

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 201100087

FILED

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CORPORATION COMMISSION
OF OKLAHOMA



PRE-FILED RESPONSIVE TESTIMONY
OF
FAIRO MITCHELL

NOVEMBER 9, 2011

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INTRODUCTION

1 **Q: Please state your name and your business address.**

2 **A:** My name is Fairo Mitchell. My business address is the Jim Thorpe Office
3 Building, Room 580, 2101 North Lincoln Boulevard, Oklahoma City, OK.

4 **Q: Please state your educational background and professional experience.**

5 **A:** See my qualifications outline, attached as Exhibit FM-1.

6 **Q: What is your occupation and who employs you?**

7 **A:** I am employed by the Public Utility Division (PUD) of the Oklahoma Corporation
8 Commission ("OCC" or "Commission") as the chief of the Energy and Water
9 Group.

10 **Q: How long have you been so employed?**

11 **A:** I have been employed with the Commission since October 2005.

12 **Q: What are your duties and responsibilities with the PUD?**

13 **A:** My principal responsibility is to manage the day-to-day activities of the Energy
14 and Water group.

15 **Q: Have you previously testified before this Commission and were your
16 qualifications accepted?**

17 **A:** Yes. I have testified before the Commission, and my qualifications have been
18 accepted.

PURPOSE

1 **Q: What is the purpose of your testimony regarding the application filed by**
2 **Oklahoma Gas and Electric Company (“OG&E” or the “Company”) to**
3 **request recovery of \$73,255,957 revenue deficiency and to implement**
4 **tariffs to recover that deficiency filed as Cause No. PUD 201100087?**

5 **A:** The purpose of my testimony is to detail the areas that PUD reviewed, to discuss
6 PUD's review process, to provide an overview of PUD's recommended revenue
7 requirement for OG&E and to give PUD's recommendation about its ad valorem
8 taxes.

EXECUTIVE SUMMARY

9 The cause being reviewed is the application of OG&E to request recovery of
10 \$73,255,957 revenue deficiency and to implement tariffs to recover that
11 deficiency filed as Cause No. PUD 201100087 for the test year ending December
12 31, 2010. OG&E is requesting an increase of 4.3 percent. This represents a
13 1.68 percent annual increase in rates since OG&E's last rate case and equates
14 to an increase of approximately \$6.60 per month for the average residential
15 customer. This increase is based on an overall rate of return (ROR) of 8.75
16 percent and a return on equity (ROE) of 11.00 percent. The basis of OG&E's
17 rate relief request is to pay for investments that the Company has already made
18 and expenses that the Company is already experiencing.

19 OG&E is also requesting modifications to, or termination of, certain of its rate
20 tariffs and to its terms and conditions of service. The modifications include
21 changes to: the Renewable Transmission System Additions Rider (“RTSA”), the

1 Green Power Wind Rider ("GPWR"), the Low Income Assistance Program
2 ("LIAP"), the Net Energy Billing Option rider, the Crossroads rider, the Military
3 Base Tariff Credit rider, the SPP Cost Tracker, and to extend funding for
4 OG&E's System Hardening program. OG&E is proposing the elimination of the
5 Off-system Sales of Electricity ("OSSE") rider, OU Spirit rider, the Smart Grid
6 Best Bill rider, the Curtailment rider, Interruptible Rider, and PACE rider. Also,
7 the Economic Incentive Credit ("EIC") rider expires at the end of 2011 and is
8 being removed. PUD recommends approval of all the tariff eliminations and
9 modifications except the change to the RTSA.

10 In my testimony, I will detail the areas that were reviewed by each PUD analyst
11 and the review process along with policy recommendations. I detail the
12 management of this case. I present PUD recommendations on Ad Valorem
13 Taxes Franchise Fee, RTSA rider and Operating Income Adjustment. Along with
14 Mr. Thompson, I established the scope of review, and reviewed testimony to
15 support PUD's quantification of OG&E's current revenue requirement in its
16 Accounting Exhibit.

17 PUD does not recommend any adjustments to the ad valorem tax expense level.
18 PUD reviewed ad valorem tax payments, its trends for the test year and four
19 years prior to the test-year, related adjustments, and assessments as reported by
20 the Oklahoma State Board of Equalization. PUD believes that OG&E's ad
21 valorem tax expense level and corresponding calculations are reasonable. Also,

1 PUD does not recommend any adjustment to Franchise Fees. PUD does not
2 recommend the modification to the RTSA rider to add two transmission projects
3 because these projects are more than six-months outside of the test year. PUD
4 believes that approval of the costs of these projects should be addressed in
5 OG&E's 2013 rate case. Also, PUD recommends additional reporting
6 requirements for OG&E's SPP Cost tracker, which include an annual filing to
7 discuss the re-determination of its third-party costs, factor and detailed
8 description of the third-party projects.

