now that it has been
2 constructed and placed in service for customers. OIEC has failed to show that the
3 Company imprudently selected the Mustang site for the new combustion turbines
4 (“CTs”) or that another site could have been procured by the Company at a lesser cost to
5 customers. Second, OG&E has demonstrated that it had good reasons for not engaging in
6 competitive bidding for its generation needs.

7
8 **Q. Messrs. Norwood and Athas cite to the Commission’s primary findings contained in**
9 **the final order in Cause No. PUD 201400229 and suggests that the Company has not**
10 **sufficiently addressed those findings. Do you agree?**

11 **A.** Absolutely not. Every single one of the findings listed by Mr. Norwood on page 8 and 9
12 of his Responsive Testimony has been fully addressed by the Company. Below is a list
13 of each “finding” raised by Mr. Norwood and reference to the evidence and testimony
14 where the Company addressed that topic:
15

COMMISSION FINDING CITED BY NORWOOD	SUMMARY OF OG&E EVIDENCE IN RESPONSE
Neither the Company's IRP nor testimony demonstrates there is any need for new generation at this time. In addition, OG&E has failed to provide sufficient evidence regarding reasonable alternatives.	<p>Although the concepts of need and consideration of reasonable alternatives are part of preapproval applications under 17 Okla. Stat. 286(C), Leon Howell still explained the capacity need facing the Company under SPP rules.</p> <p>Mr. Howell explained the IRP that established the need for the Mustang capacity and attached the IRP to his testimony. See Howell Direct Testimony at 3-5</p> <p>Mr. Howell also testified that he had investigated other existing generation in and around OG&E’s service territory, but none of those alternatives were available to serve the need in 2018 or consistent with the needs of the Company. Mr. Howell testified that there were no generating units capable of providing the reliability and other benefits provided by CTs at Mustang. See Howell Direct Testimony at 5.</p> <p>Mr. Howell also testified that the IRP indicated that quick-starting CTs were the lowest cost option compared with adding combined cycle</p>

	<p>units, and those CTs were also highly desirable for several reliability and operational reasons. See Howell Direct Testimony at 5-6</p> <p>Mr. Burch testified that OG&E considered conventional and advanced combined cycle units and traditional and aero derivative simple cycle combustion turbines and screened those types of generation against the required operating characteristics before selecting the CT technology. Mr. Burch also testified that the aero derivative CTs at Mustang had a lower life cycle cost than a combined cycle unit. See Burch Direct Testimony at 19.</p>
<p>In OG&E's request to retire and replace the Mustang Plant, OG&E failed to seek any competitive solicitations to meet future generation needs. It did not conduct a competitive procurement process for capacity or energy requirements resulting from Mustang unit retirements</p>	<p>Mr. Burch testified that OG&E issued approximately 39 different competitive bid packages for equipment, materials and services, including labor for the Mustang CT project. He testified that each of these packages was sent to an average of three to four bidders, in some cases more and that each package was awarded on price and value. Witness Burch testified that OG&E has seen significant savings on these packages. See Burch Direct Testimony at p. 25.</p> <p>As far as engaging in competitively bidding for the capacity and energy, the Company has produced substantial evidence explaining why competitive bidding did not make sense in this instance given the value of preserving the Mustang site and the specific need for CTs. See Howell Direct Testimony at 7; Burch Direct Testimony at 22-25; McAuley Direct Testimony at 8-16; Nickell Direct Testimony at 5-8</p>
<p>OG&E failed to provide any substantive data or analysis to support its conclusion that its plan to replace the Mustang Plant is a least cost option for customers. OG&E did not provide any valid engineering study of the Mustang units to support its request to retire the Mustang units earlier than determined by prior engineering studies conducted on behalf of OG&E and relied upon by OG&E in its 2012 IRP.</p>	<p>As testified by Witness Howell, the IRP showed that quick-starting CTs were the lowest cost option compared with adding combined cycle units. See Howell Direct Testimony at 5-6.</p> <p>OGE Witness Burch also testified about how the Company employed 39 different competitive bidding packages for equipment, materials and services, including labor for the Mustang CT project. See Burch Direct Testimony at p. 25.</p> <p>Witness Burch also testified that the value of re-using the Mustang site, as compared to a new</p>

