

BEFORE THE CORPORATION COMMISSION OF THE  
STATE 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 200800398



**FILED**  
JUN 22 2009

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CORPORATION COMMISSION  
OF OKLAHOMA

RESPONSIVE TESTIMONY

OF

MARVIN VAUGHN

JUNE 22, 2009

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1           During my employment with the Commission, I have testified in the most recent  
2           rate cases of Oklahoma Natural Gas Company ("ONG"), Oklahoma Gas and  
3           Electric Company ("OG&E"), Arkansas Oklahoma Gas ("AOG"), and Public  
4           Service Company of Oklahoma ("PSO"). I have also testified in the 2004, 2005  
5           and 2006 fuel adjustment reviews of OG&E.

6           I have also attended numerous seminars and conferences to further my  
7           knowledge in the regulatory environment.

8   **Q:   Have your credentials been previously accepted by the Commission?**

9   **A:**   Yes, most recently in Cause Nos. PUD 200800086, PUD 200800383, and PUD  
10           200800375. A more complete description of my qualifications and a list of the  
11           proceedings in which I have been involved are included in my curriculum vitae,  
12           which is attached.

**PURPOSE**

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**Q: What is the purpose of your testimony in this cause?**

A: The purpose of my responsive testimony is to present the PUD Staff's recommendations to the Commission concerning specific issues related to the request for rate relief filed by OG&E.

**Q: On what specific areas will you testify in the current cause?**

A: I will testify on the following areas: 1) ad valorem tax; and 2) Red Rock amortization.

**Q: What adjustments are you sponsoring?**

A: I am sponsoring Staff Adjustment H-7, to increase the operating expenses by \$2,163,558 to reflect the appropriate level of ad valorem tax. I am also sponsoring Staff Adjustment H-8, to increase the operating expenses by \$11,513 to reflect the appropriate level of Red Rock amortization expense. In addition, Staff conducted a review but made no adjustments in the following areas: gas in storage, FERC transmission expense, Enogex issues, affiliate transactions and natural gas transportation.



1        **Red Rock Amortization:** OG&E proposed an increase in its operating expense by  
2        \$268,761 to reflect the 27-year amortization of the Commission-approved Red Rock  
3        regulatory asset. After inquiry by Staff, the Company realized that it incorrectly  
4        calculated the amortization of the Red Rock regulatory asset which accounted for  
5        carrying costs on only the debt portion of the balance of the regulatory asset.  
6        Correct carrying cost accounting resulted in an \$11,513 increase to the Company's  
7        original pro forma adjustment. Staff believes that the corrected amount of \$280,274  
8        is appropriate and consistent with the intent of Order Number 558445 in Cause No.  
9        PUD 200700447/200800215. Although the Company has addressed the  
10       amortization of the regulatory asset according to the Order in that Cause, it has not  
11       addressed the recovery of the two-year amortization of the Commission Staff's and  
12       the Attorney General's ("AG") respective consulting fees.

## DETAILED TESTIMONY

### AD VALOREM TAXES

13  
14       **Q: Please explain Staff's Adjustment Number H-7 to the operating expenses?**

15       A: Staff made an adjustment to the Company's ad valorem tax pro forma  
16       adjustment to reflect Staff's suggested level of ad valorem tax expense on a  
17       going forward basis based on current information not available during the test  
18       year. The adjustment increases the Company pro forma operating expense by  
19       \$2,163,558.

1 **Q: How did the Company calculate its ad valorem tax pro forma adjustment?**

2 A: The Company's proposed ad valorem tax pro forma adjustment was based on  
3 an allocated percentage of the total of OG&E's property tax obligation as it  
4 pertains to the Oklahoma jurisdiction. This amount included the total amount of  
5 ad valorem tax assessed by the Oklahoma Tax Commission and that of the  
6 Arkansas Public Service Commission—Tax Division in 2008. This amount was  
7 adjusted to include the estimated impact of the acquired Redbud plant and the  
8 potential increase in the valuation and millage rates due to operating income and  
9 plant growth. The total amount was then allocated to the Oklahoma jurisdiction  
10 based on OG&E's allocation factor.

11 **Q: Does Staff agree with the Company's approach?**

12 A: Yes. However, Staff's adjustment takes into account the Company's actual  
13 obligation based on current information not available during the test year.

