

BEFORE THE  
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF )  
OKLAHOMA GAS & ELECTRIC COMPANY FOR ) DOCKET NO. 16-052-U  
APPROVAL OF A GENERAL CHANGE IN RATES, )  
CHARGES AND TARIFFS )

DIRECT TESTIMONY

OF

GERRILYNN WOLFE, CPA  
CAPITAL RECOVERY ANALYST  
FINANCIAL ANALYSIS SECTION

ON BEHALF OF THE GENERAL STAFF  
OF THE ARKANSAS PUBLIC SERVICE COMMISSION

JANUARY 31, 2017

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**INTRODUCTION**

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

A. My name is Gerrilynn Wolfe. My business address is Arkansas Public Service Commission (Commission or APSC), 1000 Center Street, P.O. Box 400, Little Rock, Arkansas 72203-0400.

**Q. In what capacity are you employed at the Commission?**

A. I am employed by the Commission General Staff (Staff) as a Capital Recovery Analyst in Staff's Financial Analysis Section. In that capacity, I perform analyses of utility companies' information and utility company filings, develop Staff's positions as they relate to the utility filings, present those positions when necessary in written and oral testimony before the Commission, and perform other duties as assigned. My primary area of responsibility involves capital recovery issues including reviewing and developing depreciation rates for the regulated utilities in Arkansas.

**Q. Briefly describe your education and experience.**

A. I graduated from the University of Arkansas at Little Rock with a Bachelor of Business Administration Degree. I also hold a Certified Public Accountant license in the State of Arkansas. After graduation from college, I have held accounting and business analyst positions with a federal governmental agency and with companies with extensive telecommunication operations where I was

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1 responsible for creating, evaluating, analyzing, and researching financial and  
2 quantitative data specific to capital assets.

3 I joined Staff as a Capital Recovery Analyst in the Financial Analysis  
4 Section in 2013. In that capacity, I have the responsibility for reviewing and  
5 conducting comprehensive depreciation studies for utility companies subject to  
6 the Commission's jurisdiction. I also review utility requests to maintain or change  
7 depreciation rates and evaluate the basis for such requests, as well as  
8 developing Staff's case in response.

9 I have regularly participated in utility regulatory training opportunities  
10 including The Basics Regulatory Training Seminar sponsored by the Center for  
11 Public Utilities, a branch of the College of Business Administration and  
12 Economics at New Mexico State University, in conjunction with the National  
13 Association of Regulatory Utility Commissioners. My training also includes the  
14 "Depreciation Basics", "Life and Net Salvage Analysis", "Analyzing the Life of  
15 Real World Property," and "Preparing and Supporting a Depreciation Study"  
16 courses sponsored by the Society of Depreciation Professionals (SDP) in  
17 conjunction with the Society's Annual Meetings. I am a member of the SDP.

18 **Q. Have you previously filed testimony before this Commission on**  
19 **depreciation matters?**

20 **A.** Yes, I have previously testified before this Commission on depreciation matters.

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1 **PURPOSE OF TESTIMONY**

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

3 A. My testimony addresses Oklahoma Gas & Electric Company's (OG&E or  
4 Company) proposed change in depreciation rates as set forth in Schedule F-1.3  
5 of its Application for Approval of a General Change in Rates, Charges and Tariffs  
6 (Application) filed on August 25, 2016. Company witness John J. Spanos filed  
7 Direct Testimony and Exhibits in support of OG&E's requested depreciation  
8 rates. The effect of the proposed depreciation rates is included in the  
9 depreciation expense adjustment, Adjustment No. IS-26, as described in the  
10 Direct Testimony of Company witness Jason Thenmadathil. Also, I am  
11 addressing Adjustment No. RB-5 and Adjustment No. RB-7. Company witness  
12 Scott Forbes discusses these adjustments in his Direct Testimony and he also  
13 provides supporting work papers WP B 2-5, WP B 2-5-2 (Revised) and WP B 2-  
14 5-7. I recommend depreciation rates as presented in Direct Exhibit GW-1, as  
15 derived from the parameters presented in Direct Exhibit GW-2. Additionally, I  
16 make recommendations regarding over-accrued accounts and record keeping  
17 and reporting requirements.

18 **SUMMARY OF COMPANY'S PROPOSAL**

19 **Q. Would you please summarize the impact of OG&E's request pertaining to**  
20 **depreciation rates?**

21 A. OG&E's current depreciation rates were established in Docket No. 10-067-U. In

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1 this docket, the Company is seeking approval of new depreciation rates as  
2 shown in Schedule F-1.3 of its Application. Mr. Spanos also presents these rates  
3 in his Exhibit JJS-2 on pages VI-4 through VI-11. Based on a comparison of the  
4 proposed depreciation rates to the present depreciation rates, as presented on  
5 the Application Schedule F-1.3, the Company's requested change in depreciation  
6 rates amounts to an increase, on a total company basis, in excess of \$27 million  
7 in depreciation expense annually.

