

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

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CORPORATION COMMISSION  
OF OKLAHOMA



PRE-FILED RESPONSIVE TESTIMONY

OF

Javad S. Seyedoff, MBA

November 09, 2011

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Curriculum Vitae

Exhibit JS-1

## I. Introduction

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

2 A: My name is Javad S. Seyedoff. My business address is 2101 North Lincoln  
3 Boulevard, Room 580 Jim Thorpe Building, Oklahoma City, Oklahoma,  
4 73105.

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

6 A: I am a public utility regulatory analyst, employed by the Public Utility Division  
7 (“PUD”) of the Oklahoma Corporation Commission (“OCC” or “Commission”).

8 **Q: What is your professional experience and educational background?**

9 A: I received a bachelor of business administration degree with a major  
10 concentration in industrial management from the College of Ghazali in  
11 Qazvin, Iran. I also received a master of business administration degree with  
12 a major concentration in finance from Oklahoma City University. I have more  
13 than twenty years of experience in both public and private accounting. This  
14 experience includes work in the areas of accounting, auditing, cost analysis,  
15 financial analysis, and preparation of various reports for internal and external  
16 use for large corporations as well as for small businesses. My experience at  
17 the Commission includes analysis of Federal Energy Regulatory Commission  
18 (“FERC”) filings by large utilities, participation in utility rate case audits,  
19 monthly fuel filings and annual fuel adjustment clause audits. I have attended  
20 professional meetings and training programs offered at the Commission by

1 various utility companies and the Commission. My *curriculum vitae* is  
2 attached as Exhibit JS-1. I have worked as a regulatory analyst in PUD since  
3 February of 2005. I am under the direct supervision of Bob Thompson, CPA,  
4 and chief of accounting; Fairo Mitchell, chief of energy and water; and Brandy  
5 Wreath, deputy director of PUD.

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

8 **A: Yes.**

## **II. Purpose of Testimony**

9 **Q: What is the purpose of your testimony in the current Cause?**

10 **A:** The purpose of my testimony is to provide the results of PUD's review of and  
11 the resulting recommendations for Oklahoma Gas and Electric Company  
12 ("OG&E" or "the Company") in the following areas: current rate case expense,  
13 FERC assessment, utility assessment fee, Oklahoma annual assessment  
14 fees (rider), regulatory expenses, miscellaneous general expense, lease and  
15 rent expense, holding company asset allocation, inventory (non-fuel) material  
16 and supplies, prepayment, clearing account, large invoices, corporate  
17 expense overhead and allocations (inter-company & holding company  
18 allocations and transactions), benchmarking of non-fuel operation and  
19 maintenance ("O&M") expenses, and affiliate subsidiary (non-fuel) contracts.

### **III. Executive Summary**

1 PUD reviewed the following areas: current rate case expense, FERC  
2 assessment, utility assessment fee, Oklahoma annual assessment fees (rider),  
3 regulatory expenses, miscellaneous general expense, lease and rent expense,  
4 holding company asset allocation, inventory (non-fuel) material and supplies,  
5 prepayment, clearing account, large invoices, corporate expense overhead and  
6 allocations (inter-company & holding company allocations and transactions),  
7 benchmarking of non-fuel O&M expenses, and affiliate subsidiary (non-fuel)  
8 contracts.

9 For current rate case expenses, OG&E proposed an estimated total amount  
10 of \$1,127,900 to be amortized over two years (or \$563,950 per year for two years).  
11 PUD recommends adjustment H-2 to decrease the current rate case expense from  
12 the OG&E estimated \$563,950 by \$140,212 annually.

13 In material and supplies, PUD recommends that the test year end total should  
14 be updated to six month post test year as is required by statute. In WP B-5, the  
15 Company's test year end total was \$77,096,658. Using a 13 month average, the  
16 amount would be \$76,015,590. The ending balance, as of May 30, 2011, was  
17 \$79,211,999 as shown in WP B-3-10, which calculated the material and supplies  
18 adjustment of \$2,115,341 that was made to test year end. PUD recommends using  
19 the ending balance, as of June 30, 2011, in amount of \$79,413,332 to normalize the

1 test year end balances and to set the amount going forward. PUD adjustment B-04  
2 will increase the Company's adjusted material and supplies level by \$201,333. PUD  
3 believes this amount is more representative of the material and supplies as stated in  
4 OG&E's previous rate case.

5 For the Company's adjustment to holding company asset allocation WP B 3-  
6 2, PUD recommends adjustment in amount of \$399,511 which updates the  
7 Company's adjustment to rate base using the six month post test year level from  
8 \$105,441,759 to \$114,371,810. The accumulated depreciation was increased to  
9 \$83,783,655 from \$77,317,233. Also, construction work in progress (CWIP) should  
10 be zero at the six month post test year balance with the assumption that those CWIP  
11 projects will have zero balances by June 30, 2011. PUD justifies these adjustments  
12 if other related balances are updated to a six month post test year. PUD witness  
13 George Kiser will address the plant related adjustments. I recommend no  
14 adjustments to the areas I reviewed.

15 The total amounts for the rate case expense, material and supplies, and  
16 holding company asset allocation adjustments represent reductions of \$140,212 in  
17 PUD schedule H and increase of \$201,333 in PUD schedule B. After a thorough  
18 review and audit of each area, PUD does not propose any additional adjustments in  
19 these areas.

## IV. Analysis

### Current Rate Case Expenses

1 **Q: What adjustment does OG&E recommend for current rate case**  
2 **expense?**

3 A: OG&E has estimated a total amount for the current rate case expense in  
4 Section H-2-42, in WP H-2-42 Rate Case Expense to be \$1,127,900 and  
5 requested a recovery of that amount by way of \$563,950 annually over 2  
6 years. OG&E's employee payroll expenses (labor) are not included in its  
7 estimate.

