

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR COMMISSION AUTHORIZATION OF A)
PLAN TO COMPLY WITH THE FEDERAL CLEAN)
AIR ACT AND COST RECOVERY; AND FOR)
APPROVAL OF THE MUSTANG MODERNIZATION)
AND COST RECOVERY)

CAUSE NO. PUD 201400229

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CORPORATION COMMISSION
OF OKLAHOMA

Rebuttal Testimony

of

Sheri Richard

on behalf of

Oklahoma Gas and Electric Company

January 26, 2015

Sheri Richard
Rebuttal Testimony

1 Q. **Please state your name, the position you hold, your employer and business address.**

2 A. My name is Sheri Richard. I am the Director of Revenue Requirements at Oklahoma Gas
3 and Electric Company (“OG&E” or “Company”). My business address is 321 N.
4 Harvey, Oklahoma City, Oklahoma 73102.

5

6 Q. **Are you the same Sheri Richard who filed direct testimony in this proceeding on**
7 **August 6, 2014?**

8 A. Yes.

9

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

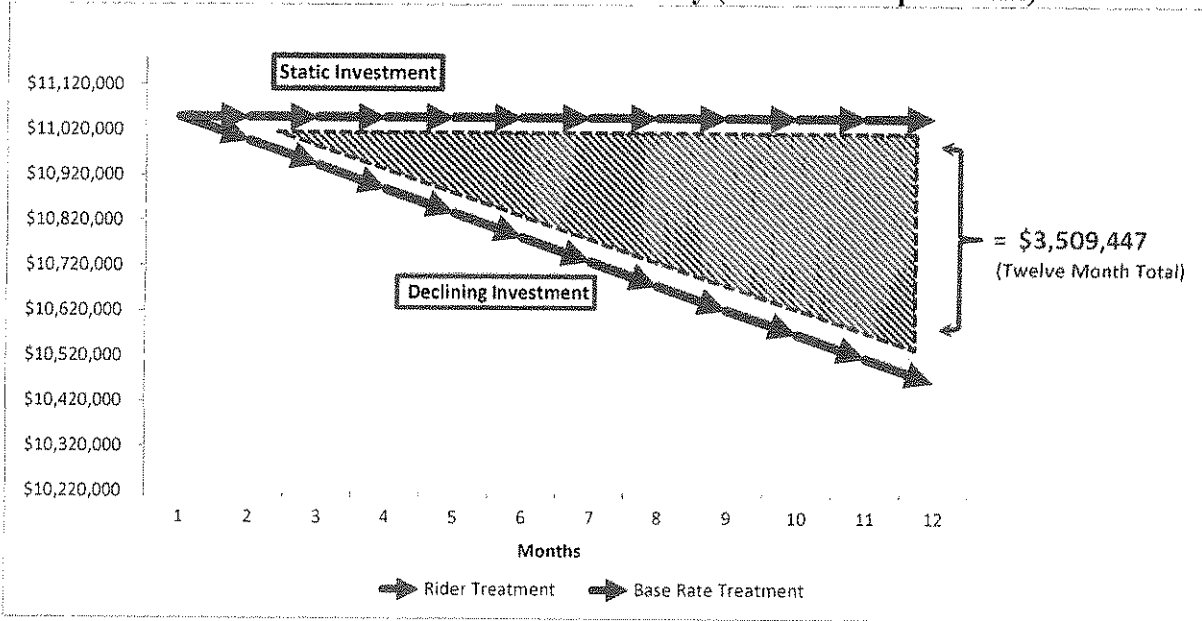
11 A. My testimony addresses concerns regarding OG&E’s proposals for recovery (rider,
12 regulatory asset, CWIP) and identifies how the Company’s proposals are in the best
13 interest for customers and other stakeholders.

14

15 Q. **Why do you believe recovery through a rider is the best approach for OG&E’s**
16 **customers?**

17 A. OG&E designed the EGP rider to be beneficial to customers. The total amount
18 customers pay is less through a rider than if costs were recovered in base rates. With a
19 rider, recovery is calculated on a steadily declining investment as opposed to a base rate
20 recovery. On the other hand, base rate recovery is calculated on an investment level
21 based on a snap shot in time and only changes during base rate reviews as illustrated in
22 Chart 1 below.

