

**BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION**

IN THE MATTER OF THE APPLICATION OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR APPROVAL OF A GENERAL CHANGE IN)
RATES AND TARIFFS)

DOCKET NO. 06-070-U

Direct Testimony

of

Roger D. Walkingstick, P.E.

on behalf of

Oklahoma Gas and Electric Company

July 28, 2006

1 testimony and testified in various hearings and proceedings before the Oklahoma
2 Corporation Commission.

3
4 **PURPOSE OF TESTIMONY**

5 Q. **What is the purpose of your testimony?**

6 A. The purpose of my testimony is to sponsor pro forma revenue adjustments, sponsor
7 changes in Terms and Conditions (T&Cs), and propose class rate design
8 recommendations. These proposed tariff recommendations are based upon the equalized
9 rates of return (ROR) revenue requirements for each class from OG&E's Cost of Service
10 as proposed by OG&E Witness Stephen Goodner. I will also discuss OG&E's
11 competitive position of our Arkansas rates, from both a regional and national comparison
12 basis.

13
14 **PRO FORMA ADJUSTMENTS**

15 Q. **Are you sponsoring any of the pro forma adjustments reflected in Section E,
16 Schedule E-13?**

17 A. Yes, I sponsor the following list of pro forma revenue adjustments:

18	Adjustment # 2	True-up of Power & Light (PL) Revenues
19	Adjustment # 3	Transition Cost Recovery (TCR) Removal
20	Adjustment # 4	Energy Cost Recovery (ECR) Removal
21	Adjustment # 5	Weather Normalization Adjustment
22	Adjustment # 6	Year End Customer Adjustment

1 Q. **Please describe and discuss each of these adjustments.**

2 A. Adjustment # 2 is the True-up of PL book revenues in their proper month. During the
3 test year, monthly revenue for two of our largest PL customers was not booked until the
4 next month. This adjustment recognizes that delay and places those revenues in the
5 month and year in which they occurred. PL true-up is a decrease to revenues of
6 \$1,302,207 in the Arkansas jurisdiction.

7 Adjustment # 3 removes the TCR revenue collected from the Arkansas retail customers
8 during the test year. This is non-recurring revenue. For the test year, this resulted in a
9 revenue decrease of \$769,107 to the Arkansas jurisdiction.

10 Adjustment # 4 is for ECR removal. This adjustment decreases the Arkansas test year
11 revenues by \$85,656,508. Base rate design changes are made exclusive of the ECR fuel
12 revenues. It should be noted that when rate design changes are completed, ECR revenues
13 are again included for proof of revenues and to determine customer impacts.

14 Adjustment # 5 recognizes adjustments to test year revenues to reflect 30-year normal
15 weather. Weather adjustments are required because the effects of weather can cause
16 significant annual revenue swings and cause test year revenues to differ from the
17 expected revenue outcome for an average year. This adjustment decreases Arkansas
18 jurisdiction revenue by \$1,691,439.

19 Adjustment # 6 is OG&E's Year End Customer adjustment. This adjustment reflects the
20 end of test year customer number, as well as the revenues and billing units associated
21 with these customers. The average number of Arkansas customers during the test year
22 was 70,532. This adjustment reflects the year end customer count of 70,721 and increases
23 revenues by \$408,781 for the Arkansas jurisdiction.

1 **T&C Change in Revenue**

2

<u>Charge or Fee</u>	<u>Dollar Impact</u>
3 Collection Fee	\$35,080
4 Reconnect Fee	\$159,750
5 After-Hours Reconnect	(\$240)
6 Returned Check Charge	\$9,200
7 Meter Test Fee	<u>\$350</u>
8 Total Miscellaneous Fee Change	\$204,140

9

10 For purposes of rate design recommendations, the revenue deficiency of each class has
11 been reduced by its class portion of the proposed increase on revenues from T&C fees or
12 charges.

