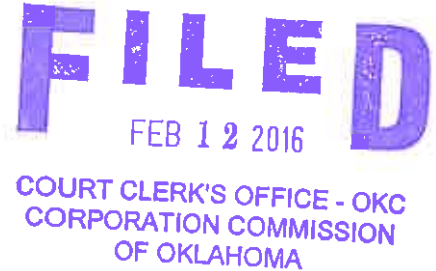


**BEFORE THE CORPORATION COMMISSION OF OKLAHOMA**

IN THE MATTER OF THE APPLICATION OF )  
OKLAHOMA GAS AND ELECTRIC COMPANY )  
FOR COMMISSION APPROVAL OF THE ) CAUSE NO. PUD 201600059  
COMPANY'S PLAN TO INSTALL DRY )  
SCRUBBERS AT THE SOONER GENERATING )  
FACILITY )



Direct Testimony

of

Donald R. Rowlett

on behalf of

Oklahoma Gas and Electric Company

February 12, 2016

Donald R. Rowlett  
Direct Testimony

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

3 A. My name is Donald R. Rowlett. I am the Managing Director of Regulatory Affairs for  
4 Oklahoma Gas and Electric Company ("OG&E"). My business address is 321 N.  
5 Harvey, P.O. Box 321, Oklahoma City, Oklahoma 73101.  
6

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

8 A. I earned a Bachelor of Science degree in Business with an accounting emphasis (1980)  
9 and a Master's in Business Administration (1992), from Oklahoma City University. I  
10 have also completed all work, except for the dissertation, on a Ph.D. from Oklahoma  
11 State University in Business Administration. In 1983, I became a Certified Public  
12 Accountant. I joined the OG&E in 1989. I currently serve as Managing Director of  
13 Regulatory Affairs where I am responsible for overseeing the Company's economic  
14 regulatory activities with the Oklahoma Corporation Commission, the Arkansas Public  
15 Service Commission and the Federal Energy Regulatory Commission. I have served in  
16 various financial roles in the Company including ten years as Vice President, Controller  
17 and Chief Accountant. As the Company's Controller I was responsible for financial and  
18 operations accounting, federal, state and local income and property taxes and budgeting.  
19 I have also made investor presentations and participated in numerous public equity and  
20 debt offerings. Prior to joining OG&E, I was employed by Arthur Andersen & Co. as a  
21 financial consultant and audit manager. During my employment, I performed audits of  
22 financial statements in a variety of industries. Additionally, I prepared filings with the  
23 Securities and Exchange Commission ("SEC") and provided clients with guidance on the  
24 financial reporting requirements of the SEC and Generally Accepted Accounting  
25 Principles ("GAAP").  
26

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

28 A. Yes. In addition to testifying before the Commission, I have testified on behalf of the  
29 Company before the Arkansas Public Service Commission and the Environmental and

1 Public Works Committee in the United States Senate. I have also filed testimony before  
2 the Federal Energy Regulatory Commission.

3

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

5 A. The purpose of my testimony is to explain the importance of the Company's request for  
6 timely approval of OG&E's decision to install scrubbers at the Sooner generating facility.  
7 OG&E is not asking the Commission to approve the entire Environmental Compliance  
8 Plan ("ECP"), but only OG&E's decision to install scrubbers on the coal units at the  
9 Sooner generating facility. All other aspects of the ECP (*i.e.*, low NO<sub>x</sub> burners on seven  
10 generating units to comply with the NO<sub>x</sub> emission requirements of Regional Haze,  
11 Activated Carbon Injection on five coal-fired generating units to comply with Mercury  
12 and Air Toxics Standards ("MATS"), and the conversion of Muskogee Units 4 & 5 to  
13 natural gas to comply with the SO<sub>2</sub> emission requirements of Regional Haze) will be  
14 addressed by OG&E in current or future proceedings. The decision to proceed or not to  
15 proceed with the installation of scrubbers is of such consequence to OG&E and its  
16 customers that it requires the Company to ask this Commission for immediate review.

17

18 **Q. Is there anything else different about the present cause from Cause No. PUD**  
19 **201400229?**

20 A. Yes. OG&E is not seeking any determination by the Commission as to the reasonable  
21 costs of the scrubbers at this time. The Commission will be asked to consider the  
22 reasonable recovery of the scrubbers in a subsequent proceeding and only after they are  
23 placed in service. Also, OG&E is not requesting such approval of the scrubbers under 17  
24 O.S. §286(B), but under the Commission's general authority.