8 **Q: What analysis does PUD perform regarding OG&E's current rate case**  
9 **expenses?**

10 A: PUD reviews legal fees, consultants' fees, and other expense related details  
11 for the current rate case expense. PUD reviews prior causes, the test year,  
12 six month post test year expenses, and beyond. PUD also reviews all  
13 supporting documents for items included in the current rate case expense  
14 looking for documents and items that are not necessary in providing utility  
15 service to the customers.

16 **Q: How much of these expenses are attributable to the current rate cause**  
17 **during the test year?**

18 A: The amount of current rate case expenses reported in OG&E filings, the on  
19 site supporting documentation and in response to data request AG-1-24

1 totaled \$796,567.57 and, as updated, has reached \$847,475.53. PUD  
2 recommends that OG&E submit a final update of its rate case expenses at  
3 the end of the hearing and that the updated level of rate case expenses would  
4 be the level of expenses to recover over a two year amortization period. Also,  
5 OG&E should provide all additional rate case expenses until the Final Order  
6 is issued in this cause.

7 **Q: Would you please explain PUD's adjustment for amortization of the rate**  
8 **case expenses?**

9 A: Yes. OG&E has requested a recovery period of 24 months as shown by its  
10 pro forma adjustment in WP-H-13a, rate case expense. Based on WPH-13a,  
11 the filed application, onsite audit binder, and responses to data request  
12 AG-24 the total current and remaining balance provided to PUD are as  
13 follows:

|    |   |                  |
|----|---|------------------|
| 14 | Forecasted expense per OG&E                   | \$1,127,900      |
| 15 | PLUS: Other expenses                          | <u>\$000,000</u> |
| 16 | Recommended rate case expense                 | \$1,127,900      |
| 17 | Invoices on hand (current rate cause 2011-87) | <u>\$847,476</u> |
| 18 | Remaining estimated balance                   | \$280,424        |
| 19 | Invoices on hand (other causes)               | <u>\$000,000</u> |
| 20 | Remaining estimated balance                   | \$280,424        |
| 21 | Amortized over two years                      | 2                |
| 22 | PUD Annualized adjustment PUD H- (as of now)  | \$140,212        |

23 This adjustment will decrease the rate case expenses by \$140,212.

24 **Q: What is PUD's proposed adjustment to current rate case expenses?**

25 A: Adjustment PUDJS H-2 will result in a decrease of \$140,212 from the  
26 \$563,950 per year for current rate case expenses requested by OG&E.

**FERC Assessment**

1 **Q: Please explain the FERC assessment fees.**

2 A: PUD does not propose an adjustment to the test year end total for FERC  
3 Assessment fees because OG&E included FERC fees, the FERC  
4 assessment fees and SPP assessment fees in its adjustment to regulatory  
5 expenses for the test year.

6 **Q: Please explain PUD's review of the FERC assessment fees.**

7 A: PUD reviewed OG&E's FERC Form 1 balances for 2008, 2009, the test year,  
8 and OG&E's responses to PUD's onsite inquiry that included the invoices and  
9 general ledger activities. According to the Company's response to PUD's  
10 follow up question, the total amount of the FERC assessment fees for year  
11 2010 totaled \$1,896,845.55. The SPP portion of the FERC assessment fees  
12 was \$1,288,831.48, and \$608,014.07 was for the FERC assessment fee. In  
13 W/P-H-2-27 line 8, "the company increased operating expenses by \$20,292  
14 to reflect increased FERC Fees".<sup>1</sup>

15 **Q: What is PUD's recommendation?**

16 A: PUD recommends OGE's adjustment to FERC Assessment Fees included in  
17 regulatory expenses in W/P-H-2-27 to the test year end total be accepted.

**Utility Assessment Expense (OCC)**

18 **Q: What are utility assessment fees?**

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<sup>1</sup> Sheri D. Richards, CPA, Direct Testimony, page 13, line 31, Cause No. PUD 201100087

1 A: According to the OCC rules:

2 The purpose of this part is to assess, pursuant to 17 O.S.A.  
3 §180.11, a fee upon each public utility to provide the level of  
4 funding established by the legislature for the Corporation  
5 Commission Public Utility Division for the regulation of  
6 Oklahoma public Utilities.<sup>2</sup>

7 Q: How does OG&E collect these utility assessment fees?

8 A: The OCC bills OG&E for the allowed utility assessment fees and the fees are  
9 then collected from customers by OG&E through a rider. The effect of these  
10 related transactions on the Company's books should be, and is, zero. Thus  
11 OG&E removes OCC assessment revenues and expenses from the test year.  
12 Therefore, PUD accepts OG&E's pro forma adjustment in W/P H2-27 to  
13 remove "the annual public utility assessment fee ("APUAF") in the amount of  
14 \$1,406,129 because the APUAF fee is already recovered through a  
15 surcharge to customer's bills."<sup>3</sup> This adjustment will decrease OG&E's  
16 operation expenses.

17 Q: Please explain OG&E's Oklahoma Assessment Fees adjustment in W/P  
18 H-2-27 for \$1,406,129.

19 A: The purpose of the review of OG&E's utility assessment fee workpapers is to  
20 examine and compare actual payments received by the OCC to the amounts  
21 OG&E collected. Due to the recovery mechanism for this assessment fee,  
22 the utility assessment fee is not included in the base rate revenue  
23 requirement. Adjustment WP H-2-27 removes Oklahoma's assessment fees.