	<p>typical Oklahoma greenfield site, has conservatively been estimated by Burns and McDonnell at approximately \$45 million. See Burch Direct Testimony at 23.</p> <p>Witness Rowlett also testified that the estimated cost of the Mustang CTs are over \$50 million <u>lower</u> than the original estimates. See Rowlett Direct at p. 10, ln. 27-29.</p> <p>Not only did OG&E's Director of Power Supply Services testify extensively about the need to retire the old Mustang units, OG&E contracted with Black & Veatch to conduct an independent analysis of the Mustang units and validate the Company's decision. Black & Veatch witness Phillip Webster testified that, "[g]iven the advanced age of the Mustang units, Black & Veatch concluded that their continued operation, with the associated operating costs, maintenance requirements, capital investment and likely degrading reliability was clearly not the optimal path. Therefore, Black & Veatch concluded that retirement of the units, on the OG&E timeline, was a prudent decision." See Burch Direct Testimony at 4-15; Webster Direct Testimony at 3-6.</p>
<p>While OG&E's IRP indicates the CT option provides a slight economic advantage over the other two cases modeled, the IRP does not indicate that capacity is required in the Oklahoma City area or, specifically, at the Mustang site</p>	<p>On the contrary, the IRP did indicate that capacity is required in the Oklahoma City area and specifically at the Mustang site. See IRP Exhibit LCH-1 at 27-28.</p> <p>Also, OG&E Witness McAuley testified "the fact that the Mustang CTs will be connected at both 138kV and 69kV as well as being located near OG&E's largest load center makes their placement at the Mustang site ideal from a voltage management and system restoration perspective. I personally have more confidence we can bring the system back faster and maintain the required voltage stability if we have the new CTs at Mustang." See McAuley at 8-16.</p> <p>SPP Witness Nickell also testified that "the availability of generation at Mustang is critical to reliable system operations in the Oklahoma City area. The generation OG&E has chosen, quick-start CTs, provides a valuable reliability tool to more quickly respond to system loading</p>

	and voltages in the largest load center of Oklahoma.” See Nickell Direct Testimony at 5-8.
In evaluating options for obtaining capacity, OG&E considered only self-build options and dismissed the idea of pursuing market options such as existing generators such as Oklahoma Cogeneration (OK Cogen) or PPAs	<p>Several OG&E witnesses testified about why the Company focused on installing generation only at the Mustang site and not pursuing other options.</p> <p>The largest benefit of utilization of the Mustang site is the value that the site brings from a reliability perspective. As testified by OG&E Witness McAuley, CTs at the Mustang site would be the perfect solution for managing increases or decreases in voltage to stabilize the transmission system. Further, the site’s connection to both the 138kV and 69kV transmission systems on the west side of Oklahoma City provides specific operational and reliability benefits including reduced line losses, reduced line congestion and cost, voltage control support, and support for the Company’s system restoration plan. See McAuley Direct Testimony at 10; Nickell Direct Testimony at 5-8.</p> <p>OG&E testified that it is extremely rare to have a site that is both favorably situated near a load center and has many of the necessary attributes that are required to operate the facility and transmit the electricity that is produced. The Mustang location already has the necessary infrastructure in place to support a generating facility, including a secure property, roads, facilities to support operations and maintenance, water supply and rights, fuel supply facilities, and most importantly, existing electrical switchyard interconnections to both the 138kV and 69kV transmission systems. See Howell Direct Testimony at 7; Burch Direct Testimony at 22-25.</p>
OG&E failed to demonstrate that the existing Mustang units are at the very end of their useful lives and need to be retired"	OG&E Witness Burch provided substantial expert testimony on the Company’s decision to retire the old Mustang units on the schedule they chose. Mr. Burch testified how OG&E concluded that it did not make sense to continue investing dollars in these very old units that were placed in service during the Truman Administration. Mr. Burch testified how the Company had concerns about unit reliability, the

