

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

APPLICATION OF PUBLIC SERVICE)
COMPANY OF OKLAHOMA, AN)
OKLAHOMA CORPORATION, FOR)
AN ADJUSTMENT IN ITS RATES AND)
CHARGES AND THE ELECTRIC)
SERVICE RULES, REGULATIONS AND)
CONDITIONS OF SERVICE FOR)
ELECTRIC SERVICE IN THE STATE)
OF OKLAHOMA)

CAUSE NO. PUD 201700151

FILED
SEP 21 2017

COURT CLERK'S OFFICE - OKC
CORPORATION COMMISSION
OF OKLAHOMA

RESPONSIVE TESTIMONY

OF

TODD F. BOHRMANN

ON BEHALF OF

MIKE HUNTER,

OKLAHOMA ATTORNEY GENERAL

September 21, 2017

INTRODUCTION

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Q. PLEASE STATE YOUR NAME.

A. My name is Todd F. Bohrmann

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR BUSINESS ADDRESS?

A. I am employed by the Office of the Attorney General of Oklahoma (“Attorney General”). My business address is 313 NE 21st Street, Oklahoma City, Oklahoma 73105.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

A. I graduated from the University of Central Florida in Orlando, Florida with a Bachelor of Arts degree in Economics and a Master of Business Administration degree. I was on the staff of the Florida Public Service Commission in several analyst positions from 1994 to 2006. I worked as an independent consultant on various utility regulatory matters from 2006 to 2008. I was employed at CSX Transportation as an economist from 2006 to 2016. I was employed by Acadian Consulting Group as an analyst from 2016 to 2017. I have been employed by the Attorney General since 2017 as a regulatory analyst in the Public Utilities Unit. I have attached my curriculum vitae as Exhibit TFB-1.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE THE OKLAHOMA CORPORATION COMMISSION?

A. No, I have not. However, I have filed testimony before the Florida Public Service Commission on three occasions – twice on behalf of the Commission Staff and once on behalf of the Florida Office of Public Counsel.

1 **PURPOSE**

2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS CAUSE?**

3 A. I am providing testimony to discuss Public Service Company of Oklahoma's ("PSO" or
4 "the Company") request that the Commission authorize a return on its undepreciated net
5 plant value in rate base for Northeastern Unit 4, a coal-fired unit which PSO voluntarily
6 retired earlier than scheduled to comply with federal environmental mandates. To incent
7 the Company to maximize its use of Northeastern Unit 4, I propose that the Commission
8 include in the Company's rate base only the following components: 1) structures and
9 equipment, recorded at net book value, that Northeastern Unit 4 shares in common with
10 Northeastern Unit 3 while Northeastern Unit 3 remains in commercial service; and 2)
11 materials and equipment, recorded at net book value, salvaged from Northeastern Unit 4
12 for use at a PSO generating unit. To the extent that PSO can utilize materials and
13 equipment from Northeastern Unit 4 elsewhere, the value thereof can be included in the
14 Company's rate base. Any remaining part of Northeastern Unit 4 should be excluded from
15 the Company's rate base.

16 **BACKGROUND**

17 **Q. PLEASE DESCRIBE THE HISTORY OF THE COMPANY'S NORTHEASTERN**
18 **UNIT 4?**

19 A. The Company's Northeastern Unit 4, a 450 MW coal-fired steam turbine, is located in
20 Oologah, Oklahoma, and entered commercial service in 1980.¹ PSO retired Northeastern

¹ Pub. Serv. Co. of Okla., 2015 Integrated Resource Plan, Okla. Corp. Comm'n, 34 (Sept. 2015), https://www.occeweb.com/pu/PSOIRP2015_Final_09292015.pdf. On Schedule 3 of the U.S. Energy Information

1 Unit 4 in April 2016, and has no plans to return it to service either in its current form or
2 through a conversion to natural gas.² The Company has no current plans to demolish
3 Northeastern Unit 4 until after Northeastern Unit 3 retires due, in part, to the two units'
4 shared facilities.³

5 **Q. WHAT DID PSO REQUEST FROM THE COMMISSION REGARDING**
6 **IMPLEMENTATION OF ITS ENVIRONMENTAL COMPLIANCE PLAN IN**
7 **PSO'S 2015 RATE CASE, CAUSE NO. PUD 201500208?**

8 A. The Company requested approval to recover approximately \$93.9 million in incremental
9 revenue requirements through PSO's base rates, a proposed environmental compliance
10 rider, and fuel factor to recover costs associated with its plan to be in compliance with the
11 federal Clean Air Act's Regional Haze Rule ("RHR") and Mercury and Air Toxics
12 Standard ("MATS")⁴. The Company's environmental compliance plan included
13 compliance measures for Northeastern Units 2, 3, and 4, Southwestern Power Station Unit
14 3, and Comanche Power Station, which are subject to the RHR for nitrogen oxide emissions
15 rates. Other units affected were Northeastern Units 3 and 4 which are subject to the RHR
16 for sulfur dioxide emissions, and Oklaunion and Northeastern Units 3 and 4 emission rates
17 for mercury and other hazardous air pollutants ("HAPS") under MATS. The Company's
18 environmental compliance plan included the following: 1) new post-combustion emissions

Administration's Form 860 for 2016, Northeastern Unit 4 is listed with a nameplate capacity of 473 MW and a summer capacity of 460 MW.