Chart 1: Rider vs. Base Rate Recovery (Revenue Requirement)



1 Q. How would the alternatives recommended by some intervenors impact the cost to
2 customers?

3 A. Many of the proposed alternatives result in a detriment to customers or are contrary to
4 basic regulatory principles. Intervenors want to defer recovery beyond the point assets
5 begin to benefit customers, or deny any recovery of prudently incurred costs by investors,
6 or both. Their proposals to defer recovery will only compound future rate impacts on
7 customers due to additional Company investments and certainly do not balance the
8 interests of all stakeholders. For example, deferring rate increases today will only add to
9 the size of the rate increases customers experience in 2020 when the Company anticipates
10 adding capacity.

11

12

RECOVERY OF AQCS COSTS

13 Q. Please explain OG&E's proposed modification to the Fuel Cost Adjustment
14 ("FAC") rider in order to recover Air Quality Control System ("AQCS") costs.

15 A. As mentioned in my Direct Testimony, the Company has proposed modifications to the
16 FAC tariff to include AQCS costs. Compliance with the Mercury Air Toxics Standards
17 ("MATS") rules and the Regional Haze rules require OG&E to incur costs for chemical
18 consumables necessary for the operation of the environmental control equipment.
19 Examples of these consumables include limestone, powder activated carbon and

1 ammonia. The AQCS costs will be recorded in FERC accounts 502 and 548 which are
2 not currently in the FAC. Therefore, modifying the FAC tariff is necessary to include
3 these new FERC accounts in the list of recoverable accounts in the tariff.
4

5 **Q. What costs are recovered through the FAC tariff?**

6 A. Under the FAC tariff, fuel and fuel related costs, purchased power costs and SPP market
7 activities (revenues and expenses) are included in the FAC tariff calculation. The FAC
8 tariff recovers actual costs (with no profit for the Company) for fuel and generation
9 purchased and returns revenues received from the SPP market for OG&E's generation.
10

11 **Q. Please elaborate on the cost recovery for the SPP market activities.**

12 A. The FAC tariff recovers variable costs from the SPP market and offsets these costs with
13 revenues received from the SPP for generation sold into the market. Variable costs such
14 as AQCS consumables would be included in the bids and compensated for in the
15 revenues from sales of generation into the SPP IM. Therefore, including AQCS
16 consumables in the FAC matches the expense and revenue streams in the same
17 mechanism avoiding any over or under collection by the Company.
18

19 **Q. Please explain how AQCS costs are variable.**

20 A. AQCS consumables are used to control emissions and are necessary when the plants
21 generate electricity. The more electricity is generated, the more emissions are created
22 and more consumables are needed to control the emissions impact. Therefore, chemical
23 costs vary with the amount of energy produced from the generating units. For example,
24 more limestone will be required as more energy is produced.
25

26 **Q. Will the FAC provide more customer protections than if the AQCS were placed in
27 base rates?**

28 A. Yes. Despite Dr. Roach's statement that "OG&E will have license to pass all costs
29 through FAC with no protections for ratepayers,"¹ the FAC has extensive protections for

¹ Responsive Testimony of Dr. Roach: Page 64, lines 13-14.

1 customers. The Commission has rules which require annual audits of the FAC conducted
2 by Staff.² This review occurs as part of a proceeding where the Company files testimony
3 and specific reports (MFRs) as well as opening its books and records for review.³ In
4 addition, parties may intervene and participate in the FAC audit process.
5

6 **Q. Why is recovery of AQCS through base rates the wrong regulatory treatment?**

7 A. Recovering AQCS through base rates ensures that actual costs will be either over or
8 under recovered from customers. Sound regulatory policy strikes a balance among
9 stakeholders and should be fair in its application. Flowing related revenues and expenses
10 through the same mechanism that has a true-up provision, as the Company supports,
11 achieves a balance and would be fair to customers and shareholders.
12

13 **Q. Have other jurisdictions approved recovery of AQCS costs through a fuel clause?**

14 A. Yes. In addition to Oklahoma approving recovery of these costs through a fuel clause,
15 several other utilities have raised the issue of recovering AQCS consumable costs before
16 Commissions in other jurisdictions with success. Jurisdictions that have approved AQCS
17 consumables cost recovery include Arkansas, Kansas, Texas, Missouri, South Dakota,
18 North Carolina, and South Carolina (see Exhibit SDR-1R).
19

20 RIDER CALCULATION

21 **Q. Please respond to Dr. Roach's recommendation on recovering depreciation, O&M
22 and property tax costs.**