9 After reviewing OG&E's rate case calculations, PUD proposed seven additional
10 rate base adjustments and 17 expense adjustments. These adjustments are
11 detailed in PUD's Accounting Exhibit. Section A of PUD's Accounting Exhibit
12 provides a computation of OG&E's revenue requirement. PUD calculates that
13 the Company's jurisdictional revenue requirement is (\$6,328,762), as shown on
14 Line 7 of Section B, which is a (\$79,584,719) decrease to OG&E's revenue
15 change of \$73,255,957 as presented in its Application. Also, for OG&E's
16 Oklahoma Jurisdiction, PUD's calculation includes: an adjustment to rate base of
17 (\$251,916,038), which brings the total from \$3,351,854,028 to \$3,099,937,990
18 and adjusted operating income by \$255,466,758. PUD calculated a lower return
19 on equity (ROE) and rate of return (ROR) than OG&E presented in its
20 application. PUD calculated an 8.91 percent for ROE and a ROR of 8.116
21 percent; whereas OG&E presents an 11.00 percent ROE and a resulting 8.75
22 percent ROR.

1
2 After conducting a thorough review of the supporting documents associated with
3 OG&E's rate case, PUD recommends that the Commission approve OG&E's
4 application with PUD's adjustments. Except for any noted adjustments, PUD
5 believes that OG&E's Application is timely and the basis for the Company's
6 request with PUD's adjustments is fair, just and reasonable and in the public
7 interest because it allows the Company the opportunity to earn a reasonable
8 return for its shareholders while providing safe and reliable service to its
9 Oklahoma ratepayers.

OVERVIEW OF OG&E AND ITS REQUESTED RELIEF

10 **Q: Please briefly describe OG&E.**

11 **A:** In Oklahoma, OG&E serves more than 765,000 customers in a service territory
12 spanning 30,000 square miles in Oklahoma and western Arkansas

13 **Q: Please explain OG&E's most recent rate case.**

14 **A:** OG&E's most recent general rate case in Oklahoma, Cause No. PUD
15 200800398, had a test year ending September 30, 2008. OG&E received
16 Commission authorization in Order No. 569281 to increase its Oklahoma retail
17 electric rates by \$48,242,626.

18 **Q: Please explain OG&E's request.**

19 **A:** OG&E is requesting an overall increase in Oklahoma jurisdictional base electric
20 revenue of \$73,255,957. This increase in base electric rates is coupled with a

1 shift in the recovery of nearly 100 percent of the fuel and energy costs to OG&E's
2 fuel adjustment clause. If approved, OG&E's request would be an increase of
3 4.3 percent, which represents a 1.68 percent annual increase in rates since its
4 last rate case and equates to an increase of approximately \$6.60 per month for
5 the average residential customer. The requested overall net increase in the total
6 Oklahoma revenue stream is based upon an overall rate of return of 8.75 percent
7 and a return on equity of 11.00 percent.

8 **Q: What are the primary factors that cause this rate case to be filed?**

9 **A:** In OG&E's last general rate case, Cause No. PUD 200800398, the Company
10 agreed to file its next rate case on or before June 30, 2011 with a test year
11 ending December 31, 2010. On June 28, 2011, in response to OG&E's request,
12 the Commission issued Order No. 586714 directing OG&E to file the Application
13 on or before July 29, 2011. OG&E also received a waiver from the Director of
14 the PUD allowing OG&E to file the present application more than six months after
15 the end of the test year. OG&E is also requesting either the elimination or
16 modification of certain of its rate tariffs and modification to its terms and
17 conditions of service. Also, OG&E is requesting rate relief to pay for investments
18 that the Company has already made and expenses that the Company is already
19 experiencing.

PUD'S ROLE IN RATE CASE REVIEWS

1 **Q: From a policy viewpoint, would you please describe your opinion of PUD's**
2 **role in this Cause?**

3 **A:** PUD's role in its review of any company's filing in a rate proceeding is to be as
4 objective as possible. PUD recognizes that there are competing interests
5 throughout the case and we try to weigh all issues as objectively as can be done,
6 realizing that there are often competing interests between the Company and the
7 ratepayers. PUD does its best to make recommendations that are fair, just and
8 reasonable, which should allow the Company to provide safe, reliable service to
9 the ratepayers at a reasonable price.

AREAS REVIEWED BY PUD ANALYST

10 **Q: Please list the areas reviewed by each member of PUD.**

11 **A:** Table 1 lists the PUD analysts and their assigned areas.