	<p>risk of catastrophic failure and the need to invest significant dollars in outdated technology. Even with needed investment in key areas, the units are still at a greater risk of catastrophic failure as many key components are approaching or exceeding their design life. Mr. Burch also testified about how the risk of component failure due to age of the old Mustang units could also create a greater safety risk for our employees placing them at risk of significant injury or fatality. See Burch Direct Testimony at 3-15.</p> <p>Black & Veatch Witness Webster testified that after Black & Veatch assessed the condition of the Mustang units, how they have been used, how they performed, and the projects that would be required to keep the Mustang units safe, reliable and compliant with the applicable air emissions permits, continued operation of the Mustang units was clearly not the optimal path and that retirement of the units was a prudent decision. See Webster Direct Testimony at 4-13.</p>
<p>OG&E accelerated the Burns and McDonnell retirement dates based on OG&E's claim that increased cycling of the Mustang units associated with dispatch in the SPP IM will cause additional "wear and tear" and create unreliable and unsafe conditions. OG&E did not conduct any formal study to support its claim regarding additional "wear and tear" for the Mustang units caused by the SPP IM and, in fact, those units have had few starts since the initiation of the SPP IM</p>	<p>The risk of increased cycling was addressed by both Witness Burch as the Director of Power Supply Services and by Black & Veatch Witness Webster.</p> <p>Mr. Burch testified about the dramatic increase in starts for the old Mustang, especially units that were constructed in the 1950s and designed for baseload operation. Mr. Burch testified about the effects of this increased cycling and how it creates stresses on pressure and rotating machinery and how that can lead to safety risks for employees on the older Mustang units. Mr. Burch even testified about a close-call related to a cracked rotor that was fortunately discovered on Mustang Unit 4. See Burch Direct Testimony at 10-13.</p> <p>Mr. Webster testified that cycling exasperates thermal expansion, corrosion and thermal fatigue and that these things lead to failure and damage to plant components. See Webster Direct at 8-10.</p>
<p>While the Mustang units will require eventual retirement, the exact timing for those retirements is somewhat flexible</p>	<p>The urgency for retiring the old Mustang was addressed by both OG&E Witness Burch and Black & Veatch Witness Webster. See Burch</p>

	Direct Testimony at 3-15; Webster Direct Testimony at 4-13.
The flexibility in retirement dates allows OG&E the opportunity to solicit market options (RFP) for short-term, intermediate-term, and long-term capacity and allow modification of the MMP schedule	While the Company showed there was urgency to the retirement of the old Mustang units (see Burch Direct Testimony at 3-15; Webster Direct Testimony at 4-13), the Company also showed how its specific needs around preserving the Mustang site and adding CTs did not support exploring market options. See Howell Direct Testimony at 7; Burch Direct Testimony at 22-25; McAuley Direct Testimony at 8-16; Nickell Direct Testimony at 5-8
SPP has not conducted an assessment of the need for CTs at the Mustang site or any other specific location in OG&E's system	<p>Several OG&E witnesses testified about why the Company focused on installing generation only at the Mustang site. OG&E Witness McAuley and SPP Witness Nickell testified about the reliability needs of maintaining the Mustang site and having CTs located there in particular. See McAuley Direct Testimony at 10; Nickell Direct Testimony at 5-8.</p> <p>OG&E Witness Burch talked about the benefits of the Mustang site being situated near a load center and having many of the necessary attributes that are required to operate the facility and transmit the electricity that is produced. Mr. Burch testified that the Mustang location already has the necessary infrastructure in place to support a generating facility, including a secure property, roads, facilities to support operations and maintenance, water supply and rights, fuel supply facilities, and most importantly, existing electrical switchyard interconnections to both the 138kV and 69kV transmission systems. See Howell Direct Testimony at 7; Burch Direct Testimony at 22-25.</p>
OG&E failed to conduct any formal analysis or study to determine the need for voltage support at the Mustang site	The SPP conducted a voltage stability study to investigate the impact of variable wind generation levels on voltage stability on the SPP transmission system. The results of the study showed that even at wind generation levels much lower than those levels currently being experienced, the Oklahoma City area (the Company's largest load center) could experience system overloads and voltage collapse under certain circumstances (like the loss of a key transmission line).

	<p>As testified to by Witness Lanny Nickell, quick start CTs at the Mustang site are critical to mitigate those overloads and limit exposure to any voltage collapse situations, especially in an environment of fluctuating wind generation. This study, and the testimony of witness Nickell, validates OG&E's view that the location of the CTs at Mustang is important for system reliability reasons. In his testimony, witness Nickell concludes that "the availability of generation at Mustang is critical to reliable system operations in the Oklahoma City area. The generation OG&E has chosen, quick-start CTs, provides a valuable reliability tool to more quickly respond to system loading and voltages in the largest load center of Oklahoma." See Nickell Direct Testimony at 5-8.</p>
<p>Absent a competitive procurement process regarding the MMP, OG&E cannot demonstrate that it evaluated all "reasonable alternatives"</p>	<p>Although the consideration of "reasonable alternatives" is a requirement of a preapproval application under 17 Okla. Stat. 286(C) and not specified under rules and law relating to the traditional process of constructing generation, the Company has produced substantial evidence that it indeed considered alternatives.</p> <p>Mr. Howell also testified that he had investigated other existing generation in and around OG&E's service territory, but none of those alternatives were available to serve the need in 2018 or consistent with the needs of the Company. Mr. Howell testified that there were no generating units capable of providing the reliability and other benefits provided by CTs at Mustang. See Howell Direct Testimony at 5.</p> <p>Mr. Howell also testified that the IRP indicated that quick-starting CTs were the lowest cost option compared with adding combined cycle units, and those CTs were also highly desirable for several reliability and operational reasons. See Howell Direct Testimony at 5-6.</p> <p>Mr. Burch testified that OG&E considered conventional and advanced combined cycle units and traditional and aero derivative simple cycle combustion turbines and screened those types of generation against the required operating characteristics before selecting the CT technology. Mr. Burch also testified that the aero derivative CTs at Mustang had a lower life</p>

