

BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF AN INTERIM RATE SCHEDULE)
OF OKLAHOMA GAS AND ELECTRIC COMPANY)
IMPOSING A SURCHARGE TO RECOVER ALL)
INVESTMENTS AND EXPENSES INCURRED)
THROUGH COMPLIANCE WITH LEGISLATIVE OR)
ADMINISTRATIVE RULES, REGULATIONS OR)
REQUIREMENTS RELATING TO THE PUBLIC)
HEALTH, SAFETY, OR THE ENVIRONMENT)
UNDER THE FEDERAL CLEAN AIR ACT FOR)
CERTAIN OF ITS EXISTING GENERATION FACILITIES)

DOCKET 15-034-U

DIRECT TESTIMONY

OF

WILLIAM L. MATTHEWS
PUBLIC UTILITY AUDITOR

ON BEHALF OF THE STAFF OF THE
ARKANSAS PUBLIC SERVICE COMMISSION

APRIL 26, 2016

1 **INTRODUCTION**

2 **Q. Please state your name and business address.**

3 A. My name is William L. Matthews. My business address is Arkansas Public
4 Service Commission (APSC or Commission), 1000 Center Street, P.O. Box 400,
5 Little Rock, Arkansas 72203-0400.

6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by the General Staff (Staff) of the Commission as a Public Utility
8 Auditor in the Audits Section. In that capacity, I analyze utility company filings,
9 conduct field audits, identify and evaluate accounting issues, develop positions
10 on those issues and present those positions in written and oral testimony before
11 the Commission, and perform other duties as assigned.

12 **Q. Please describe your educational background and experience.**

13 A. I hold a Bachelor of Business Administration degree in Accounting and a Master
14 of Business Administration degree from Henderson State University in
15 Arkadelphia, Arkansas. Before joining Staff in September 2008, I served as an
16 auditor and financial analyst in the finance industry. During this time I served as
17 a guest lecturer on financial statement and ratio analysis for the Small Business
18 Administration at its national annual Micro Loan Conference. I have served as
19 an adjunct faculty member for John Brown University teaching Accounting,
20 Financial Mathematics, Financial Management, and Economics. Since joining
21 Staff I have attended "The Basics - Practical Skills for the Changing Electric,
22 Natural Gas, Telecommunications and Water Industries" jointly sponsored by the

1 New Mexico State Center for Public Utilities and the National Association of
2 Regulatory Utility Commissioners. I have previously filed testimony before this
3 Commission on matters concerning utility company rate making and revenue
4 requirement issues.

5 **PURPOSE OF TESTIMONY**

6 **Q. What is the purpose of your testimony?**

7 A. The purpose of my Direct Testimony is to make recommendations regarding
8 Oklahoma Gas and Electric Company's (OG&E or Company) filing made on
9 January 29, 2016 pursuant to Act 310 of 1981, as amended by Act 1000 of 2015,
10 Ark. Code Ann. § 23-4-501, *et seq.* (Act 310). Specifically, I will address OG&E's
11 Environmental Compliance Plan Rider (ECP Rider), the procedures for the
12 conduct of this proceeding, and the calculation of the revenue requirement in the
13 ECP Rider. In so doing, I will also address the Direct Testimony of OG&E
14 witness, Sheri D. Richard. However, I will not make a recommendation regarding
15 the appropriateness of costs for ratemaking purposes at this time. That
16 determination will be made at the time of OG&E's next general rate case.

17 **SUMMARY OF OG&E'S ACT 310 REQUEST**

18 **Q. Please summarize OG&E's January 29, 2016 filing.**

19 A. In its filing, OG&E requested that the Commission take notice of and review
20 OG&E's Act 310 surcharge as filed and waive the necessity of a security deposit
21 relative to any possible refunds. Specifically, OG&E requested recovery of its
22 continued investments and expenses incurred in order to comply with emission

1 limits for nitrogen oxides (NOx) established in the Federal Clean Air Act (CAA)
2 for regional haze requirements, also known as the Regional Haze Rule as was
3 discussed in its May 8, 2015 filing in this docket.¹ The Company's requested
4 revenue requirement includes \$51,365,556 in gross plant-in-service (GPIS) for
5 Low NOx burners with over-fire air (LNB/OFA) systems, which is an increase
6 since its last filing, as approved in Order No. 7, of \$17,369,765. Additionally, the
7 Company requested recovery of its investment of \$18,409,755 for the installation
8 of Activated Carbon Injection Systems (ACI) at its coal units. Under the ECP
9 Rider, OG&E began collecting \$862,282 annually from its Arkansas retail
10 customers with the first billing in February 2016. The revenue requirement of
11 \$862,282 for the Company's investment in plant, Construction Work-In-Progress
12 (CWIP) and related expenses is comprised of \$645,348 for LNB/OFA and
13 \$216,934 for ACI.