8 **Q. What is the primary difference between the depreciation rates the Company**  
9 **is proposing and the currently-approved depreciation rates?**

10 A. Per its Application Schedule F-1.3, OG&E recommends increases in functional  
11 categories of production, distribution, and general and decreases in the  
12 functional categories of transmission and Holding Company. The primary rate  
13 impacts are in the production, distribution, and transmission functions.

14 The proposed lower overall rates for the transmission function are driven  
15 largely by longer estimated average service lives and lower estimated net  
16 salvage values. The rate increase in the production and distribution functions is  
17 mainly attributable to higher estimated net salvage values.

18 **OVERVIEW OF STAFF'S RECOMMENDATION**

19 **Q. Would you please summarize your recommendation as it relates to**  
20 **depreciation rates in this docket?**

21 A. I recommend that OG&E's proposed depreciation rates as filed in Application

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Schedule F-1.3 be denied. Instead, I recommend that the Commission approve my proposed depreciation rates presented in Direct Exhibit GW-1. These rates are derived from the parameters presented in Direct Exhibit GW-2 and were produced by a detailed, comprehensive depreciation study of OG&E's plant accounts.

As shown in Table 1, my recommendations are directionally similar to the Company's; i.e., increases in production, distribution, and general and decreases in transmission and Holding Company, as compared to current rates:

**Table 1**  
**Composite Rate Comparison\***

Line	Function	Current	OG&E Proposed	Staff Proposed
1	Production	2.80%	3.23%	3.20%
2	Transmission	2.49%	2.44%	2.34%
3	Distribution	2.74%	3.09%	3.07%
4	General	4.10%	4.29%	4.54%
5	Holding Company	13.77%	8.65%	8.76%
6	Total	2.92%	3.11%	3.08%
*Based on plant balances as of December 31, 2015.				

In conducting a detailed depreciation study, I used the depreciation method (straight line), procedure (average life group or ALG), and technique (remaining life) that have been used repeatedly by Staff in the determination of depreciation rates for Arkansas-jurisdictional utilities and as approved by this

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Commission. I performed a statistical analysis of OG&E's Company-specific individual account histories, including additions, vintage retirements, and surviving plant balances by year on every account possible. I also examined gross salvage, cost of removal, and net salvage for each account possible to aid in the determination of my recommended net salvage percentages. The underlying formula upon which I relied, and a detailed explanation of the selected parameters or inputs, as well as how my proposed depreciation rates were developed, are presented in subsequent portions of this testimony.

**Q. Where do your recommended depreciation rates appear as an adjustment in the determination of Staff's revenue requirement?**

A. Using my proposed depreciation rates and Staff's adjusted plant balances, Staff witness William L. Matthews calculated depreciation expense which is addressed in his Direct Testimony as Adjustment IS-26.

**Q. Would you please discuss the differences between your end result and that of the Company?**

A. Much of the difference between my end result and that of the Company is due to differences in reserve ratio, which is an input in the depreciation rate calculation. I used accumulated depreciation balances which are adjusted to recognize the different depreciation expense attributable to the jurisdictionally different depreciation rates allowed in Arkansas than the Oklahoma depreciation rates booked by the Company. Additionally, there are some differences in net salvage

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1 and service life parameter selections. The net salvage differences in production  
2 are impacted by the Company's inclusion of terminal net salvage estimates,  
3 which I excluded. I explain the rationale for excluding terminal net salvage later  
4 in my testimony.

5 **DESCRIPTION OF STAFF DEPRECIATION STUDY APPROACH**

6 **Q. What was the nature of the depreciation study you conducted for OG&E's**  
7 **plant accounts?**

8 A. My study consisted of an analysis of the parameters comprising the depreciation  
9 rates, primarily through a statistical evaluation of OG&E's individual account  
10 histories of additions, retirements, and surviving plant balances for each account  
11 by vintage, where possible. I also examined Company-specific data to determine  
12 net salvage values for each account.

13 I am making my study workpapers available to the Company and all other  
14 parties consistent with Rule 4.08(c)(6) of the Commission's Rules of Practice and  
15 Procedure. My Direct Exhibit GW-3 contains the workpapers supporting the  
16 analysis underlying my recommended depreciation rate for one of OG&E's  
17 production accounts, 316—Miscellaneous Power Plant Equipment, and one of  
18 OG&E's mass property accounts, 364—Distribution Poles, Towers, and Fixtures,  
19 and are a representative example of my analyses of the Company's other plant  
20 accounts.