	cycle cost than a combined cycle unit. See Burch Direct Testimony at 19.
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1 Q. **Do you believe that OG&E provided substantial evidence to support its decision to**
2 **retire the old Mustang units and replace that capacity with CTs at the Mustang site?**

3 A. Yes. The above table is only a brief summary of the evidence provided by the Company
4 in this case to respond to the findings in Cause No. 201400229. These decisions were not
5 only justified by the Company's own technical experts charged with operating generating
6 facilities and the transmission system reliably and safely, but validated by outside
7 experts. In the case of Black & Veatch, that internationally recognized engineering
8 consulting firm performed an independent assessment of the condition of the Mustang
9 units, how they have been used, how they performed, and the projects that would be
10 required to keep the Mustang units safe, reliable and compliant with the applicable air
11 emissions permits. And after that independent assessment, Black & Veatch found that
12 continued operation of the Mustang units was clearly not the optimal path and that
13 retirement of the units was a prudent decision. Moreover, the SPP's Vice President of
14 Engineering provided testimony that showed how SPP studies support not only
15 preservation of generation at Mustang, but installation of CTs at that location. Mr.
16 Nickell concluded that "the availability of generation at Mustang is critical to reliable
17 system operations in the Oklahoma City area. The generation OG&E has chosen, quick-
18 start CTs, provides a valuable reliability tool to more quickly respond to system loading
19 and voltages in the largest load center of Oklahoma." It is interesting that in his dismissal
20 of the SPP's studies and the significance of Mr. Nickell's testimony, Mr. Norwood fails
21 to mention the key role that SPP plays in ensuring reliable operation of the transmission
22 system. On page 17 of his Responsive Testimony, Mr. Norwood explains how SPP
23 "administers the SPP energy markets and bulk transmission planning function," but Mr.
24 Norwood fails to mention the enormous role and responsibility SPP has in maintaining
25 the reliability of the system. Mr. Norwood can say that SPP studies have "very limited
26 value," but OG&E believes that such SPP studies and testimony are critical in validating
27 the OG&E decision to invest in the Mustang site with quick-start CTs.

Q. Are the new Mustang units currently providing a benefit to OG&E customers?

A. Yes. Currently, all 7 units are operating frequently within their new roles in the SPP IM, Table 1 below shows the number of start the new units have experienced over the last few months.

Monthly totals since entering the SPP Market					
	Jan-18	Feb-18	Mar-18	Apr-18	May-18
Mustang CTs	# of Starts	# of Starts	# of Starts	# of Starts	# of Starts
6	0	0	10	46	26*
7 ¹	0	0	0	43	23*
8	18	5	45	48	23*
9	0	0	49	50	22*
10	0	11	44	49	22*
11	0	1	46	51	22*
12	0	0	39	55	22*

Notes:

1. While Unit 7 was online in March 2018 for reliability testing, it was not offered into the SPP market until April so there are no official starts listed in March.

* Start count is up to and including May 15th

Q. Does OIEC recommend a disallowance associated with the Mustang project?

A. Yes. Mr. Norwood recommends and Mr. Garrett supports in his accounting schedules a disallowance of approximately \$10 million a year.¹

Q. Is there a statute or Commission rule which specifies a penalty for failure to competitively bid?

A. To my knowledge, no.

Q. Do you believe that Mr. Norwood's recommendation is appropriate?

A. No. Notwithstanding the fact that there is no basis for Mr. Norwood's recommended disallowance, Mr. Norwood's recommended disallowance would amount to a reduction of the annual revenue requirement for the Mustang project of approximately \$10 million a year, over the life of the plant, which is excessive and egregiously punitive in nature.

¹ Responsive Testimony of M. Garrett p. 36-37, Responsive Testimony of Norwood p. 20.

