BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

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

SURREBUTTAL TESTIMONY

OF

GERRILYNN WOLFE, CPA
CAPITAL RECOVERY ANALYST
FINANCIAL ANALYSIS SECTION

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

MARCH 30, 2017

OKLAHOMA GAS AND ELECTRIC COMPANY
DOCKET NO. 16-052-U
SURREBUTTAL TESTIMONY OF GERRILYNN WOLFE

INTRODUCTION

Q. Please state your name.

A. My name is Gerrilynn Wolfe.

Q. Are you the same Gerrilynn Wolfe who presented Direct Testimony in this Docket on January 31, 2017, on behalf of the General Staff (Staff) of the Arkansas Public Service Commission (Commission)?

A. Yes, I am.

PURPOSE OF TESTIMONY

Q. What is the purpose of your Surrebuttal Testimony?

A. My Surrebuttal Testimony responds to the Rebuttal Testimony of Oklahoma Gas & Electric Company's (OG&E or Company) witnesses Scott Forbes regarding the over-accrued Account 310.20 for Horseshoe Lake Unit 6 and Donald Rowlett regarding adjustments to accumulated depreciation. Additionally, I will address criticisms of my depreciation study by OG&E witness John J. Spanos in his Rebuttal Testimony. I also address the Direct Testimony of Arkansas River Valley Energy Consumers (ARVEC) witness David J. Garrett regarding the life spans he proposes for wind production units and software assets in addition to the method he uses in determining net salvage for production accounts. Finally, I discuss changes to my proposed depreciation rates and rates to be applied to certain over-accrued accounts as a result of updated information and corrections

that I have made. My recommended depreciation rates are presented in Surrebuttal Exhibit GW-1 derived from the parameters presented in Surrebuttal Exhibit GW-2.

RESPONSE TO OG&E WITNESS SCOTT FORBES

Q. Would you please summarize OG&E witness Forbes' testimony regarding the over-accrued Account 310.20 for Horseshoe Lake Unit 6?

A. Yes. Mr. Forbes identified an account, 310.20, in which the Accumulated Depreciation was over-stated in my direct workpaper GW-1. This resulted in the account being incorrectly listed as over-accrued. I had mistakenly transposed the Accumulated Depreciation for Accounts 310.20 and 311.00.

Q. Have you corrected this mistake?

A. Yes. I corrected this mistake and I present the resulting depreciation rates for these accounts in my Surrebuttal Exhibit GW-1 and my workpaper GW-1. I correctly present the four depreciable plant accounts for OG&E and two depreciable plant accounts for OG&E Holding Company (Holding Company) that are fully-reserved or over-accrued in the following table:

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Over-Accrued Accounts

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

RESPONSE TO OG&E WITNESS DONALD ROWLETT

Q. Did Mr. Rowlett accept your recommendations regarding the change to accumulated depreciation balances you proposed in your Direct Testimony?

A. Yes. Mr. Rowlett accepted the recommendation I made for accumulated depreciation balance adjustments RB-5 and RB-7. He further accepted my recommendation that these adjustments not be amortized, as the Company had originally recommended, but be comprehended in the calculation of my depreciation rates.

Q. Have you updated your recommended RB-7 adjustment amounts?

A. Yes. I have updated my recommendation to reflect actual amounts provided by the Company through January 2017. I now recommend a decrease in accumulated depreciation of $91,274,775, which is an additional reduction of $4,207,243 from my direct testimony.

Q. Did Staff witness Matthews comprehend this change in his adjustments?

A. Yes.

RESPONSE TO OG&E WITNESS JOHN J. SPANOS

Study Approach and Life Analysis

Q. Did you perform a comprehensive depreciation study using OG&E's asset data?

A. Yes. When a regulated utility requests new depreciation rates, as OG&E did in this case, Staff's normal practice is to perform its own comprehensive depreciation study.

Q. Did OG&E have any comments regarding your depreciation study?

A. Mr. Spanos testified that I relied too much on mechanical curve matching and did not incorporate informed judgment into my depreciation study.