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1   **Q.     Did you use the same ending point in time as the Company for your study?**

2   A.     No. My study covered historical plant account data through December 31, 2015.

3         The Company's depreciation study was based on historical data through  
4         December 31, 2014. Depreciation studies are based on annual data, and the  
5         most current data available at the point in time that my study began was  
6         December 31, 2015.

7   **Q.     Did you conduct a site visit of a representational portion of the Company's**  
8         **plants as part of your depreciation study?**

9   A.     Yes. As part of a depreciation study, I confer with field personnel, engineers, and  
10         managers responsible for the installation, operation, and removal of the assets to  
11         gain their input into the operation, maintenance, life expectancies, and salvage of  
12         the assets. As part of my review in this docket, I visited various OG&E facilities  
13         including the Crossroads Wind Farm, the Sooner Plants construction area for the  
14         scrubber units, and Mustang Plants, including the solar facility.

15                 **Depreciation Method, Procedure, and Technique**

16   **Q.     Would you please describe the method, procedure, and technique used in**  
17         **calculating your recommended depreciation rates?**

18   A.     As I noted earlier, I developed my recommended rates for OG&E's plant  
19         accounts employing the approach repeatedly used by Staff in the determination  
20         of depreciation rates for other Arkansas-jurisdictional utilities and approved by  
21         this Commission. I used the straight line method, ALG procedure, and remaining

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1 life technique, which applies a constant annual accrual rate to the cost of the unit,  
2 thus yielding a constant annual depreciation accrual over the remaining life of the  
3 asset. Under this approach, the plant-in-service balance for a given account is  
4 treated as 100%. The accumulated depreciation as a percentage of plant-in-  
5 service is the reserve ratio. The net salvage value is also stated as a percentage  
6 of the plant-in-service for that account. The depreciation rate is calculated by  
7 subtracting the reserve ratio and the net salvage value from the plant-in-service  
8 balance (100%) and dividing the remainder by the estimated remaining life in  
9 years, as shown in the following formula:

$$\text{Depreciation Rate} = \frac{(\text{Plant-In-Service} - \text{Reserve Ratio} - \text{Net Salvage})}{\text{Remaining Life}}$$

12 As an example, assume that the percentage plant-in-service balance for a  
13 given account is 100%, the reserve ratio is 50%, the net salvage value is 5%,  
14 and the remaining life is 10 years. The depreciation rate for this account would  
15 be (Plant-In-Service – Reserve Ratio – Net Salvage) / Remaining Life or (100% -  
16 50% - 5%) / 10 = 4.5%.

17 **Q. Did the Company use this same method, procedure, and technique in**  
18 **calculating its depreciation rates in this case?**

19 A. Yes. Mr. Spanos also used the straight line method, ALG procedure, and  
20 remaining life technique in the calculation of his proposed depreciation rates for  
21 the Company in this docket.

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**Depreciation Parameters**

**Q. Would you please describe the parameters underlying your proposed depreciation rates?**

A. When using the remaining life technique, the principal components in the depreciation rate formula are the reserve ratio, net salvage value, and remaining life. The remaining life is developed from two parameters, the curve shape and the service life. The parameters used in the calculation of my recommended depreciation rates are presented in Direct Exhibit GW-2, and a discussion of the relevant parameters follows.

The reserve ratio is the accumulated depreciation balance stated as a percentage of plant-in-service and is calculated for each account. The reserve ratio represents the percentage of plant investment that has been recovered through the annual depreciation accruals.

The net salvage value is the difference between gross salvage value and cost of removal. Gross salvage is the value of the retired plant resulting from the sale, reuse, or disposal of the materials. The cost of removal is the cost incurred to remove the property from service. If the gross salvage value is greater than the cost of removal, the net salvage value is positive (income). If the gross salvage value is less than the cost of removal, the net salvage value is negative (expense).

The remaining life of a unit is the remaining years of service or the

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1 expected life minus the age. The remaining life of a group of assets is the  
2 average remaining life of all units in that group. The remaining life is calculated  
3 by applying a particular curve shape and average service life to a given account  
4 history.

5 The curve shape is based on a selected Iowa curve and represents the  
6 dispersion of plant surviving at each age for a particular account. The curve  
7 shape for each account is selected through a comparison of standard curve  
8 shapes and actual account histories. The curve shape and service life, in turn,  
9 are used in the calculation of the average service life and the remaining life.

10 The service life is the total life, from installation to retirement, expected for  
11 a particular asset placed into service. This life, combined with a particular curve  
12 shape and account history, is used in the determination of the remaining life.  
13 The average service life represents the average number of years of service  
14 provided by all of the units in a particular account.