² See Direct Test. of Steven L. Fate on Behalf of Public Service Company of Oklahoma 14:20-22 (June 30, 2017) [hereinafter Fate Direct].

³ Company response to Attorney General's Data Request 10-5.

⁴ See Direct Test. of Randall W. Hamlett on Behalf of Public Service Company of Oklahoma, *Pub. Serv. Co. of Okla. Rates and Charges for Elec. Serv.*, Okla. Corp. Comm'n No. PUD 201500208, 10:9-10 (July 1, 2015)

1 control equipment and associated reagents; 2) modifying existing equipment; 3) fuel
2 changes; 4) reducing unit operating levels; 5) unit retirements; and, 6) replacement power
3 purchases.⁵ In the PSO's 2015 rate case, the Attorney General opposed PSO's request to
4 recover these costs associated with the Company's environmental compliance plan.⁶

5 **Q. WHAT PORTION OF PSO'S REQUESTED INCREASE IN REVENUE**
6 **REQUIREMENTS IN THE INSTANT PROCEEDING CAN BE ATTRIBUTED TO**
7 **THE COMPANY'S ENVIRONMENTAL COMPLIANCE PLAN?**

8 **A.** As explained in greater detail by Attorney General witness Edwin C. Farrar, approximately
9 \$43.7 million of PSO's requested \$169.7 million increase in base rate revenue requirements
10 can be attributed to its environmental compliance plan.⁷

11 **Q. IN PSO'S 2015 RATE CASE, DID THE COMMISSION GRANT PSO APPROVAL**
12 **TO RECOVER THE COSTS OF IMPLEMENTING ITS ENVIRONMENTAL**
13 **COMPLIANCE PLAN AS PROPOSED IN THAT CASE?**

14 **A.** No. The Commission did not grant PSO approval to recover the cost to implement its
15 environmental compliance plan as PSO had proposed in its 2015 rate case. Instead, the
16 Commission limited recovery at that time to plant investment attributable to PSO's
17 environmental compliance plan in service no later than July 31, 2015.⁸

⁵ Direct Test. of Steven L. Fate on Behalf of Public Service Company of Oklahoma, *Pub. Serv. Co. of Okla. Rates and Charges for Elec. Serv.*, Okla. Corp. Comm'n No. PUD 201500208, 2:15-3:2 (July 1, 2015) [hereinafter Fate 2015 Direct Test.].

⁶ Attorney General's Proposed Findings of Fact and Conclusions of Law *Pub. Serv. Co. of Okla. Rates and Charges for Elec. Serv.*, Okla. Corp. Comm'n No. PUD 201500208, 14-20 (January 20, 2016).

⁷ Direct Testimony of Edwin C. Farrar on Behalf of Mike Hunter, Oklahoma Attorney General, 4:2-5:7.

⁸ Final Order, Order No. 657,877, *Pub. Serv. Co. of Okla. Rates and Charges for Elec. Serv.*, Okla. Corp. Comm'n No. PUD 201500208, 5 (Nov. 10, 2016).

1 **Q. WHAT WAS THE COMMISSION’S DECISION FOR PLANT INVESTMENTS**
2 **ASSOCIATED WITH PSO’S ENVIRONMENTAL COMPLIANCE PLAN IN**
3 **SERVICE AFTER JULY 31, 2015?**

4 A. For plant investments related to PSO’s environmental compliance plan that were not in
5 service by July 31, 2015, which includes Northeastern Unit 3 and Comanche Power
6 Station, the Commission authorized deferred accounting treatment for depreciation,
7 property tax, and a return on these investments once these investments were placed into
8 service. The Commission also authorized this deferred accounting regulatory asset to be
9 included in rate base in PSO’s next rate base proceeding.⁹ In this case, the Company is
10 seeking recovery of approximately \$223 million for the investments at Northeastern Unit
11 3 and Comanche Power Station which were not in service by July 31, 2015.¹⁰ During the
12 Company’s 2015 rate case, PSO had estimated these investments to be \$235 million, which
13 is higher than their actual costs.¹¹

14 **Q. WHAT WAS THE COMMISSION’S DECISION IN PSO’S 2015 RATE CASE**
15 **REGARDING THE COMPANY’S REQUEST TO ACCELERATE ITS RETURN**
16 **OF THE UNDEPRECIATED BALANCE OF NORTHEASTERN UNITS 3 AND 4**
17 **BY 2026?**

18 A. The Commission ruled that PSO should be denied its request to accelerate the depreciation
19 that PSO sought to recover for Northeastern Units 3 and 4 over the 2016 through 2026

⁹ *Id.*
¹⁰ Fate Direct 13:15-16.
¹¹ Response to Oklahoma Industrial Energy Consumers’ Data Request 5-6, *Pub. Serv. Co. of Okla. Rates and Charges for Elec. Serv.*, Okla. Corp. Comm’n No. PUD 201500208 (Aug. 11, 2015).

