

**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

Direct Testimony

of

Jesse B. Langston

On behalf of

Oklahoma Gas & Electric Company

February 27, 2009

FILED

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OF OKLAHOMA**

INTRODUCTION AND BACKGROUND

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Q. Please state your name, your employer, and your business address.

A. My name is Jesse B. Langston. I am employed by Oklahoma Gas and Electric Company ("OG&E" or "Company") and my business address is 321 N. Harvey, P. O. Box 321, Oklahoma City, Oklahoma 73101.

Q. What position do you currently hold with OG&E?

A. I am Vice President of Utility Commercial Operations. My current responsibilities include oversight of the Company's resource planning, business development, retail sales, and customer service functions. During my career with OG&E I have developed the company's end-use forecasts, developed demand side management programs, designed electrical distribution and transmission systems, managed resource planning, managed corporate planning, led efforts to acquire wind and fossil fuel generation, and led the initiative for the development of transmission facilities for wind development.

Q. Please describe in more detail your professional experience and educational background.

A. I have over 23 years of experience at OG&E, beginning in 1985. I spent my first three years after graduation from Oklahoma State University as a distribution planning engineer before being promoted to Project Engineer in 1991. I spent three years in the OG&E "System Laboratories" program, which is designed to provide young engineers with opportunities to work on projects in distribution, transmission and generation operations. In that capacity, I participated in and lead many projects related to metering, transmission relay, substation maintenance, telecommunications and generation maintenance. In 1991, I was promoted to Staff Engineer in the marketing department and was responsible for producing the Company's end-use forecasts. While in this capacity I helped develop OG&E's initial demand side management ("DSM") programs.

In 1994, I became Client Manager in Resource Planning and became responsible for all resource planning activities. In 1997, I became Manager of Deregulation Transition,

1 leading the complex efforts to prepare our Oklahoma and Arkansas jurisdictional
2 activities for deregulation. In 2001, I joined the Corporate Planning group as Manager
3 and subsequently served as Director of this group. In 2005, I became Director of Utility
4 Commercial Operations and was elevated to Vice President in 2006.

5 Over the past few years, I have led a number of significant initiatives including the
6 acquisition of McClain (a 400MW natural gas combined cycle plant), the development of
7 Centennial (a 120MW wind farm), the development of OU Spirit (a 101 MW wind
8 energy facility located in Woodward Oklahoma), the acquisition of a 51% ownership
9 interest in Redbud (a 1230 MW natural gas combined cycle plant), and the development
10 of transmission facilities (120 miles of 345KV from Woodward to Oklahoma City)
11 necessary to deliver wind energy to our customers.

12 I hold an MBA from Oklahoma City University (May 2002) and a Bachelor of Science
13 degree in Electrical Engineering from Oklahoma State University (1985). .
14

15 **Q. Have you testified previously before the Oklahoma Corporation Commission**
16 **("Commission")?**

17 **A.** Yes. I have testified before the Commission on several occasions that are each related to
18 implementing OG&E's resource planning efforts. I first testified in Cause No. PUD
19 200300564 related to a request by PowerSmith for purchased power rates and a power
20 purchase contract with OG&E. I testified in Cause No. PUD 200500151 regarding the
21 decision-making process that led to OG&E's acquisition of a 77 percent ownership
22 interest in the combined cycle, gas-fired McClain generating facility. I testified in Cause
23 No. PUD 200500059 regarding OG&E's request for approval to construct the Centennial
24 wind project. I testified in Cause No. PUD 200700012 regarding OG&E's application for
25 pre-approval of joint development and ownership of Red Rock, a 950 MW ultra-
26 supercritical coal plant. Most recently, I filed testimony in Cause No. PUD 200800086
27 regarding OG&E's application for pre-approval of the acquisition of a 51% interest in
28 Redbud, a state-of-the-art 1230 MW combined cycle natural gas fired power plant and
29 filed testimony in Cause No. PUD 200800148 regarding the development of transmission
30 facilities to deliver wind resources from northwestern Oklahoma to OG&E's load areas.

1 Q. **How much is OG&E requesting in this case, and why?**

2 A. OG&E is requesting a base rate increase of approximately \$110 million to recover
3 increased business costs and infrastructure investments that the Company has made since
4 rates were last established in 2004. In addition, the Company is asking for authorization
5 and funding for the next phase of our automated metering and SmartPower program. Our
6 Application also requests approval of several customer-focused programs.

7

8 Q. **Can you elaborate on the customer-focused programs?**

9 A. Recognizing the economic pressures facing customers today and for the foreseeable
10 future, the Company is proposing low-income assistance funding and new rate options
11 for fixed-income customers as well as making certain adjustments in our credit policy.
12 The Company is also proposing expansion of OG&E's automated metering and
13 SmartPower program. This program will provide customers with the technology to better
14 manage their energy costs. Energy conservation and efficiency measures will be proposed
15 in a separate proceeding later this year.