Q. Did you base your recommendations solely on the analytical results of your study?

A. No. In addition to my data analysis, I also relied on the information I gained during my discussions with Company personnel and observations of physical plant from my site visit, along with my knowledge of the accounts and industry experience. As is customary for Staff, I also considered the life and salvage discussions provided in Mr. Spanos' depreciation study and his site visit notes.

Q. Would you please comment on Mr. Spanos' discussion concerning your life estimates for Account 353.00, Station Equipment?

A. Yes. Mr. Spanos testifies that my average service life (ASL) and curve recommendation, 60-R0.5, for Account 353.00, Station Equipment, unreasonably estimates that 30% of the assets in this account will last 80 years with some lasting as long as 120 years.[1] He fails to mention that his 60-R2 recommendation similarly estimates that 30% of the assets in this account will last 73 years with some of these assets lasting as long as 111 years. Both of our recommendations recognize that the analysis indicated the ASL for assets in this account is longer than those expected in Docket No. 10-067-U, OG&E's prior rate case proceeding. Mr. Spanos recommended an ASL of 55 years in that docket and Staff recommended an ASL of 51 years which was ultimately approved by the Commission. I continue to support as reasonable my ASL and curve recommendation of 60-R0.5 for this account, as shown in my Direct Exhibit GW-2.

Q. Would you please comment on Mr. Spanos' discussion concerning your life estimates for Account 355, Poles and Fixtures?

A, Yes. Mr. Spanos criticizes my ASL and curve recommendation of 55-L0 for Account 355, Poles and Fixtures. In a graph he supplied on page 40 of his Rebuttal Testimony, Mr. Spanos notes that my recommendation does not reach zero percent surviving until age 170 compared to age 105 for his recommendation.

[1] Rebuttal Testimony of John J. Spanos, p. 38, lines 19-21.

I would note that at age 105, my recommendation reflects that less than 10% of the assets would be expected to be in service. Assets in this account tend to have relatively long lives, as illustrated by the currently approved ASL and curve for each of Arkansas' investor-owned electric utilities shown in the table below.

Account 355, Poles and Fixtures

Utility	Approved ASL & Curve	Maximum Life
SWEPCO	51 - L2	143
EAI	59 - R0.5	119
OG&E	52 - L1	164
Empire	61 - L3	145

I base my recommended life estimations in part on statistical analysis of historical data along with informed judgment. Therefore, I continue to support as reasonable my ASL and curve recommendations for this account of 55-L0, as shown in my Direct Exhibit GW-2.

Q. Would you please comment on Mr. Spanos' discussion concerning your life estimates for Meters-Metering Equipment?

A. Yes. First let me clarify that I use account number 370.3 for Meters-Metering Equipment consistent with the account number provided in the Company

response to APSC 006.04_Att v2, while Mr. Spanos labels the account 370.1.

The currently approved ASL for this account is 30 years. Mr. Spanos recommends an ASL of 14 years. He points to changes in technology as being the driving force behind his recommended changes.

After reviewing the data and completing my statistical analysis, I had a conversation with Company personnel who informed me that the assets that remain in this account have an expected life of 25 years and the change in the technology of the meters did not affect the life of the types of assets remaining in this account. Therefore, I continue to support as reasonable my recommended ASL of 25 years and L0 curve for Meters-Metering Equipment, labeled as Account 370.3, as shown in my Direct Exhibit GW-2.

Salvage Analysis

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

A. In my analysis of net salvage values, I relied primarily upon Company-specific historical retirement, gross salvage, and cost of removal data for each plant account where available. I also relied upon experience with similar property, including other Arkansas-jurisdictional electric utilities and knowledge of these accounts.

Q. Did Mr. Spanos introduce new terminal net salvage estimates in his depreciation study?

A. Yes.

Q. Did Mr. Spanos introduce a dismantlement study to support his terminal net salvage estimates?

A. No, he did not.

Q. Are you willing to embrace estimates of terminal net salvage in performing a depreciation study when such estimates are not supported by a dismantlement study?