1 period. The Commission further ordered to mitigate rate increases, PSO should continue
2 to recover depreciation for the undepreciated, “original” costs of these two units on its
3 current pace through 2040.¹²

4 **Q. WHAT WAS THE COMMISSION’S DECISION IN PSO’S 2015 RATE CASE ON**
5 **WHETHER THE COMPANY SHOULD BE PROVIDED AN OPPORTUNITY TO**
6 **EARN A RETURN ON THE UNDEPRECIATED BOOK VALUE OF**
7 **NORTHEASTERN UNIT 4?**

8 A. The Commission deferred consideration of this issue until PSO’s next rate case which is
9 now this case. The Commission found that because Northeastern Unit 4 was not expected
10 to be taken out of service until April 2016, which would have been outside the six-month
11 post-test year period, it was premature for the Commission to rule on the recovery of a
12 return on the undepreciated book value for Northeastern Unit 4. The Commission stated
13 that such determination should be addressed in PSO’s next rate case, following PSO’s
14 retirement of Northeastern Unit 4, when the coal unit would no longer be providing service
15 to the public and is no longer used and useful.¹³

16 **Q. WHAT IS THE CURRENT STATUS OF NORTHEASTERN UNIT 4?**

17 A. Northeastern Unit 4 was retired in place on April 15, 2016.¹⁴ The unit’s retirement status
18 was confirmed by data reported to the U.S. Department of Energy.¹⁵ The Company does
19 not have any plans to return the unit to service either in its current form or through a

¹² Final Order, Order No. 657,877, *Pub. Serv. Co. of Okla. Rates and Charges for Elec. Serv.*, Okla. Corp. Comm’n No. PUD 201500208, 5 (Nov. 10, 2016).

¹³ *Id.* at 10.

¹⁴ Direct Test. of Tommy J. Slater on Behalf of Public Service Company of Oklahoma 8:13 (June 30, 2017).

¹⁵ *Form EIA-860 Detailed Data* (2016 ZIP, 3_1_Generator_Y2016_Early_Release.xlsx), U.S. Energy Info. Admin. (Aug. 15, 2017), <https://www.eia.gov/electricity/data/eia860/xls/eia8602016er.zip>.

1 conversion to natural gas. Because the Company has no plans to return the unit to service,
2 some materials and equipment from Unit 4 have been salvaged and used to maintain its
3 sister unit, Northeastern Unit 3.¹⁶

4 **Q. WHAT WAS THE VALUE OF NORTHEASTERN UNIT 4 IN PSO'S RATE BASE**
5 **AT THE END OF THE TEST YEAR ON WHICH PSO BASED THIS CASE?**

6 A. At the end of the test year (December 31, 2016), the unrecovered net plant balance for
7 Northeastern Unit 4 was \$84.5 million. The Company had also recorded \$32.7 million in
8 accumulated deferred income taxes ("ADIT") for a net rate base effect of \$51.8 million.
9 The six-month update values for net plant and associated ADIT are \$82.7 million and \$32.0
10 million, respectively, for a net rate base effect of \$50.7 million.¹⁷

11 **"USED AND USEFUL" CONCEPT**

12 **Q. DO YOU AGREE WITH THE COMPANY'S CHARACTERIZATION OF THE**
13 **"REGULATORY COMPACT"?**

14 A. Yes. I agree that "under traditional utility ratemaking, a utility is provided an opportunity
15 to earn a fair and reasonable rate of return on its investment *used and useful in the provision*
16 *of utility service* in exchange for its commitment to provide service to customers within its
17 authorized service territory."¹⁸

18 **Q. DO YOU AGREE WITH THE COMPANY'S ARGUMENT THAT THE**
19 **COMMISSION'S PRIOR APPROVAL OF CERTAIN COMPONENTS OF THE**

¹⁶ Fate Direct 14:20-21.

¹⁷ Company response to Oklahoma Industrial Energy Consumers' Data Request 9-4 (Aug. 18, 2017).

¹⁸ Direct Test. of Pauline M. Ahern Direct on Behalf of Public Service Company of Oklahoma 3:19-23 (June 30, 2017)(emphasis added).

1 **ENVIRONMENTAL COMPLIANCE PLAN REQUIRES THAT THE**
2 **COMMISSION APPROVE THE ENVIRONMENTAL COMPLIANCE PLAN'S**
3 **REMAINING COMPONENTS?**¹⁹

4 A. No, I do not. The Company requested approval from the Commission in its last rate case
5 to recover the costs associated with its environmental compliance plan implementation.²⁰
6 The Commission ruled on the Company's request in four distinct parts, as I have described
7 previously. Most importantly, the Commission chose to defer consideration of the
8 appropriate regulatory treatment for Northeastern Unit 4 until this rate case. Unlike its
9 ruling regarding plant investments regarding environmental compliance for Northeastern
10 Unit 3 and Comanche Power Station,²¹ the question regarding *whether* recovery of a return
11 *of* and a return *on* the undepreciated net book value of Northeastern Unit 4 remains an open
12 question for the Commission's consideration. In the instant proceeding, PSO argues that
13 the Commission's prior approval of cost recovery for certain portions of the Company's
14 environmental compliance plan obligates the Commission to approve cost recovery for the
15 remaining portions of the Company's plan.²² For the Company's argument to be valid, the
16 Commission's prior ruling would have needed to limit its further consideration of the
17 regulatory treatment of Northeastern Unit 4 to *how much* the Company could have
18 recovered once the unit had been retired. The Commission did not do so.