15 **Q. Would you please describe the Iowa curves referenced above?**

16 A. The Iowa curves, developed at Iowa State University, are a set of curves  
17 representing the relationship between age and the percentage of plant  
18 investment surviving for various types of property. These curves are widely used  
19 in the study of utility property lives for depreciation determination and are similar  
20 in nature to the mortality curves used by the insurance industry. In analyzing  
21 lives, existing patterns of retirement for each plant account are compared to



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1           In my analysis, I incorporated the actual initial and annual interim additions  
2           and retirements to construct an interim survivor curve. The interim survivor curve  
3           illustrates the rate of retirement related to the replacement of components of the  
4           facility; for example, the retirement of the roof that occurs during the life of the  
5           building. The interim survivor curves estimated for OG&E's production plant  
6           were based on actuarial analysis. Once I selected the interim survivor curve for  
7           each plant location, I relied upon a computer-based life span program to  
8           calculate the average remaining lives for each location and plant account.

9           To calculate the average remaining lives for each location and plant  
10          account, the model produced generation arrangements. Using life span analysis,  
11          I incorporated a generation arrangement which applies a particular interim curve  
12          shape, average service life, and projected retirement date to each account  
13          history by location to calculate the percentage surviving at each age from the  
14          earliest age group to the oldest age group (i.e., 0.5, 1.5, 2.5, ..., x.5). After the  
15          percentage surviving at each age is determined, I calculated the remaining life at  
16          each age. Next, I multiplied the surviving investment at each age by the  
17          remaining life at each age to calculate a weight for each age. I then summed the  
18          weights and divided by the sum of the surviving investment to calculate the  
19          average remaining life for the location and plant account.

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1 **Q. Would you please describe how the life parameters were developed using**  
2 **actuarial analysis?**

3 A. I determined the life parameters through a statistical analysis of the Company's  
4 property records. The curve shape selections were made by fitting the Company  
5 data to the Iowa curves. After selecting an appropriate curve shape, I chose a  
6 corresponding service life. The Iowa curve shape, service life, and account  
7 history were combined to determine the average service life and average  
8 remaining life for each plant account.

9 My analysis took into account the Company's individual account histories  
10 including additions, retirements, and surviving plant balances by vintage for each  
11 activity year. I evaluated numerous bands of account experience covering  
12 different time spans to reveal any trending that might be occurring in this data, as  
13 well as smoothing any resulting irregularities in a particular activity or vintage  
14 year. I analyzed a full band, ten-year, twenty-year, and thirty-year bands, in the  
15 determination of an appropriate Iowa curve shape and service life for each plant  
16 account. I evaluated the fit of Company-specific data to the Iowa curve shapes  
17 and service lives generated by a computer-based curve matching program  
18 across all bands. The optimal Iowa curve shape and average service life  
19 estimates were then selected utilizing the results of this statistical analysis along  
20 with my knowledge of these accounts. An example of my lifespan actuarial  
21 analysis is included in Direct Exhibit GW-3.

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1 **Q. Once the curve shape and service life were selected, how was the average**  
2 **remaining life determined for each plant account?**

3 A. I determined the average remaining life by applying a particular curve shape and  
4 service life to an account history to calculate percentage surviving at each age  
5 from the earliest age group to the oldest age group (i.e., 0.5, 1.5, 2.5, ..., x.5).  
6 After I determined the percentage surviving at each age, I calculated the  
7 remaining life at each age. I then multiplied the surviving investment at each age  
8 by the remaining life at each age to calculate a weight for each age. I summed  
9 the weights and divided by the sum of the surviving investment to calculate the  
10 average remaining life for the location and plant account. An example of the  
11 remaining life for my lifespan account can be found in Direct Exhibit GW-3.

12 **SALVAGE ANALYSIS**

13 **Q. How did you determine the net salvage values included in the development**  
14 **of your recommended depreciation rates?**

15 A. In my analysis of the Company's net salvage values, I relied primarily upon  
16 Company-specific historical retirement, gross salvage, and cost of removal data  
17 for each plant account where available, as well as Staff's experience with similar  
18 property, including other Arkansas-jurisdictional electric utilities, and knowledge  
19 of these accounts.

