

**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**

**FILED**  
MAY 29 2018  
COURT CLERK'S OFFICE - OKC  
CORPORATION COMMISSION  
OF OKLAHOMA

**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.<sup>1</sup>

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<sup>1</sup> 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.<sup>2</sup> 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

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<sup>2</sup> 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,



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**CERTIFICATE OF MAILING**

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