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<sup>2</sup> OCC rules, at OAC 165:5-3-20

<sup>3</sup> Sheri D. Richards, CPA, Direct Testimony, page 14, line 31, Cause No. PUD 201100087

1 **Q: Do you accept OG&E's Oklahoma assessment fee adjustment of**  
2 **\$1,406,129?**

3 **A:** Yes. Based on the information reviewed and the balances noted above, PUD  
4 accepts OG&E's pro forma adjustment of \$1,406,129 to remove the utility  
5 assessment fees from base rates (See also Oklahoma annual assessment  
6 fees (rider), below).

**Oklahoma Annual Assessment Fees (rider)**

7 **Q: Please explain the Oklahoma Annual Assessment Fees (rider) revenue.**

8 **A:** The Company recovers Oklahoma assessment fees from the customers by a  
9 tariff through a rider mechanism. For rate making purposes, OG&E has  
10 removed a total of \$1,406,129 from its base rate revenue requirements in this  
11 cause because it was related to a special nonrecurring charge for various  
12 services that OG&E provided to its customers. PUD reviewed the Oklahoma  
13 annual assessment fees for the test year, the year prior to the test year, and  
14 various riders' revenue. According to the Schedule H-3, adjustment No. 8,  
15 OG&E has removed the rider's revenue including the OCC assessment rider  
16 contained in WP H-2-8. PUD does not recommend any additional  
17 adjustments to the Company's adjustment to base rate revenue for the annual  
18 assessment fees.

### Regulatory Expense

1 **Q: Please summarize your review of Regulatory Expenses?**

2 A: PUD reviewed all supporting documents for items included in the rate case  
3 expense looking for documents and items that are not necessary to provide  
4 utility service to the customers. Regulatory expenses for prior rate cases  
5 contained in account No. 928 in the FERC Form 1 report increased from  
6 \$3,491,791 in 2008 to \$4,522,890 in 2009. Those expenses then decreased  
7 to a total of \$4,325,902 in 2010. Similar to OCC assessment fees, the  
8 Company “also removed the amortization of the deferred asset for rate case  
9 expenses because assets will be fully amortized by the time new rates go into  
10 effect. This results in a decrease of \$371,888”<sup>4</sup>, which is reflected in WP H-2-  
11 27. Also, “the Company normalized regulatory costs for various causes in the  
12 Oklahoma jurisdiction excluding rate cases. This increases operating  
13 expenses by \$91,912”<sup>5</sup>. The Company’s pro forma adjustments to regulatory  
14 expenses totaled \$1,665,813.

15 **Q: What is PUD’s recommendation about OG&E’s regulatory pro forma**  
16 **adjustment?**

17 A: PUD does not recommend any adjustment to the regulatory expenses in  
18 FERC account No. 928 related to prior rate case expenses, FERC fees, and

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<sup>4</sup> Sheri D. Richard, CPA, Direct Testimony, page 14, line 31, Cause No. PUD 201100087

<sup>5</sup> Sheri D. Richard, CPA, Direct Testimony, page 13, line 28, Cause No. PUD 201100087

1 OCC assessment fees as requested by OG&E in WP H-2-27 in this  
2 proceeding.

### **Miscellaneous General Expenses**

3 **Q: Briefly explain miscellaneous general expense and what accounts are**  
4 **related.**

5 A: Miscellaneous general expenses are expenses that may include the cost of  
6 labor and expenses incurred in connection with OG&E's general management  
7 that is not provided elsewhere. Also, items such as dues, membership fees,  
8 research and development, stockholders' and directors' fees and expenses  
9 that are not included or provided elsewhere are classified as miscellaneous  
10 general expenses.

11 **Q: Why did the miscellaneous general expenses decreased in 2010?**

12 A: In determining its recommendation, PUD reviewed the miscellaneous general  
13 expense account for the test year period ending December 31, 2010, and  
14 compared the total amounts for the years 2008 and 2009. In the FERC Form  
15 1 report, under Miscellaneous General Expense account No. 930.2, expenses  
16 increased by 19.23 percent to \$36,921,841 in 2008, then decreased to about  
17 two and half times less, or \$14,919,172 in 2009, and further decreased by  
18 31.05 percent during the test year to \$11,384,333. According to the  
19 Company, the decreases in the miscellaneous general expenses in year 2009

1 and the test year are as a result of accounting activities and transactions.

2 The Company stated the following:

3 “After a software upgrade, some of the costs from holding  
4 company were functionalized and allocated to various other  
5 FERC accounts. In May of 2010 the new cost flow was in place.  
6 The new cost flow enables us to identify the types of costs that  
7 are coming over from the company. As a result, we can more  
8 accurately categorize those expenses in the FERC module.”<sup>6</sup>

9 PUD reviewed the test year and six month post test year activities and test  
10 sample documents with the highest dollar amount for the type of  
11 miscellaneous service expenses for industry association dues, employee  
12 relocation, and board of director fees. Other PUD witnesses will address the  
13 related expenses. I recommend no adjustments to the areas I reviewed.

### Lease/Rent Expense

14 **Q: Please explain PUD’s review of lease and rent expenses.**

15 **A:** PUD’s review included all rental property owned, used, occupied or operated  
16 by OG&E which is necessary for OG&E’s utility operation. PUD also  
17 reviewed the list of the leases provided by the Company in response to PUD  
18 JS-1 data requests. PUD reviewed monthly balances of both rent and lease  
19 by account and by categories for pole rent (regulated and unregulated);  
20 agricultural pole leases; reoccurring payments, temporary leases; wind lease  
21 expense; and payments; to determine if test year levels are normal.

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<sup>6</sup> Company’s response to onsite question, on September 17, 2011

1 According to OG&E, the Company's lease and rent expenses included in the  
2 test year totaled \$2,227,743.65. For wind farms the total was \$1,003,464.94,  
3 for pole rent the total was \$1,040,599.25, for Agricultural leases the total was  
4 \$85,070.91, and for reoccurring payments the total was \$98,608.55.