14 **Q: How are ad valorem taxes determined in the State of Oklahoma?**

15 A: Staff has gained an understanding of the ad valorem tax process of valuation  
16 and assessment through its interaction with the Ad Valorem Tax Division of the  
17 Oklahoma Tax Commission ("OTC"). Ad valorem taxes for railroads, pipelines  
18 and public utilities are assessed centrally, rather than county-by-county by the

1 Oklahoma Tax Commission based on the fair cash value of the Company at a  
2 given point in time; usually calendar year end. The valuation of the fair cash  
3 value is determined through three appraisal approaches. These approaches  
4 consist of the cost approach, income approach and stock and debt approach.

5 **Q: Please explain the three approaches that the OTC uses to determine the**  
6 **fair cash value of the Company.**

7 A: The OTC's cost approach bases its valuation of the Company on the original  
8 cost less depreciation based on the depreciated cost of plant, construction work  
9 in progress ("CWIP"), materials & supplies, inventory and fuel stocks, property  
10 held for future use and other taxable property. The OTC's income approach of  
11 valuing the Company bases its valuation on net utility operating income and/or  
12 cash flow and the actual company capitalization rate. The OTC's stock and debt  
13 approach bases its valuation on the market value of debt, the market value of  
14 equity, and the percentage of taxable property to total property of the company.  
15 The values derived from these approaches are allocated by OTC at different  
16 percentages to find the most appropriate value, in OTC's opinion.

1 **Q: Once the OTC has determined its findings of the fair cash value of the**  
2 **Company, what happens next?**

3 A: The OTC sends the Company an appraisal report of its findings, allowing the  
4 Company an opportunity to negotiate its assessed value at a "valuation  
5 conference." After the OTC and the Company negotiate and agree on a final fair  
6 cash value, the value is submitted to the State Board of Equalization for  
7 certification and the OTC apportions the assessed value to the counties and  
8 schools within the utility's service territory. State law and the counties and  
9 schools' taxing ordinances establish the millage rate and determine the amount  
10 of total taxes to be paid by the Company.

11 **Q: Is the determination of ad valorem taxes in the State of Arkansas similar to**  
12 **the method used in the State of Oklahoma?**

13 A: Yes.

14 **Q: How did Staff calculate the Company's ad valorem taxes?**

15 A: First, Staff separated the taxes into Oklahoma and Arkansas portions. For the  
16 Oklahoma portion, Staff took the assessed valuation number assigned in 2009  
17 and multiplied it by a millage rate of 9.0489 percent to determine the taxes to be  
18 paid in 2009. To calculate the taxes in 2010, Staff increased the fair cash value  
19 assigned in 2009 by 3.4 percent and multiplied it by the assessment ratio of  
20 22.85 percent and a millage rate of 9.0489 percent.

1 **Q: Please explain why you increased the 2009 fair cash value by 3.4 percent**  
2 **and why you used the referenced millage rate.**

3 A: The 3.4 percent used by Staff is consistent with the historical valuation  
4 experienced by the Company after it acquired the McClain Plant in 2005. In  
5 order to arrive at the 9.0489 percent millage rate, Staff averaged the actual  
6 millage rates experienced by the Company from 2006 through 2008.

7 **Q: Please continue.**

8 A: The above calculations resulted in Staff's estimate of ad valorem taxes to be due  
9 to the State of Oklahoma in the amounts of \$52,873,403 for 2009 and  
10 \$54,671,328 for 2010.

11 **Q: Please explain Staff's calculations of ad valorem taxes for the Arkansas**  
12 **jurisdiction.**

13 A: For the Arkansas portion, Staff increased the fair cash value determined in 2008  
14 by 5.013 percent and multiplied it by the assessment ratio of 20 percent and a  
15 millage rate of 4.9596 percent to determine the taxes in 2009. Staff used the  
16 same methodology to determine the taxes in 2010.

1 **Q: Did you arrive at the referenced Arkansas millage rate and increase in the**  
2 **same way as you did in your Oklahoma calculations?**

3 A: Yes. The 5.013 percent used by Staff is consistent with the historical valuation  
4 increase experienced by the Company in 2008 in Arkansas. In order to arrive at  
5 the 4.9596 percent Arkansas millage rate, Staff averaged the millage rates  
6 experienced by the Company from 2006 through 2008. This resulted in Staff's  
7 estimate of the ad valorem taxes to be due in the State of Arkansas in the  
8 amounts of \$2,127,555 for 2009 and \$2,234,214 for 2010.

9 **Q: What did you do next?**

10 A: Next, Staff totaled the Oklahoma and Arkansas portions to determine a total  
11 Company ad valorem tax for 2009 and 2010. Finally, Staff took the two-year  
12 average of the total company taxes for 2009 and 2010 to determine the amount  
13 of recovery for ad valorem taxes at \$55,953,250.