1 **Regulatory Asset for the Sooner Scrubbers**

2 Q. **Do you agree with AG witness Bohrmann's analysis of the Company's request for a**
3 **regulatory asset for the Sooner Scrubbers?**

4 A. No, I do not. Witness Bohrmann does not think it appropriate for the Commission to
5 allow a regulatory asset for the Sooner scrubbers because it will place upward pressure on
6 the Company's future customers. Mr. Bohrmann does understand that the regulatory
7 asset will not have an impact on the Company's base rates until the following rate case.
8 The Company will not begin to record a regulatory asset until such time that the
9 scrubbers are placed in service, currently estimated for summer 2018 for Unit 1 and early
10 2019 for Unit 2. The Company is asking the Commission to allow a regulatory asset to
11 record the non-fuel operating and maintenance expenses, property taxes, and a return of
12 and on the investment. As noted by PUD Staff witness Chaplin, approval by the
13 Commission of a regulatory asset will allow for the accurate tracking of the costs OG&E
14 incurs on the Scrubbers and will be reviewed in conjunction with the Company's next
15 general rate case and will not impact current rates.²

16 Interestingly, the Attorney General's witness, Mr. Bohrmann, argues traditional
17 regulatory theory as a reason for not granting a regulatory asset for the Sooner scrubbers.
18 Simultaneously, the Attorney General's witness testimony regarding the Tax Cuts and
19 Jobs Act seems to ignore "traditional" regulatory theory when it comes to the regulatory
20 liability regarding the benefits of the reduction in the federal corporate income tax rates.

21
22 **Tax Reserve related to the Tax Cuts and Jobs Act**

23 Q. **Have you reviewed the Responsive testimony of Mr. Farrar, the Attorney General**
24 **("AG") witness, regarding his recommendation of the refund of the deferred**
25 **liability that the Commission ordered OG&E to record?**

26 A. Yes.

² Responsive Testimony of Chaplin, p. 24, Ins. 6-17.

1 Q. **Can you please summarize OG&E's compliance with Order No. 671982 in Cause**
2 **No. PUD 201700569?**

3 A. Yes. To comply with the Order No. 671982 in Cause No. PUD 201700569, OG&E
4 began to record a deferred liability to reflect the reduced federal corporate tax rate to 21%
5 and the associated savings in excess ADIT and any other tax implications of the TCJA on
6 an interim basis subject to refund. OG&E will continue to record this deferred liability
7 until utility rates are adjusted to reflect the federal tax savings and a final order is issued
8 in this case, or otherwise ordered by the Commission. Although the effective date of the
9 Commission's order to establish a regulatory liability was January 9, 2018, OG&E began
10 recording the liability effective January 1, 2018 so that our customers receive the full
11 benefit of the reduced tax rate on the effective date of the TJCA.

12 OG&E believes it is appropriate to pass on to our customers all the benefits of the
13 TCJA. We believe the steps we have taken in this Cause fully and timely pass on those
14 benefits that became effective on January 1, 2018, without argument to other incremental
15 investment and expense changes that have occurred since our last rate case. While
16 OG&E believes it should not benefit from the passage of the TCJA, we also believe we
17 should not be harmed. The passage of the TCJA should be financially neutral to OG&E
18 and our customers should receive no less or no more than the differences that result
19 between the old and new tax rates, especially in the interim period where the reserve
20 applies.

21
22 Q. **Can you please describe the regulatory liability that OG&E has begun to record?**

23 A. Yes. The regulatory liability, or reserve, is comprised of two components. First, because
24 the federal corporate income tax rate that is reflected in OG&E's current rates is 35%,
25 OG&E is recording the difference, each month since January 2018, between what taxes
26 would have been at a rate of 35% versus what they would be at the new federal corporate
27 income tax rate of 21%. The Company is then applying a carrying charge, OG&E's cost
28 of capital as recognized in Order No. 662059 issued in Cause No. PUD 201500273, to
29 that balance each month.

30 The second component of the reserve is recording the amortization of the excess
31 deferred income taxes, both the protected and unprotected amounts. It is not appropriate

1 to apply a carrying charge to this component of the reserve, as the liability that was
2 created due to the change in federal corporate income tax rates is reduction to rate base.
3 Essentially, OG&E's customers are already earning a carrying charge through the
4 reduction in rate base.

5 OG&E is recommending to return this accumulated reserve amount to customers,
6 including appropriate carrying charges, in one month. The month in which the refund
7 will occur is dependent upon a final order in this Cause.
8

9 **Q. Do you agree with the Mr. Farrar's recommendation of the calculation and**
10 **methodology for refund of the reserve?**

11 **A.** No. Although Mr. Farrar includes the same two components in the reserve that I
12 described above (an amount that reflects the change in tax rates, and the amortization of
13 the excess deferred taxes), I disagree with Mr. Farrar on two main areas.