¹⁹ Fate Direct 14:12-14.

²⁰ Fate 2015 Direct Test. 2:15-3:2.

²¹ Final Order, Order No. 657,877, *Pub. Serv. Co. of Okla. Rates and Charges for Elec. Serv.*, Okla. Corp. Comm'n No. PUD 201500208, 5 (Nov. 10, 2016).

²² Fate Direct 14:12-14.

1 **Q. PLEASE DISTINGUISH BETWEEN THE CONCEPTS OF “USED AND USEFUL”**
2 **AND “PRUDENCE.”**

3 A. The concept of “used and useful” is a fundamental longstanding ratemaking concept in
4 which a utility’s opportunity to earn a return is limited to only those assets that are “used”
5 (i.e., not under construction or standing idle awaiting abandonment) and “useful” (i.e.,
6 actively helping the utility provide efficient service).²³ When the Commission reviews the
7 prudence of a utility’s decision, the Commission determines whether the utility’s decision
8 was reasonable, given the information that the utility knew, or should have known, when
9 the decision was made. A prudence review neither judges a utility’s decision with the
10 benefit of hindsight, nor does a regulator substitute his judgment in place of the utility’s
11 judgment.²⁴

12 **Q. IS YOUR RESPONSIVE TESTIMONY REGARDING NORTHEASTERN UNIT 4**
13 **LIMITED TO WHETHER THE UNIT IS, AND IS EXPECTED TO BE, “USED**
14 **AND USEFUL” TO THE COMPANY?**

15 A. Yes. My responsive testimony is limited to whether Northeastern Unit 4, which the
16 Company retired in April 2016, is “used and useful” to the Company to provide efficient
17 utility service to its customers. My responsive testimony does not seek to re-argue whether
18 the Company’s environmental compliance decisions were prudent.

19 **Q. IS THE COMMISSION’S ORIGINAL RULING IN 1981 ON NORTHEASTERN**
20 **UNIT 4 AS “USED AND USEFUL” RELEVANT NOW TO DETERMINE**

²³ *Glossary of Utility Terms*, Oregon Pub. Serv. Comm’n., 26,
<http://www.puc.state.or.us/water/water%20home%20page/Glossary%20of%20utility%20terms.pdf> (last visited
Sept. 21, 2017).

²⁴ Charles F. Phillips, Jr., *The Regulation of Public Utilities* 340-341 (3rd ed. 1993).

1 **WHETHER THE UNIT IS “USED AND USEFUL” ON A GOING-FORWARD**
2 **BASIS?**

3 A. No. When PSO placed Northeastern Unit 4 into commercial service, the Commission did
4 not grant its initial approval²⁵ regarding the “used and useful” status with no expiration
5 date. During each rate case proceeding, a utility must show that each element within its
6 rate base is “used and useful.” Although Northeastern Unit 4 met this criterion in prior test
7 years since 1981, the Company still bears the burden to prove again that Northeastern Unit
8 4 remains “used and useful” for the current test year.²⁶ Furthermore, the Oklahoma
9 Supreme Court explained:

10 A test year is a mirror view of the past suspended within a limited but
11 definite time frame through which we prophesy its duplication in the future.
12 To alter the image is to risk the distortion for the future. Only the cost of
13 those capital assets which are in actual use during the test year, or whose
14 use is so imminent and certain that they may be said, at least by analogy, to
15 have the quality of working capital may be added to the rate base established
16 by the test year in any event; and then only if appropriate counter-balancing
17 safeguards are applied.²⁷

18 **PSO’S DECISION TO RETIRE NORTHEASTERN UNIT 4**

19 **Q. PLEASE SUMMARIZE PSO’S DECISION TO RETIRE NORTHEASTERN UNIT**
20 **4 IN APRIL 2016.**

21 A. PSO evaluated several options regarding Northeastern Unit 4 when the Company was
22 developing its plan to comply with the mandates of the federal Clean Air Act (“the Act”),

²⁵ Order No. 199748, *Pub. Serv. Co. of Okla. Rates and Charges for Elec. Serv.*, Okla. Corp. Comm’n No. 27068 (Oct. 2, 1981).

²⁶ *Turpen v. Okla. Corp. Comm’n*, 1988 OK 126, n.7, 769 P.2d 1309, 1316. See also *Southwestern Pub. Serv. Co. v. State*, 1981 OK 136, 637 P.2d 92, 97; *Arkansas Louisiana Gas Co. v. Sun Oil Co.*, 1976 OK 89, 554 P.2d 14, 15; *Pub. Serv. Co. v. Okla. Corp. Comm’n*, 1983 OK 124, 688 P.2d 1274, 1276; and *Okla. Natural Gas Co. v. Okla. Corp. Comm’n*, 1923 OK 400, 216 P. 917.