16

17 Q. **What impact will your proposal have on monthly residential electric bills?**

18 A. An average residential customer will see an increase of \$8.27 per month beginning in
19 September. This amount does not include a \$3.15 per month, on average, fuel savings
20 recently passed on to customers through a separate OCC action earlier this year or the
21 cost for phase one of the SmartPower project.

22

23 Q. **Why is OG&E seeking an increase at this time?**

24 A. The simplest and most direct answer is that OG&E's rates were last set using 2004 costs
25 that are no longer covering the cost of doing business in 2009. Since then, we have
26 experienced increased business costs and have invested more than \$1.6 billion in the
27 electric system, much of which is not included in today's rates. We have tightened our
28 belts and have tried to postpone an increase but found that we can go no longer without
29 doing so.

1 Q. **Can you elaborate?**

2 A. Yes. Like any business OG&E must periodically revisit the rates, or prices, that it charges
3 customers and adjust them to meet current business conditions. Where we differ from
4 other businesses, however, is that we can't adjust prices to cover rising costs unless we
5 have approval from regulators. We also can't close plants or reduce production to offset
6 higher costs: to do so would jeopardize the reliable delivery of electricity.

7
8 Q. **What steps have you taken to postpone this increase request?**

9 A. Rest assured that seeking a rate increase is something we don't take lightly at OG&E.
10 Before we file any rate increase request, our first step is to ensure that our own belt has
11 been tightened and that our work performance is strong. I would describe our efforts as
12 among the best in class. This was confirmed by an independent third party. For example,
13 our workforce today is roughly the same size as it was in 1961 while serving more than
14 twice the number of customers. In addition our operating and maintenance costs are well
15 below the national and regional averages. The Company has accomplished these
16 efficiencies while improving our operational performance. Our storm recovery efforts
17 have been repeatedly recognized as among the best in the nation, and have won such
18 awards as the JD Power Residential Customer Satisfaction Award. We accomplished all
19 of this while maintaining rates 25% below the national average and 10% below the
20 regional average. Even if you add in the rate increase we are now proposing, our rates
21 would be below the national average and lower than the regional average was in 2007.

22
23 Q. **What would the consequences be if the Company is not allowed to adjust its rates?**

24 A. If prices (rates) do not adequately cover the costs of doing business, serious consequences
25 generally follow. At OG&E, these consequences could range from increased customer
26 outages to system-wide failures, and many things in between. While we hope to avoid all
27 of these, we must be mindful of the funding required to run our business at levels
28 customers have come to expect.

1 Q. **Does this rate increase fit into a longer-term strategy?**

2 A. Yes. Utilities not only look at the short-term, but by the nature of our business, we must
3 always be thinking years ahead. OG&E is no exception and has established a strategy that
4 we call the 2020 Plan.

5

6 Q. **Please explain the 2020 Plan.**

7 A. I would summarize the 2020 Plan as a stretch goal of not building or buying any new
8 fossil-fueled power plants until at least 2020 by adding additional wind power and
9 providing customers with education and technology to better manage their demand for
10 power. This plan will save customers money, help the environment and empower
11 customers. The demand for electricity continues to grow in Oklahoma and the 2020 Plan
12 allows OG&E to meet that demand while we move to the next level of technology.
13 Through the 2020 Plan, we will be able to wait for new, efficient and environmentally
14 friendlier options to emerge and also will retain the flexibility to respond to emerging
15 environmental and regulatory policies.

16

17 Q. **How will customers play a role?**

18 A. Yes. OG&E cannot achieve the 2020 Plan on its own. We will need the help of our
19 customers. Through education and the expansion of technology, OG&E hopes to work
20 with customers to help them manage energy more wisely and thereby postpone the need
21 for a new power plant. Many Oklahoma residents have seen the beginnings of our
22 Positive Energy Together communication campaign, which is a key component of our
23 education initiative.

24

25 Q. **Does this conclude your introduction?**

26 A. Yes. I will now expand on the areas addressed above, provide an overview of the
27 initiatives we have filed in this proceeding and introduce our remaining witnesses.

1 Q. **How is the remainder of your testimony organized?**

2 A. My remaining testimony is organized into the following five sections.

3 Section I: Purpose of Testimony

4 Section II: Rate Relief

5 Section III: OG&E's Strategic Plan

6 Section IV: Investments Since OG&E's Prior Rate Case; and

7 Section V: Requested Regulatory Approvals

8

9

SECTION I: PURPOSE OF TESTIMONY

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

11 A. My testimony will describe OG&E's current strategic plan and identify the rate relief that
12 OG&E is requesting in this case. More specifically, I will discuss: (i) the reasons that
13 OG&E is filing a case at this time; (ii) the major initiatives that we are pursuing to
14 respond to today's business environment and to provide benefits to our customers; and
15 (iii) several actions that OG&E has undertaken over the last few years to enable the
16 Company to execute those initiatives.