13

14 **RATE DESIGN RECOMMENDATIONS**
(By Class and Arkansas Jurisdiction)

15 **Q. Please discuss the rate impacts for each class of customers.**

16 **A.** The Arkansas jurisdictional total revenue deficiency is \$13,517,699 and is reflected in
17 Table 1, Column 4 found in Mr. Stephen Goodner's Direct Testimony of July 28, 2006,
18 as filed in this Docket. This deficiency, if recognized by this Commission, represents a
19 7.56% increase in jurisdictional revenues. The Revenue Deficiency column, as seen
20 below, is used to calculate the required Total Revenue % Increase, seen in the last
21 column. The Adjusted Deficiency column is the basis for the rate design and reflects the
22 revenue requirement after the T&C adjustments. The revenue and percentage increases
23 for OG&E's seven rate classes of service are reflected in the following:

Class	Revenue Deficiency	T&C Adjusted Deficiency	Total Revenue % Increase
Residential	\$5,405,300	\$5,312,614	9.52%
General Service	2,137,401	2,116,971	13.53%
Power & Light	5,821,448	5,731,393	5.68%
Municipal Lighting	32,168	31,895	2.65%
Security Lighting	71,995	71,447	3.17%
Municipal Pumping	16,095	16,029	13.98%
Athletic Field Lighting	33,292	33,210	19.55%

1

2 **Residential Rate Design**

3 Q. **How has the RES class of customers' load characteristics changed since the last**
4 **general rate review (Docket 98-036-U)?**

5 A. The total number of RES customers has grown from 50,005 in the 1996 test year to
6 52,692 for the 2005 test year, a 5.37% increase. The average kilo-watt hour (kWh) usage
7 has increased from 12,146 per year to 13,119, an 8.01% increase. The average revenue
8 (less fuel) per kWh has decreased slightly from \$.04090 per kWh to \$.03926 per kWh.
9 Please see Exhibit RDW-1 for characteristic changes of all of the classes.

10

11 Q. **What has caused the revenue to drop on a per kWh basis for this class?**

12 A. Average customer usage has increased, but much of the increase in kWh usage is
13 occurring in the tailblock portion(s) of the RES rate. The current RES winter monthly
14 rate in Arkansas has three kWh blocks. The first block (from 0-600 kWh) is priced at
15 3.302¢, the second block (from 601-1000 kWh) is priced at 2.130¢, and the final block
16 (above 1000 kWh) is 1.065¢. Load growth in the tailblock areas of the tariff have
17 resulted in reduced revenues on a kWh basis because the average revenue for all kWh
18 consumed by the customer decreases.

1 Q. **What is the revenue deficiency of the RES class on a percentage basis?**

2 A. The RES revenue percentage deficiency is 9.52%. I am proposing that the entire
3 deficiency be eliminated in the first year that new rates are set. This will be accomplished
4 by changes for this class in three specific areas: customer charges will be increased, the
5 winter tailblock(s) will be merged, and a summer tailblock rate will be implemented.

6

7 Q. **What changes are you proposing for the customer charge portion of the rates?**

8 A. I am proposing an increase in the customer charge for RES customers from \$6.50 a
9 month to \$ 7.50 a month. The functionalized rate for RES customer related charges is in
10 excess of \$24 a month. Because moving to that level of customer charge would be
11 burdensome for many of our small RES customers, I am proposing a \$1.00 increase.
12 This requested customer charge is in-line with the rates for the other electric IOUs in
13 Arkansas and represents an increase per kWh consumed of less than 1 mill for the
14 average RES customer. Entergy's monthly customer charge is \$6.94, Empire's monthly
15 charge is \$8.40, and SWEPCO's monthly charge is \$6.88. The simple average of these
16 three customer charges is \$7.41.

17

18 Q. **What changes are you proposing for the winter kWh block structures for OG&E's
19 Arkansas RES customers?**

20 A. I am proposing that the second and third winter blocks be merged into a single block of
21 601 kWh and over for the winter period. Both the first block and the now merged second
22 block will experience price increases of \$.00677 per kWh and \$.00305 per kWh
23 respectively.

