

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

DAVID J. GARRETT

**ON BEHALF OF
OKLAHOMA INDUSTRIAL ENERGY CONSUMERS
AND
OKLAHOMA ENERGY RESULTS**

**IN RESPONSE TO THE RESPONSIVE TESTIMONY OF
PUD WITNESS DAVID MELVIN**

MAY 29, 2018

1 **Q. State your name and occupation.**

2 A. My name is David J. Garrett. I am a consultant specializing in public utility regulation. I
3 am the managing member of Resolve Utility Consulting, PLLC. A more complete
4 description of my qualifications and regulatory experience is included in my Responsive
5 Testimony, which was filed in this cause on May 2, 2018.

6 **Q. On whose behalf are you testifying in this proceeding?**

7 A. I am testifying on behalf of Oklahoma Industrial Energy Consumers (“OIEC”) and
8 Oklahoma Energy Results (“OER”).

9 **Q. Describe the purpose and scope of your rebuttal testimony.**

10 A. The purpose of this testimony is to rebut the Responsive Testimony of Public Utility
11 Division (“PUD”) witness David Melvin regarding his depreciation rate proposal for
12 Oklahoma Gas and Electric Company (“OG&E” or the “Company”).

13 **Q. Please describe Mr. Melvin’s analysis and recommendation regarding OG&E’s**
14 **depreciation rates.**

15 A. Mr. Melvin’s review of OG&E’s depreciation rates essentially involved a comparison of
16 OG&E’s proposed depreciation rates by plant function with depreciation rates utilized by
17 several other electric utilities. According to Mr. Melvin, OG&E’s proposed depreciation
18 rates fall within the range of other utilities operating in the U.S. and Oklahoma. Based on
19 this finding, Mr. Melvin concluded that OG&E’s proposed depreciation rates were
20 reasonable and did not recommend any adjustments to the same.¹

¹ See Responsive Testimony of David Melvin, p. 11.

1 **Q. Do you agree with Mr. Melvin’s approach or recommendation in this case regarding**
2 **the reasonableness of OG&E’s proposed depreciation rates?**

3 A. No. For reasons discussed below, I do not believe Mr. Melvin’s analysis was sufficient to
4 make a determination as to the fairness or reasonableness of OG&E’s proposed
5 depreciation rates.

6 **Q. Are you aware of any depreciation expert conducting depreciation analysis in this**
7 **manner when aged data is available for review?**

8 A. No. I have reviewed many depreciation studies and testimony from numerous jurisdictions
9 over many years from utilities, commission staffs, consumer advocates and other
10 intervenors. I am not aware of any depreciation expert making recommendations on the
11 reasonableness of proposed depreciation rates based on this type of limited analysis when
12 the utility being studied has aged plant data available for review.

13 **Q. What do you mean by “aged plant data”?**

14 A. Aged plant data refers to data for which the dates of placements, retirements, transfers, and
15 other transactions are known. Many investor-owned utilities have kept aged plant data for
16 many decades. With aged data available, depreciation analysts can conduct actuarial
17 analysis in order to more accurately estimate the average remaining lives of utility grouped
18 property by account. In fact, several depreciation experts in this case have conducted this
19 type of analysis utilizing OG&E’s aged plant data, including Mr. Spanos, Mr. Dunkel, Mr.
20 Andrews, and myself.

1 **Q. Briefly describe the aged plant data submitted by OG&E in response to discovery**
2 **issued in this case.**

3 A. In response to discovery, OG&E submitted the plant data that was used to conduct the
4 depreciation study.² This response included plant data as to retirements, sales, transfers,
5 acquisitions survivors, and additions by transaction and vintage year for 60 accounts. In
6 total, there were more than 122,000 data points provided regarding service life, and
7 additional data provided for net salvage.

8 **Q. Are you aware of the Oklahoma Corporation Commission (the “Commission”), or**
9 **any commission in other jurisdictions, adopting depreciation rates based on the type**
10 **of analysis conducted by Mr. Melvin when aged data is available.**

11 A. No. When aged data is available, as it is for OG&E in this case, the Commission has
12 consistently adopted depreciation rates based on the statistical, actuarial analysis of service
13 life data and analysis of historical net salvage data specific to the utility being studied.