14 **Q: What was the basis of Staff's approach in determining its recommendation**  
15 **regarding the amount of allowed ad valorem tax expense?**

16 A: Since ad valorem taxes are a flow-through expense paid by the ratepayers, Staff  
17 wanted to be sure to incorporate in rates a level of ad valorem taxes which  
18 closely ties the amount assessed the Company and the amount recovered  
19 through rates. The amount recommended by Staff is based on the same

1 methodology proposed by Staff and accepted by the Commission in the recent  
2 Public Service Company of Oklahoma rate proceeding (PUD 200800144). Staff  
3 believes its approach is accurate because it incorporates the increasing tax  
4 bases in Oklahoma and Arkansas based on the Company's eight-year tax  
5 obligation history.

6 **RED ROCK AMORTIZATION**

7 **Q: Please explain Staff's Adjustment Number H-8 to the Operating Expenses?**

8 A: OG&E proposed an increase in its operating expense by \$268,761 to reflect the  
9 27-year amortization of the Commission approved Red Rock regulatory asset.  
10 After inquiry by Staff, the Company realized that it incorrectly calculated the  
11 amortization of the Red Rock regulatory asset which accounted for carrying costs  
12 on only the debt portion of the balance of the regulatory asset. Correction  
13 resulted in an \$11,513 increase to the Company's original pro forma adjustment.  
14 Staff believes that the corrected amount of \$280,274 is appropriate and  
15 consistent with the intent of Order Number 558445 in Cause No. PUD  
16 200700447/200800215.

1 **Q: What additional issues were addressed in that Commission Order?**

2 A: According to Order Number 558445, the Company was authorized to recover the  
3 Commission Staff's and AG's respective consulting fees in the next general rate  
4 case, which were to be amortized over two years without recognition of any  
5 carrying costs.

6 **Q: Have these costs been addressed in this rate proceeding?**

7 A: No.

8 **Q: Does Staff have a recommendation in regard to this issue?**

9 A: Yes. Staff recommends that the amortization be recovered through the fuel  
10 adjustment clause rider on a monthly basis. This would prevent the Company  
11 from making a return on the amount and allow for its full recovery.

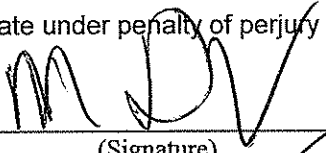
12 **RECOMMENDATION**

13 **Q: What is Staff's recommendation for your assigned areas in PUD Cause No.**  
14 **200800398, OG&E application to modify its rates, charges, and tariffs for**  
15 **retail electric service in Oklahoma?**

16 A: First, Staff recommends an increase of **\$2,163,558** to the Company's ad valorem  
17 tax pro forma adjustment to reflect an appropriate level of the expense. Second,  
18 Staff recommends an increase of **\$11,513** to the Company's Red Rock

1           amortization adjustment to reflect the intent of Order Number 558445 in Cause  
2           No. PUD 200700447/200800215. Third, Staff recommends that the Company's  
3           pro forma adjustments for the FERC transmission expense and the gas in  
4           storage adjustment be accepted. Finally, Staff recommends that the two-year  
5           amortization of the \$304,514 consulting services incurred by both Staff and AG  
6           be recovered through the fuel adjustment clause rider.

7 I state under penalty of perjury under the laws of Oklahoma that the foregoing is true and correct.  
8  
9

10 

11 (Signature)

