

BEFORE THE CORPORATION COMMISSION OF OKLAHOMA

**COURT CLERK'S OFFICE - OKC
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) CAUSE NO. PUD 201400229
AIR ACT AND COST RECOVERY; AND FOR)
APPROVAL OF THE MUSTANG MODERNIZATION)
AND COST RECOVERY)

SUMMARY OF THE RESPONSIVE TESTIMONY OF DANIEL PEACO

COMES NOW Oklahoma Cogenerations, LLC (Oklahoma Cogeneration) and submits its Summary of the Testimony of Daniel Peaco, as follows:

Daniel Peaco, President of La Capra Associates, Inc., was retained by Oklahoma Cogeneration to provide expert analysis and testimony in this proceeding. Mr. Peaco has over thirty years of experience in a wide range of areas within the electricity industry, including power systems planning and electric industry restructuring, including wholesale and retail market formation, stranded cost analysis, generation asset valuation, resource planning and resource adequacy studies, and power procurement. Mr. Peaco has provided expert analysis and testimony in many legal and regulatory jurisdictions, including testimony in several prior Oklahoma Corporation Commission (Commission) proceedings.

In this Cause, Mr. Peaco's December 16, 2014, responsive testimony addressed the Mustang Modernization Plan proposed by Oklahoma Gas & Electric (OG&E) which proposes retirement of the existing Mustang steam generating units by 2017 and the installation of 280 MW of new combustion turbines at that site in 2018 and 120 MW in 2019. Specifically, he addresses the company's requests for determinations from the Commission for pre-approval of the Mustang CTs and for the recovery of costs of those facilities. Mr. Peaco concludes that OG&E has bypassed the Commission's competitive procurement requirements and recommend that the Commission deny OG&E's application for pre-approval of the Mustang CTs and deny the de facto waiver of the Commission's competitive procurement rules that underlies the Company's application.

OG&E assumes that the existing 120 MW PPA with Oklahoma Cogeneration will expire after the 2019 summer peak and will not be renewed. Mr. Peaco observes that the 120 MW of new CT capacity is essentially a replacement for the capacity lost with the assumed expiration of the PPA with Oklahoma Cogeneration.

To replace the retiring Mustang capacity, OG&E determined that the optimal solution is to build new CT capacity on the existing Mustang site. Mr. Peaco's testimony addressed this conclusion, noting that OG&E's primary justifications for this strategy (i.e. emissions permits, existing infrastructure, proximity to load) are not fully supported by OG&E. Regarding the emissions netting benefits, OG&E did not provide any evidence to quantify this benefit, nor did it demonstrate that the level of emissions permitted are in fact necessary at that site. OG&E has used this emissions netting circumstance as a time-sensitive constraint, but has not demonstrated that utilizing the emissions netting is necessary, or even beneficial over alternative options for new capacity. Regarding the benefits of existing infrastructure, Mr. Peaco's testimony notes that OG&E has not analysis to quantify this benefit. Finally, regarding the supposed benefits of the proximity to load, Mr. Peaco's testimony notes that has similarly not quantified this benefit, and has not demonstrated why the Mustang site would have more benefits than the Oklahoma Cogeneration site. Overall, he concludes that OG&E has not demonstrated that the Mustang CTs are a unique solution for capacity replacement and has not demonstrated the value of the benefits that the Company has asserted.

Mr. Peaco's observes that OG&E failed to consider sufficient alternatives to replace the Mustang capacity. OG&E did not consider market options and did not solicit competitive bids for capacity, and, in particular, the Company did not consider acquiring the Oklahoma Cogeneration capacity or extending its PPA to fulfill a portion of the capacity need. Mr. Peaco observes that Public Service Company of Oklahoma (PSO) has completed two competitive solicitations for capacity since 2012 which contrasts with OG&E's assertion that market options are not available.

Mr. Peaco testifies that OG&E has not complied with the Commission's rules requiring competitive procurement and is, in effect, seeking a waiver from those requirements in this cause. Further, the Company is seeking pre-approval of the costs of the project. Additionally, Subchapter 38 requires a utility to open a cause with the Commission if it wants approval of cost recovery prior to construction. No such competitive bidding was completed, and OG&E has not obtained a waiver from the Commission rules. OG&E has not met its obligation to consider reasonable alternatives to the plan required by Commission rules when such an application for pre-approval is made.

Finally, Mr. Peaco's testimony addresses OG&E's treatment of the Oklahoma Cogeneration facility in OG&E's capacity planning process. The facility is a 120 MW combined cycle plant with a PPA with OG&E through 2019. OG&E assumes that the PPA is not extended, adding to the capacity need it aims to resolve with the new Mustang facilities. The plant has significant remaining useful life, and remains an economical capacity option for OG&E's capacity need.

In summary, Mr. Peaco's testimony makes the following conclusions:

- 1) OG&E current timing of the retirement of the exiting Mustang units creates a need for new capacity prior to 2020.
- 2) OG&E has proposed the Mustang CTs to provide the replacement capacity needed when those retirements occur.
- 3) OG&E has determined that 280 MW of CTs are needed in 2018 and an additional 120 MW of CTs are needed in 2019.
- 4) OG&E has assumed that it will not utilize any capacity from the Oklahoma Cogeneration facility after the end of the current PPA in 2019.
- 5) The 2019 CTs are, in effect, replacement capacity for the assumed loss of Oklahoma Cogeneration capacity.

- 6) OG&E has bypassed market options for supplying replacement capacity for the Mustang retirements, contrary to Commission rules requiring competitive procurement for such capacity.
- 7) OG&E's application for approval of the Mustang CTs is, in effect, a request of this Commission to grant a waiver to OG&E from its competitive procurement rules.
- 8) If the new Mustang CTs are built, OG&E still faces a capacity need in 2020 due to the advanced retirement schedule of the Mustang units as well as the expiration of the Oklahoma Cogeneration PPA. This application does not address that need, but the 2014 IRP Update indicates that the Company may intend to build a new combined cycle unit. Given the lead time required for new combined cycle permitting, OG&E will need to initiate competitive procurement to address that capacity need in the very near future.
- 9) OG&E has not demonstrated that new construction of CTs is the least cost solution for its capacity needs in 2018 and beyond.
- 10) OG&E has not considered avoiding the cost of constructing the 120 MWs of new CT capacity (in-service 2019) by acquiring the Oklahoma Cogeneration facility or extending its PPA.

Mr. Peaco recommends that the Commission:

- 1) Deny OG&E's application for approval of the Mustang CTs and associated cost recovery mechanism;
- 2) Deny OG&E's de facto request for a waiver from the Commission's competitive procurement rules for the replacement capacity for the Mustang retirements; and
- 3) Require OG&E to issue a competitive solicitation for the replacement capacity. At a minimum, OG&E should be required to solicit alternatives for the 2019 CTs and the planned CC addition in 2020.

Oklahoma Cogeneration reserves the right to supplement this Exhibit list as circumstances require.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "William L. Humes", with a long horizontal flourish extending to the right.

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CERTIFICATE OF SERVICE

On this 20th day of February, 2015, the undersigned caused a true and correct copy of the above and foregoing document to be transmitted to the following:

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