14 **Q. Do authoritative texts and treatises on conducting depreciation analysis in utility rate**
15 **proceedings support Mr. Melvin’s approach?**

16 A. No. There are two primary sources relied upon by depreciation experts in the field: The
17 National Association of Regulatory Utility Commissioner’s “Public Utility Depreciation
18 Practices” and “Depreciation Systems” by Frank Wolf and Chester Fitch. These treatises
19 include extensive material regarding the proper approaches to conducting depreciation
20 analysis. Proper depreciation analysis includes collecting and analyzing a utility’s data in
21 order to develop observed life tables under the retirement rate method and using actuarial
22 analysis, Iowa curve fitting, and professional judgment to develop reasonable estimations

² See e.g. AG 1-3_Att – OGE2016-Service Life Data.

1 of the average remaining life of mass property, as well as using historical data to conduct
2 net salvage analysis. The process of conducting depreciation rate analysis is discussed
3 further in the appendices attached to my responsive testimony. Nowhere in these treatises
4 is it indicated that reasonable depreciation rates can be estimated by simply comparing the
5 rates utilized by other utilities versus properly analyzing the specific plant data of the utility
6 which is the subject of the depreciation study. If the data for a particular account was
7 lacking or unavailable, it might be appropriate to consider the remaining lives or
8 depreciation rates utilized by comparable companies to assess an appropriate rate for the
9 utility being analyzed. However, this is not the case for OG&E, which has extensive, aged
10 plant data available for analysis.

11 **Q. By accepting the Company's proposed depreciation rates, has Mr. Melvin also**
12 **incorporated the Company's proposed decommissioning costs and the contingency**
13 **factors added to those costs?**

14 A. Yes. The Company's proposed depreciation rates for its production facilities incorporate
15 estimated decommissioning costs to retire these facilities. OG&E's proposed
16 decommissioning costs include contingency factors which increase these costs by 20%.
17 By accepting the Company's proposed depreciation rates, Mr. Melvin has also accepted
18 the Company's proposed decommissioning costs and contingency factors without any
19 adjustment.

20 **Q. Has the Commission consistently disallowed such contingency factors?**

21 A. Yes. As discussed in my responsive testimony, the Commission has consistently
22 disallowed the application of such contingency factors when assessing fair
23 decommissioning costs and terminal net salvage rates.

1 **Q. Did Mr. Melvin offer any arguments in support of deviating from Commission**
2 **precedent on the issue of contingency factors?**

3 A. No.

4 **Q. By accepting the Company's proposed depreciation rates, has Mr. Melvin also**
5 **incorporated the Company's proposed annual escalation of its proposed**
6 **decommissioning costs?**

7 A. Yes. The Company's proposed depreciation rates for its production facilities incorporate
8 estimated decommissioning costs to retire these facilities. These proposed
9 decommissioning costs are estimated at present value. However, the Company is
10 proposing to escalate these cost estimates each year until the estimated retirement date for
11 each facility, without discounting the costs back to present value. By accepting the
12 Company's proposed depreciation rates, Mr. Melvin has also accepted the Company's
13 proposed escalation of these decommissioning costs without any adjustment.

14 **Q. Has the Commission consistently disallowed the annual escalation of**
15 **decommissioning costs?**

16 A. Yes. As discussed in my responsive testimony, the Commission has consistently
17 disallowed the application of such escalation factors when assessing fair decommissioning
18 costs and terminal net salvage rates.

19 **Q. Did Mr. Melvin offer any arguments in support of deviating from Commission**
20 **precedent on the issue of escalation factors?**

21 A. No.

22 **Q. What is your recommendation to the Commission?**

23 A. I recommend the Commission adopt depreciation rates based on statistical analysis of the
24 data provided by OG&E in response to discovery, rather than utilizing a comparison of

1 aggregate rates by plant function of other utilities. When extensive aged data is available,
2 as it is for OG&E in this case, the Commission should base its findings on the statistical
3 analysis of such data. This analysis must include utilization of the Company's data to
4 develop observed life tables and the use of Iowa curve fitting and professional judgment to
5 develop average remaining life estimates for OG&E's mass property accounts. This type
6 of analysis has been offered by three witnesses in this case in response to OG&E's
7 proposed depreciation rates, including Mr. Dunkel, Mr. Andrews, and myself. In addition,
8 the Commission should not deviate from its precedent of excluding contingency and
9 escalation from the calculation of terminal net salvage rates for the Company's production
10 accounts.