20 I divided salvage and cost of removal amounts by retirements each year to  
21 arrive at annual percentages. I subtracted the cost of removal from the gross



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1 salvage to arrive at a net salvage amount for each year as well. I divided this net  
2 salvage amount by the retirements for a particular year, to produce a net salvage  
3 percentage on an annual basis. To arrive at the net salvage values presented in  
4 Direct Exhibit GW-2, I based my evaluation of net salvage on an analysis of data  
5 spanning 1991 through 2015. I examined the magnitude of the retirements and  
6 the associated net salvage and identified any apparent trend in the salvage  
7 values for each account, using five- and three-year rolling bands to aid in this  
8 analysis. I have included an example of my salvage analysis for Account 316—  
9 Miscellaneous Power Plant Equipment and Account 364—Distribution Poles,  
10 Towers, and Fixtures in Direct Exhibit GW-3.

11 **Q. Did you use the same method for determining the net salvage values as the**  
12 **Company for all accounts?**

13 A. No. The Company used estimates of both terminal net salvage and interim net  
14 salvage as the basis for determining the overall net salvage values for the  
15 Company's production facilities. I did not use the Company's terminal net  
16 salvage in its computations for production. For all other accounts, the Company  
17 and I applied the same method.

18 **Q. Why did you not include terminal net salvage values for determining the**  
19 **production net salvage values?**

20 A. The Company did not provide a dismantlement cost study to support the terminal  
21 net salvage values requested for production facilities. In other proceedings, Staff

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has recommended the inclusion of terminal salvage only when the Company has submitted a dismantlement study in support of the estimated costs. Since the Company did not provide a study in this docket, I did not include terminal net salvage values in my analysis.

**OVER-ACCRUED ACCOUNTS**

**Q. Does OG&E have any plant accounts that are fully-reserved or over-accrued as of December 31, 2015?**

A. Yes. Based on per book plant balances and accumulated depreciation balances at the end of December 31, 2015, there are five depreciable plant accounts for OG&E and two depreciable plant accounts for OG&E Holding Company that are fully-reserved or over-accrued as shown in Table 2:

**Table 2  
Over-Accrued Accounts**

Line	Account	Plant	Description	Plant-In-Service	Accumulated Depreciation	Reserve Ratio	Reserve Ratio Maximum Threshold
1	310.200	Horseshoe Lake U 6	Land Rights	\$ 28,509	\$ 1,131,245	3968%	100%
2	314	Mustang U 3	Turbogenerator Units	\$9,011,274	9,737,668	108%	108%
3	316	Mustang U 3	Misc Power Plant Eq	\$453,218	\$543,779	120%	102%
4	310.200	Mustang U 4	Land Rights	\$27,941	\$29,973	107%	100%
5	346	Tinker Plant	Misc Power Plant Eq	\$8,664	\$8,945	103%	103%
6	392.05	Holding Company	Heavy Trucks	\$2,401,095	\$2,417,163	101%	90%
7	393	Holding Company	Stores Equipment	\$29,206	\$39,455	135%	100%

For these accounts, the accumulated depreciation amount is greater than or equal to the gross plant-in-service amount minus the allowance for interim net salvage. For ratemaking purposes, depreciation expense should not be

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1 calculated on any account with a reserve ratio equal to or exceeding 100%,  
2 unless the account has a negative salvage value. Staff witness Matthews has  
3 excluded depreciation expense amounts for each of these seven accounts for the  
4 *pro forma* year.

5 However, because investment could be added to these accounts after the  
6 *pro forma* year end, I am also recommending in this case that a rate for these  
7 accounts be approved, as reflected in my Direct Exhibit GW-1. This rate is  
8 based on either an average of my proposed unit-level rates for that account or a  
9 straight line rate derived from the service life for amortization accounts as shown  
10 in Table 3.

**Table 3**  
**Fully-Reserved and Over-Accrued Accounts**  
**Future Depreciation Rates**

Account	Plant	Description	Recommended Depreciation Rate	Basis
310.200	Horseshoe Lake U 6	Land Rights	6.09%	Horseshoe Lake 6 composite rate using Staff's proposed rates
314	Mustang U 3	Turbogenerator Units	5.89%	Mustang 3 composite rate using Staff's proposed rates
316	Mustang U 3	Misc Power Plant Eq	5.89%	Mustang 3 composite rate using Staff's proposed rates
310.200	Mustang U 4	Land Rights	17.19%	Mustang 4 composite rate using Staff's proposed rates
346	Tinker Plant	Misc Power Plant Eq	2.03%	Tinker composite rate using Staff's proposed rates
392.05	Holding Company	Heavy Trucks	6.08%	Composite rate for same account using Staff's proposed rates
393	Holding Company	Stores Equipment	4.00%	Amortization account

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**OTHER DIFFERENCES BETWEEN COMPANY AND STAFF**

**Accumulated Depreciation Adjustment for Depreciation Rate Differences**

**Q. Did the Company propose an adjustment to accumulated depreciation for the differences between depreciation rates approved in Arkansas and the depreciation rates approved in Oklahoma used for book purposes?**

A. Yes. The Company proposed two adjustments. Adjustment RB-5 was submitted to reflect the differences in depreciation rates between 1986 and 2006. Adjustment RB-7 was submitted to reflect the differences in depreciation rates that became effective in 2011 as a result of Docket No. 10-067-U and the end of the pro-forma year in this docket. Arkansas approved depreciation rates were based on Order No. 9 in Docket No. 06-070-U until implementation of new depreciation rates approved in Order No. 6 in Docket No. 10-067-U, which were the same as the Oklahoma rates booked by the Company. As a result, during that period of time no adjustment is required.