5 **Q: Do you have any adjustments to Lease /Rent expense?**

6 **A:** Staff reviewed sample information of pole rent regulated, centennial wind  
7 farm lease, and OU Spirit payments entries. According to the Company, the  
8 wind farm leases increased from \$479,574.96 in 2008, to \$508,919.08 in  
9 2009, and \$1,003,464.94 in the test year. The six month post test year in  
10 2011 has already reached \$1,234,136.39. PUD reviewed the lease and rent  
11 FERC account activities for 2008, 2009, and the test year.

**Lease & Rent Expense (FERC):**

| FERC           |                      |                  |                |                |
|----------------|----------------------|------------------|----------------|----------------|
| <u>Account</u> | <u>Description</u>   | <u>2010</u>      | <u>2009</u>    | <u>2008</u>    |
| 507            | Production – Rents   | \$1,126,824      |                |                |
| 550            | Other Power – Rents  | 466,994          | 448,122        | 437,575        |
| 567            | Transmission – Rents | 12,568           | 1,647          | 1,418          |
| 589            | Distribution – Rents | 451,625          | 161,304        | 68,628         |
| 931            | Misc. – Rents        | 204,064          |                | (131,724)      |
|                | <b>Total</b>         | <b>2,262,075</b> | <b>611,073</b> | <b>375,897</b> |

12 PUD further questioned the increases in accounts 507, 589, and 931 during  
13 the test year. PUD does not propose any adjustments to lease/rent  
14 expenses. PUD believes that current expenses are representative of ongoing  
15 lease and rent expenses, and reflect proper levels going forward.

**Holding Company Asset Allocation**

1 **Q: Please discuss OG&E's adjustment.**

2 A: The OGE Energy Corp. (holding company) provides services to OG&E and  
3 these services are included in the OG&E's rate base calculation. OG&E's pro  
4 forma adjustment WP H 2-22 removes \$4,345,383 of non-utility investments  
5 from rate base. This "pro forma adjustment reflected the Company's  
6 allocation of its holding company's assets to non-utility activity"<sup>7</sup>. In response  
7 to data request AG-7 through 9, the Company updated the Total General  
8 Plant, accumulated depreciation and amortization, and proposed depreciation  
9 expense to six month post test year.

10 **Q: Please discuss PUD's adjustment.**

11 A: Based on the known and measurable six month post test year data provided  
12 by OG&E, PUD used the Company's WP B 3-2 and updated the holding  
13 company's general plant total, accumulated depreciation and amortization,  
14 and total amount of zero for the construction work in progress (CWIP) to  
15 calculate the holding company asset allocation for six month post test year.  
16 PUD justifies these adjustments because other related balances are updated  
17 to a six month post test year. PUD adjustment in amount of \$399,511  
18 updates the Company's adjustment to rate base used for holding company's  
19 asset allocation to six month post test year level in the Company's WP B 3-2.

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<sup>7</sup> Sheri D. Richard, CPA, Direct Testimony, Cause No. PUD 201100087

1 PUD witness George Kiser will address the plant related adjustments. I  
2 recommend no adjustments to the areas I reviewed.

**Inventory- (non-fuel) Material and Supplies**

3 **Q: Please discuss material and supplies.**

4 A: According to the PUD Audit Work Program, the policy of the OCC is to  
5 include in rate base an amount that is representative of the Applicant's  
6 material and supplies and prepayments. This may be a 13-month average for  
7 fluctuating balances at the test year end balance for the account. The  
8 Company used activities from December 1, 2009, to December 31, 2010, to  
9 calculate the 13-month average.

10 **Q: Please explain the Company's adjustment to material and supplies.**

11 A: OG&E used the difference between the 13-month average balance of  
12 \$76,015,590 and test year end balance of \$77,096,658 in W/P B-5 to  
13 calculate the Company's pro forma adjustment. However, in W/P 3-10,  
14 Schedule B-3, and B-4, the Company used the balance of \$79,211,999 as of  
15 May 30, 2011, to determine the adjustment of \$2,115,341 to normalize the  
16 balance. The Company's adjustment No.10 to the rate base is discussed in  
17 page 40 of Mr. James M. Proctor's direct testimony. According to Mr. Proctor,  
18 "Commission order No. 516261 in Cause No. PUD 200500151 authorized the  
19 Company a materials and supplies inventory in rate base that is based on a  
20 13-month average of actual inventory levels up through a period ending 6

1 months after test year-end.”<sup>8</sup> The Company’s adjustment increased the test  
2 year balances to the May 30, 2011, level and not the 13 month average level  
3 because of the upward trend of the balances during the test year and post  
4 test year.

5 **Q: What is PUD’s analysis and recommendation for material and supplies?**

6 **A:** PUD analyzed the trend of monthly activities of material and supplies. PUD  
7 compared the material and supplies balances for the test year, and the two  
8 years prior to the test year. Based on PUD’s FERC analysis, the material and  
9 supplies total slightly increased to \$67,393,826 in 2008, and increased by  
10 8.27 percent to \$73,469,941 in year 2009. The amount of material and  
11 supplies was increased by 4.70 percent to \$77,096,658 for the year 2010. In  
12 response to AG-15, OG&E stated that its non-fuel material and supplies for  
13 June 31, 2011 had increased to \$79,413,331.57 from \$79,211,999 as stated  
14 on May 30, 2011. PUD recommends an adjustment to increase OG&E’s non-  
15 fuel material and supplies level to OG&E’s known and measurable six-month  
16 post test year balance. PUD also verified that merchandise for resale was not  
17 included in the material and supplies in this cause. PUD adjustment B-04 will  
18 increase the material and supplies by \$201,333. According to the Company,  
19 all the increases in material and supplies during the test year are the result of  
20 “price increases, increases in the required quantity of inventories due to utility