17

18 Q. **What are the major initiatives you will be discussing?**

19 A. These initiatives are continued expansion of renewable energy including the construction
20 of transmission facilities necessary to support this expansion, expansion of our demand-
21 side management programs, and the "Positive Energy® SmartPower" initiative
22 (commonly referred to in the industry as "Smart Grid" technologies). It is the Company's
23 belief that, if these three initiatives are successful, OG&E can defer the construction of
24 any incremental fossil fuel generation until 2020, which we call our "2020 Plan". The
25 2020 would reduce customer costs by deferring the need for new generation and would
26 address the risks associated with uncertain CO₂ regulations and a national Renewable
27 Portfolio Standard ("RPS").

1 Q. **How does your testimony relate to the testimony of other Company witnesses**
2 **supporting OG&E's application?**

3 A. I will provide a context for this rate filing by describing OG&E's strategic plan, including
4 significant enhancements to OG&E's resource portfolio as well as investments to replace
5 aging infrastructure. I will discuss the customer concerns and other factors that led to
6 these actions, the resulting benefits to customers in the short and longer term, and the
7 costs incurred to achieve these benefits. Scott Forbes, Acting Chief Financial Officer,
8 will provide detailed capital and O&M cost data for expenditures since our last rate case
9 and discuss anticipated future expenditures. He also will discuss the impact of credit
10 market conditions on OG&E and the need to file a rate case at this time. Mark Lowry, the
11 Managing Partner for Pacific economics Group, will describe that organization's
12 independent assessment of OG&E's cost management efforts.

13 Howard Motley, OG&E's Vice President for Regulatory Affairs, will describe how
14 regulatory riders have played a key role in allowing OG&E to pursue an investment
15 strategy that has benefited customers. He will also discuss the affect on customer rates
16 from this application. There are several witnesses supporting the cost of service, revenue
17 requirements, and rate design and they are Donald Rowlett (revenue requirements), Sheri
18 Bunn (pro-forma adjustments), Bryan Scott (rate design), Greg Veitch (cost of service
19 allocation), and Philip Bartholomew (billing determinants). OG&E has also retained the
20 services of Dr. Donald Murry from C.H. Guernsey and Company, to make
21 recommendations regarding cost of capital issues. Lastly, Kenneth Grant, OG&E's
22 Managing Director for Marketing will provide more details regarding the SmartPower
23 initiative.

24

25 **SECTION II: RATE RELIEF**

26 Q. **Please state the relief sought from the Commission through this application.**

27 A. OG&E is requesting that the Commission approve a \$110,325,328 rate increase to be
28 effective in September, 2009.

1 Q. **Why is OG&E filing a rate case at this time?**

2 A. Since our last rate proceeding, OG&E has invested approximately \$1.6 billion to
3 generate, transmit and deliver reliable electricity to our customers, including but not
4 limited to, investments to replace aging infrastructure, to acquire the Redbud plant, and to
5 construct the Centennial wind farm. Included in the \$1.6 billion is approximately \$700
6 million of capital expenditures (CAPEX) that have already been approved by the
7 Commission. The revenue requirement associated with this CAPEX is being recovered
8 through authorized riders. However, approximately \$900 million of the \$1.6 billion in
9 new CAPEX is invested in facilities that are currently providing benefits to customers but
10 are not yet reflected in rates. Howard Motley describes how the riders have benefited
11 both OG&E and its customers. Scott Forbes discusses the impact of the unfunded
12 CAPEX on OG&E's financial condition.

13 In addition, OG&E's annual O&M expenses have increased by \$48 million since the
14 2004 test year. This increase is the equivalent of a 3.8% per year increase in costs during
15 a period when the Consumer Price Index was increasing by 3.3% per year. The increase
16 in our annual O&M expenses reflect the ordinary costs of doing business and the costs of
17 keeping up with a growing Oklahoma economy.

18
19 Q. **When considering costs, should you only focus on O&M?**

20 A. No. It is easy to overlook that the cost of producing a kWh of electricity includes fuel
21 costs. While the company has been working hard to control O&M, OG&E has also taken
22 a number of steps to hold down or decrease fuel costs, which is a much greater
23 contributor to the total cost of producing electricity. In fact, fuel costs have nearly a three
24 times greater impact on customer costs. In Section IV of my testimony, I discuss in more
25 detail investments OG&E has made to enhance its resource portfolio and maintain
26 downward pressure on fuel costs.

27
28 Q. **Has OG&E taken any action to manage the non-fuel O&M costs?**

29 A. Yes. OG&E has continued to take actions to ensure that we manage costs to the best of our
30 ability. Scott Forbes describes our most recent efforts in greater detail in his testimony.