**Q. What are the dollar amounts of the Company's proposed adjustments?**

A. Company Adjustment RB-5 increases accumulated depreciation by \$31,657,965. Company Adjustment RB-7 decreases accumulated depreciation by \$97,093,177.

**Q. Did the Company comprehend these adjustments to accumulated depreciation in the depreciation rates that it proposed?**

A. No. The depreciation rates requested in this docket are based on the same

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1 depreciation study submitted in PUD 2015-273 with the Oklahoma Corporation  
2 Commission.

3 **Q. In computing your recommended depreciation rates, did you adjust**  
4 **accumulated depreciation for the differences in booked and approved**  
5 **depreciation rates for the periods you discussed?**

6 A. Yes. However, the amount of the adjustments that I am including to compute  
7 depreciation rates is different than the amounts proposed by the Company, which  
8 I discuss next.

9 **Q. What adjustment amount are you recommending for the 1986 - 2006**  
10 **period?**

11 A. I recommend an increase in accumulated depreciation of \$66,927,191.

12 **Q. What caused your recommended adjustment to be different from the**  
13 **Company's adjustment?**

14 A. I reviewed the Company provided workpaper WP B 2-5-2 (Revised) which the  
15 Company submitted with its Application in support of their RB-5 adjustment  
16 amount. I disagree with the flat annual amount of \$2,539,156 that the Company  
17 used to represent the Arkansas approved depreciation expense for  
18 Transportation Equipment from 1986 through 2006. The Company used this  
19 amount based on a Transportation Clearing amount reflected in Schedule C-4 in  
20 Docket No. 83-179-U. The Transportation Equipment depreciation expense  
21 should fluctuate based on the balances presented by the Company just as the

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1 other categories were shown to fluctuate.

2 **Q. How did you determine the appropriate amount to be used for**  
3 **Transportation Equipment?**

4 A. In response to APSC-060.02, the Company provided the Transportation Clearing  
5 amount of \$2,539,156 and the balance in account 392, Transportation  
6 Equipment, of \$25,308,034 at a congruent point in time. Both amounts are as of  
7 the test year end September 30, 1983. I divided \$2,539,156 by \$25,308,034 to  
8 derive a rate of 10.03%. I then applied that rate to the same Transportation  
9 Equipment balances that the Company had provided in WP B 2-5-2 (Revised).  
10 This resulted in an additional adjustment amount needed to RB-5 of  
11 \$35,269,226.

12 **Q. What is your recommended total adjustment amount for the period 1986 -**  
13 **2006 for accumulated depreciation?**

14 A. I am recommending accumulated depreciation be increased by \$66,927,191,  
15 which I have comprehended in my depreciation rate calculations and Staff  
16 witness Matthews has included in his Adjustment RB-5.

17 **Q. Has the Company improved its process for determining the difference**  
18 **between booked depreciation rates and Arkansas approved rates?**

19 A. Yes. In meetings with Company representatives, they stated that for most of the  
20 time since the implementation of new depreciation rates during 2011, the  
21 Arkansas approved depreciation rates are utilized within their SAP system which

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1 automatically computes the difference between the depreciation expense booked  
2 each month by FERC account and the expense that would have been recorded  
3 using Arkansas approved rates. The Company's Adjustment RB-7 reflects the  
4 difference through the end of the *pro forma* year.

5 **Q. Did you utilize the full amount proposed by the Company in its Adjustment**  
6 **RB-7 for 2011 through 2017 in computing your recommended depreciation**  
7 **rates?**

8 A. No. My rates are based on balances as of December 31, 2015. Therefore, I only  
9 used the amounts provided by the Company for 2011 through 2015, or  
10 \$74,379,623 in my depreciation rate calculations.

11 **Q. Is this the same amount you recommend that Staff witness Matthews use in**  
12 **his rate base computations?**

13 A. No. In addition to my \$74,379,623 through 2015, I recommend including 83%  
14 (equivalent to 10 months) of the 2016 amount that the Company provided in its  
15 updated response to APSC 59.01\_Att2. This increases my recommendation by  
16 \$12,687,907 for a total of \$87,067,532.