12 6/19/2009 OKC, OK

13 (Date and Place)  
14  
15

Oklahoma Gas and Electric Company  
PUD 200800398  
Ad Valorem Tax

Description	Fair Cash Value	Change in FCV	% Change in FCV	Assessment Ratio	Assessed Valuation	Millage Rate	Tax Paid
Oklahoma:							
2001	\$ 1,888,127,212			22.85%	\$ 431,437,068	8.7793%	\$ 37,877,078
2002	\$ 1,888,500,553	373,341	0.020%	22.85%	\$ 431,522,376	8.9116%	\$ 38,455,386
2003	\$ 1,906,922,756	18,422,203	0.975%	22.85%	\$ 435,731,850	8.9110%	\$ 38,828,065
2004	\$ 1,908,601,155	1,678,399	0.088%	22.85%	\$ 436,115,364	8.9232%	\$ 38,915,615
2005	\$ 2,098,949,755	190,348,600	9.973%	22.85%	\$ 479,610,019	8.9631%	\$ 42,987,743
2006	\$ 2,170,314,046	71,364,291	3.400%	22.85%	\$ 495,916,760	9.0535%	\$ 44,897,858
2007	\$ 2,243,886,271	73,572,225	3.390%	22.85%	\$ 512,728,013	9.0738%	\$ 46,523,706
2008	\$ 2,325,906,504	82,020,233	3.655%	22.85%	\$ 531,469,636	9.0193%	\$ 47,934,948
2009	\$ 2,557,155,211	231,248,707	9.942%	22.85%	\$ 584,309,966	9.0489%	\$ 52,873,403
2010	\$ 2,644,098,488	86,943,277	3.400%	22.85%	\$ 604,176,505	9.0489%	\$ 54,671,328
Arkansas:							
2001	\$ 144,950,000			20.00%	\$ 28,990,000	4.7170%	\$ 1,367,456
2002	\$ 149,950,000	5,000,000	3.449%	20.00%	\$ 29,990,000	4.7308%	\$ 1,418,758
2003	\$ 148,175,000	(1,775,000)	-1.184%	20.00%	\$ 29,635,000	4.8610%	\$ 1,440,550
2004	\$ 150,250,000	2,075,000	1.400%	20.00%	\$ 30,050,000	4.8341%	\$ 1,452,638
2005	\$ 163,500,000	13,250,000	8.19%	20.00%	\$ 32,700,000	4.9637%	\$ 1,619,844
2006	\$ 180,000,000	16,500,000	10.092%	20.00%	\$ 36,000,000	4.9479%	\$ 1,781,250
2007	\$ 194,500,000	14,500,000	8.056%	20.00%	\$ 38,900,000	4.9606%	\$ 1,929,657
2008	\$ 204,250,000	9,750,000	5.013%	20.00%	\$ 40,850,000	4.9703%	\$ 2,030,363
2009	\$ 214,489,053	10,239,053	5.013%	20.00%	\$ 42,897,811	4.9596%	\$ 2,127,555
2010	\$ 225,241,389	10,752,336	5.013%	20.00%	\$ 45,048,278	4.9596%	\$ 2,234,214

Total Company

2001	\$ 39,244,534
2002	\$ 39,874,144
2003	\$ 40,268,615
2004	\$ 40,368,253
2005	\$ 44,607,587
2006	\$ 46,679,108
2007	\$ 48,453,363
2008	\$ 49,965,311
2009	\$ 55,000,958
2010	\$ 56,905,542

Staff's 2 year average calculation of the Company's taxes

Company's proforma for Ad Valorem taxes

Staff's Adjustment

\$ 55,953,250
\$ 53,789,692
\$ 2,163,558

H-7

# Oklahoma Gas and Electric Company

PUD 200800398

## Red Rock Amortization Analysis

### REDROCK WRITEDOWN BASED ON STAFF PROPOSAL

Pre-tax Discount Rate	6.80%	(incremental L-T borrowing rate per Chuck Walworth)
Allowed Debt Return	6.03%	(based on rate approved in last Oklahoma rate case)
Debt Recovery % Allowed	44.30%	(based on last OCC approved cap structure)
Start Date for Debt Return Calc	10/1/2007	(based on settlement agreement)
Start Date for Recovery of Red Rock	1/1/2010	(start date based on estimated effective date for rate recovery to begin)

Date	Beginning Balance	Allowed Debt Cost Recovery	Ending Balance
Oct-07	7,190,102.00	16,005.71	7,206,107.71
Nov-07	7,206,107.71	16,041.34	7,222,149.04
Dec-07	7,222,149.04	16,077.05	7,238,226.09
Jan-08	7,238,226.09	16,112.83	7,254,338.92
Feb-08	7,254,338.92	16,148.70	7,270,487.62
Mar-08	7,270,487.62	16,184.65	7,286,672.28
Apr-08	7,286,672.28	16,220.68	7,302,892.95
May-08	7,302,892.95	16,256.79	7,319,149.74
Jun-08	7,319,149.74	16,292.98	7,335,442.72
Jul-08	7,335,442.72	16,329.25	7,351,771.96
Aug-08	7,351,771.96	16,365.60	7,368,137.56
Sep-08	7,368,137.56	16,402.03	7,384,539.59
Oct-08	7,384,539.59	16,438.54	7,400,978.13
Nov-08	7,400,978.13	16,475.13	7,417,453.26
Dec-08	7,417,453.26	16,511.81	7,433,965.06
Jan-09	7,433,965.06	16,548.56	7,450,513.63
Feb-09	7,450,513.63	16,585.40	7,467,099.03
Mar-09	7,467,099.03	16,622.32	7,483,721.35
Apr-09	7,483,721.35	16,659.33	7,500,380.68
May-09	7,500,380.68	16,696.41	7,517,077.09
Jun-09	7,517,077.09	16,733.58	7,533,810.67
Jul-09	7,533,810.67	16,770.83	7,550,581.49
Aug-09	7,550,581.49	16,808.16	7,567,389.65

