

**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**  
FEB 27 2009

Direct Testimony

of

Sheri D. Bunn, CPA

on behalf of

Oklahoma Gas and Electric Company

COURT CLERK'S OFFICE — OKC  
CORPORATION COMMISSION  
OF OKLAHOMA

February 27, 2009



1 Filing Requirements for the current base rate filing in Oklahoma as well as in Cause No.  
2 PUD 200500151, Arkansas Docket No. 06-070-U, and Arkansas Docket No. 08-103-U.

3  
4 Q. **Have you testified in any jurisdiction other than Oklahoma?**

5 A. Yes. I have testified before the Arkansas Public Service Commission in Docket No. 06-  
6 004-R.

7 Q. **Have your credentials previously been accepted before the Oklahoma Corporation  
8 Commission (the "Commission" or "OCC")?**

9 A. Yes.

10  
11 **PURPOSE OF TESTIMONY**

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

13 A. The purpose of my testimony is to sponsor pro forma adjustments to income Nos. 15, 17,  
14 18, 18.1, 19, 27, 29, 31, 33. These adjustments cover payroll, payroll tax, promotional  
15 disallowances, Red Rock Amortization, Demand Side Management (DSM) Expense  
16 Removal, Insurance and Holding Company expense reclassification respectively.

17  
18 **Holding Company Reclassification**

19 Q. **Please explain Pro Forma Adjustment No. 17, Holding Company Reclassification.**

20 A. This Pro Forma Adjustment is a reclassification and adjustment that relates to holding  
21 company expenses. Holding company expenses charged to the utility are recorded as  
22 "Other O&M" on the utility's books. Pro Forma Adjustment No. 17 reclassifies these  
23 "Other O&M" expenses to Depreciation, Property Taxes and Payroll Taxes (Schedule H-

1 2, lines 10, 13 and 14). Total Holding Company Expense allocated to OG&E for test year  
2 ending September 30, 2008 in the amount of \$8,329,498 consisted of Depreciation  
3 Expense, \$5,754,676; Property Taxes, \$122,562 and Payroll Taxes, \$2,452,260. Detail  
4 for this reclassification adjustment is found in OG&E's Supplemental Filing Package,  
5 W/P H-2-17. This adjustment reclassifies costs from O&M expense to the appropriate  
6 category and does not result in an increase or decrease to the Company's revenue  
7 requirements.

#### 8 Payroll and Related Taxes

9 **Q. Please explain Pro Forma Adjustment No. 18 and 18.1, Payroll and Related Taxes.**

10 **A.** Pro Forma Adjustment Nos. 18 and 18.1 increase operating expenses in the amount of  
11 \$10,088,557. This pro forma adjustment is based on changes relating to employee  
12 compensation levels and consists of two components: \$9,394,317 salaries and wages  
13 increase (W/P H-2-18), and \$694,240 increase in related payroll taxes (W/P H-2-18.1).  
14 Payroll items were annualized based on the employees and wage levels during the last  
15 two-week pay period of the test year to determine the test year payroll expense.  
16 We then took the annualized payroll and adjusted for year-end wage/salary increases for  
17 2009. This \$10 million adjustment is necessary to appropriately reflect the payroll level  
18 and associated costs in effect for 2009 when rates will go into effect. This adjustment is  
19 found in Schedule H-2, lines 8 and 14.

1 Q. **Please explain Pro Forma Adjustment No. 27, Redbud Plant Payroll.**

2 A. Pro Forma Adjustment No. 27 increase operating expenses in the amount of  
3 \$2,804,805. This adjustment consists of two components similar to Adjustment Nos. 18  
4 & 18.1 above. First the November 21, 2008 payroll for Redbud Plant employees was  
5 annualized and then increased by 4% to capture the 2009 pay increase that went into  
6 effect at the end of December, 2008 resulting in an adjustment of \$2,611,793. The  
7 November 21<sup>st</sup> payroll was selected because all employees of the former owners that  
8 were offered positions at the Redbud plant and had accepted employment were in place  
9 by that date. Additionally, security guards were added and included in that payroll period.  
10 Second, payroll tax was calculated on the annualized payroll in the amount of \$193,012.

11  
12 **Payroll Expense and Related Taxes for New Positions**

13 Q. **Please explain Pro Forma Adjustment H-2-29 Payroll Expense and Related Taxes**  
14 **for New Positions.**

15 A. *Pro Forma* Adjustment H-2-29 increases operating expenses in the amount of  
16 \$6,840,938. This *pro forma* adjustment is similar to the annualized and out of period  
17 payroll adjustments discussed earlier in my testimony. The adjustment consists of two  
18 components: salaries and wages and payroll tax. However, this *pro forma* adjustment is  
19 different only because it allows for positions to be filled after the test year.

20 **Insurance Expense**

1 Q. **Please explain the *Pro Forma* Adjustment H-2-15, Insurance Expense.**

2 A. *Pro Forma* Adjustment H-2-15 adjusts test year insurance expense by (\$523,945).  
3 Specifically, *Pro Forma* Adjustment H-2-15 has the effect of *decreasing* actual test year  
4 insurance expense to reflect the 2009 estimate for insurance expense because of the  
5 expected decrease in insurance premiums beginning in 2009. The adjusted levels of  
6 insurance expense include *pro forma* amounts for OG&E and OGE Energy. The amounts  
7 for OGE Energy are allocated to OG&E using the Distrigas allocation factor of 76.71%.

8  
9 **Red Rock Project Expenses**

10 Q. **Please explain *Pro Forma* Adjustment H-2-31, Red Rock Project Expenses.**

11 A. *Pro Forma* Adjustment H-2-31 increases Oklahoma jurisdictional operating expenses by  
12 \$268,761 to include one year's amortization expense for Red Rock project costs. The  
13 cost to be recovered represents the portion of pre-construction costs incurred and  
14 authorized for recovery by the Oklahoma Corporation Commission (OCC) which were  
15 related to the proposed Red Rock Plant. On August 22, 2008, the OCC in its Order No.  
16 558445 authorized the Company to recover fifty percent of its Oklahoma jurisdiction  
17 portion of these costs. The full amount approved is \$7,256,554 which includes carrying  
18 costs, to be amortized over a twenty-seven year period.

19 **Promotional Expense**

1 Q. **Please explain the *Pro Forma* Adjustment H-2-33, Promotional Items.**

2 A. *Pro Forma* Adjustment H-2-33 adjusts test year expense by reducing O&M for gifts and  
3 entertainment deemed to be promotional in nature. Per Title 17 § 180.2, promotional  
4 items are disallowed for recovery. Specifically, *Pro Forma* Adjustment H-2-33 has the  
5 effect of *decreasing* actual test year O&M expense.

6

7 DSM Expense

8 Q. **Please explain the *Pro Forma* Adjustment H-2-19, DSM Expense.**

9 A. *Pro Forma* Adjustment H-2-19 adjusts test year expense by reducing O&M for  
10 Oklahoma and Arkansas energy efficiency and demand program expenses recovered  
11 through riders. In Oklahoma, the related expenses are recovered through the Demand  
12 Program Rider (DPR) rider.

13

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

15 A. Yes, it does.