14 First, as I described above, it is not appropriate to apply a carrying charge to the
15 amortization of the excess deferred taxes included in the reserve. Under Mr. Farrar's
16 methodology, OG&E would essentially pay a carrying charge twice on the amortization
17 of the excess deferred taxes. If Mr. Farrar includes a carrying charge on the excess
18 deferred taxes in the reserve, then it would be appropriate for Mr. Farrar to also include a
19 return for OG&E on the increase in rate base during the interim period that accounts for
20 the monthly amortization of the excess deferred tax liability. Using this approach, the
21 carrying charge and the increased return would net to zero.

22 Second, Mr. Farrar estimates a yearly amount of excess tax expense, or a yearly
23 reserve, based off OG&E's approved rate base in PUD 20150073 (applying a difference
24 to reflect the change in tax rates) and then includes a yearly amount of amortization of
25 excess deferred taxes. Mr. Farrar then spreads that annual amount to each month by
26 dividing the yearly amount by 12. Mr. Farrar's methodology does not account for the
27 seasonality of OG&E's revenues and would result in OG&E over refunding benefits to
28 customers in the early part of the year. For example, Mr. Farrar estimates the cumulative
29 balance of the reserve to be approximately \$39.2 million by the end of June 2018 by
30 taking a simple 1/12th per month approach. OG&E currently estimates the reserve to be
31 \$18.5 million by the end of June of 2018, due to the fact that the majority of OG&E's

1 revenues do not occur until the summer months. Utilizing Mr. Farrar's methodology
2 would result in OG&E refunding excess benefits of \$20.7 million.

3 OG&E believes that it is appropriate to measure the reserve based off actual
4 revenues and the difference between what taxes would have been at 35% versus 21%.
5 Utilizing this method, OG&E's customers would receive the full and actual benefit in the
6 change in tax rates during the interim period. After the interim period OG&E customers
7 would then receive the benefit of the lower tax rate in base rates.

8
9 **Reliability and Customer Satisfaction**

10 **Q. Have you reviewed the Responsive testimony of AG witness Bohrmann regarding**
11 **reliability and customer satisfaction?**

12 **A. Yes.**
13

14 **Q. Would you like to respond to Mr. Bohrmann's assertion that OG&E's customer**
15 **service and reliability have degraded considerably in recent years?**

16 **A. Yes.** The Company is in continuous communication with the Commission on the quality
17 of its service and the satisfaction of its customers. OG&E provides customers with safe,
18 reliable service, while maintaining rates that are well below the national average. The
19 Company's customers have acknowledged these efforts and they have repeatedly ranked
20 the Company as the best in the region and among the best in the nation.

21
22 **Q. Would you discuss further Mr. Bohrmann's assertion that OG&E's customer**
23 **service, in relation to its customer satisfaction scores, have degraded considerably in**
24 **recent years?**

25 **A. Yes.** Mr. Bohrmann claims that, based on the Company's J.D. Power scores on customer
26 satisfaction, OG&E has not kept pace with its peers. His analysis uses a simple change in
27 satisfaction score over a five-year period to compare OG&E to peer companies in the
28 same region. He further states that while OG&E's claims of being ranked as the best in
29 the region may have been true several years ago, the results from the J.D. Power scores
30 do not indicate that OG&E still has high satisfaction among its customers. An important
31 item to note when looking at OG&E's score and rankings is that the Company is in the

1 South Large group of companies, and that group is the highest rated region. The
2 Company ranks 11th out of 58 companies and is well above the top quartile performance
3 nationally.

4 Additionally, although Mr. Bohrmann uses a simple change in satisfaction score
5 to compare OG&E to peer companies, he recommends imposing a median change
6 measure to serve as a target for future customer satisfaction performance. This
7 methodology, however, penalizes top performers or groups in the upper tier, as it is
8 highly unlikely that the Company will continue to improve at the same pace as lower
9 achievers. Therefore, top achievers like OG&E have less room for improvement since
10 there is a ceiling, and the change in satisfaction cannot be linear. Historically, OGE has
11 been high performing and, at some point, growth will slow due to a bound satisfaction
12 scale (100-1000). Imposing a median change in satisfaction, puts top achieving
13 companies in a position to continue a growth rate that, in some ways, could be driven by
14 companies who have more room to move along the scale who are currently
15 underperforming in customer satisfaction versus those near the top of the range.