Table 1: PUD Analyst Assignments

| Analyst | Assignment |
|------------------------|--|
| Robert Thompson | Review PUD's Accounting Exhibit Accounting Exhibit and Workpapers Oversight Accumulated Deferred Income Taxes Cash Working Capital Current Income and Deferred Income Taxes Interest Synchronization Investment Tax Credits FASB 87 & 106 Trackers Acquisition Adjustment Amortization |
| Pat Davis | Fuel and Energy Expenses (incl. inventory and storage) Fuel Adjustment Rider Adjustment On-System fuel and Purchased Power expenses Off System Sales Margin and Revenue Fuel Related O & M Expenses Gains on Allowances |

| | |
|-------------------------------|--|
| <p>Kiran Patel</p> | <p>Lead Auditor, Coordinate on-site visits Data Requests and field work Maintain data Request Logs Review Board of Director's Minutes Review Independent Auditor Reports Misc. Taxes Customer Advances Interest on Customer Deposits Customer Deposits Banking Fees Entertainment and Gifts</p> |
| <p>Fairo Mitchell</p> | <p>Area Chief/ Cause Administrator/Cause Controller Review Team Members Work Papers Review PUD's Accounting Exhibit Preparing PUD Accounting Exhibit Executive Compensation Program Franchise Fee Operating Income Adjustment Property Tax Expense</p> |
| <p>Javad Seyedoff</p> | <p>Lease & Rent Expenses Rate Case Expenses Misc. General Expense FERC Assessment Utility assessment Expense Clearing Account Pre-payment Inventory-Material and Supplies Affiliate & Subsidiary Contracts Oklahoma Annual Assessment Fees (rider) Large Invoices Inter-Company & Holding Company allocations and transactions Corporate Expenses & Overheads and Allocations</p> |
| <p>Karen Forbes</p> | <p>Renewable Energy Credits Revenue Vegetation Control Expense Wind Storm Amortization Wind Power Expenses and Revenues System Reliability, Hardening & Infrastructure Expense Vegetation and System Infrastructure Demand-Side Management Expense & Rider Excess Facilities Adjustment Storm Costs Related Adjustments & Rider Advertising expenses Education expense Marketing and Sales expenses</p> |
| <p>Nicholas Fiegel</p> | <p>Capital Structure Return on Equity & Methods and Standards Rate of Return & Methods and Studies Stock Issuance</p> |

| | |
|-------------------------|--|
| Tonya Hinex-Ford | Postage Dues, Donations, Civic Memberships Legislative Advocacy Insufficient Fund Fees Smart Grid and Guaranteed savings Outside Service & Attorney Fees Legal Contract Settlements Employee Benefits Insurance & Self Insurance Expense Injuries and Damage Expenses |
| Sharon Fisher | Payroll & Labor Expense Pensions and Other Post-Retirement Welfare Costs (OPEB) FICA, FUTA, SUTA 401 K Costs Executive Compensation Program and Expense Vouchers Salary Surveys |
| George Kiser | All Plant in Service related issues Depreciation Rates & Models and All associated Issues Plant held for Future Use Accumulated Depreciation All issues relating to Engineering Allocation of Common Plant Plant in service Administrative and General ("A&G") expenses McClain LTSA adjustment LTSA Expenses Power Delivery and NERC Compliance Production Maintenance Plant O&M Expenses Capitalized Maintenance Repairs and Maintenance Bad Debt Expense Regulatory Assets and Liabilities & Expenses Materials & Supplies CWIP |
| Luis Saenz | Jurisdictional Allocations Class Cost of Service Study Rate Design changes Fuel in Base Rates |

- 1 **Q: Did all of the PUD analysts that were mentioned above file testimony?**
- 2 **A:** Yes. PUD analysts reviewed all of the assigned areas that were listed above, in
- 3 addition to the working capital adjustments, revenue adjustments and expense
- 4 adjustments that were made by the Company. Also, PUD made seven rate base
- 5 adjustments and 17 expense adjustments.

PUD'S OVERALL REVIEW PROCESS

1 **Q: Would you please explain to the Commission the management's**
2 **responsibilities in this cause?**

3 **A:** Yes. Mr. Thompson and I coordinated the recommendations of PUD as filed in
4 the Accounting Exhibit. PUD's recommendations were made with extensive
5 focus on several factors including past Commission practices, and prior rate case
6 activities, updates and statutes as well as calculation reviews.

7 **Q: Would you please explain the process that PUD used to perform the in-**
8 **depth review and audit of OG&E's books and procedures?**

9 **A:** Yes. PUD reviewed the initial filing and testimony supplied by the Company as a
10 part of the rate case filing. PUD further reviewed Commission orders, prior
11 testimony, and work papers relating to OG&E. Most members assigned to
12 review financial areas of OG&E conducted on-site field work in OG&E's offices in
13 Oklahoma City, OK. Other on-site visits were made to operational areas as
14 needed.