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<sup>8</sup> James M. Proctor, Direct Testimony, page 40, Cause No. PUD 201100087

1 plant construction and acquisitions, and changes in the mix of assets in  
2 inventory due to changing technology and new efficiency programs.”<sup>9</sup>

### Prepayments

3 **Q: Please explain OG&E’s adjustment for \$455,616 to prepayments.**

4 A: According to the Company, an adjustment of \$455,616 is needed to  
5 normalize the prepayment level because “these prepayments are primary  
6 property and liability insurance premiums.”<sup>10</sup> OG&E used the difference  
7 between the 13-month average balance of \$7,095,891 and test year end  
8 balance of \$7,551,507 in W/P B-5 to calculate the Company’s pro forma  
9 adjustment in W/P 3-12, Schedule B-3, and B-4, for an amount of \$455,616 to  
10 normalize the balances. The Company’s adjustment No.12 to the rate base is  
11 discussed on page 53 of Mr. Proctor’s testimony and on page 8 of Sheri D.  
12 Richard’s testimony. The Company’s adjustment reduced the test year  
13 balances to the 13 month average level because of the fluctuating level of the  
14 balances during the test year.

15 **Q: Did PUD compare the year to year balances?**

16 A: Yes. PUD compared the balances in the years 2008, and 2009 with the  
17 current test year. PUD also confirmed the amounts in OG&E’s general  
18 ledgers and supporting documentations. In making its recommendation, PUD  
19 reviewed the data request responses to AG 1-17, AG 1-18, and the

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<sup>9</sup> James M. Proctor, Direct Testimony, page 40, Cause No. PUD 201100087

<sup>10</sup> Section B Rate Base, W/P B 3-12, Cause No. PUD 201100087

1 supporting documentations provided onsite. Based on PUD's FERC analysis,  
2 the prepayment total more than doubled to \$8,022,198 in 2008, and  
3 increased to \$8,467,046 in year 2009. The amount of prepayment for the test  
4 year decreased to a total of \$7,551,507.

5 **Q: What is PUD's recommendation for prepayments?**

6 A: PUD reviewed the changes between the beginning and ending balances that  
7 OG&E provided for all prepayment accounts, the general ledger and test  
8 samples looking for any unusual activities or significant changes during the  
9 test year in this cause. According to the Company, the decrease in the  
10 Company's prepayments are mainly accounting related matters. Therefore,  
11 PUD does not recommend any adjustments to OG&E's prepayments level  
12 stated in their filing.

### Clearing Account

13 **Q: Please discuss clearing accounts.**

14 A: A Clearing account is usually a temporary account containing costs and  
15 amounts that are to be transferred to another account. According to Section  
16 G – Financial and General Data, OG&E did not have any clearing account  
17 activities during the test year. "The Company discontinued using clearing  
18 accounts as of January 2003."<sup>11</sup> However, according to the Company,  
19 OG&E "Began using FERC Clearing Account 184 again beginning April 2011.  
20 It is being used as a holding account for a check received at the end of the

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<sup>11</sup>Section G – Financial and General Data, W/P G-18, Application, and Cause No. PUD 201100087

1 month which has not yet been posted to A/R (or accounts/ receivable). The  
2 following month, when the specific customer is located, a debit will be made  
3 to the clearing account and a credit to A/R<sup>12</sup>

4 **Q: Briefly explain OG&E's balances of its clearing account.**

5 A: As stated above, the Company did not use clearing accounts during the test  
6 year. The Company's clearing account balances as of June 2011 was  
7 (\$69,693). PUD reviewed the changes from the beginning and ending  
8 balances. PUD does not have any concerns or adjustments to the balance  
9 for clearing accounts

#### Large Invoices

10 **Q: Did PUD review all the large invoices for the test year in WP H-22?**

11 A: Yes. The Company provided a list of large invoices over \$250,000 for the test  
12 year. In addition to reviewing the Company's WP H-22, PUD reviewed the  
13 Company's application and responses to PUD's onsite requests and  
14 supporting documents for the highest top seven invoices on the large invoices  
15 list for various vendors. Additionally, according to the Company the total  
16 amount of large invoices for the year 2009 was \$389,953,962. OG&E has a  
17 document approval process for invoices.

18 Large invoices valued over \$250,000 in Cause No. PUD 200800398 test year  
19 ending September 30, 2008 totaled \$125,331,701. The total amount of large

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<sup>12</sup> October 10, 2011, PUD Follow up email, 2011-87(OG&E), Clearing Accounts

1 invoices in this cause is \$208,491,661. I recommend no adjustments to this  
2 area.

### Corporate Expenses/Overhead and Allocations

3 **Q: What are corporate overhead allocations methodologies (inter Company**  
4 **and holding company allocations and transactions)?**

5 **A:** Corporate overhead allocation (methodologies are percentages used by the  
6 holding company to allocate costs to subsidiaries based on uses and benefits  
7 from the services that the holding company provides to the subsidiaries.