25

26 **Q. Does the Company continue to believe that customers benefit from scrubbing the**  
27 **Sooner generating units and maintaining that roughly 1000 MW of coal generation**  
28 **in its generating fleet?**

29 A. Yes. OG&E still strongly believes that the installation of scrubbers makes sense and  
30 benefits customers. Installing scrubbers achieves compliance with the Regional Haze

1 Federal Implementation Plan (“FIP”) emission requirements and allows OG&E to  
2 preserve fuel diversity without relying on either coal or gas as a predominant fuel source.  
3

4 **Q. Can you explain the history of OG&E’s environmental compliance plan?**

5 A. On August 6, 2014, in Cause No. 201400229, OG&E filed an application pursuant to 17  
6 O.S. § 286(B) seeking preapproval of its ECP. Such application was filed after OG&E  
7 unsuccessfully appealed the FIP in the 10<sup>th</sup> Circuit Court of Appeals and the U.S.  
8 Supreme Court. On December 2, 2015, the Commission issued Order No. 647346  
9 denying preapproval of OG&E’s ECP. Thereafter, OG&E filed a Motion for  
10 Modification on December 11, 2015 seeking modification of Order No. 647346 in part.  
11 In particular, the Company’s motion asked the Commission only for preapproval of the  
12 ECP with no cost recovery in rates until after ECP assets are constructed, used and useful  
13 and the reasonableness of the cost of those assets has been determined in a general rate  
14 case. OG&E’s motion was supported by the Oklahoma Industrial Energy Consumers  
15 (“OIEC”), the Oklahoma Attorney General, and the Commission Public Utility Division  
16 (“PUD”) Staff. On December 23, 2015, Commissioner Murphy proposed approval of an  
17 order granting the relief requested by OG&E’s motion. The proposed order was not  
18 approved.  
19

20 **Q. Why is OG&E now bringing this separate cause asking for approval of the scrubber  
21 project under a different statutory authority?**

22 A. OG&E is filing this application to assist the Company’s decision regarding which  
23 compliance path it will follow, *i.e.*, continue on with the installation of scrubbers at  
24 Sooner or cancel the scrubber contracts and convert the Sooner units to natural gas.  
25 Quite simply, without preapproval of the scrubber decision, there is substantial risk of  
26 non-recovery of the Company’s \$500 million investment if a future Commission  
27 eventually decides that the scrubber portion of the ECP was itself unreasonable. The  
28 financial market’s perspective is that other public utility commissions are providing their  
29 regulated utilities with preapproved environmental compliance plans, OG&E will be  
30 greatly disadvantaged if the Commission does not likewise provide preapproval of the  
31 scrubber projects. While OG&E believes that maintaining the Sooner coal units benefits

1 customers, OG&E and its investors must consider the risk of the approximate \$500  
2 million in scrubber assets becoming stranded costs in several years and the harm that  
3 would cause the Company and, in turn, customers and investors. Without approval by  
4 this Commission of the application, OG&E will reconsider its decision to move forward  
5 with the scrubber projects.

6  
7 **Q. Is OG&E's request for pre-approval unusual?**

8 **A.** Absolutely not. In the late 1970s and early 1980s, OG&E constructed the coal generating  
9 units and did not seek pre-approval. However, the risks associated with those projects  
10 were not anywhere as great as the risk associated with the decision before us today. As  
11 the Commission recalls, OG&E needed generation capacity and Congress had banned  
12 natural gas as a boiler fuel. OG&E had no choice but to move forward with those  
13 projects. The cost of the scrubber project at Sooner is estimated to be \$500 million,  
14 representing approximately ten percent of the Company's market value. In recent years,  
15 OG&E has sought preapproval for every single large capital project – Redbud, McClain,  
16 SmartGrid, Crossroads, OU Spirit, Red Rock, and the Windspeed transmission line. The  
17 exception to this approach was for certain large transmission projects, where OG&E  
18 moved forward with such projects without preapproval because those projects were  
19 largely recovered through FERC transmission rates and OG&E was directed to construct  
20 those projects by the Southwest Power Pool.