15 **Q: Please explain the nature of a field visit used by PUD.**

16 **A:** Field visits are the mechanism through which PUD is able to review the actual
17 books and financial records of the Company. In addition to the financial review,
18 PUD is able to conduct interviews with the operational employees who manage
19 and perform the functions under review. This enables PUD to form a real world
20 opinion of reasonableness, rather than to set levels based solely on accounting
21 entries.

1 **Q: Did PUD issue formal data requests?**

2 **A:** Yes. PUD submitted official requests for data to OG&E. This was in addition to
3 numerous informal discussions held during the on-site field audits. PUD also
4 reviewed the data requests submitted by other parties to OG&E and used the
5 responses to those data requests to form additional questions and analyses.
6 This process greatly reduced the need to ask a number of overlapping questions,
7 which tend to reduce efficiency for all parties.

8 **Q: Why is it important to do more than an accounting review of the books and**
9 **records?**

10 **A:** Failure to review the reasons for certain levels of expense and investments could
11 result in setting a level that is inflated or insufficient to provide service in the
12 safest, most reliable, and most efficient manner. Some items can be misleading
13 if only reviewed from an accounting standpoint. It is always beneficial to discuss
14 the various expenses and investments with field personnel who are part of the
15 decision-making process.

16 **Q: Was PUD able to look at all book entries made by the Company as a result**
17 **of this audit?**

18 **A:** No. It is unrealistic for PUD to look at every account and every entry made
19 during the test year and the six-months following test year end. However, PUD
20 reviewed areas that appear to have a major impact on the rates and charges
21 passed on to ratepayers. Within these accounts, PUD performs a review of
22 sample entries to ensure proper posting, accounting, and allocation.

1 **Q: What is PUD's position regarding inclusion of known and measurable**
2 **changes for ratemaking purposes?**

3 **A:** In determining PUD's recommended overall revenue requirement for the
4 Company, PUD used the six-month post test year date as the cut-off period,
5 which PUD believes is consistent with the language in 17 O.S. § 284, which
6 states, "[T]he Corporation Commission shall give effect to known and
7 measurable changes occurring or reasonably certain to occur within six months
8 of the end of the test period upon which the rate review is based." PUD used the
9 six-month post test year as a benchmark to check the reasonableness of the test
10 year end levels. PUD also used the information to set normalized levels if
11 previously ordered to do so by the Commission.

12 **Q: Did PUD make adjustments to the six-month post test year level in this**
13 **case?**

14 **A:** Yes. PUD adjusted the major accounts in this case to reflect a six-month post
15 test year level to account for the most recently available data. The major areas
16 adjusted include, but were not limited to, rate base, accumulated depreciation,
17 payroll, incentives, and revenues.

1 **Q: Was PUD's Accounting Exhibit prepared under the direct supervision of**
2 **Robert Thompson, CPA, and was it based on examination of OG&E's books**
3 **and records?**

4 **A:** Yes, the PUD's Accounting Exhibit was prepared under the direct supervision of
5 PUD's accounting manager, Robert Thompson, CPA. It was also based upon a
6 thorough review and examination of the Company's books and records.
7

AD VALEROM TAXES

8 **Q: Please explain your review of the *ad valorem* tax expenses.**

9 **A:** PUD reviewed workpapers H-2-17 and H-2-17a, general ledger support for
10 OG&E's 201 property taxes, FEC Form 1, the Oklahoma State Board of
11 Equalization letters and OG&E's historical tax and calculation of its 2011 millage
12 rate.

13 **Q: Do you have any adjustments to *ad valorem* tax expenses?**

14 **A:** No. PUD does not propose any changes in the Company's *ad valorem* tax
15 expenses adjustment or calculation.
16

17 **Q: Please give a brief explanation of OG&E *ad valorem* taxes.**

18 **A:** OG&E proposed an adjustment to increase its property taxes by \$9,877,064.
19 This adjustment recognizes an increase in *ad valorem* taxes based on OG&E's
20 fair cash value as established by the Oklahoma Tax Commission for 2011 and an
21 estimate of the fair cash value to be set by Arkansas. Based on these factors,

1 the 2011 *ad valorem* taxes are expected to be approximately \$64.5 million. Next,
2 OG&E increased its 2011 *ad valorem* tax level by \$5,343,061 to reflect the five
3 year historic trend in the levels of increases in valuations and the historic average
4 increase in millage rates of the same period.