8 The best way to describe the OG&E corporate structure is through this  
9 quotation from the organization's website:

10 OGE Energy Corp. (OG&E Energy or holding company) is the parent  
11 company of Oklahoma Gas and Electric Company (OG&E), which  
12 serves more than 765,000 customers in a service territory spanning  
13 30,000 square miles in Oklahoma and western Arkansas, and of  
14 Enogex LLC, a midstream natural gas pipeline business with principal  
15 operations in Oklahoma, ...covers 7900 miles of interstate gas  
16 gathering and transportation pipeline, and OGE Energy Resources,  
17 Inc. energy marketing company. [www.oge.com](http://www.oge.com)

18 OG&E cost allocations are from its parent holding company, OGE Energy  
19 Corporation. In the Company's filing, section P, 2010 Affiliate Transaction  
20 Report, the Company stated the following:

21 OG&E Electric Services no longer has any legal subsidiaries  
22 due to reorganization. Thus there is no cost allocation to affiliate  
23 from OG&E.<sup>13</sup>

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<sup>13</sup> OG&E supplemental package, volume 3, Section P, Affiliate Information page 6 of 11

1 **Q: Please explain the corporate allocation methodology previously utilized**  
2 **by the Company prior to this cause.**

3 A: The Company's methodology for corporation allocation described on page  
4 123.6 of FERC Form No.1, 2010/Q4 filings under Related Party Transaction  
5 and similarly in letter of Mrs. Jan Sanders dated August 7, 2000, to the  
6 Arkansas Public Service Commission:

7 "The holding company distributes operating costs to its affiliates based  
8 on several factors. Operating costs directly related to specific affiliates  
9 are assigned to those affiliates. Where more than one affiliate benefits  
10 from certain expenditures, the costs are shared between those  
11 affiliates receiving the benefits. Operating costs incurred for the benefit  
12 of all affiliates are allocated among the affiliates, based primarily upon  
13 head-count, occupancy, usage or the "Distrigas" method. The Distrigas  
14 method is a three-factor formula that uses an equal weighting of  
15 payroll, operating income and assets. The holding company believes  
16 this method provides a reasonable basis for allocating expenses."<sup>14</sup>

17 **Q: Has the Distrigas method been addressed in previous OG&E rate**  
18 **cases?**

19 A: Yes. In its Order 516261, from Cause No. PUD 200500151, the last OG&E  
20 rate case where corporate allocations were at issue, the Commission states  
21 on page 99, "(t)he Commission finds that the continued and consistent use of  
22 the Distrigas formula to allocate corporate overhead costs to OG&E serves to  
23 minimize distortion and fluctuations in the allocation of cost." On page 99 the  
24 Commission also stated "(t)he Distrigas formula is a generally accepted  
25 method for allocating corporate support service and the three factors used for  
26 this purpose, gross plant, net revenues and payroll, represent a cost-

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<sup>14</sup> Arkansas Public Service Commission, 00-231-u, Oklahoma Gas and Electric Company , Allocation of Joint and Common Costs, page 9

1 causation relationship for the corporate support service incurred.” PUD  
2 requested and reviewed corporate allocation documents and Distrigas  
3 percentages from 2009 to 2010 provided by the Company. Also, PUD also  
4 held discussions with the Company about its cost flow and allocations.

5 **Q: What changes have recently been made to corporate allocations by**  
6 **OG&E?**

7 A: OG&E implemented and now is utilizing a new methodology that the  
8 Company refers to as Cost Flow. As a follow up to the June 8, 2006, OCC  
9 Technical Conference on Allocations, OG&E started an evaluation process in  
10 September of 2007 and by January 1, 2009, required all members to directly  
11 assign their time and expenses. In May 2010, OG&E implemented the  
12 systematic approach of Cost Flow, initially utilizing an estimated cost of labor  
13 and then recalculated the actual costs each month. Previously, labor  
14 activities recorded at estimated rates including overheads and other related  
15 costs each month.

16 **Q: What are the objectives of the Cost Flow methodology?**

17 A: The objectives of Cost Flow are to follow OCC’s instruction in moving toward  
18 more direct charge, standardized data rules, increased cost visibility, and to  
19 improve FERC reporting while preserving its accuracy. According to the  
20 Company “Cost Flow is the process in which all costs are captured and  
21 reported for Internal Management Reporting, External (SEC) Reporting and

1 Regulatory (FERC) Reporting. We have different requirements for different  
2 views, but all views are based on the exact same data, each reconcilable to  
3 the other.”<sup>15</sup> Views are type of information requested or required for various  
4 analysis and reports for variety of purposes by the various internal divisions  
5 and external entities.

6 **Q: Please explain the overhead direct, indirect and direct support**  
7 **corporate allocations?**

8 A: Cost Flow has three types of allocations: (1) applying overhead directly to  
9 work at actual cost, (2) direct supports charged to a specific company, and (3)  
10 indirect support is charged via Distrigas. Direct and indirect allocations to all  
11 the functions such as the Executive, Corporate Secretary, compliance,  
12 security, public affairs, accounting, finance, treasury, strategy, marketing,  
13 information technology, business process improvements audit, legal, human  
14 resources, regulatory, corporate risk, and supply chain each has projects,  
15 processes, and identifiable drivers.

16 According to the Company, under the Distrigas method corporate support  
17 costs were about 75 percent for Utility and 25 percent for Enogex. Under the  
18 new Cost Flow approach the overall percentages shifted to 81 percent Utility  
19 and 19 percent Enogex resulting from new timekeeping requirements and the  
20 shift toward more direct allocation. Also, the new Cost Flow allocation is  
21 allowing the holding company costs to be more FERC relevant.

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<sup>15</sup> OG&E Cost Flow Overview, page 1, September 18, 2011

1 **Q: Please explain the impact of OG&E's Cost Flow allocation?**

2 A: According to the Company, by implementation of the Cost Flow project, the  
3 source data for both the Security Exchange Commission (SEC), and FERC  
4 reporting have the same totals. O&M accounts in the FERC report have  
5 shifted among the accounts. Also, four months of the FERC report are based  
6 on the old allocation methodology and the remaining eight months are based  
7 on the new Cost Flow methodology.

