



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)

APPLICATION

COMES NOW Oklahoma Gas and Electric Company, hereinafter referred to as “Applicant,” “OG&E,” or “Company,” and in accordance with 17 O.S. §151 *et seq.*, and the Commission’s rules promulgated thereunder, shows as follows:

I. Applicant.

OG&E is an investor owned electric public utility with plant, property, and other assets dedicated to and for the generation, production, transmission, distribution and sale of energy at wholesale and retail levels within the states of Oklahoma and Arkansas. OG&E is incorporated within the State of Oklahoma, is subject to the regulatory authority of this Commission with respect to its retail rates and charges within the State of Oklahoma, and has the following address as its principal place of business:

321 N. Harvey Avenue
Oklahoma City, Oklahoma 73102

Applicant is represented for the purpose of these proceedings by the following named individuals whose addresses are reflected below:

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All correspondence, pleadings and communications with respect to this proceeding should be directed to all named counsel at their respective addresses.

II. Facts.

A. OG&E is required by law to comply with two sets of Environmental Protection Agency (“EPA”) regulations under the federal Clean Air Act (*i.e.*, the Regional Haze rule and the Mercury and Air Toxics Standards (“MATS”) rule) that directly affect certain OG&E coal and natural gas-fired generating facilities. These federal rules require OG&E to meet new emission limits for nitrogen oxide (“NO_x”), sulfur dioxide (“SO₂”), and mercury by specified dates.

B. OG&E undertook a comprehensive review of the technological options for complying with those emission limits while also balancing the need for reliability, fuel diversity, and reasonable electric rates over the next several decades. The options reviewed by the Company included installation of different types of emission control technologies, conversion of coal-fired boilers to natural gas, purchased power and retirements. After unsuccessfully challenging EPA’s Regional Haze Federal Implementation Plan (“FIP”) in federal courts, OG&E selected a plan (“Environmental Compliance Plan” or “ECP”) that would comply with the Regional Haze mandate, satisfy customer needs for reliable and reasonable cost generation, preserve fuel diversity, and best position the Company for future environmental requirements. Fuel diversity is especially important for customers, both from reliability and fuel price volatility perspectives.

C. On August 6, 2014, in Cause No. 201400229, OG&E filed an application pursuant to 17 O.S. § 286(B) seeking preapproval of its Environmental Compliance Plan. On December 2, 2015, the Commission issued Order No. 647346 denying preapproval of OG&E’s ECP. Thereafter, OG&E filed a Motion for Modification on December 11, 2015 seeking modification of Order No. 647346 in part. In particular, the Company’s motion asked the Commission for preapproval of the ECP with no cost recovery in rates until after ECP assets are constructed, used and useful and the reasonableness of the cost of those assets has been determined in a future proceeding. OG&E’s motion was supported by the Oklahoma Industrial Energy Consumers (“OIEC”), the Oklahoma Attorney General, and the Commission Public Utility Division (“PUD”) Staff. On December 23, 2015, Commissioner Murphy proposed approval of an order granting the relief requested by OG&E’s motion. The proposed order was not approved.

D. The deadline for meeting the Regional Haze SO₂ emission requirements is January 4, 2019. OG&E’s ECP includes the installation of dry scrubbers on both coal-fired generating units at the Sooner Power Plant. The manufacturing and installation of dry scrubbers require long lead time contracts. In order to meet the January 4, 2019 deadline, OG&E had to move expeditiously to engineer, procure and construct the scrubber equipment at the Sooner Plant and therefore executed the scrubber equipment contract in September 2014 and the scrubber installation contract in February 2015. The expected cost of scrubbers at Sooner is approximately \$500 million. As of December 31, 2015, OG&E has invested \$94.8 million on those scrubbers and estimates incurring an additional \$35 million to date.