5 **Q: Since its last rate case has OG&E changed its methodology for calculating**
6 **its *ad valorem* tax expense?**

7 **A:** No. Like the last rate case, OG&E's *pro forma* adjustment of \$9,877,064 reflects
8 an increase that the Company expects to experience in the year the rates go into
9 effect, and is based on the trend of *ad valorem* tax increases experienced during
10 2007 through 2010 and expected to occur in 2011.

11 **Q: What is PUD's recommendation concerning OG&E's *ad valorem* tax**
12 **adjustment?**

13 **A:** PUD believes that OG&E's calculation of its ongoing *ad valorem* tax expense is
14 reasonable and does not propose any additional adjustments. Also, PUD
15 recommends that the Commission approve OG&E's *pro forma* adjustment of
16 \$9,877,064.

FRANCHISE TAXES

17 **Q: Do you have any adjustments to Franchise Taxes?**

18 **A:** PUD reviewed the Franchise Taxes and supporting documents. PUD reviewed
19 the sample documents and the actual payments made by the Company. PUD
20 proposes no adjustment to franchise taxes.

ADDITIONAL PROJECT TO INCLUDE IN THE RTSA RIDER

1 **Q: Please describe the projects that OG&E is requesting to add to its RTSA**
2 **rider?**

3 **A:** OG&E is requesting approval to recover its portion of costs associated with two
4 SPP identified transmission projects through its RTSA rider. The Sunnyside-
5 Hugo Project ("Sunnyside-Hugo") is a 345-kV, 120-mile transmission line to be
6 built from OG&E's Sunnyside substation to the Western Farmers Electric
7 Cooperative's Hugo Generation Plant, as well as associated upgrades to the
8 Sunnyside substation. Sunnyside-Hugo is estimated to cost \$151.5 million and
9 has an estimated in-service date of April 1, 2012. The Sooner-Rose Hill Project
10 ("Sooner-Rose Hill") is a 345-kV, 88-mile transmission line to be constructed from
11 OG&E's Sooner substation to Westar Energy's Rose Hill substation near Wichita,
12 Kansas. The OG&E portion of the Sooner-Rose Hill line is 43 miles in length, will
13 terminate at the interface with the Westar Energy segment at the Oklahoma-
14 Kansas state line, is estimated to cost \$43.7 million, and has an estimated in-
15 service date of June 1, 2012.

16 **Q: Please describe the estimated revenue requirement for the full recovery of**
17 **these projects?**

18 **A:** OG&E's initial investment for these projects is projected to be approximately
19 \$195,266,520; however, third party load serving entities (LSEs) are expected to
20 pay for 77.40 percent of the revenue requirement for these projects. Therefore,
21 the amount of transmission investment in Oklahoma rate base will be reduced by

1 \$151,136,286 because of the LSEs contribution. OG&E's expected cost
2 responsibility will be \$44,130,234, or 22.60 percent of the total investment;
3 therefore, the revenue requirement to Oklahoma customers will be based on this
4 \$44 million investment.

5 **Q: Does PUD have any concerns with the approval of these projects in this**
6 **rate case?**

7 **A:** Yes. PUD believes that completion of these projects is too distant to be
8 considered in this rate case. As mentioned above, Sunnyside-Hugo has an
9 estimated completion date of April 1, 2012, while Sooner-Rose Hill has an
10 estimated in-service date of June 1, 2012. These completion dates are well
11 outside of the six-month post test year adjustment period to be considered known
12 and measureable. PUD believes that the costs associated with these projects
13 should be considered in OG&E's 2013 rate case that it is required to file.

14 **Q: Is PUD determining whether the costs associated with these projects are**
15 **recoverable?**

16 **A:** No. PUD is not determining whether OG&E may recover its portion of the costs
17 that are associated with these SPP identified projects. PUD is simply stating that
18 it believes that the projects do not meet the criteria of being known and
19 measurable to be considered in this rate case.

20 **Q: Is PUD determining whether the cost can be recovered in a rider?**

21 **A:** No. PUD is not making any determination on how the cost of these projects can
22 be recovered.

1 **Q: What is PUD's recommendation regarding the inclusion of the SPP**
2 **identified projects for recovery in OG&E's RTSA rider?**

3 **A:** PUD does not recommend that the Commission include OG&E's Sunnyside-
4 Hugo and Sooner-Rose Hill transmission projects because their completion dates
5 are outside of the six-month post test year threshold. These projects would not
6 be considered known and measureable or used and useful. Therefore these
7 projects should not be considered in this rate case, but should be considered in
8 OG&E's required 2013 rate case.