8 **Q: Please summarize PUD's recommendation for corporate overhead**  
9 **allocation.**

10 A: In Cause No. PUD 200800398, PUD concluded that "OG&E used the  
11 Commission approved allocation methodologies in previous OG&E Cause  
12 No. PUD 200500151, Order 516261, page 99. In that order, the Commission  
13 said OG&E should be consistent in using the same components of the  
14 Distrigas allocation methodology every year. Staff believes that the Company  
15 is moving toward a more direct allocation methodology of these expenses"<sup>16</sup>.  
16 PUD believes that with the implementation of OG&E's Cost Flow approach,  
17 the Company has moved toward a more direct allocation and FERC relevant  
18 methodology as previously directed by the Commission. Therefore, PUD  
19 recommends approval of the Company's Cost Flow approach.

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<sup>16</sup> Responsive testimony of Javad Seyedoff, Executive Summary, Page 5, Corporate Expenses/Overheads and Allocations

**Benchmarking of non-fuel O&M expenses**

1 **Q: Did PUD review the testimony of Mark Newton Lowry concerning**  
2 **Operations and Maintenance Expenses?**

3 **A:** Yes. PUD reviewed the OG&E efficiency study on its non-fuel Operation and  
4 Maintenance (O&M) expenses devoted to generation maintenance as a  
5 vertically integrated electric utility that was completed by Pacific Economics  
6 Group Research, LLC. According to the direct testimony of Mr. Lowry, the  
7 study used two well-known benchmarking methodological models for years  
8 2008 through 2010, which indicate that OG&E is the exception in managing  
9 its non-fuel operation and maintenance, and generation maintenance  
10 expenses.

11 **Q: What were the results of the study?**

12 **A:** The econometric model was based on a sample from 45 vertically integrated  
13 electric utilities, including OG&E. In this model, in the Non-fuel operation and  
14 maintenance expenses, OG&E was 20 percent below the benchmark on  
15 average from 2008 to 2010, and was 12 percent below in year 2010. Unit cost  
16 indexing was another benchmarking methodology used for comparison of  
17 Company's cost per unit to average peer group. "Unit cost is the ratio of a  
18 cost index to an output index"<sup>17</sup>.

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<sup>17</sup> Direct Testimony of Mark Newton Lowry, Pacific Economic Group Research, and LLC. Page 6.

1 Under unit cost index, OG&E's operation and maintenance unit cost was 23  
2 percent below the norm for the peer group on average from 2008 to 2010 and  
3 was 19 percent below in year 2010 .

4 In the generation maintenance expenses, in econometric model OG&E  
5 was 25 percent below the benchmark on average from 2008 to 2010, and  
6 was four percent below in year 2010.

7 Under unit cost index, OG&E's unit generation maintenance costs, was 22  
8 percent below the norm for the peer group on average from 2008 to 2010 and  
9 was 10 percent below in year 2010 .

10 According to Mr. Lowry, O&M expenses play an important role in the  
11 determination of rate increases. He goes on to state the following:

12 "Nonfuel O&M expenses are the largest component of base rate  
13 cost that a utility can attempt to control in the short run and thus  
14 a natural focus for an efficiency inquiry. These expenses are  
15 also sufficiently large as to warrant rate increases when it can  
16 be demonstrated that the cost of an efficient utility is rising."<sup>18</sup>

17 PUD asked for some work papers to verify the information used in the OG&E  
18 efficiency study. Also, PUD reviewed the Company's information related to  
19 the study. Based on the parameters used in this study, PUD is in agreement  
20 that OG&E is a very cost-conscious company in its O&M expenses as  
21 compared to other similar utilities.

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<sup>18</sup> Direct Testimony of Mark Newton Lowry, Pacific Economic Group Research, and LLC. Pages 3 and 4.

**Affiliate/Subsidiary non-fuel Contracts**

1 **Q: Did OG&E have any non-fuel Affiliate/Subsidiary transactions?**

2 A: No. According to the Company's filings in Section P that showed its 2010  
3 Affiliate Transaction Report, and in response to PUDJS-3, OG&E did not have  
4 any Affiliate/Subsidiary non-fuel contracts during the test year. Therefore,  
5 PUD has no recommendation as to non-fuel affiliate subsidiary contracts.

**Recommendation**

6 **Q: Please restate the areas that were reviewed.**

7 A: PUD reviewed the following areas: current rate case expense, FERC  
8 assessment, utility assessment fee, Oklahoma annual assessment fees  
9 (rider), regulatory expenses, miscellaneous general expense, lease and rent  
10 expense, holding company asset allocation, inventory (non-fuel) material and  
11 supplies, prepayment, clearing account, large invoices, corporate expense  
12 overhead and allocations (inter-company & holding company allocations and  
13 transactions), benchmarking of non-fuel O&M expenses, and affiliate  
14 subsidiary (non-fuel) contracts.

15 **Q: What is your overall recommendation regarding your assigned areas of**  
16 **review?**

17 A: PUD reviewed, verified, and checked OG&E's filing information and  
18 recommended adjustments. Based on the overall evaluation, PUD  
19 recommends decreasing OG&E's requested rate cause expenses of

1           \$1,127,900 by \$280,424 over a two year amortization schedule as detailed  
2           above, which would bring OG&E's rate case expense to \$847,476. PUD also  
3           recommends increasing the OG&E pro forma adjustment level of non-fuel  
4           material and supply from May 31, 2011, to June 30, 2011, by \$201,333 from  
5           \$79,211,999 to \$79,413,332. In addition, PUD also recommends increasing  
6           the holding company asset allocation to OG&E's updated six month post test  
7           year level in the amount of \$399,511 from \$(4,345,383) to \$(3,945,872). As  
8           stated above, PUD witness George Kiser will address the plant related  
9           adjustments. I recommend no adjustments to the areas I reviewed.

10          PUD recommends that the Commission accept the adjustments that OG&E  
11          presented in its application. PUD also recommends that the Commission  
12          accept the Company's filed position in the remaining areas under my review  
13          in which PUD did not recommend any changes.