1 Q. **You also propose a summer tailblock that reflects an inverted block rate. Please**
2 **discuss this rate design proposal.**

3 A. The inverted block is priced at a higher per unit rate than the first block. The inverted
4 block provides a signal that prices are higher for the next unit of production than for the
5 last unit of production. During much of the summer hours, OG&E's next unit of
6 production cost is higher than the last unit of production. During that time, OG&E
7 operates our coal generation units and the McClain Plant primarily as base load units
8 while using our peaking gas units to serve the remaining load. These peaking units have
9 a fuel cost that is as much as 15 times higher than the fuel costs for our coal units.

10

11 Q. **Are you advocating a large price increase per kWh for the inverted block kWh**
12 **versus the first block kWh in the RES summer rate structure?**

13 A. No. The increase I propose is small. In fact, a customer that uses 1,000 kWh in the
14 inverted block in a month would see an increase of only \$1.50 above the pricing of those
15 kWh at the first block rate. The inverted block pricing is an attempt to begin educating
16 our customers that during certain times of the year, electricity does cost more and they
17 should consider those additional costs before purchasing that next unit of electricity.

18

19 Q. **Are there any other rate design issues for the RES class of service?**

20 A. Yes. I am proposing two new voluntary rate tariffs; one for RES customers and another
21 for GS customers. These tariffs are collectively referred to as Guaranteed Flat Bill (GFB)
22 tariffs.

1 Q. **Does the Company currently offer GFB tariffs in the Oklahoma jurisdiction?**

2 A. Yes; and based on the response in Oklahoma, I feel it is appropriate to offer these tariffs
3 to our Arkansas customers.

4

5 Q. **Please discuss how you came to offer these GFB tariffs in Oklahoma.**

6 A. In reviewing rate offerings and innovations in the area of rate design across the country, I
7 became aware of fixed bill products which are primarily offered in the southeast and
8 southern areas of the country. I contacted consultants from Christensen and Associates
9 (the product developers) as well as Georgia Power (a leader in offering fixed billed
10 products) to review the programs. Subsequently, I proposed a pilot program offering
11 GFB to a small group of RES and GS customers in Oklahoma. After two years in a
12 successful pilot mode, the Company offered the GFB products as permanent tariff
13 options. The Oklahoma Commission approved the permanent tariffs in Cause No. PUD
14 200500151. GFB was implemented as permanent tariffs for Oklahoma RES and GS
15 customers in January of 2006.

16

17 Q. **Please explain how the RES GFB tariff is designed.**

18 A. The RES GFB is designed to take a customer's individual history, weather normalize it,
19 account for expected changes in usage and growth, apply standard tariff billing
20 determinants, add projected fuel costs for the next twelve month period, and, finally,
21 adjust the calculation for risks. After determining the expected revenue for an individual
22 customer for a 12 month period, the total revenue stream is divided by 12 and generates a
23 proposed guaranteed monthly bill for the upcoming year. If the customer meets the

1 qualifications of the tariff, the GFB amount is offered to the customer. If the customer
2 informs us of his acceptance he is placed on GFB for the next 12 months. If the customer
3 rejects the offer, he remains on standard tariff. The GFB choice is strictly voluntary, but
4 once a customer commits to the tariff, he must reside on the tariff for 12 months (subject
5 to exit provisions discussed in the tariff).

6
7 **Q. What are the qualifications associated with the RES GFB?**

8 A. The customer must have: their own 12 months of valid history at their current location;
9 an electric account credit history that is acceptable to the Company; and no outstanding
10 balances for the account. Please refer to the GFB tariff for a more detailed explanation of
11 the tariff qualification requirements.