17 **Q. Why did you exclude the difference the Company provided for 2017 and for**  
18 **two months of 2016?**

19 A. I computed the change in accumulated depreciation for 2017 and the projected  
20 portion of 2016 using the currently approved Arkansas depreciation rates.

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1 **Q. Did you accept the Company's recommendation to amortize the RB-5 and**  
2 **RB-7 adjustments?**

3 A. No. On page 9 of his Direct Testimony, Company witness Forbes proposes  
4 amortizing the net difference of \$65,435,212 over 10 years. My recommendation  
5 is to continue to recognize the amount over the remaining lives of the assets,  
6 which I have accomplished by properly comprehending the correct accumulated  
7 depreciation balances for utilization in my depreciation rate calculations. Under  
8 my approach, no further amortization is warranted, proper, or necessary. The  
9 Company will properly recover its net plant over the remaining life of the asset.

10 **Terminal Salvage**

11 **Q. What other areas of difference exist between you and the Company?**

12 A. Another key difference is the net salvage parameter selections in the production  
13 function. The main driver of this difference is the Company's consultant, Mr.  
14 Spanos, inclusion of terminal net salvage in his overall net salvage estimates.  
15 Terminal net salvage is the net salvage experienced at the end of a production  
16 plant's life span to dismantle the facility.

17 **Q. Do you agree with Mr. Spanos' use of terminal net salvage in his overall net**  
18 **salvage estimates for production accounts?**

19 A. No. The terminal net salvage estimates in Mr. Spanos' study were not  
20 accompanied with a dismantlement study to support his estimates. As noted  
21 above, Staff's practice in prior proceedings is to recommend the inclusion of



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1 terminal net salvage estimates only if they are supported by a dismantlement  
2 study. As I discussed earlier in my Net Salvage Analysis, because the Company  
3 did not provide a dismantlement study, I based my net salvage recommendations  
4 for all of the Company's accounts on my interim net salvage analysis.

5 **AMORTIZATION ACCOUNTING**

6 **Q. Do you oppose OG&E's request to continue amortization accounting for**  
7 **certain accounts in this case?**

8 A. No. The Company's study used amortization accounting for most of its general  
9 plant accounts as well as its long term service agreement and intangible  
10 accounts. These plant accounts typically contain numerous items which, in this  
11 case, represent less than three percent of OG&E's depreciable plant. Given  
12 these specific considerations, I do not take exception with the continuation of  
13 amortization accounting for this group of accounts.

14 **Q. Has the Commission previously approved amortization accounting for the**  
15 **general plant accounts?**

16 A. Yes. The Commission has approved amortization accounting, or fixed-life  
17 amortization, when requested by the utility and recommended by Staff.

18 **Q. How is an amortization rate developed?**

19 A. Amortization provides a simple way to allocate costs on a straight line basis over  
20 the estimated accounting life of an asset. Amortization rates are typically derived  
21 by dividing one by the life, and this is my recommendation in this case for these

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1 accounts.

2 **Q. Would you please describe how Staff's recommended rates should be**  
3 **recorded?**

4 A. My recommended rates should be applied to the balance of each account as  
5 applicable on the effective date of the Commission order. For plant investments  
6 already on the books at that time, when that net investment equals zero  
7 (accumulated depreciation equals original cost) the plant amount will be retired  
8 by removing the amount from both the plant account and the accumulated  
9 depreciation account. Individual retirements will not be recorded. The Company  
10 should continue to keep vintage balances for each plant account. Investments  
11 made after general amortization takes effect will be fully reserved and retired  
12 upon maturing to the stated life for the account.

13 **RATES FOR FUTURE FACILITIES**

14 **Q. Has the Company proposed rates for new facilities that are to be placed in**  
15 **service after this docket?**

16 A. Yes. Mr. Spanos' recommended rates for five facilities that had not yet been  
17 placed in service as of the date of his study, December 31, 2014. One of the  
18 facilities, Mustang Solar, is currently in service. While our rates are not identical  
19 for the Mustang Solar plant, they are similar.

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1 **Q. Do you agree with the rates Mr. Spanos proposed for the remaining four**  
2 **facilities?**

3 A. In part. I agree with the proposed rates for two of the remaining four facilities,  
4 Sooner Scrubber Unit 1 and Sooner Scrubber Unit 2. The Activated Charcoal  
5 Injector (ACI) assets to be used in Muskogee Unit 4 and Unit 5 allow the plants to  
6 continue in operation and reach their full life potential. Therefore, I recommend  
7 those assets have the same depreciation rate as recommended for the other  
8 assets in Account 312. I also do not recommend accepting the rates proposed  
9 for the Mustang Combustion Turbine Generation (Mustang CT) facility, because  
10 the Company withdrew its application for authority to construct this facility in  
11 Docket No. 16-014-U. If the Company requests Commission approval to  
12 construct the Mustang CT in a future proceeding, it can request a depreciation  
13 rate for that facility at that time.