16
17 **Q. Would you discuss further Mr. Bohrmann's assertion that OG&E's reliability, in**
18 **relation to its SAIDI scores, have degraded considerably in recent years?**

19 **A.** Yes. Mr. Bohrmann compared OG&E's reliability metrics, SAIDI and SAIFI, with
20 Public Service Company of Oklahoma and three municipal utilities located within or near
21 the Company's service areas of Edmond, Ponca City, and Stillwater. He concluded that,
22 by comparing this group against OG&E, the Company's reliability in recent years has
23 been degrading. The issue with this is that municipals are generally not a fair comparison.
24 OG&E's system spans an approximately 30,000 square mile region. The customer
25 density and conductor density is normally greater for municipals. In this sense, a
26 municipality has inherent redundancy due to system density. Rural areas do not have this
27 feature. Additionally, a district labeled as Enid for example not only includes the city of
28 Enid, but several outlying towns that stretch for several miles outside of the municipality
29 of Enid. Other municipal operators have only their more consolidated area to maintain
30 and have many different outage tracking systems, outage tracking methods, system
31 configurations, and funding levels, as well as other factors. Consideration needs to be

1 taken for each districts territory square mile, route miles, number of customers, outage
2 tracking methods, calculation method, weather, etc.

3
4 **Q. Do you agree with Mr. Bohrmann that OG&E's ROE award from this Commission**
5 **should be reduced by 25 basis points until the Company's reliability indices**
6 **customer satisfaction is increased?**

7 A. No. Nor am I aware of any basis for such a reduction in ROE. Witness Bohrmann
8 blatantly makes this recommendation making no reference to a statute, Commission rule,
9 or prior Commission precedent (either in the State of Oklahoma or other jurisdiction) for
10 this type of penalty. Interestingly, I do not recall in previous cases where an AG witness,
11 or any intervenor witness, ever recommending a 25 basis point ROE bonus for the several
12 years when OG&E's customer service was at the top of JD Power's rankings.

13
14 **Hypothetical Cap Structure**

15 **Q. Do you agree with witnesses Griffing and Purcell that OG&E should be given a**
16 **hypothetical capital structure of 50% debt and 50% equity?**

17 A. No. The Commission has never taken such action before and such a response would be
18 not only unprecedented but unsupported and damaging both to the financial interests of
19 the Company and to customer interests in keeping rates low.

20
21 **Short Term Incentive ("STI")**

22 **Q. Is the Company encouraged by the PUD Staff recommendation regarding incentive**
23 **compensation recovery?**

24 A. Yes. As discussed by PUD Staff Witness Rush, the PUD Staff explained in detail why it
25 supports recovery of all of OG&E's short-term incentive compensation. Specifically, the
26 fact that all four metrics are able to pay out separately and that each metric is not
27 "triggered" by a financial performance goal.³

28

³ *Ibid.*, p. 46, ln. 18 – p. 50, ln. 10.

1 Q. **Do you agree with the positions of AG and OIEC/OER witnesses regarding the**
2 **inclusion of only half of STI compensation?**

3 A. No. We believe these costs are prudent expenditures and part of the compensation
4 structure of our employees. We believe that OG&E needs to be competitive in the
5 marketplace and attractive to existing and potential employees. Our total compensation
6 package is important for ensuring that we have the most qualified employees to provide
7 reliable service. OG&E also believes that the incentive compensation metrics are
8 appropriately aligned with customer interests. Even with metrics that are focused on
9 Company earnings, OG&E believes that those metrics still result in outcomes that are
10 beneficial to customers.
11

12 Q. **Did either witness AG or OIEC/OER state the total compensation of the Company**
13 **was imprudent?**

14 A. No. In fact neither witness provided any evidence that the Company's compensation is
15 imprudent.
16

17 Q. **Did either witness AG or OIEC/OER suggest that the Company's compensation**
18 **package is not set at market rates?**

19 A. No. Neither witness questioned that OG&E has a competitive, market based
20 compensation package and that the Company needs to be able to attract and retain
21 existing and potential employees.
22

23 Q. **Has either witness suggested that costs that are considered a reasonable cost of**
24 **doing business should be excluded?**

25 A. No. Neither has stated that reasonable costs of doing business should be excluded from
26 rate base. If the total compensation that is offered to our members is seen as a reasonable
27 cost of doing business then we believe that all cash compensation amounts requested
28 should be included. Furthermore, we believe that these costs should be included
29 regardless of what performance metrics we utilize to achieve positive business results as
30 long as they are common metrics used in annual incentive plans. Furthermore, we believe

1 that by not including them in rate base we limiting our ability to invest in servicing our
2 customer base.