A. No. Consistent with past practice, a dismantlement study must be provided by the Company before I will consider such terminal net salvage estimates in developing new depreciation rates.

Q. Was your determination of net salvage values included in your depreciation study consistent with Staff's past practice before this Commission?

A. Yes. Staff consistently considers all retirements in calculations for net salvage when a dismantlement study is not submitted by the utility.

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

A. No. For production accounts, the Company used weighted net salvage calculations of both terminal and interim retirements as the basis for determining the overall net salvage values for the Company's production facilities. I did not use the Company's terminal net salvage in my computations for production. Instead, I comprehended all retirements in my calculations for net salvage

without weighting them. This is the method of calculating net salvage Staff has consistently used when a dismantlement study is not submitted. For all other accounts, the Company and I applied the same methodology.

Q. Would you please address Mr. Spanos' discussion regarding net salvage for Account 356, Overhead Conductors and Devices?

A. Yes. Mr. Spanos correctly recognizes that I used data from 2015 in my analysis of this account. However, he further states that my net salvage is over-stated due to not all of the cost of removal being considered for the 2015 retirements.

I relied upon data provided by the Company and I verified with them that indeed the cost of removal for these retirements is the amount I used in my analysis. Since I performed a statistical analysis with all information being considered, I continue to support my recommendation of negative 39 percent net salvage for Account 356, Overhead Conductors and Devices, as reasonable.

Q. Would you please address Mr. Spanos' discussion regarding net salvage for Account 365, Overhead Conductors and Devices?

A. Yes. Mr. Spanos states that my analysis for this account does not segregate the highway reimbursements, which results in gross salvage being overstated. However, the highway reimbursements Mr. Spanos suggests be segregated appear to be recurring, as evidenced by the occurrence in every year since 2010. According to Company accounting personnel, there is no segregation in recording cost of removal or the corresponding retirements when highway

reimbursements are involved.

The Company has not substantiated in Rebuttal Testimony that any adjustments should be made to the data they provided in Data Request APSC 06.003. Therefore, I continue to rely on these book amounts and support as reasonable the net salvage recommendation for Account 365, Overhead Conductors and Devices, I made in my Direct Testimony.

Q. Is Mr. Spanos correct in recommending the Activated Charcoal Injector (ACI) assets receive a 3 year life estimate?

A. No. Mr. Spanos argues that these assets will be replaced after three years. However, as I stated in my Direct Testimony, these assets allow the plants to continue in operation and reach their full life potential. Additionally, in the Company's most recent updates to its plant in service in Data Request APSC-010, Addendum 5, it continues to reflect all assets for Account 312, Boiler Plant Equipment, together. Since the Company must segregate these assets in a sub account for a shortened life to be applicable, which they have not done, I continue to support that the depreciation rate be the same for all assets in Account 312.

Q. Did Mr. Spanos adjust his accumulated depreciation balances for the RB-5 and RB-7 adjustments Company Witness Rowlett accepted in his Rebuttal Testimony?

A. No. Mr. Spanos' calculations do not include this adjustment. This will affect the

Company's depreciation expense and should have been comprehended in Mr. Spanos' rate calculations. As a result, Mr. Spanos' recommended depreciation rates are not consistent with my recommended rates. Therefore, the Commission should not adopt Mr. Spanos' proposed depreciation rates.

RESPONSE TO ARVEC WITNESS DAVID GARRETT

Q. Do you support ARVEC witness Garrett's life span recommendations for wind production units?

A. No. The life spans for wind production plant units recommended in my depreciation study are 25 years, which is the currently approved life span for these plants. The wind generating units have been in service for a relatively short number of years, on average 6 years, or 24% of the current 25-year life expectancy. As additional life data becomes available in future depreciation studies, Staff will reevaluate the life span, as it does with all generating units. Therefore, at this time, I support as reasonable the retention of the currently approved 25-year life span for these units.