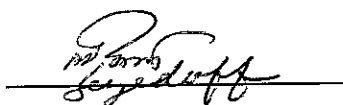
14   **Q:    What was the total amount of the adjustments that were reviewed?**

15    A:    The total amounts of these adjustments represent a reduction of \$140,212 in  
16          PUD schedule H and an increase of \$201,333 in PUD schedule B.

17   **Q:    Did PUD recommend any additional adjustments?**

18    A:    No. PUD did not recommend any additional adjustments.

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

  
(Signature)

11.09.2011 Oke  
(Date and Place)

**Javad S. Seyedoff****2011 Curriculum Vitae**

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**Education** Oklahoma City University, 1977 - 1978  
 Oklahoma City, Oklahoma, USA

- M.B.A., Business Administration (Finance)

Ghazali College, 1972 - 1976  
 Qazvin, IRAN

- B.A., Business Administration (Industrial Management)

**Work Experience**

Oklahoma Corporation Commission 2005-Present

Public Utility Regulatory Analyst

- Analyst and expert witness on the PUD Causes: 201100124, 201100122, 201100120, 201100087, 201100082, 201100034, 201000089, 201000088, 201000082, 201000054, 201000050, 201000026, 201000022, 200900162, 200900151, 200900110, 200800302, 200800300, 200800398, 200800256, 200800144, 200800098, 200700367, 200600379, 200600285.
- Actively participated in the following PUD Causes: 200900158, 200800242, 200700465, 200600062, and 200500425, 200500151, 200400610, and many more.
- Monthly review of PGA, PPA, and FCA analysis for small gas, electric cooperatives, and major utilities.
- Annual Fuel review of electric cooperatives and gas companies for 2006, 2007, 2008, 2009, and 2010.
- Responsible for FERC Form financial trend analysis for large utilities.
- Responsible for AFA & EAR departments cause activity report.
- Prepared written testimony, performed analysis, conducted survey, and participated in major utility rate cases.

Oklahoma County 2002 - 2004  
 (District One)

Business Manager

- Recommendation, implementation of financial practices, policies and procedures, and protocols for the Highway District.
- Assist in preparation of budget, changes, and transfers.

Dale Rogers Training Program 1996 - 2002  
 (Tinker Air Force Base Project)

Accountant

- Preparation of various analyses of the fiscal budget and special projects
- Budgeting for equipment, supplies. monthly reconciliation analysis reports
- Daily analysis of cash flow components to Defense Accounting Office

The City of Oklahoma City 1995 - 1996  
 (Lake Hefner Water Treatment Plan)

Administrative Aide:

- Analysis of Power Logic configuration, identification, distribution and locations of power sources.
- Trend analysis of possible savings during the peak.
- Comparison of efficiency in two loops, possible sources of deficiencies.

C.R. Anthony Company 1983 - 1995  
 and Anthony Trust

Staff Accountant (Corporate Office)

- Financial analysis of profit and loss, trial balance, general ledger and purchase,



# Javad S. Seyedoff

## 2011 Curriculum Vitae

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expense and transaction journals, reconciliations of credit cards, lease files.

### Internal Auditor (accounts payable, Corporate Office)

- Internal auditing of all 218 affiliated stores documented and detailed all discrepancies regarding savings.

### Mailroom Supervisor (Corporate Office)

- Accurately sorted incoming, collated outgoing mail for delivery to 218 affiliated stores, our in house merchandising departments, and vendors in a very timely manner. Won first place in Cost Cutting contest.
  - Performed various services as requested which included overseeing maintenance, security, operations, and traveling.
- 

### Professional Licenses and Association

- English Language center, Oklahoma City University, 07/1976-12/1976
  - Dale Carnegie Personal Development Course, C. R. Anthony Company, 07/1984
  - Dun and Bradstreet Software, C. R. Anthony Company, 07/1991
  - Introduction to Internet, Moore-Norman Vo-Tech., 10/1995
  - Purchasing, Oklahoma County, 08/2003
  - Cash Flow Management, 11/2003
  - Practical Regulatory Training "The Basics", 10/2008
- 

### Professional Training

- Attended many necessary and required hearings to gain an understanding of rate making process
- AFA and EAR department audit activities
- Expert Witness Training Program, Oklahoma Corporation commission, Public Utility Division July 27 through 30, 2007.
- FERC Accounting, Oklahoma Corporation Commission, Public Utility Division April 07 through 10, 2008 by Jerry McKenzie.
- Attended the 53 rd annual meeting of the Mid-America Regulatory Conference (MARC) June 14 through 18, 2008 on Electric Generation Alternatives, Designing, Planning and paying for Electric Infrastructure, Identifying and Mitigating Risks for Energy and water Utilities.
- Attended the 2008 Practical Regulatory Training of New Mexico State University Center for Public Utilities on October 12 through 17, 2008.
- The Essential of Energy Risk Management (hedging), Oklahoma Corporation Commission, Public Utility Division November 3 rd and 4<sup>th</sup>, 2008 by Venitta Ferguson.
- Energy Law, Oklahoma Corporation Commission, the Office of Attorney General, on March 23, 2010 by Scott Hempling, Executive Director, NRRI.

CERTIFICATE OF ELECTRONIC SERVICE

I, the undersigned, do hereby certify that on the 9<sup>th</sup> day of November, 2011, a true and correct copy of the above and foregoing was sent electronically, addressed to the following:

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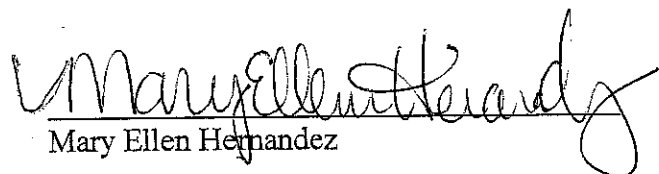
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