²⁷ *Southwestern Pub. Serv. Co.*, 1981 OK 136, ¶ 14, 637 P. 2d at 98.

1 and the related settlement between PSO, the U.S. Environmental Protection Agency, the
2 U.S Department of Justice, the Secretary of the Environment for the State of Oklahoma,
3 the Oklahoma Department of Environmental Quality, and the Sierra Club (“EPA
4 Settlement”)²⁸. The EPA Settlement occurred after the EPA had rejected Oklahoma’s State
5 Implementation Plan (SIP) of the Act’s requirements and imposed a Federal
6 Implementation Plan (FIP). PSO had challenged the FIP in court, but entered into the EPA
7 settlement to resolve its environmental compliance dispute with the EPA. As part of the
8 options that the Company considered, Northeastern Unit 4 could have been converted to
9 burn natural gas, been retrofitted, or been retired.²⁹ PSO concluded that its economic
10 analysis did not clearly identify a superior option.³⁰ Prior to making a final decision, PSO
11 considered non-quantified and non-quantifiable factors, such as the impact on the local
12 economy if the Company chose to retire both Northeastern Units 3 and 4,³¹ and the lack of
13 environmental flexibility if the Company chose to retrofit both units.³² Ultimately, PSO
14 chose to retire Northeastern Unit 4 as part of its environmental compliance plan based on
15 its conclusion that the retirement provided PSO “the opportunity to make its resource
16 acquisition decisions on an incremental basis while keeping as many options open as
17 possible over a longer period of time.”³³

²⁸ Fate 2015 Direct Test. 3:3-12.

²⁹ Fate 2015 Direct Test. Exhibit SLF-2.

³⁰ Fate 2015 Direct Test. 9:9-11.

³¹ Fate 2015 Direct Test. 9:12-17.

³² Fate 2015 Direct Test. 18:3-12.

³³ Fate 2015 Direct Test. 11:6-7.

1 **Q. WAS THE COMPANY’S DECISION TO RETIRE NORTHEASTERN UNIT 4**
2 **VOLUNTARY?**

3 A. Yes. While PSO must comply with the EPA Settlement, the Company considered several
4 alternatives regarding the most optimal means to achieve compliance.³⁴ Although the
5 Company acknowledged that retrofitting both Northeastern units would have been the least
6 cost option,³⁵ the Company considered additional factors into its analysis which led to the
7 voluntary retirement of Northeastern Unit 4.

8 **Q. IMMEDIATELY FOLLOWING ITS VOLUNTARY RETIREMENT, WAS**
9 **NORTHEASTERN UNIT 4 NO LONGER “USED AND USEFUL”?**

10 A. Yes. Prior to Northeastern Unit 4’s voluntary retirement, the Company entered into
11 purchased power agreements to replace Northeastern Unit 4’s lost capacity and associated
12 energy.³⁶ Northeastern Unit 4 is now duplicative of the Company’s other power resources
13 because the capacity from the Company’s new purchased power agreements is greater than
14 the capacity decrease attributable to Northeastern Unit 4.³⁷

15 **Q. ARE THERE ADDITIONAL REASONS FOR THE COMMISSION TO**
16 **CONSIDER WHY NORTHEASTERN UNIT 4 IS NO LONGER “USED AND**
17 **USEFUL”?**

³⁴ Fate 2015 Direct Test. Exhibit SLF-2.

³⁵ Fate 2015 Direct Test. 15:13-20.

³⁶ Fate 2015 Direct Test. 22:3-26:23.

³⁷ Pub. Serv. Co. of Okla., *Integrated Resource Plan*, Okla. Corp. Comm’n, 113 (Sept. 2015),
https://www.occeweb.com/pu/PSOIRP2015_Final_09292015.pdf.

1 A. Yes. When evaluating its several environmental compliance options, the Company
2 considered Northeastern Unit 4 not to be worth the additional investment in environmental
3 controls. In PSO's 2015 rate case, the Company was unwilling to invest at least \$650
4 million in additional environmental controls for both Northeastern Units 3 and 4 to remain
5 in service,³⁸ despite being "marginally the least cost option."³⁹ In the instant proceeding,
6 less than two years later, the Company increased its estimate to \$750 million in
7 environmental controls to keep just Northeastern Unit 4 in service.⁴⁰ Citing unknown
8 environmental regulations potentially forthcoming, the Company was unwilling to impose
9 these additional costs and risks on its ratepayers and shareholders to maintain Northeastern
10 Unit 4's economic competitiveness. Consequently, the unit is now technologically
11 obsolete because Northeastern Unit 3, now retrofitted, cannot operate if the unscrubbed
12 Northeastern Unit 4 remains in service.⁴¹

13 **PROPOSAL REGARDING NORTHEASTERN UNIT 4**

14 **Q. WHAT IS YOUR PROPOSED REGULATORY TREATMENT REGARDING**
15 **WHETHER THE COMPANY SHOULD EARN A RETURN ON**
16 **NORTHEASTERN UNIT 4?**

17 A. To incent the Company to maximize its use of Northeastern Unit 4, I propose that the
18 Commission include in the Company's rate base only the following components: 1)
19 structures and equipment, recorded at net book value, that Northeastern Unit 4 shares in

³⁸ Fate 2015 Direct Test. 18:4-6.