12
13 **Q. You mentioned risks associated with this voluntary GFB offering earlier in this
14 testimony. What are the Company's risks with this product offering?**

15 A. There are several risks to the Company that exist with this product. The following is a
16 non-comprehensive list:

- 17 • Weather risks (weather is different than normal)
- 18 • Modeling risks (predictions of a customer's usage failed to properly capture a
19 customer's behavior or change in behavior or bad input data was not recognized and
20 corrected). Modeling risks can also be viewed as volume risks
- 21 • Moral hazard risks (customer fraudulently misuses the product)
- 22 • Fuel risks (Company's generation performs differently than planned or fuel costs are
23 different than forecasted)
- 24 • Flight risks (customer fails to finish out the term of their GFB contract)

1 Q. **How is the Company compensated for risks associated with this program?**

2 A. A risk premium is applied to the GFB offer to compensate the Company for its increased
3 risks. All customers are informed that the GFB program is a premium product. In the
4 long run, customers should expect to pay more (a premium) for GFB than they would pay
5 for standard tariff. In the short run, a customer may pay more or less than standard
6 billing in any one year.

7
8 Q. **Are non-participating customers negatively affected by GFB?**

9 A. Non-participating customers are not negatively affected by the GFB process. For book
10 purposes, each GFB customer is billed as if he was on the standard residential tariff. The
11 standard billing amount is subtracted from the GFB revenues and credited to the
12 Company's book revenues. For any standard billing that is greater than the GFB amount,
13 the shortfall is borne by the Company and ultimately by its shareholders. For any
14 standard billing that is less than the GFB amount, the surplus benefits the Company and
15 its shareholders. In other words, the Company requests that the APSC determine that any
16 gain or loss in revenues associated with this program be considered as a below the line
17 item for regulatory accounting purposes. This below the line treatment would insulate
18 other customers from the risks associated with this program.

19
20 Q. **Can non-participating customers benefit from GFB?**

21 A. Yes. System load factor improvement benefits the utility and other customers because it
22 allows a greater number of units (kWhs) to bear the overall fixed costs of the system
23 without adding new capacity. Customers on GFB tend to use more electricity in non-peak

1 periods of usage which can actually increase system load factor, but GFB usage across
2 the peak tends to remain constant. The increase in system load factor due to GFB may
3 actually lower base costs for all customers.
4

5 **Q. What is the expected impact of GFB on annual customer consumption?**

6 A. The pilot program in Oklahoma demonstrated that customers on the GFB behave very
7 similarly to customers on a levelized bill program. Both GFB customers and levelized bill
8 customers tend to increase their consumption about 7% in the first year and thereafter
9 tend to approximate the system average growth.
10

11 **Q. How have customers in Oklahoma responded to GFB?**

12 A. The Company had approximately 2000 customers during the pilot program and over 90%
13 of those customers signed up for the next year. As of June 2006, 10,445 Oklahoma
14 customers were subscribed to GFB and the number continues to grow. I believe GFB is
15 popular because it is convenient, predictable, and surprise free. It is an option that our
16 Oklahoma customers enjoy and we hope that the APSC will give serious consideration to
17 making the GFB product available to our Arkansas RES and GS customers.
18

19 **General Service Rate Design**

20 **Q. How has the general service class of customers load characteristics changed since**
21 **the last general rate review (Docket 98-036-U)?**

22 A. The total number of General Service customers has grown from 7,654 in 1996 to 8,826
23 for the 2005 test year, a 15.3% increase. The average kilo-watt hour (kWh) usage has

1 decreased from 28,006 per year to 24,299 per year, a 13.2% decrease. The average
2 revenue (less fuel) per kWh has increased slightly from \$.02982 per kWh to \$.03080 per
3 kWh. Please see Exhibit RDW-1 for characteristic changes of all of the classes.