14 **Q. Please discuss OG&E's prior filing in this docket.**

15 A. In the previous filing, OG&E filed to recover costs associated with the installation
16 of the LNB/OFA system. In accordance with the requirements of Title 40 of the
17 Code of Federal Regulations (CFR) Part 51, the Oklahoma Department of
18 Environmental Quality (ODEQ) created the Oklahoma State Implementation
19 Plan, (SIP) which was approved, in part, on December 28, 2011 by the
20 Environmental Protection Agency (EPA). The approved sections of the SIP
21 designate those facilities in Oklahoma currently not in compliance with emission

¹ Direct Testimony of Donald R. Rowlett, p. 3, l. 14 - 29.

1 standards. The approved sections also contain the requirement for the use of
2 Best Available Retrofit Technology (BART) in the control of NOx emissions. In
3 direct response to this designation and requirement, OG&E began installing
4 LNB/OFA systems at seven of its units designated by the SIP as not currently
5 meeting emission standards. In the Stipulation and Settlement Agreement
6 (Settlement) for that filing, all parties agreed not to oppose up to two updated Act
7 310 surcharge filings by OG&E associated with the LNB/OFA project. This
8 agreement was contingent upon the updates following the agreed upon terms
9 listed in Order No. 7.² The current filing is the first of the two updates allowable
10 and adheres to the terms of the agreement mentioned earlier.

11 **Q. Do you agree with the inclusion of ACI in this filing and provide support for**
12 **your decision?**

13 A. Yes. While the ACI system was not part of the original filing or subsequent
14 agreement, I agree with its inclusion in this filing because it meets Act 310 criteria
15 for recovery. The EPA's Mercury and Air Toxics Standards Rule (MATS)
16 contains emission standards designed to reduce the emissions of toxic air
17 pollutants from power plants. The ACI equipment was installed after testing at
18 OG&E's coal units revealed mercury emissions in excess of the emission limits
19 set by MATS. The ACI costs were not included in OG&E's most recent rate case
20 in 2010 due to the fact that MATS was not approved by the EPA until 2012.
21 Finally, while not part of the original agreement, the ACI system costs and

² Docket No. 15-034-U, Order No. 7, p. 27.

1 calculations in this filing have been presented using the agreed upon terms
2 mentioned above.

3 **Q. Please briefly discuss the ACI system makeup and how it operates.**

4 A. The ACI system consists of silos for Powdered Activated Carbon (PAC) storage
5 and the piping, blowers and feed systems necessary for moving the PAC into the
6 flue gas stream. The system operates by pneumatically injecting PAC into the
7 flue gas stream upstream of the particulate collection equipment. Once in the
8 gas stream, PAC absorbs oxidized mercury particles present in the flue gas from
9 both bituminous and subbituminous coals. The PAC molecules are then
10 removed, along with other particulate matter, by electrostatic precipitators.

11 **ACT 310**

12 **Q. Please describe Act 310.**

13 A. Act 310 allows for interim recovery of costs incurred by a utility to comply with
14 legislative or administrative rules, regulations or requirements relating to the
15 protection of the public health, safety, or environment. Those costs must be,
16 among other requirements, reasonably incurred, not currently being recovered in
17 the utility's existing rates, do not include increases for employment compensation
18 or benefits, and cannot otherwise be recovered in a prompt and timely manner.
19 In addition, the costs must be either mandatory, a condition of continued
20 operation of a utility facility, or previously approved by the Commission. Act 310
21 affords a utility rate recovery by means of a surcharge immediately upon filing.

OKLAHOMA GAS AND ELECTRIC COMPANY
DOCKET NO. 15-034-U
DIRECT TESTIMONY OF WILLIAM L. MATTHEWS

1 Because the unique provisions of Act 310 allow a utility to begin recovery
2 of a surcharge with no prior Commission review, it is imperative that the utility
3 provide in its initial filing more than mere conclusory statements in support of its
4 petition. A utility should, at the outset, provide full support and documentation
5 that those costs being recovered from ratepayers meet the explicit eligibility
6 requirements of Act 310. This initial burden rests squarely with the utility seeking
7 special recovery.

8 **Q. Did OG&E comply with the Commission's procedures for an Act 310 filing**
9 **as set forth in Docket No. 09-059-U as applicable in this particular case?**

10 A. Yes. The application filed by OG&E states that the Company will comply with the
11 procedures set out by the Commission in its Order No. 4 in Docket No. 09-059-U,
12 except for those directives specific to said docket.³ The procedures which apply
13 to OG&E are as follows:

- 14 1. That no finding of the Commission regarding the Act 310
15 Surcharge will be deemed a finding that the costs included
16 for recovery via the surcharge are necessary and
17 appropriate or in the public interest. Likewise, all costs
18 recovered under the surcharge will remain subject to refund,
19 with interest, until the prudence of said costs is ultimately
20 addressed in the Company's next general rate case
21 proceeding.
- 22 2. To file subsequent Act 310 Notices and/or amendments to
23 the Surcharge related to this project in the instant docket.
- 24 3. To fully cooperate with the APSC General Staff and
25 intervenors in their investigation of the Act 310 Surcharge
26 and any subsequent Act 310 Surcharge amendments filed
27 by the Company.