³⁹ Fate 2015 Direct Test. 15:17-18.

⁴⁰ Fate Direct 17:1-3.

⁴¹ Fate Direct 14:9-12.

1 common with Northeastern Unit 3 while Northeastern Unit 3 remains in commercial
2 service; and 2) materials and equipment, recorded at net book value, salvaged from
3 Northeastern Unit 4 for use at a PSO generating unit. To the extent that PSO can utilize
4 materials and equipment from Northeastern Unit 4 elsewhere, the value thereof can be
5 included in the Company's rate base. I do not consider any remaining part of Northeastern
6 Unit 4 to be "used and useful"; therefore, any remaining part of Northeastern Unit 4 should
7 be excluded from the Company's rate base.

8 **Q. IS THE FINANCIAL COMMUNITY AWARE THAT THE REGULATORY**
9 **TREATMENT OF NORTHEASTERN UNIT 4 REMAINS AT ISSUE BEFORE**
10 **THE COMMISSION?**

11 A. PSO informed the financial community that Northeastern Unit 4 was retired in April
12 2016.⁴² The Company has also informed the financial community that the regulatory
13 treatment of Northeastern Unit 4 remains an open question before the Commission.⁴³ In
14 addition, the financial community has been informed that if a return on Northeastern Unit
15 4 is not permitted, then the Company's future net income and cash flows could be reduced
16 and could impact the Company's financial condition.⁴⁴

17 **Q. HAS THE U.S. ELECTRIC UTILITY INDUSTRY AS A WHOLE HAD TO**
18 **REDUCE THE VALUE OF ITS ASSETS ON ITS COLLECTIVE BALANCE**
19 **SHEETS RECENTLY?**

⁴² Am. Elec. Power Co., Form 10-K, U.S. Sec. and Exch. Comm'n 48 (Feb. 28, 2017),
<https://www.sec.gov/Archives/edgar/data/4904/000000490417000019/aep10klegal20164q.htm>.

⁴³ 2016 Annual Report, Am. Elec. Power Co., 6 (Feb. 28, 2017),
<https://www.aep.com/investors/FinancialFilingsAndReports/AnnualReportsProxies/docs/16annrep/2016AnnualReportAppendixAtoProxy.pdf>.

⁴⁴ *Id.* at 7.

1 A. Yes. The U.S. electric utility industry’s earnings before interest, taxes, depreciation, and
2 amortization (“EBITDA”) rose 16 percent on flat generation growth from 2012 to 2016,
3 but has reportedly reduced the value of its assets by \$55 billion during this period.⁴⁵
4 EBITDA is a primary indicator of a company’s ability to pay down or back debt, pay
5 dividends, and re-purchase shares outstanding.

6 **Q. IS YOUR PROPOSAL REGARDING THE REGULATORY TREATMENT OF**
7 **NORTHEASTERN UNIT 4 CONSISTENT WITH THESE INDUSTRY TRENDS?**

8 A. Yes. Publicly-traded companies, including companies within the U.S. electric utility
9 industry, reduce the value of their assets on their balance sheets when the economic
10 conditions underlying these assets change whether the change is voluntary or not by the
11 company. For example, AEP, PSO’s parent, reduced the value of several assets by \$2.3
12 billion in 2016, primarily AEP’s generation assets in Ohio and Texas, to their “estimated
13 fair market value.”⁴⁶

14 **Q. DO YOU AGREE WITH THE COMPANY’S CHARACTERIZATION THAT**
15 **DENIAL OF FULL RECOVERY FOR NORTHEASTERN UNIT 4 WOULD SEND**
16 **A PERVERSE SIGNAL TO THE COMPANY REGARDING ITS INVESTMENT**
17 **DECISIONS?**

18 A. No, I do not. First, my proposed regulatory treatment reflects the economic reality as it
19 currently exists. Northeastern Unit 4, for which the highest value is currently as a source

⁴⁵ Leonard Hyman & William Tilles, *Is The U.S. Utility Industry Breaking Free From Its Death Spiral?*, *OilPrice.com*. (June 17, 2017), <http://oilprice.com/Energy/Energy-General/Is-The-US-Utility-Industry-Breaking-Free-From-Its-Death-Spiral.html>.

⁴⁶ *AEP Reports Third Quarter 2016 Earnings*, Am. Elec. Power Co. (Nov. 1, 2016), <https://www.aep.com/Newsroom/newsreleases/default.aspx?id=1961>.

1 for spare parts, has a lower value now than when it was in commercial service. The only
2 question the Commission must decide now is “Who pays for the reduction in value –
3 ratepayers or shareholders”? My proposal spreads this loss of value fairly between these
4 two groups, as well as incenting PSO to maximize the remaining value left in Northeastern
5 Unit 4. Second, my proposal sends the appropriate signal to PSO and other regulated
6 utilities in Oklahoma that utility management should always seek out creative solutions to
7 maximize value for its ratepayers.