4
5 **Q. What has caused the total kWh consumption per customer to drop between these**
6 **two time periods for this class?**

7 A. An outcome from the last general rate review in Arkansas was the approval of
8 qualification rates for our customer classes. Up until the implementation of qualification
9 rates, customers would migrate between the PL and GS classes based upon which class
10 rates provided them the lowest possible overall annual bill. This migration made it
11 impossible to correctly allocate costs to these classes, which was unfair to the remaining
12 customers. In addition, migrating customers were able to seek best price but had no
13 motivation to efficiently use electricity. When the migration issue was corrected due to
14 qualification rates, many of the largest GS customers permanently moved to the PL class.

15
16 **Q. What is the percentage revenue deficiency of the General Service (GS) class?**

17 A. The GS percentage revenue deficiency is 13.53%. I am proposing that the deficiency be
18 eliminated in two stages: the first year rate increase should be limited to 10% of their total
19 bill and the second year increase will eliminate the remaining deficiency.

20
21 **Q. Please discuss your proposed rate design for this class of customers.**

22 A. Customer charges will be held constant and proportional kWh rate increases will be
23 applied to all remaining billing determinants.

1 Q. **Does the GS GFB program different from the RES GFB program?**

2 A. Yes. In addition to the qualifications listed for the RES class of customers, GS GFB
3 customers consuming above 75,000 kWh annually will not be offered an initial GFB
4 quote. If the usage of an existing GS GFB customer grows above 75,000 kWh annually,
5 OG&E has the option to accommodate a request to continue on the program.

6

7 **Power & Light Rate Design**

8 Q. **How have the Power & Light class' load characteristics changed since the last
9 general rate review?**

10 A. The total number of Power & Light customers has grown from 905 in 1996 to 1005 for
11 the 2005 test year, an 11.0% increase. The average kilo-watt hour (kWh) usage has
12 increased from 1,439,310 per year to 1,796,592 per year, a 24.8% increase in usage. The
13 average revenue (less fuel) per kWh has decreased from \$.01455 to \$.01389 per kWh.

14

15 Q. **What do you attribute the lower revenue per kWh in 2005 for this class of
16 customer?**

17 A. This revenue decrease can be attributed to at least three causes: greater usage per
18 customer; better overall customer load factors; and better managed time of use.

19

20 Q. **What is the percentage revenue deficiency of the Power & Light class?**

21 A. The Power & Light percentage revenue deficiency is 5.68%. I am proposing that the
22 entire deficiency be eliminated in the first year of new rates. Please see Exhibit RDW-1
23 for characteristic changes of all of the classes.

1 Q. **Please discuss your proposed rate design for this class of customers.**

2 A. Rate design for this class is proposed as follows: keep customer charges constant at
3 present levels and proportionally adjust all other billing determinants associated with
4 each of the class service levels (SL).

5
6 **Municipal Pumping Rate Design**

7 Q. **How has the Municipal Pumping (PM) class of customers load characteristics
8 changed since the last general rate review (Docket 98-036-U)?**

9 A. The total number of PM class of customers has decreased from 98 in 1996 to 78 for the
10 2005 test year, a 20.4% decrease. The average kilo-watt hour (kWh) usage has decreased
11 from 65,439 per year to 19,346 per year, a 70.4% decrease in usage. The average
12 revenue (less fuel) per kWh has increased significantly from \$.02089 per kWh to \$.03340
13 per kWh, almost exclusively as the result of recovering the customer charge over the
14 reduced average consumption.

15
16 Q. **What has caused the total kWh consumption per customer to substantially drop
17 between these two time periods for this class?**

18 A. Since 1996, the larger customers that were in this class have migrated to the PL class of
19 customers. As a result, the consumption of the current PM customers is materially similar
20 to that of the GS class of customers.

21
22 Q. **Since you stated that the PM and GS class are similar, are you proposing combining
23 the GS and PM classes of service to create a single class of customers?**

1 A. No, but I have taken two steps in that direction. First, the present PM customer charge of
2 \$28.60 was lowered by \$3.60 per month to move closer to the GS customer charge of
3 \$21.67. Second, I created a seasonal differentiation in the PM class. GS rates currently
4 have seasonal rates and this move would add some seasonality to the PM rate also. By
5 moving to a lower customer charge and a differential seasonal kWh charge, I am taking
6 small steps toward aligning these classes of customers into a possible merger in a future
7 rate review. Moving to a combined class in this proceeding would adversely affect some
8 of the customers in this class with a larger percentage impact to their annual bill than I
9 believe is reasonable.