11 **Q. Does this conclude your rebuttal testimony?**

12 A. Yes. I reserve the right to supplement this testimony as needed to address any additional
13 information that has been requested from the parties to this Case but not yet provided.

Respectfully Submitted,



David J. Garrett
Resolve Utility Consulting, PLLC
100 Park Avenue, Suite 700
Oklahoma City, OK 73102
dgarrett@resolveuc.com
(405) 249-1050

CERTIFICATE OF MAILING

On this 29th day of May 2018, a true and correct copy of the above and foregoing was sent via electronic mail to the following interested parties:

Mr. Brandy L. Wreath
Director of the Public Utility Division
OKLAHOMA CORPORATION COMMISSION
Jim Thorpe Building
2101 North Lincoln Boulevard
Oklahoma City, Oklahoma 73105
b.wreath@occcemail.com

Ms. Judith L. Johnson
Ms. Natasha Scott
Office of General Counsel
OKLAHOMA CORPORATION COMMISSION
P.O. Box 52000
Oklahoma City, Oklahoma 73152-2000
j.johnson2occcemail.com
n.scott@occcemail.com

Mr. William L. Humes
Mr. John D. Rhea
Mr. Dominic Williams
OKLAHOMA GAS & ELECTRIC COMPANY
PO Box 321, MC 1208
Oklahoma City, Oklahoma 73101
humeswl@oge.com
rhead@oge.com
williardo@oge.com

Mr. Ronald E. Stakem
CHEEK & FALCONE, PLLC
6301 Waterford Boulevard, Suite 320
Oklahoma City, Oklahoma 73118
rstakem@cheekfalcone.com

Mr. Jack G. Clark, Jr.
CLARK, WOOD & PATTEN, P.C.
3545 Northwest 58th Street, Suite 400
Oklahoma City, Oklahoma 73112
cclark@cswp-law.com

Mr. Curtis M. Long
CONNER & WINTERS LLP
4000 One Williams Center
Tulsa, Oklahoma 74172
clong@cwlaw.com

Ms. Dara M. Derryberry
Mr. Jared B. Haines
Ms. Jennifer Lewis
Ms. Katy Evans Boren
Mr. Chase Snodgrass
OFFICE OF OKLAHOMA ATTORNEY GENERAL
313 N.E. 21st Street
Oklahoma City, Oklahoma 73105
dara.derryberry@oag.ok.gov
jared.haines@oag.ok.gov
Jennifer.lewis@oag.ok.gov
Katy.boren@oag.ok.gov
chase.snodgrass@oag.ok.gov

Ms. Kimber L. Shoop
CROOKS, STANFORD & SHOOP, PLLC
171 Stonebridge Boulevard
Edmond, Oklahoma 73013
ks@crooksstanford.com

Ms. Cheryl A. Vaught
Mr. Scot A. Conner
VAUGHT & CONNER, PLLC
1900 Northwest Expressway, Suite 1300
Oklahoma City, Oklahoma 73118
cvaught@vcokc.com
sconner@vcokc.com

Mr. William J. Bullard
WILLIAMS, BOX, FORSHEE & BULLARD, P.C.
522 Colcord Drive
Oklahoma City, Oklahoma 73102
bullard@wbfbllaw.com

Ms. Deborah R. Thompson
OK ENERGY FIRM, PLLC
P.O. Box 54632
Oklahoma City, Oklahoma 73154
dthompson@okenergyfirm.com

Mr. James A. Roth
Mr. Marc Edwards
Mr. C. Eric Davis
Phillips Murrah, P.C.
Corporate Tower, 13th Floor
101 North Robinson Avenue
Oklahoma City, Oklahoma 73102
jaroath@phillipsmurrah.com
medwards@phillipsmurrah.com
cedavis@phillipsmurrah.com

Mr. Jon Laasch
JACOBSON & LAASCH
212 East Second Street
Edmond, Oklahoma 73034
jonlaasch@yahoo.com

Mr. Eric Turner
DERRYBERRY & NAIFEH LLP
4800 North Lincoln Boulevard
Oklahoma City, Oklahoma 73105
eturner@derryberrylaw.com



Thomas P. Schroedter