8 **CONCLUSION**

9 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

10 **A.** Yes, it does.

I state, under penalty of perjury under the laws of Oklahoma, that the forgoing is true and correct.

Todd F. Bohrmann

(Signature)

September 21, 2017 Oklahoma City, Oklahoma

CERTIFICATE OF SERVICE

On this 21st day of September 2017, a true and correct copy of the above and foregoing
Responsive Testimony of Todd F. Bohrmann was sent via electronic mail to the following interested
parties:

Mr. Brandy L. Wreath
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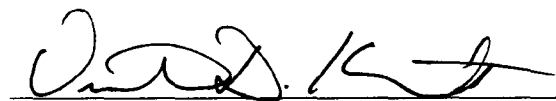
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Summary

Mid-level professional with extensive experience in economics, finance, and marketing. Committed to enhancing strategic positioning through accurate interpretation of industry and market conditions.

Professional Experience

OKLAHOMA OFFICE OF THE ATTORNEY GENERAL, Oklahoma City, OK 2017-present
Regulatory Analyst

- Prepare and present expert witness testimony regarding the economic regulation of jurisdictional electric and gas utilities before state agencies, boards, and commissions.

ACADIAN CONSULTING GROUP, Baton Rouge, LA 2016-2017
Senior Research Analyst

- Leveraged skills and knowledge associated with economic regulation of investor-owned utilities to identify issues, review discovery responses, and assist in preparing expert witness testimony in selected proceedings before several public utility commissions.
- Researched the impact of the natural gas renaissance on the liquefied natural gas, electric generation, petrochemicals, processing, pipeline, and storage industries in the states of Texas, Louisiana, Mississippi, and Alabama.

CSX TRANSPORTATION, Jacksonville, FL 2006-2016
Manager, Coal Planning and Market Analytics (2014-2016)

Provided critical and strategic thought regarding competitive position for utility coal franchise due to a deep understanding of industry and market conditions.

- Drove more effective pricing decisions through comparing CSX-served electric generation plants with competitive alternatives through internal presentations to senior leadership.
- Aligned operational resources with commercial expectations due to a monthly top-down forecast of over \$1 billion in annual sales from utility coal customers.
- Developed commercial and regulatory strategies to minimize impact of economic and environmental regulations on coal-fired electric generation within CSX's customer base.

Manager, Market Strategy (2006-2014)

Provided timely, relevant economic analysis to executive leadership and over 400 sales and marketing managers.

- Provided guidance regarding CSX sales and volume performance relative to prior year results and current year expectations.
- Enhanced market and competitive intelligence sources and methods by tracking volume by origin-destination by mode in over 100 product markets and 70 geographic markets.
- Generated \$100,000 in incremental revenue annually through auctioning scarce rail cars among agricultural customers at a premium price.

FLORIDA PUBLIC SERVICE COMMISSION, Tallahassee, FL

1994-2006

Economic Analyst

Led a 19-member team of attorneys, accountants, economists, engineers, and administrative staff to identify and resolve factual, legal, and policy issues regarding prudent regulatory oversight of \$10 billion annually for the purchase, delivery, storage, consumption, and disposal of fuel used for electric generation by investor-owned utilities.

- Initiated and developed an incentive program adopted by the Florida Public Service Commission that allows a utility to maximize its wholesale energy sales by allowing each utility to retain part of its annual profits earned on these sales after a target is achieved.
- Presented expert testimony regarding a regulatory accounting system for revenues and costs associated with price risk management of coal, oil, natural gas, and wholesale energy purchases.
- Co-authored the annual "Review of Ten-Year Site Plans" which evaluates the reasonableness of Florida's electric utilities' generation and transmission expansion plans.

Education

University of Central Florida, Orlando, Florida.

- Master of Business Administration
- Bachelor of Arts in Economics, with honors

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

**APPLICATION OF PUBLIC SERVICE COMPANY)
OF OKLAHOMA, AN OKLAHOMA)
CORPORATION, FOR AN ADJUSTMENT IN ITS)
RATES AND CHARGES AND THE ELECTRIC) CAUSE NO. PUD 201700151
SERVICE RULES, REGULATIONS AND)
CONDITIONS OF SERVICE FOR ELECTRIC)
SERVICE IN THE STATE OF OKLAHOMA)**

**PUBLIC SERVICE COMPANY OF OKLAHOMA'S RESPONSE TO
OKLAHOMA ATTORNEY GENERAL'S TENTH DATA REQUESTS
AG-PSO-10**

Question No. 10-5:

Page 14, lines 20-21 of the Direct Testimony of Steven L. Fate states: "Unit 4 is currently retired in place and there are no plans to return it to service in either its current form or through a conversion to gas."

- a) Are there any plans to demolish Northeastern Unit 4?
- b) If the response to part (a) is yes, please provide the Company's plans and any bids the company has received for the demolition of Northeastern Unit 4.