10

11 Q. **What is the percentage revenue deficiency of the PM class?**

12 A. The PM percentage revenue deficiency is 13.98%. I am proposing that the deficiency be
13 eliminated in two stages: the first year rate increase should be limited to 10% of their total
14 bill and the second year increase will eliminate the remaining deficiency.

15

16 **AFL Class Rate Design**

17 Q. **Please discuss the characteristics of the AFL class.**

18 A. The AFL class of customers load characteristics has changed substantially since the last
19 general rate review. The average number of customers has dropped by 25% from 48
20 customers to 36 customers. Average kWh consumption has increased by 84.8% (from
21 39,313 kWh annually to 72,667 kWh). Over 60% of the kWh usage of the class can be
22 attributed to two of the 36 customers (almost 1.6 million of the 2.6 million kWh of the
23 class). In fact, if just the top two customers were removed from the class and placed in

1 the PL class the class average kWh would be approximately 31,000 kWh annually.

2

3 **Q. What rate design proposal do you have for the AFL class?**

4 A. The present AFL rate class reflects a deficiency of \$33,292 or 19.55%. This deficiency
5 will be recovered by proportionately increasing the energy charge over a two year period.

6 I am proposing that the deficiency be eliminated in two stages: the first year rate increase
7 should be limited to 10% of a customer's total bill and the second year increase will
8 eliminate the remaining deficiency.

9

10 **Q. Could this rate design recommendation change?**

11 A. Yes. These two larger customers could be moved to the PL class, but insufficient
12 information currently exists on the smaller of the two large customers. Appropriate meters
13 are being installed and when metering information becomes available, additional
14 discussions concerning the proper class designation of these customers should occur.

15 Until additional information is gathered, the proposed AFL rate design will include these
16 two large customers in determination of class and customer impacts.

17

18 **LM and OSL Rate Design**

19 **Q. Please discuss the load characteristics for the OSL and LM lighting classes.**

20 A. The present OSL class of service has increased from 7,859 customers in 1996 to 8,059
21 customers in 2005. The average usage has increased from 1,566 kWh annually to 2,174
22 kWh annually or an increase of 38.8%. The average revenue per kWh has remained very
23 stable at approximately \$.087 per kWh for both time periods.

1 The present LM class of service has increased from 24 customers in 1996 to 26
2 customers in 2005. The average usage has decreased slightly from 336,958 kWh
3 annually to 335,077 kWh annually or a decrease of .6%. The average revenue per kWh
4 has increased from \$.07998 to \$.09653 per kWh for both time periods. Please see Exhibit
5 RDW-1 for characteristic changes of all of the classes.

6
7 **Q. Please discuss the proposed rate design for these classes.**

8 A. The deficiency for both the OSL and LM lighting classes is approximately 3%. I am
9 proposing to move individual fixture pricing and lighting poles closer to cost of service
10 where possible while still maintaining a less than 10% increase for any particular fixture
11 or pole.

12
13 **Q. Why were your recommendations for the GS, PM and AFL classes limited to a 10%**
14 **increase in the first year of implementation?**

15 A. Actually, in my rate design proposals, the goal is to limit the total rate increase for all
16 classes to 10% or less for any year. In these three classes, it so happens that the
17 deficiency exceeds 10%. This “total rate increase” is composed of base tariff changes,
18 additional increases and credits associated with service level fuel changes, McClain
19 generation fuel savings, and Centennial Wind savings. This limitation does not include an
20 increase, if any, above the current ECR of \$.042866 per kWh.