PUD'S ACCOUNTING EXHIBIT AND REVENUE REQUIREMENT

9 **Q: Please explain PUD's Accounting Exhibit.**

10 **A:** PUD's Accounting Exhibit provides a comparison of OG&E's revenue
11 requirement with the adjustments PUD proposed to derive its revenue
12 requirement. Section A of PUD's Accounting Exhibit provides a computation of
13 PUD's revenue requirement.

14 **Q: Did PUD make any accounting adjustments in calculating OG&E's revenue**
15 **requirement?**

16 **A:** Yes. PUD made seven rate base adjustments and 17 expense adjustments.
17 PUD's total company rate base adjustments equaled (\$289,014,639); while
18 PUD's expense adjustments totaled (\$12,707,388). These adjustments are
19 sponsored by Mr. Thompson.

1 **Q: Please explain the overall revenue requirement recommended by PUD.**

2 **A:** PUD calculates that the Company's jurisdictional revenue requirement is
3 (\$6,328,762), as shown on Line 7 of Section B, which is a (\$79,584,719)
4 decrease to OG&E's revenue change of \$73,255,957 as presented in its
5 Application. Also, for OG&E's Oklahoma Jurisdiction, PUD's calculation
6 includes: an adjustment to rate base of (\$251,916,038), which brings the total
7 from \$3,351,854,028 to \$3,099,937,990 and adjusted operating income by
8 \$255,466,758. PUD calculated a lower return on equity (ROE) and rate of return
9 (ROR) than OG&E presented in its application. PUD calculated an 8.91 percent
10 for ROE and a ROR of 8.116 percent; whereas OG&E presents an 11.00 percent
11 ROE and a resulting 8.75 percent ROR.

ADDITIONAL ITEMS TO HIGHLIGHT

12 **Q: Are there any additional items that the Company requested that you would**
13 **like to highlight?**

14 **A:** Yes. OG&E is requesting approval of its fuel and energy costs that are currently
15 recovered in base rates to be transferred to its fuel adjustment clause ("FAC"),
16 which is also referred to as a FAC rider for recovery. In addition to the change in
17 the FAC, OG&E is requesting the Commission approve modifications or
18 termination to certain of its rate tariffs. The modifications include changes to the
19 Green Power Wind Rider ("GPWR"), to the Low Income Assistance Program
20 ("LIAP"), to the Crossroads rider, to the Military Base Tariff Credit rider, to the
21 SPP Cost Tracker, to extend funding for OG&E's System Hardening program,
22 and to the Net Energy Billing Option rider. The Net Energy Billing Option rider
23 has been updated to eliminate language that established a grace period for
24 customers to enroll in a TOU rate because the grace period has expired.

1 OG&E is proposing the elimination of the Off-system Sales of Electricity
2 (“OSSE”) rider, OU Spirit rider, the Smart Grid Best Bill rider, the Curtailment
3 rider, Interruptible Rider, and PACE rider. The Smart Grid Best Bill Exception
4 rider has a sunset date of November 30, 2011. The Smart Grid Best Bill rider,
5 the Curtailment rider, Interruptible Rider, and PACE riders are being terminated
6 because they are no longer applicable.

7 Also, the Economic Incentive Credit (“EIC”) rider expires at the end of 2011 and
8 is being removed. OG&E proposes to allocate the final over or under collection
9 amount to customers through the rider for Fuel Cost Adjustment. The detail of
10 PUD’s recommendations about the above mentioned tariff and rider modification
11 or termination is found in various PUD analysts’ testimonies. However, overall
12 PUD recommends the Commission approve the modification to, or termination of,
13 the above mentioned tariffs and riders.

PUD’S SUGGESTED MODIFICATION TO OG&E’S SPP COST TRACKER

14 **Q: Are there any items that PUD recommends that the Company did not**
15 **request?**

16 **A:** Yes. To be consistent with PUD’s recommendation in Cause No. PUD
17 201100106, PUD is recommending a modification to OG&E’s SPP Third Party
18 Transmission Cost Tracker. PUD’s proposed modifications are the following:

- 19 1. OG&E shall make an annual filing (with this cause number remaining open
20 for the subsequent filings) for the re-determination of its SPP Cost Tracker
21 factors on or before September 1 of each year and shall include:
 - 22 i. The identity of the applicable third-party transmission owners.