Q. Do you support Mr. Garrett's life span recommendations for software?

A. No. I support as reasonable the life span of 10 years at this time. The 10-year life that I recommend for purposes of this docket, considers that this account contains many different types of software assets, all with varying degrees of risk for becoming obsolete due to changes in technology. It is also in line with other Arkansas-jurisdictional utilities' currently approved life for assets of this type.

Q. Do you agree with Mr. Garrett's recommendation for terminal net salvage?

A. No. Mr. Garrett used Mr. Spanos' weighting of retirements between terminal and interim, but removed all retirements identified as terminal retirements in the computations of his net salvage. As discussed above, I did not weight the retirements between interim and terminal. Instead, I comprehended all retirements in my calculations for net salvage. The Commission has consistently approved Staff's recommended depreciation rates calculated using this method for computing net salvage when a dismantlement study is not submitted by the utility.

Q. Did Mr. Garrett adjust his accumulated depreciation balances to reflect differences between Arkansas and Oklahoma depreciation rates in his depreciation study?

A. No.

STAFF WORKPAPER CORRECTION

Q. Do you have a correction to the workpapers you provided with your Direct Testimony?

A. Yes. I corrected my workpaper GW-1 to reflect corrections for seven accounts as follows:

- Accounts 310.20, 311.00, and 311.50 for plant and unit Horseshoe Lake 6;

- Account 312.00 for plant and unit Horseshoe Lake 8;
- Account 312.00 for plant and unit Muskogee 6; and
- Transmission Accounts 352.00 and 352.10.

I also updated my workpaper GW-2 to reflect how these changes affected over-accrued accounts. The Company's first set of data requests and Mr. Forbes' Rebuttal Testimony brought these necessary changes to my attention.

CONCLUSIONS AND RECOMMENDATIONS

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

A. I calculated my recommended depreciation rates using a depreciation method (straight line), procedure (average life group), and technique (remaining life) that have been used repeatedly by Staff in the determination of depreciation rates for other Arkansas-jurisdictional utilities and approved by the Commission, and are based on a detailed, statistical analysis of Company-specific individual account histories on every account where possible. My analysis supports the parameters outlined in my Surrebuttal Exhibit GW-2 and the resulting rates presented in my Surrebuttal Exhibit GW-1 with the modifications outlined in this testimony.

The primary differences between my study and the Company's study are due to the Company's:

- Failure to include the Arkansas adjustment to accumulated depreciation in the development of its depreciation rates, resulting in a difference in

reserve ratios; and

- Inclusion of terminal salvage in overall net salvage estimates.

I recommend the Commission:

- Deny OG&E's proposed depreciation rates as presented in Application Schedule F-1.3 and Exhibit JJS-1 and JJS-2;

- Deny ARVEC's proposed depreciation rates as presented in Direct Exhibit DG2-3;

- Approve the depreciation rates presented in Surrebuttal Exhibit GW-1 for each of OG&E's plant accounts (including the application of the rates as specified in the footnotes with regard to the fully-reserved or over-accrued accounts), using the parameters reflected in Surrebuttal Exhibit GW-2;

- Require that on a prospective basis, depreciation expense and likewise accumulated depreciation be kept on an individual FERC account level, by plant and unit, and reported in this manner in future rate applications;

- Accept the Company's proposed rates on future assets for Sooner Scrubber Unit 1 and Sooner Scrubber Unit 2;

- Reject the Company's proposed rates on future assets for the ACI assets at Muskogee Unit 4 and Unit 5 and the Mustang CT facility;

- Require that on a prospective basis, OG&E utilize the functional/FERC account/plant/unit allocation that Staff has performed in this case as the Arkansas adjustment to accumulated depreciation for the periods 1986 through 2006 and 2011 through 2017;

- Require that the Company continue to compute and maintain at the plant/unit/account level each month the depreciation expense that would be recorded based on approved Arkansas depreciation rates and the resulting difference

from the depreciation expense recorded on its books; and

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

Q. Does this conclude your testimony?

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 30th day of March, 2017.

/s/ Justin A. Hinton
Justin A. Hinton