³ Direct Testimony of Sheri D. Richard, p.3.

- 1 4. To reflect the Act 310 Surcharge, and any subsequent Act
2 310 Surcharge amendments filed as a separate line item on
3 the customer's bill labeled "Environmental Compliance
4 Surcharge."
- 5 5. To provide Staff supporting documentation and work papers
6 for a sample of projects determined by General Staff.
7 Further the Company will provide such documentation at the
8 time of filing any subsequent Act 310 Surcharge
9 amendments related to that sample of projects.
- 10 6. To the extent any additional cost items are included in
11 subsequent Act 310 Surcharge filings, to provide, at the time
12 of filing, similar justification in support of its inclusion of those
13 costs and documentation of each of those transactions.
- 14 7. To provide work papers to General Staff and intervenors in
15 electronic format with formulas and links intact where
16 possible.

17 The Direct Testimony of OG&E witness Richard was helpful in explaining
18 the Company's request and the components of the surcharge. OG&E also
19 provided additional support in response to data requests, and through both
20 preliminary and subsequent informal discussions.

21 **Q. Ark. Code Ann. § 23-4-506 permits, but does not mandate, the Commission**
22 **to require reasonable security to assure prompt payment of any refunds**
23 **that may be ordered. Do you agree with the Company's request that**
24 **security not be required due to the small size of the amount to be collected**
25 **through the ECP Rider?**

26 A. Yes. My recommended Revenue Requirement for Rider ECP in the amount of
27 \$860,273 which is \$2,009 less than the Company's \$862,282 and approximately
28 0.97% of the Arkansas Rate Schedule Revenue Requirement allowed in OG&E's
29 last rate case, Docket No. 10-067-U. Therefore, I do not recommend security as

1 long as OG&E agrees to an immediate refund of any over collections with
2 interest, as provided for in the statute, until such time as the rates are
3 superseded by a subsequent Act 310 filing or until the effective date new rates
4 are implemented as a result of a general rate proceeding.

5 **STAFF'S REVENUE REQUIREMENT RECOMMENDATION**

6 **Q. Do you agree with the inclusion for the increase in LNB/OFA technology**
7 **costs in the Act 310 surcharge?**

8 A. Yes. Based on my review of the testimony and supporting documentation, I
9 agree the project costs were incurred in order to comply with the regulations
10 described above.

11 **Q. Do you agree with the inclusion of the ACI technology costs in the Act 310**
12 **surcharge?**

13 A. Yes. While not part of its original filing on May 8, 2015, the ACI system was
14 installed in order for the Company to meet government emission standards.
15 Additionally, the ACI system could not have been included in the Company's last
16 rate case since the MATS approval by the EPA occurred after the rate case.

17 **Q. Are you recommending any modifications to OG&E's determination of its**
18 **annual Revenue Requirement?**

19 A. Yes. Act 310 requires that a utility shall not capitalize Allowance for Funds Used
20 During Construction (AFUDC) when the associated financing costs are included
21 in an interim surcharge. Therefore, the Company reduced its plant and CWIP by
22 \$321,061 to remove AFUDC previously recovered. However, OG&E's

1 adjustment only reflects the AFUDC for the months of June through November
2 2015 for the Low NOx project at Seminole Unit 2 which closed to plant in
3 November and the AFUDC for June through December for Seminole Units 1 and
4 3. In recognition that the initial surcharge was in effect from June 2015 through
5 January 2016, my adjustment includes an additional \$163,532 for the return
6 earned during those months for a total reduction of \$484,593. This adjustment
7 is reflected in my Direct Exhibit WLM-1.

8 **COST ALLOCATION AND RATE DESIGN**

9 **Q. Did you agree that OG&E correctly allocated the ECP Rider's revenue**
10 **requirement?**

11 A. Yes. While our amounts are slightly different due to my adjustment mentioned
12 above, the Company used the allocation methodology agreed to in the
13 Settlement in this docket as referenced earlier in my testimony.

14 **ECP RIDER**

15 **Q. Did you review the ECP Surcharge Rates proposed by the Company and do**
16 **you recommend any changes?**

17 A. Yes, I am recommending the changes in the ECP Surcharge Rates which are a
18 direct result of my adjustment to AFUDC mentioned above. This change is
19 reflected in my Direct Exhibit WLM-2.

20 **Q. Are you recommending the Company issue a refund as a result of your**
21 **adjustment?**

OKLAHOMA GAS AND ELECTRIC COMPANY
DOCKET NO. 15-034-U
DIRECT TESTIMONY OF WILLIAM L. MATTHEWS

- 1 A. No. Due to the small amount involved, I am recommending the Company
2 change its rates going forward.
- 3 **Q. Does this conclude your testimony?**
- 4 A. Yes, it does.

CERTIFICATE OF SERVICE

I, Fran Hickman, hereby certify that a copy of the foregoing has been served on all parties of record by electronic mail via the Electronic Filing system on this 26th day of April, 2016

/s/ Fran C. Hickman
Fran C. Hickman