21
22 **Q. How does this limitation of a 10% yearly increase affect the revenue requirement**
23 **deficiency for the jurisdiction?**

1 A. If the \$13.5 million revenue deficiency is accepted by the Commission, as proposed by
2 OG&E in this proceeding, the first full year revenue would defer \$575,332 to not impact
3 any class of customer more than 10 percent. By the end of the second year, the \$575,332
4 deferred revenue will be collected in rates.

5
6 **Q. Please explain the 10% capped rate increase for the first year rates are in effect.**

7 A. On page 1 of RDW-2, three classes receive a 10% capped increase for the first year.
8 Those three classes (GS, PM, and AFL) create additional first year revenues above test-
9 year levels of \$1,611,456. These revenues are calculated by adding the GS class (line 2,
10 column 1), the PM class (line 4, column 1), and the AFL class (line 5, column 1). If the
11 same calculation is made on page two (second year revenues) of RDW-2, those three
12 classes result in total revenues of \$2,186,788. The difference between Page 1 and Page 2
13 revenues is the \$575,332 first-year revenue deferral.

14
15 **Q. Please discuss the additional columns in Exhibit RDW-2 that ultimately affect**
16 **customer impact.**

17 A. Customer impacts can best be understood by focusing on one class of service; then
18 discussing how each of the additional columns affect that class; and finally, the last two
19 columns illustrate the net impacts of all of the columns, collectively. Page 1 reflects the
20 first year customer impacts, and page 2 reflects the second year customer impacts. My
21 explanation will focus on the RES class for describing Exhibit RDW-2.

1 Q. **Please explain the RES class impact calculation in Exhibit RDW-2.**

2 A. The Customer Rate \$ Change column reflects the increase on an average customer in the
3 class. For the RES class, the change is \$8.55 on an average monthly bill of \$89.78 or a
4 9.52% increase.

5 The 2005 McClain Fuel Savings column reflects the fuel savings of \$2.31 credit that
6 occurs for an average residential customer using close to 1100 kWh a month. The
7 Arkansas revenue requirement associated with the McClain Plant and Centennial Wind
8 Project is reflected in the \$13.5 million rate increase. Therefore, the annual fuel savings
9 associated with both plants should be reflected in the customer impact calculation.

10 The next column is the SL Fuel Change which impacts a customer class due to the
11 proposed changes in the calculation of the ECR. In the RES class, fuel cost will increase
12 \$1.04 per month. Not all customers will experience fuel increases from the SL Fuel
13 Change proposal. SL 1, 2, 3 customers will experience a decrease in fuel cost because of
14 the proposed SL Fuel Change. The next column is the 2007 Estimated Centennial Fuel
15 Savings for the Arkansas jurisdiction. The fuel savings is \$.94 a month for an average
16 residential customer.

17 The Average Monthly Bill \$ Change column combines all the previous columns
18 (increases and decreases) to determine the net impact to an average customer in each
19 class. For a RES class, the Average Monthly Bill \$ Change is \$6.34 per month.

20 The final two columns reflect an average customer's increase on a percentage and per
21 kWh basis. A residential customer will experience a 7.06% increase considering the fuel
22 savings offsets and the change in the ECR.

1 Q. **Are the customer impacts for the other classes calculated in the same manner as the**
2 **RES class calculations?**

3 A. Yes.

4

5 **COMPETITIVE POSITION OF OG&E'S PROPOSED RATES**

6 Q. **How do OG&E's current rates compare competitively to other similar classes**
7 **nationally, regionally, and within the state?**

8 A. According to the last issue of Edison Electric Institute's "*Typical Bills and Average Rates*
9 *Report*" Winter 2006 report, OG&E currently competes quite well regionally and
10 nationally. This is an important accomplishment considering that a large portion of the
11 participants in the survey rely on fuel sources other than gas—nuclear, coal and hydro
12 electric.