- 1 ii. A description of the specific projects and the project cost for each third-
2 party transmission owner, in total and as allocated to OG&E, if available.
- 3 iii. The original cost estimate for each specific project constructed by the
4 third-party transmission owner, the updated estimated or actual project
5 cost and the actual or estimated in-service date, in total and as allocated
6 to OG&E, if available.
- 7 iv. The proposed SPP Cost Tracker factors.
- 8 v. The projected revenue impact of the proposed SPP Cost Tracker factor
9 for each major customer class.
- 10 vi. A description of the benefits (economic or otherwise) that will accrue to
11 the regional grid and to PSO ratepayers as a result of the SPP
12 Expenses that will be collected pursuant to the SPP Cost Tracker Tariff.
- 13 vii. Information describing each transmission upgrade constructed by third
14 party transmission owners that will be, and are being, charged to OG&E
15 customers.
- 16 viii. Any other analyses supporting the benefits to both the regional grid and
17 to OG&E ratepayers relating to the costs recovered or to be recovered
18 by OG&E pursuant to the SPP Cost Tracker Tariff.
- 19 ix. Testimony in support of the re-determination of the SPP Cost Tracker
20 factors.
- 21 2. Within sixty (60) days of the filing of the re-determined SPP Cost Tracker
22 factors and OG&E's testimony and information in support thereof, PUD will
23 convene a technical conference where OG&E shall present and explain the
24 filing to PUD and interested parties.
- 25 3. The proposed SPP Cost Tracker factor may be implemented by OG&E
26 within thirty (30) days of the filing for re-determination subject to true-up.

RECOMMENDATION

27 **Q: What is PUD's goal in making its recommendation to the Commission?**

28 **A:** As discussed above, PUD's goal is to be objective. PUD strives to balance the
29 interest of the Company to make a fair and reasonable return with the rights of
30 the customers to have safe, reliable service at a reasonable price.

1 **Q: Please summarize PUD's recommendation.**

2 **A:** PUD calculates that the Company's jurisdictional revenue requirement is
3 (\$6,328,762), as shown on Line 7 of Section B, which is a (\$79,584,719)
4 decrease to OG&E's revenue change of \$73,255,957 as presented in its
5 Application. Also, for OG&E's Oklahoma Jurisdiction, PUD's calculation
6 includes: an adjustment to rate base of (\$251,916,038), which brings the total
7 from \$3,351,854,028 to \$3,099,937,990 and adjusted operating income by
8 \$255,466,758. PUD calculated a lower return on equity (ROE) and rate of return
9 (ROR) than OG&E presented in its application. PUD calculated an 8.91 percent
10 for ROE and a ROR of 8.116 percent; whereas OG&E presents an 11.00 percent
11 ROE and a resulting 8.75 percent ROR.

12 **Q: Will PUD's revenue requirement necessitate an adjustment of customer**
13 **rates?**

14 **A:** Yes. OG&E's customer would experience a slight rate reduction because PUD's
15 recommended revenue requirement is lower than OG&E's current revenue
16 requirement.

17 **Q: Are there any areas in which PUD's recommendation is still pending further**
18 **review?**

19 **A:** No. PUD's recommendations are based on a thorough and complete review.
20 However, if the Company or other parties are able to provide additional
21 information or details to PUD following filing of written testimony; we will continue
22 to be open to review reasonable adjustments to the levels recommended.

1 **Q: What is your concluding recommendation?**

2 **A:** After conducting a thorough review of the supporting documents associated with
3 OG&E's rate case, PUD recommends that the Commission approve OG&E's
4 application with PUD's proposed seven additional rate base adjustments and 17
5 expense adjustments. These adjustments are detailed in PUD's Accounting
6 Exhibit.

7 PUD also recommends Commission approval for OG&E to move its fuel and
8 energy costs that are currently recovered in base rates, to its FAC rider for
9 recovery.

10 Further, PUD recommends the modification or termination to certain of its rate
11 tariffs and to its terms and conditions of service. The modifications include
12 changes to the Renewable Transmission System Additions Rider ("RTSA"), to
13 the Green Power Wind Rider ("GPWR"), to the Low Income Assistance Program
14 ("LIAP"), to the Net Energy Billing Option rider, to the Crossroads rider, to the
15 Military Base Tariff Credit rider, to the SPP Cost Tracker, and to extend funding
16 for OG&E's System Hardening program. OG&E is proposing the elimination of
17 the Off-system Sales of Electricity ("OSSE") rider, OU Spirit rider, the Smart Grid
18 Best Bill rider, the Curtailment rider, Interruptible Rider, and PACE rider. Also,
19 the Economic Incentive Credit ("EIC") rider expires at the end of 2011 and is
20 being removed. PUD recommends approval of all the tariff eliminations and
21 modifications except the change to the RTSA.

1 Lastly, PUD recommends additional reporting requirements for OG&E's SPP
2 Cost tracker, which include an annual filing to discuss the re-determination of its
3 third-party costs, factor and detailed description of the third-party projects.

4
5 In conclusion, PUD believes that OG&E's rate Application is fair, just and
6 reasonable and in the public interest because it allows the Company the
7 opportunity to earn a reasonable return for its shareholders while providing safe
8 and reliable service to its Oklahoma ratepayers.