E. Lacking regulatory certainty, the Company has suspended further work on the current scrubber contracts until May 2, 2016, thereby lowering costs incurred on the scrubbers during the suspension period. OG&E now faces the difficult decision of terminating the agreements or moving to the next significant phase of construction at the Sooner Plant. This next phase includes mobilization of the contractor’s site team and facilities to begin receiving fabricated material, pouring of foundations, and the erection of steel structures. This will lead to a

significant increase in the amount of expenditures in 2016. OG&E believes that this next phase of construction needs to begin no later than May 2, 2016 so that it can meet the compliance deadline of January 4, 2019. Commencing construction on that timeline will also enable OG&E to meet deadlines in the existing DEQ permits without seeking an extension.

F. OG&E is filing this application in an effort to inform the Company's decision regarding which compliance path it will follow. Without the relief sought in this application, OG&E must consider whether it is in the best interest of its customers and its shareholders for the Company to proceed with the scrubber installation at the Sooner Plant. To do so would put at risk the recovery of the \$500 million investment should the Commission eventually decide that the decision to install scrubbers at the Sooner Plant was not reasonable. While OG&E believes that maintaining the Sooner coal units benefits customers, OG&E must consider the risk of the approximate \$500 million in scrubber assets becoming stranded costs in several years and the harm that would cause the Company and, in turn, customers and investors.

G. OG&E is not requesting approval of its entire ECP, but only approval of OG&E's decision to install scrubbers at the Sooner Plant. OG&E makes this request under the Commission's general authority under 17 O.S. §151, *et seq.* and not under 17 O.S. §286(B). All other aspects of the ECP (*i.e.*, low NOx burners on seven generating units to comply with the NOx emission requirements of Regional Haze, Activated Carbon Injection on five coal-fired generating units to comply with MATS, and the conversion of Muskogee Units 4 & 5 to natural gas to comply with the SO₂ emission requirements of Regional Haze) will be addressed by OG&E in current or future proceedings. In addition, OG&E is not seeking any determination on the reasonableness or recovery of the costs of the scrubbers at this time and will request cost recovery of the scrubbers in a subsequent case and only after they are placed in service.

H. OG&E requests that, in considering the merits of this request, the Commission incorporate the entire record from Cause No. PUD 201400229 into this present cause, specifically all testimony and testimony exhibits, hearing transcripts, trial exhibits, filings and briefs. In addition, OG&E will make the September 2014 and February 2015 scrubber contracts available in this cause for the Commission's review.

I. OG&E requests that, before May 2, 2016, this Commission issues an order approving the installation of scrubbers at the Sooner Plant. An order by that date takes advantage of the window provided by the contract suspension and allows OG&E to still mobilize construction in order to meet the January 4, 2019 compliance deadline. Absent Commission approval of this application before May 2, 2016, the Company will decide at that time whether to cancel the scrubber equipment and installation contracts and make plans to convert the Sooner coal units to natural gas. Such cancellation would sacrifice the recognized benefits of fuel diversity and the typical cost advantage of the Sooner coal units compared to their projected operation as natural gas plants.

J. Absent Commission approval of this application before May 2, 2016, OG&E also anticipates making a subsequent request that the Commission authorize the Company to recover the reasonable expenditures incurred for the scrubber project and for any costs subsequently reasonably incurred because of the cancellation of the scrubber contracts. In addition, OG&E

expects to request in future proceedings that the Commission authorize the Company to recover reasonable stranded costs associated with the discontinuance of the Sooner coal units.

III. Legal Authority.

The Commission has jurisdiction in these proceedings and authority to grant the requested relief by virtue of Article IX, Sections 18 and following of the Constitution of the State of Oklahoma, the Oklahoma statutes, including 17 O.S. §151, *et seq.*, and the Commission's rules.

IV. Relief Requested.

WHEREFORE, premises considered, OG&E respectfully requests that the Commission approve OG&E's plan to install two dry scrubbers at the Sooner Plant to comply with the Regional Haze rule under the federal Clean Air Act.

Respectfully submitted,

OKLAHOMA GAS AND ELECTRIC COMPANY

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CERTIFICATE OF MAILING

I hereby certify that on the 12th day of February, 2016, a true and correct copy of the foregoing instrument was transmitted to:

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