23 A. The Company's approach for depreciation expense and O&M expenses related only to
24 plant in service is consistent with Dr. Roach's recommendation. However, the Company
25 does not agree that property tax should only be included for plant in service.
26

27 **Q. Why is it appropriate to recover property taxes as the Company proposes?**

28 A. OG&E is a "centrally-assessed" utility. Its fair market value and resulting assessment for
29 property tax purposes is determined by the Oklahoma Tax Commission. Costs that are

² OAC: 165-50-5-3

³ OAC: 165-35-39

1 considered by the Tax Commission to determine OG&E's fair market value comprise all
2 of the Company's assets, investments and Construction Work in Progress ("CWIP").
3 CWIP includes expenditures made for projects under construction including materials,
4 labor, engineering etc. Therefore, property tax increases as a result of CWIP balances on
5 the Company's books. "In-service" status is irrelevant to the Oklahoma Tax
6 Commission.

7 8 DEPRECIATION

9 **Q. Why did the Company request approval of new depreciation rates and inclusion of**
10 **depreciation expense for the emission control technology and the new Mustang**
11 **units?**

12 A. The Company is requesting approval of depreciation rates for assets that were not
13 included in Order 599558, issued in Cause No. PUD 201100087. Therefore, these
14 depreciation rates would not be a part of the depreciation rates approved in the
15 Company's last general rate proceeding. These assets include emission control
16 technology equipment or facilities which the Company plans to install to comply with
17 MATS and Regional Haze and approval for the new Mustang CTs.

18
19 **Q. What is the appropriate regulatory treatment of the depreciation rates for the**
20 **retiring Mustang units?**

21 A. The Company is proposing new depreciation rates for the existing Mustang units. These
22 rates would match the proposed retirement dates. If the depreciation rates for the retiring
23 Mustang units are not approved, the \$10.8 million (plus cost of dismantlement) in
24 unrecovered costs should be treated as stranded assets and recovered from customers. I
25 addressed the treatment of stranded assets in my Direct Testimony.

26 27 COAL HANDLING AND ASH DISPOSAL EQUIPMENT

28 **Q. Will Muskogee Units 4 and 5 be retired and replaced with new gas units?**

29 A. No. There seems to be some confusion that Units 4 and 5 will be retired and replaced
30 with new gas units. This is not the case. Only some of the assets that support the coal
31 units will be retired. The Muskogee units will have components changed out or

1 converted so that these units can generate electricity utilizing natural gas as their fuel
2 source instead of coal. The converted units will be depreciated using the same
3 depreciation rates as last approved by the Commission.
4

5 **Q. What regulatory recovery did OG&E propose regarding these assets?**

6 A. The Company requests approval of a regulatory asset for stranded capital costs almost
7 exclusively associated with the coal handling and ash disposal equipment for Muskogee
8 Units 4 and 5.
9

10 **Q. Please clarify when these assets will become stranded costs.**

11 A. The assets will become stranded after they are removed from service and are no longer
12 recovered in rates. This will occur as certain units of property that supported coal-fired
13 generation, not the entire generating unit, are removed from service due to the conversion
14 of these generating units. The Company expects the assets to be removed from service
15 sometime in 2019 and recovery through the rider will begin when that occurs.
16

17 **Q. What recovery period is the Company proposing for these retired Muskogee assets?**

18 A. The Company is requesting to amortize or recover the remaining net book value for these
19 assets over 6 years. This time period for amortization is consistent with the treatment
20 applied to retired meters in the Company's Smart Grid application⁴ and also more closely
21 matches these costs to the consumers who have benefited from the assets use in the past.
22

23 **Q. What recovery treatment does Mr. Garrett propose?**

24 A. Mr. Garrett states the assets should be amortized over 24 years.⁵ Spreading these costs
25 over an extended period is contrary to the concept of matching cost recovery to the period
26 of time assets are in use. Recovering these costs over more than two decades, as Mr.
27 Garrett suggests, unduly burdens customers that will never receive any benefit from these
28 assets.