3
4 **Q. Would the Company like to propose an alternative for this Commission to consider?**

5 A. Yes. As discussed in OG&E witness Ruden's Direct Testimony in this Cause, should the
6 Commission not accept OG&E's request for 100% recovery of STI, the Company would
7 propose that any recommended disallowance should only apply to that portion of STI
8 which is tied to a financial metric not associated with customer cost. In this case, the
9 Earnings Per Share metric amounts to 30% of the STI request⁴, which is significantly less
10 than the 50% disallowance recommended by the witnesses for the AG, OIEC and OER.

11
12 **Refinancing to Lower Debt Cost**

13 **Q. Would you like to comment on the Responsive testimony of FEA witness Walters**
14 **regarding the Company's embedded cost of debt?**

15 A. Yes. Witness Walters notes that OG&E has two debt issuances maturing in September of
16 2018 and January of 2019 that when refinanced at a coupon rate of 4.05%, will lower the
17 Company's embedded cost of debt from 5.32% to 4.85%. Witness Walters recommends
18 that this should be addressed with a filing to update the embedded cost of debt in
19 September, after the first issue matures and is refinanced.

20
21 **Q. Do you agree with Walters' recommendation for the addressing the refinancing of**
22 **debt?**

23 A. No, I would recommend that this is an issue best addressed in the Company's next
24 general rate case, as it is outside the test year and the *pro forma* period in this Cause.

25
26 **Other Issues**

27 **Q. Have you reviewed the Responsive Testimony of PUD Staff witness Rush?**

28 A. Yes.

29

⁴ Direct Testimony of Patricia Ruden, p. 8, Chart 3.

1 Q. **Would you like to comment on any of Mr. Rush's recommendations?**

2 A. Yes. Specifically, Mr. Rush's recommendation that the Company should consider
3 utilizing existing employees to conduct and testify to the Company's ROE analysis in
4 future general rate cases.⁵ While OG&E does employ a highly skilled and capable
5 staff, the Company has no single employee who was hired for the express purpose of
6 offering ROE analysis and testimony.

7
8 Q. **In your opinion would hiring an individual solely for this purpose be reasonable and
9 in the best interest of customers?**

10 A. No. Hiring an employee solely to conduct ROE analysis would be unreasonable and
11 costly to the customer. By utilizing outside experts for this express purpose the Company
12 is able defer the cost of a full time employee, thereby providing a cost savings to the
13 customer in years when the Company is not conducting a general rate case.

14
15 Q. **Would you like to respond to the arguments by AG Witness Dunkel and OIEC
16 Witness Garrett that OG&E has proposed to double recover certain costs related to
17 asbestos remediation and the removal of wind structures?**

18 A. Yes. OIEC Witness Garrett stated that "OG&E mistakenly proposed to double recover
19 [costs related to asbestos remediation and the removal of wind structures] – once through
20 the [Asset Retirement Obligation], and again in terminal net salvage through the
21 decommissioning studies." Mr. Garrett is correct and the Company did inadvertently fail
22 to alert Mr. Spanos when it sent the decommissioning studies to Mr. Spanos for inclusion
23 in the depreciation study that costs related to asbestos remediation and the removal of
24 wind structures are included in the Asset Retirement Obligation recorded on the
25 Company's books and were included in Mr. Kopp's decommissioning study.

26
27 Q. **How does OG&E propose to eliminate this potential double recovery issue?**

⁵ Responsive Testimony of Rush, p. 64, lns. 1-6.

1 A. OG&E would propose to remove the costs of asbestos remediation and wind structure
2 removal by adjusting the Asset Retirement Obligation. This would eliminate the
3 potential for double recovery.
4

5 Q. **Is the LED Lighting conversion going as quickly as the Company originally**
6 **planned?**

7 A. No. The LED Lighting program implementation is proceeding slower than originally
8 planned. The Company provided its original LED conversion timing to Mr. Spanos for
9 consideration in his depreciation study. As the initial conversion experience has been
10 slower than expected, OG&E did not inform Mr. Spanos of the delays experienced.
11 However, even with the initial phases being slower than anticipated, the Company
12 expects it should reach conversion by the time specified in Mr. Spanos' study.
13

14 Q. **Does this conclude your Rebuttal Testimony?**

15 A. Yes.