377,287.65

Commission-approved Red Rock Recovery Allowed before Interest	\$	7,190,102
Additional Allowed Debt Cost Recovery (Carrying Costs)	\$	377,288
Total Allowed Red Rock Recovery	\$	7,567,390 *
# of years to amortize (Red Bud plant depr. Life)		27
Company's Recalculated Proforma Amortization	\$	280,274
Company's Original Proforma Amortization	\$	268,761
Staff's Adjustment H-8	\$	11,513

\* Carrying Cost were cut off at August since rates will be implemented in September



# Curriculum Vitae Of Marvin Darrell Vaughn

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## Professional History

- Intern Public Utility  
Regulatory Analyst
- Public Utility Regulatory  
Analyst I
- Public Utility Regulatory  
Analyst II

## Education

- Bachelors of Business  
Administration in Accounting,  
University of Oklahoma

## Professional Associations

- Associate Member of the  
Oklahoma Society of Certified  
Public Accountants

## Professional Experience

### List of Testimony in Regulatory Cases

#### Oklahoma Corporation Commission, on behalf of the Commission Staff 2004 - present

##### Rate Cases

- PUD 200400610 – Oklahoma Natural Gas – Analyst
- PUD 200500151 – Oklahoma Gas & Electric Co. – Analyst
- PUD 200600379 – Arkansas Oklahoma Gas – Analyst
- PUD 200600285 – Public Service Company of Oklahoma – Analyst
- PUD 200800144 – Public Service Company of Oklahoma – Analyst
- PUD 200800398 – Oklahoma Gas & Electric Co. – Lead Auditor/Analyst

##### Fuel Adjustment Clause Reviews

- PUD 200500140/327 – Oklahoma Gas & Electric Co. – Lead Analyst
- PUD 200600334 – Oklahoma Gas & Electric Co. – Lead Analyst
- PUD 200700364 – Oklahoma Gas & Electric Co. – Lead Analyst
- PUD 200800299 – Oklahoma Gas & Electric Co. – Lead Analyst

##### Homeland Security and Critical Infrastructure Recovery

- PUD 200600402 – Oklahoma Gas & Electric Co – Lead Analyst

##### Accounting Methodology Change from LIFO to Weighted Average

- PUD 200700375 – Oklahoma Gas & Electric Co – Lead Analyst

##### Red Bud Plant Acquisition

- PUD 200800086 – Oklahoma Gas & Electric Co – Lead Analyst

##### Transmission Line Recovery

- PUD 200800148 – Oklahoma Gas & Electric Co – Lead Analyst

##### Red Rock/Storm Cost Recovery

- PUD 200700447/200800215 – Oklahoma Gas & Electric Co – Lead Analyst

##### Performance Based Rate Changes

- PUD 200600062 – Center point Energy Oklahoma Gas – Analyst

##### Reclassification of Distribution and Transmission Assets

- PUD 200800383 – Empire District Electric Co.– Lead Analyst

##### Other

- PUD 200600136 – AES Shady Point, LLC. – Lead Analyst
- PUD 200700228 – Oklahoma Gas & Electric Co – Lead Analyst
- PUD 200700298 – ITC Great Plains – Lead Analyst
- PUD 200800375 – Oklahoma Gas & Electric Co – Lead Analyst

## Professional Training

- 2006 NARUC Utility Rate School
- Expert Witness Training
- 2007 Institute of Public Utilities Advanced Regulatory Studies Program
- Fred Pryor Microsoft Excel and Advanced Microsoft Excel Training Seminar
- FERC Account Training presented by Jerry McKenzie of MAXIMUS Financial Services
- 2008 American Public Power Association Winter Education Institute on  
Advanced Public Utility Accounting and Basic Cost of Service & Retail Rate Design
- Transmission Renaissance 2008 by Infocast
- Transmission Summit 2009 by Infocast

CERTIFICATE OF SERVICE

I, the undersigned, do hereby certify that on the 22nd day of June, 2009, a true and correct copy of the above and foregoing was deposited, with postage prepaid thereon, in the U.S. Mail to:

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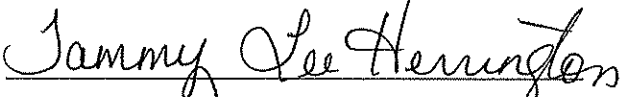
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