14 **RECORD KEEPING AND REPORTING RECOMMENDATIONS**

15 **Q. Are there any record keeping or reporting recommendations you are**  
16 **proposing as a result of this case?**

17 A. Yes. First, I recommend that the Company continue to record depreciation  
18 expense and likewise accumulated depreciation on an individual FERC account  
19 level, by plant and unit, and report in this manner in future rate applications.

20 Secondly, the Arkansas accumulated depreciation adjustments  
21 comprehended in Adjustment RB 5 for the periods of 1986 through 2006

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1 performed by the Company, have been historically recorded on a functional level,  
2 and then allocated by the Company to the FERC account level. In order to be  
3 useful for depreciation studies, the adjustment must be further refined to the  
4 plant/unit level. In Docket No. 10-067-U, the Company was ordered by the  
5 Commission in Order No. 6 to adjust "in accordance with the functional/FERC  
6 account/plant/unit allocation that Staff performed in this case." Consistent with  
7 that requirement, for purposes of this case, Staff has used its plant/unit level  
8 refinement from OG&E's last rate case application, Docket No. 10-067-U, to  
9 distribute Staff's recommended amounts for Adjustment RB 5 from a  
10 functional/FERC account allocation to a plant/unit level. Therefore, I recommend  
11 that Adjustment RB 5, the Arkansas adjustment to accumulated depreciation,  
12 continues to need the further refinement to the plant / unit allocation as I have  
13 performed in this case.

14 **CONCLUSIONS AND RECOMMENDATIONS**

15 **Q. Would you please summarize your conclusions and recommendations in**  
16 **this docket?**

17 **A.** My proposed depreciation rates were calculated using a depreciation method  
18 (straight line), procedure (ALG), and technique (remaining life) that have been  
19 used repeatedly by Staff in the determination of depreciation rates for other  
20 Arkansas-jurisdictional utilities and approved by this Commission, and are based  
21 on a detailed, statistical analysis of Company-specific individual account histories

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1 on every account possible. My analysis supports the parameters outlined in my  
2 Direct Exhibit GW-2 and the resulting rates presented in my Direct Exhibit GW-1.

3 Although differences exist in life parameters and over-accrued accounts,  
4 the primary differences between my study and the Company's study is due to the  
5 Company's failure to include the Arkansas adjustment to accumulated  
6 depreciation in the development of its depreciation rates, resulting in a difference  
7 in reserve ratios and the inclusion of terminal salvage in overall net salvage  
8 estimates.

9 I recommend the Commission:

- 10 • Deny OG&E's proposed depreciation rates as presented  
11 in Application Schedule F-1.3 and Exhibit JJS-1 and JJS-  
12 2;
- 13 • Approve the depreciation rates presented in Exhibit GW-  
14 1 for each of OG&E's plant accounts (including the  
15 application of the rates as specified in the footnotes with  
16 regard to the fully-reserved or over-accrued accounts),  
17 using the parameters reflected in Exhibit GW-2;
- 18 • Require that on a prospective basis, depreciation  
19 expense and likewise accumulated depreciation be kept  
20 on an individual FERC account level, by plant and unit,  
21 and reported in this manner in future rate applications;
- 22 • Accept the Company's proposed rates on future assets  
23 for Sooner Scrubber Unit 1 and Sooner Scrubber Unit 2;
- 24 • Reject the Company's proposed rates on future assets  
25 for the ACI assets at Muskogee Unit 4 and Unit 5 and the  
26 Mustang CT facility;
- 27 • Require that on a prospective basis, OG&E utilize the  
28 functional/FERC account/plant/unit allocation that Staff

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1                   has performed in this case as the Arkansas adjustment to  
2                   accumulated depreciation for the periods 1986 through  
3                   2006;

4                   • Require that the Company continue to compute and  
5                   maintain at the plant/unit/account level each month the  
6                   depreciation expense that would be recorded based on  
7                   approved Arkansas depreciation rates and the resulting  
8                   difference from the depreciation expense recorded on its  
9                   books; and

10                  • Require the Company to submit a comprehensive  
11                  dismantlement study to support any future depreciation  
12                  rate change requests that include terminal net salvage.

13    **Q.     Does this conclude your testimony?**

14    A.     Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing has been served on all parties of record by electronic mail via the Electronic Filing System this 31st day of January, 2017.

/s/ Justin Hinton  
Justin Hinton