⁴ Cause No. PUD 201000029

⁵ Responsive Testimony of Mr. Garrett: Page 45

1 AFUDC VERSUS CWIP METHODOLOGY

2 Q. **Did the Company propose CWIP treatment for construction costs that flow through**
3 **the EGP rider?**

4 A. Yes, as I mentioned in my Direct Testimony, the CWIP method mitigates rate increases
5 to customers by gradually spreading the recovery over a longer period of time.
6

7 Q. **Did some of the intervenors oppose CWIP treatment for construction costs?**

8 A. Yes, several intervenors generally opposed CWIP and Mr. Garrett went so far as to assert
9 that CWIP treatment “is virtually never taken with regulated utility assets.”⁶ However,
10 several utilities have raised the issue of CWIP treatment before Commissions in other
11 jurisdictions with success. Jurisdictions that have approved CWIP treatment include
12 Colorado, North Dakota, Indiana, South Carolina, South Dakota, Virginia, West Virginia,
13 Kansas and Florida. (See Exhibit SDR-2R).
14

15 Q. **Why did the Company design recovery based on a CWIP methodology rather than**
16 **AFUDC methodology?**

17 A. The Company is trying to mitigate the rate impact that would occur under the Allowance
18 for Funds Used During Construction (“AFUDC”) method, particularly in the 2017-2019
19 timeframe. For AFUDC, the construction costs and the financing costs are accumulated
20 until the projects are moved into plant in service. Because under the AFUDC method,
21 none of the investment return is repaid during the years the projects are under
22 construction, a larger increase in rates occurs when repayment begins. For example,
23 during the 2017-2019 timeframe, the increase under the AFUDC method for a residential
24 customer is \$9.80 a month and is approximately \$7.00 a month under the CWIP method.

⁶ Responsive Testimony of Mr. Garrett: Page 36

1 Q. **Will customers pay less under the CWIP method?**

2 A. Yes. Even though, Mr. Chriss is correct that customers will pay more in the first five
3 years under the CWIP method, over the life of the assets, the customers will pay less⁷. In
4 addition, the CWIP method promotes gradualism more than AFUDC.
5

6 **CUSTOMER PROTECTIONS**

7 Q. **Do you agree with Dr. Roach's characterization that the customer protections**
8 **included in the EGP rider are not meaningful?**⁸

9 A. No. Not only has the Company proposed regulatory treatments to protect customer bills
10 from rate spikes using CWIP and an annual cap on each rate classes' bill, but OG&E also
11 proposed two measures to enhance regulatory oversight: (i) a true-up provision that
12 ensures that OG&E only recovers its actual approved revenue requirement; and (ii)
13 supplementary annual reports for tracking and auditing the plan. Through these oversight
14 measures, customers will be protected against price spikes, any imprudent costs flowing
15 through the rider, from any over collection of costs and from imprudent practices that
16 could impact the rider from the utilization of these proposals.
17

18 Q. **How do CWIP and the annual caps protect customer bills from sharp payment**
19 **increases?**

20 A. CWIP mitigates the annual increases for customers. In addition, the annual rate caps
21 protect customers from large changes in revenue requirements from year to year.
22

23 Q. **How does a true-up provision protect customers?**

24 A. The true-up provision is an annual adjustment that ensures customers only pay for actual
25 approved and audited costs. For example, the Company could only pass through
26 reasonable costs for equipment that was necessary as part of the Environmental or
27 Mustang Modernization plans through the EGP rider. It is more than a mechanism to
28 prevent accounting errors as asserted by Dr. Roach.⁹

⁷ Responsive Testimony of Steve Chriss: Page 14.

⁸ Responsive Testimony of Dr. Roach: Pages 59-64.

⁹ Responsive Testimony of Dr. Roach: Page 61, line 17-18.

1 Q. **Please explain the supplementary reporting.**

2 A. Supplementary annual reporting will aid in the OCC's audit for each year of the EGP
3 rider. This additional reporting includes: providing spreadsheets and supporting
4 documents that reflect the actual revenue collected versus the estimated revenues and the
5 actual costs versus the estimated costs that were both used to set the annual rider rates; a
6 narrative report summarizing each project's progress; a description of any additions or
7 changes in contract or project scope (change orders); a description of any other changes
8 that affect the cost or timing of installation of these projects; a description of any delays
9 or suspensions of work and the corrective measures made (if needed).

10

11 Q. **Is it the Company's position that the costs recovered by the utility are subject to
12 Commission review and approval?**

13 A. Absolutely. It has always been the Company's understanding and position that the
14 Commission has and will audit the costs flowing through approved riders to ensure only
15 prudently incurred costs are included for recovery.