21  
22 **Q. When does OG&E need a decision in this proceeding?**

23 **A.** OG&E needs a final decision from this Commission before May 2, 2016. As this  
24 Commission is aware, when the U.S. Supreme Court lifted the judicial stay on the  
25 Regional Haze FIP, the clock started to tick and OG&E was required to meet the  
26 emission requirements by January 4, 2019. In order to meet the January 4, 2019  
27 deadline, OG&E had to move expeditiously to engineer, procure and construct the  
28 scrubber equipment at the Sooner generating facility and therefore executed the scrubber  
29 equipment contract in September 2014 and the scrubber installation contract in February  
30 2015. As of December 31, 2015, OG&E has invested \$94.8 million on those scrubbers  
31 and estimates that it has incurred an additional \$35 million since January 1, 2016.

1           After the Commission's December 2, 2015 order and the December 23, 2015  
2 rejection of Commissioner Murphy's proposed modified order, the Company sought to  
3 suspend the incurrence of costs under the scrubber contracts and therefore negotiated a  
4 suspension of further payment and work under those contracts. On May 2, 2016, OG&E  
5 faces the difficult decision of initiating the process of terminating the agreements or of  
6 restarting construction at the Sooner site. OG&E believes that the next phase of  
7 construction needs to begin no later than May 2, 2016 in order for OG&E to meet the  
8 January 2019 compliance deadline. Commencing construction on that timeline also will  
9 enable OG&E to meet the deadlines in the existing DEQ scrubber permit without seeking  
10 an extension. Therefore, OG&E requests that the Commission issue an order in this  
11 cause before May 2, 2016 so that OG&E can decide whether to end the scrubber project.  
12

13 **Q. Is OG&E submitting the scrubber contracts for Commission review?**

14 **A.** Yes. After evaluating competitive bids from several vendors for the supply and  
15 installation of scrubbers, OG&E entered into two contracts related to the scrubbers. First,  
16 in September 2014, OG&E entered into a contract with Andritz ("Scrubber Supplier") for  
17 the scrubber equipment needed for the project. This initial contract with the Scrubber  
18 Supplier was the engineering, supply, fabrication and technical support and assistance in  
19 connection with the commissioning and testing of the scrubbers at the Sooner Plant, and  
20 to train the OG&E staff for operation and maintenance of each scrubber. Then, in  
21 February 2015, OG&E entered into an Engineering, Procurement and Construction  
22 ("EPC") contract with Oklahoma Power Constructors, a joint venture of Overland  
23 Contracting Inc. (an affiliate of Black & Veatch) and PCL Industrial Construction Co.  
24 ("EPC Contractor"). This contract with the EPC Contractor was for engineering,  
25 procurement and construction of the complete balance of plant necessary for the supply,  
26 installation, interconnection, testing, commissioning, operation, maintenance and repair  
27 of the scrubbers. The EPC Contractor will install and integrate the scrubbers and  
28 equipment supplied by the Scrubber Supplier into the Sooner Plant. The September 2014  
29 Scrubber Supplier contract was assigned to the EPC Contractor and it became part of the  
30 EPC contract.

1 Q. **Have the costs for scrubbers changed over time?**

2 A. Yes, but the total cost of the scrubbers has steadily declined. In Cause No. PUD  
3 201400229, OG&E Witness Burch testified that the initial 2008 capital cost estimates for  
4 scrubbers at Sooner was \$780 million. The capital cost estimate done in July 2014 for  
5 both Sooner units was \$530 million +/-10%. This number represented a combination of  
6 firm price equipment bids for the scrubber equipment and preliminary pricing from  
7 potential installation contractors. After all contracts were finalized, OG&E provided a  
8 capital cost update for scrubbers in a March 2015 data request response to reflect the  
9 finalization of both the scrubber equipment and installation contracts. It was at this point  
10 that the scrubber cost moved to \$490 million +/- 5 percent.

11

12 Q. **Is OG&E asking for approval of the scrubber contracts at this time?**

13 A. No. As stated above, OG&E is not seeking any determination that the scrubber contracts  
14 or the costs associated with the scrubber contracts are reasonable. Also, OG&E is not  
15 seeking and will not seek any kind of cost recovery until the scrubber project is  
16 completed and placed in service. OG&E is only providing the above information and the  
17 scrubber contracts to (i) address the perceived problem that the scrubber contracts were  
18 not reviewed in Cause No. PUD 201400229; (ii) illustrate that OG&E was prudent in  
19 competitively bidding the scrubber equipment and construction contracts; (iii)  
20 demonstrate that OG&E's contract process has resulted in a reduction in the overall costs  
21 of the scrubbers.

22

23 Q. **Does that conclude your testimony?**

24 A. Yes.