Response No. 10-5:

- a) There are no current plans to demolish Northeastern Unit 4 until after Unit 3 retires due in part to the shared facilities.
- b) N/A

Prepared By: Steven L. Fate

Title: VP Regulatory & Finance

Date Response Provided: 8/7/2017

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

APPLICATION OF PUBLIC SERVICE)
COMPANY OF OKLAHOMA, AN)
OKLAHOMA CORPORATION, FOR) CAUSE NO. PUD 201500208
AN ADJUSTMENT IN ITS RATES AND)
CHARGES AND THE ELECTRIC)
SERVICE RULES, REGULATIONS AND)
CONDITIONS OF SERVICE FOR)
ELECTRIC SERVICE IN THE STATE)
OF OKLAHOMA

**PUBLIC SERVICE COMPANY OF OKLAHOMA'S RESPONSE TO
OKLAHOMA INDUSTRIAL ENERGY CONSUMERS' FIFTH DATA REQUESTS**

Question No. 6:

Provide the current estimated capital and O&M costs for selected environmental control systems proposed in PSO's ECP along with the original capital and O&M cost estimates for such systems as reflected in the Company's testimony and analysis presented in OCC Cause No. PUC 201200054.

Response No. 6:

The ECP retrofit capital costs used in the late-2011 analysis were \$176.5 million and were revised to \$210 million in the August 2012 analysis. See response to OIEC 5-14 for a summary of original O&M cost estimates used in OCC Cause No. PUD201200054.

See Attachment 1 for the current estimate of investment cost and non-fuel O&M for all parts of the ECP

Prepared By: Mark A. Becker

Title: Resource Planning Mgr

		Recovery Mechanism				(e)	(f)
		(a)	(b)	(c)	(d)		
Units	Compliance Provision	Investment Cost (\$M)	Base Rates	FCA	ECR	Non-Fuel O&M (\$M)	Recovery Period
NES 3&4	Separated Over-Fire Air. ¹	\$13.4	100%			N/A	2014 - 2026
SWS 3	Separated Over-Fire Air. ¹	\$15.6	100%			N/A	2014 - 2037
NES 2	Separated Over-Fire Air. ¹	\$22.6	100%			N/A	2014 - 2035
NES 3&4	Use of low-sulfur coal.	N/A		100%		N/A	2014 - 2026
OKL	AC and CaBr injection systems.	\$2.2	100%			N/A	2016 - 2046
OKL	Use of low-sulfur coal and consumables.	N/A		100%		N/A	2016 - 2046
NES 3	Installation of DSI/AC/FF. ³	\$190.6			100%	(\$2.1) ⁴	2016 - 2026
NES 3	Sodium bicarbonate and activated carbon	N/A		100%		N/A	2016 - 2026
NES 4	Unit retirement. ²	N/A	100%			N/A	2016 - 2026
NES 4	New PPA takes effect.	N/A		100%		N/A	2016 - 2035
CPS	Dry Low NOx burners. ³	\$43.9			100%	N/A	2016 - 2035
NES 3	Annual capacity factor not to exceed 70%.	N/A		100%		N/A	2021 - 2022
NES 3	Annual capacity factor not to exceed 60%.	N/A		100%		N/A	2023 - 2024
NES 3	Annual capacity factor not to exceed 50%.	N/A		100%		N/A	2025 - 2026
NES 3	Unit retirement. ²	N/A	100%			N/A	2016 - 2026

1. Noted projects are complete and total cost is known. Projects are already in Rate Base pursuant to Order No. 639314 in Cause PUD 201300217 except for \$1.99M related to Northeastern Unit 2.
2. Recovery of remaining book value of Northeastern Unit 3 and 4 by 2026 through change in depreciation rates.
3. Recovery through either the ECR or Base Rates.
4. Non-Fuel O&M savings from retirement of Northeastern Unit 4 net of cost to operate and maintain environmental controls on Unit 3. See response to OIEC 5-23.

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

**APPLICATION OF PUBLIC SERVICE COMPANY)
OF OKLAHOMA, AN OKLAHOMA)
CORPORATION, FOR AN ADJUSTMENT IN ITS)
RATES AND CHARGES AND THE ELECTRIC) CAUSE NO. PUD 201700151
SERVICE RULES, REGULATIONS AND)
CONDITIONS OF SERVICE FOR ELECTRIC)
SERVICE IN THE STATE OF OKLAHOMA)**

**PUBLIC SERVICE COMPANY OF OKLAHOMA'S RESPONSE TO
OKLAHOMA INDUSTRIAL ENERGY CONSUMERS' NINTH DATA REQUESTS**

Question No. 4:

Please provide the amount included in pro forma rate base for the Northeastern 4 plant. Also, please provide the amount of associated ADIT for Northeastern 4.

Response No. 4:

At test year end 6-30-2016 the unrecovered net plant balance for NEPS U4 is \$84,514,703 and there is \$32,689,653 associated ADIT which results in a net rate base effect of \$51,825,049. The 6-months update amount at 6-30-2017 is \$82,739,751 net plant with associated ADIT of \$32,003,115 which results in a net rate base effect of \$50,736,636.

Prepared By: Randall W. Hamlett

Title: Dir Regulatory Acctg Svcs

Date Response Provided: 8/18/2017