16

17 Q. **Has it been your experience that the Commission conducts a thorough audit on the
18 Company's recovery riders?**

19 A. Yes. A portion of my responsibility in the regulatory department at OG&E is related to
20 the implementation of various riders, for rider audits and for numerous compliance
21 reports. My experience and observations are that the Commission not only has reviewed
22 annual rider reports submitted by the Company, but has also requested additional
23 information on numerous occasions, made numerous visits to review the Company's
24 records, made on site visits to inspect construction activities, reviewed the Company's
25 processes and has also held discussions with Company consultants.

26

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

28 A. Yes.

AQCS Costs Recovered through a Fuel/Energy Adjustment Clause

State	Company	Docket/Statute
South Dakota	Otter Tail Power Company	EL14-070
Arkansas	Entergy Arkansas Inc.	13-028-U
Arkansas	SWEPCO	14-012-TF
Arkansas	SWEPCO	14-080-U
Arkansas	Empire District	10-052-U
Oklahoma	Empire District	PUD 201100082
Kansas	Westar Energy	14-WSEE-208-TAR
Missouri	Empire District	ER-2010-0130
Texas	SWEPCO	PUC 40443
North Carolina	All Utilities	NCGS §62-133.2
South Carolina	All Utilities	SCCL §58-27-865(A)(1)

CWIP Included in Rate Base

State	Type of Capital	Description	Source
1 Colorado	Environmental	Per House Bill 10-1365, 40-3.2-207 (C-3), "Current recovery shall be allowed on construction work in progress at the utility's weighted average cost of capital, including its most recently authorized rate of return on equity, for expenditures on projects associated with the plan during construction, startup, and pre-service implementation phases of the projects."	House Bill 10-1365
2 North Dakota	Transmission, Environmental	Per Chapter 49-05-04.2, for Federal environmental mandate costs, utility tariffs must "Provide a current return on construction work in progress to meet federal environmental mandates provided the cost recovery from retail customers of the allowance for funds used during construction is not sought through any other means." Montana-Dakota Utilities Co. has an Environmental Cost Recovery Rider that allows a current return on project costs during construction.	Chapter 49-05, Montana Dakota Utilities tariff
3 Indiana	IGCC generation	Per Docket No. 43114, an IGCC CWIP Rider allows for CWIP Recovery to begin immediately on and up to a certain capped amount.	Docket No. 43114
4 South Carolina	Generation	Section 58-33-280 (B) of South Carolina rules state that "A utility must be allowed to recover through revised rates its weighted average cost of capital applied to all or, at the utility's option, part of the outstanding balance of construction work in progress, calculated as of a date specified in the filing."	Rules, Section 58-33-280
5 South Dakota	Transmission	Per House Bill 1091, for any utility provided transmission service, the Commission may approve, reject, or modify, after notice, hearing, and comment, a tariff that "provided a current return on construction work in progress, if the recovery from retail customers for the allowance for funds used during construction is not sought through any other mechanism."	House Bill 1091
6 Virginia	Reliability investments, nuclear, renewables, new generation using Virginia coal	Per Senate Bill 1416, a utility may "petition the Commission for approval of a rate adjustment clause for recovery on a timely and current basis from customers of the costs of a coal-fueled generation facility that utilizes Virginia coal..." A utility may recover "projected construction work in progress and any associated allowance for funds used during construction, planning development, and construction costs, life-cycle costs, and costs of infrastructure..."	Senate Bill 1416
7 West Virginia	Transmission, Environmental, IGCC generation	Per the Commission Order in Case No. 05-1278-E-PC-PW-42T, in regards to a 765 kv transmission line and the retrofit of flue-gas desulfurization units, the Commission allowed AEP to "recover the construction expenditures and other costs related to the projects during the construction phase..."	Commission Order, Case No. 05-1278-E-PC-PW-42T
8 Kansas	Environmental Projects	Per the approved tariff, the rate base for the revenue requirement of the Environmental Cost Recovery Rider shall be calculated as follows: "RB is the rate base associated with all EIPs (Environmental Improvement Projects) that form the basis of this surcharge. Rate Base shall be the gross plant, less Accumulated Depreciation, less Accumulated Deferred Income Taxes plus Construction Work in Progress associated with EIPs."	Tariff approved in Docket No. 09-WSEE-737-TAR
9 Florida	Environmental Projects	We therefore find that it is appropriate to allow the recovery of carrying costs associated with CWIP through the environmental cost recovery factor. (Order No. PSC-94-0044-FOF-EL, p.8)	Docket No. 930613-EI