13

14 Q. **Please elaborate on competitiveness, and how fuel impacts competitive position.**

15 A. More than 50% of OG&E's capacity is comprised of natural gas generation. According to
16 2002 Energy Information Administration (EIA) data, the gas generation capacity for
17 Rhode Island is 52.6%, the highest state in the nation. Yet, even at gas generation
18 capacity that rival Rhode Island's and with gas prices that have continued to climb since
19 2002, OG&E's rates for both Arkansas and Oklahoma have competed very well
20 nationally and regionally. That competitiveness occurs in large part because OG&E has a
21 fuel mix of approximately 70% coal and 30% gas. Even with continuing load growth,
22 that fuel mix has remained fairly constant over the last five years.

1 Q. **How do OG&E’s Arkansas rates compare to the most current national rankings for**
2 **IOUs?**

3 A. I can provide a comparison that I believe demonstrates OG&E’s Arkansas rates compare
4 favorably with national rates. Please refer to Exhibit RDW-3 which reflects OG&E’s
5 Arkansas rates compared to state rankings (less Alaska and Nebraska) for the 2005 time
6 period. If OG&E was a “state”, the Company’s current Arkansas rates would place 8th
7 nationally while the Arkansas state average is 11th nationally. If OG&E’s Arkansas rates
8 were increased by 7.56% to reflect the proposed rate increase in this docket, OG&E’s
9 Arkansas rates would still be ranked 9th or 10th.

10

11 Q. **How do OG&E’s current and proposed rates on average compare nationally and**
12 **regionally?**

13 A. Table 2 compares OG&E’s regional and national competitive position for rates in effect
14 January 2006 as well as the rates proposed in this docket. For purposes of this
15 comparison, the same ECR cost was used for calculating the current and proposed OG&E
16 kWh charges. Table 2 demonstrates that, even after the proposed rate increase, OG&E’s
17 Arkansas rates compare favorably with the average regional and national rates.

18 Table 3 reflects this competitive advantage from a different perspective. It reflects the
19 regional and national averages compared as a percentage to the proposed tariffs. For
20 example, Table 3 shows that after the proposed rates are implemented; regional rates are
21 6.21% higher and national rates are 16.37% higher than the rates of an OG&E Arkansas
22 residential customer using 1,000 kWh monthly.

1

**ANNUALIZED RATES IN EFFECT JANUARY 1, 2006
SOURCE: EEI TYPICAL BILLS and AVERAGE RATES REPORT
(WINTER 2006 EDITION)**

Table 2

REVENUE CLASS	SIZE	OG&E ARK \$/KWH (1-1-06)	REGION \$/KWH	NATION \$/KWH	OG&E ARK PROPOSED \$/KWH
Residential (SL-5)	1,000 kWh	\$ 0.0818	\$ 0.0941	\$ 0.1031	\$ 0.0886
General Service (SL-5)	1,000 kWh	\$ 0.0840	\$ 0.1070	\$ 0.1140	\$ 0.0960
Power & Light (SL-5)	50,000 kWh	\$ 0.0539	\$ 0.0693	\$ 0.0762	\$ 0.0577
Power & Light (SL-2)	25,000,000 kWh	\$ 0.0510	\$ 0.0604	\$ 0.0735	\$ 0.0522
Power & Light (SL-2)	32,500,000 kWh	\$ 0.0491	\$ 0.0567	\$ 0.0690	\$ 0.0499

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PROPOSED RATES COMPARED TO REGION AND NATION

Table 3

REVENUE CLASS	SIZE	REGION VS. OG&E ARK %	NATION VS. OG&E ARK %
Residential (SL-5)	1,000 kWh	6.21%	16.37%
General Service (SL-5)	1,000 kWh	11.46%	18.75%
Power & Light (SL-5)	50,000 kWh	20.10%	32.06%
Power & Light (SL-2)	25,000,000 kWh	15.71%	40.80%
Power & Light (SL-2)	32,500,000 kWh	13.63%	38.28%

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4 Q. **Does this conclude your Direct Testimony?**

5 A. Yes.