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



(Signature)

November 9, 2011 Oklahoma City, Oklahoma
(Date and Place)

Oklahoma Gas and Electric Company
LIST OF EXHIBITS

FM-1

Qualifications Outline



Fairo Mitchell

Chief of Energy and Water

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Professional Experience

Oklahoma Corporation Commission,
Public Utility Division

- Chief, *Economic Analysis and Research Group*
- *Public Utility Regulatory Analyst*
- *Intern*, General Counsel Office

MCI

- *Property Accountant*

Total Mortgage Solutions

- *Tax Specialist*

Education

- J.D. Oklahoma City University
School of Law
- MBA, Finance,
University of Central Oklahoma
- B.A., Accounting,
Morehouse College

Professional Associations

- Member, Society of Utility and
Regulatory Financial Analysts
- Accounting and Finance
Subcommittee Member, National
Association of Regulatory Utility
Commissions

Expert Witness Testimony

- » Public Service Company of Oklahoma
 - Rate Case
 - Cost of Capital
 - Cost of Service
 - Rate Design
 - RFP
 - Coal Fuel Supply
 - Coal Transportation
 - Natural Gas Supply
 - Natural Gas Transportation
 - Capacity
- » CenterPoint Oklahoma Gas
 - Weather Normalization
- » Arkansas Oklahoma Gas
 - Rate Case
 - Cost of Capital
- » Oklahoma Gas and Electric
 - RFP
 - Coal Fuel Supply
 - Short Term Capacity and Energy

Qualifications Outline of Fairo Mitchell

Mr. Mitchell is the Chief of Energy and Water Group in the Public Utility Division at the Oklahoma Corporation Commission with ten years of experience in the areas of accounting, finance and economics.

Particular Areas of Expertise

Cost of capital; cost of service; rate design; request for proposals for electric generation; financial analysis; rulemakings; and expert witness testimony.

Professional Experience

Chief, Energy and Water

Manage the day-to-day activities of a group whose duties include: analyzing utility applications, reports, financial records, and cost studies making recommendations concerning utility operations, conditions and prices of utility services

Chief, Economic Analysis and Research

Energy Division

Manage a six person group whose duties include: renewable energy, demand side management, decoupling, weather normalization, vegetation management, rule makings and economic impact studies

Public Utility Regulatory Analyst II

Energy Division

- Provided expert testimony in two rate cases and several other causes before the Oklahoma Corporation Commission
- Involved in approximately ten utility RFPs
- Involved in (OCC) and (FERC) rulemakings
- Oklahoma Corporation Commission rulemakings - Assisted in drafting and editing the rules, and conducting technical conferences
- Federal Energy Regulatory Commission rulemakings - Researched and drafted the OCC's comments.
- Addressed issues concerning the utilities' request-for-bids (RFP) for long procurement
- Monitor Activity within the Southwest Power Pool
- Prepared and assisted in the preparation of exhibits, comments, testimony, and interrogatories
- Reviewed administrative law judge reports and Commission orders for technical accuracy
- Researched and prepared reports on demand side management, smart metering, co-generation facilities and renewable energy

Property Accountant

MCI

Prepared and maintained schedules for audits, and oversaw compliance of capitalization policies

Determined technical and cost related information for property assets

Tax Specialist

Total Mortgage Solutions

Identified, researched, corrected and reported post-cycle accounting errors

**Qualifications Outline
Of
Fairo Mitchell**

Conferences and Meetings Attended:

National Association of Regulatory Utility Commissioners 119th Annual Convention

Society of Utility and Regulatory Financial Analysts 39th Financial Forum – “Revisiting the Cost of Capital: Everything Old is New Again?”

Society of Utility and Regulatory Financial Analysts 38th Financial Forum – “Regulatory Climate: Changing Tides, or the Perfect Storm?”

Other Experience:

Rose State College, Midwest City, OK

Adjunct Professor, January 2003 - May 2003

- *Courses Taught: Microeconomics and Macroeconomics*

Oklahoma State Certified Mediator

The OG&E District Electric Company
LIST OF TABLES and GRAPHS

Table 1: PUD Analyst Assignments..... 9

CERTIFICATE OF ELECTRONIC SERVICE

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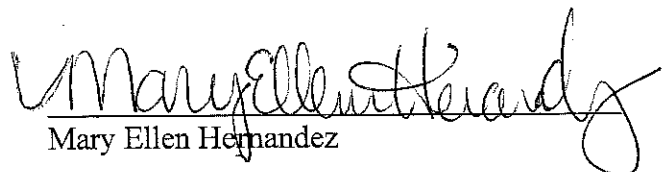
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