1 Q. **How are customers impacted if the Company is unable to recover the dollars**
2 **already prudently spent?**

3 A. The Company's business obligations require OG&E to meet our customers' needs 24
4 hours a day, seven days a week. The electric system requires continued investment for
5 OG&E to provide this essential service. Without recovery of the dollars already spent and
6 recognition of the increase in O&M, we will need to reduce our planned outlays for
7 O&M and capital going forward, with the result that the quality of service our customers
8 have come to expect will inevitably change for the worse. The Company will fall behind
9 in addressing the aging infrastructure problem and our overall O&M will increase
10 because of more frequent break/fix incidents. Finally, it will be impossible to fund
11 OG&E's 2020 Plan.

12 Fundamental to all these problems is the impact on OG&E's ability to function in the
13 financial marketplace. As discussed in Scott Forbes testimony, OG&E will need to
14 access short-term and long-term capital markets over the next few years in order to meet
15 current service levels and to implement the 2020 Plan. While OG&E does not plan to
16 raise significant capital in 2009, given the challenges of issuing debt or raising equity
17 with the ongoing turmoil in capital markets, the Company will have financing
18 requirements as early as 2010 and the years that follow. Including prior investments and
19 increased O&M expense in rates at this time will provide the financial grounding
20 required to access these markets on reasonable terms.

21

22 Q. **How else will customers benefit from future capital investment?**

23 A. It is in our customers' interest to continue investing in technology today that will allow
24 the Company to maintain reliability at current levels. Investing now and in the future to
25 make the 2020 Plan a reality will also provide customers with technology, information
26 and rate options to better manage their electricity usage and bills.

27

28 Q. **Why are investments necessary to maintain reliability at current levels?**

29 A. OG&E, like other electric utilities, must make large investments in infrastructure, not
30 only to support the growing demands of its customers but to replace infrastructure we
31 built decades ago to serve existing customers. The reality is that the electric utility

1 infrastructure nationwide is getting old. OG&E has 50 or 60-year-old equipment still in
2 service. On the generation side, the average age of our power plants is about 32 years and
3 replacing this capacity can be very expensive. That was one of the reasons for our
4 purchase of the five-year-old Redbud combined cycle plant at a price very beneficial to
5 our customers. Our poles and wires are similarly aged, with structures 40 and 50 years
6 old. But our largest challenge may be our underground cable of which 6.5 million linear
7 feet is reaching the end of its economic life. Whether at the end of its life or not, we also
8 need to replace electromechanical equipment with digital infrastructure across our system
9 to implement the smart grid.
10

11 **Q. What action is OG&E taking to allow customers to better manage their electricity**
12 **usage and bills?**

13 **A.** OG&E has already implemented a series of Quick Start energy efficiency programs to
14 help customers manage their electricity consumption and bills. As soon as the
15 Commission's Electric Demand Program rules become effective, the Company will
16 propose a portfolio of new energy efficiency programs, including low income
17 weatherization, fixed income weatherization, existing residential home thermal
18 efficiency, green building program, commercial lighting program, geothermal heat pump
19 incentives and an expanded energy efficiency education program. In this proceeding, the
20 Company is proposing low income assistance funding and the implementation of smart
21 grid technology, known as OG&E's SmartPower program, which is a key component of
22 the Company's 2020 Plan. SmartPower is intended to provide an array of choices and
23 services to customers while lowering costs and improving service reliability.
24

25 **Q. How is the slowing economy impacting OG&E?**

26 **A.** Electric consumption continues to grow in our service territory but at a forecasted rate of
27 1.3% in the short term compared to the 1.8 to 2% per year rate we experienced over the
28 last decade. The growth in technology allows us to do things faster and far better with
29 less space, but not always with less electricity. Items such as MP3 players, plasma TV's,
30 cell phones, and computers all are increasing usage. We are expected to meet this growth
31 and continue to provide reliable service even in these difficult economic times.

1 Q. **You mention difficult economic times. Has OG&E already taken some action to**
2 **respond to the current economic environment?**

3 A. Yes. OG&E has recently taken action to work closely with customers that are facing
4 extraordinary financial stress to help them through this period. We have modified our
5 Credit Policy in the following areas:

- 6 1) **Installment Plans:** extension of the time allowed to pay off a delinquent
7 balance from three months to six months, with an option to renegotiate
8 existing installment plan terms before their current plan expires;
- 9 2) **Customer Deposits:** a case-by-case one-time waiver of customer deposit
10 requirements triggered by late payments; and
- 11 3) **Average Monthly Billing Program:** allow customers that have been removed
12 from this program due to slow pay histories to re-enroll on a case-by-case
13 basis.

14 These modifications are based on sound business approaches and will benefit all our
15 customers, not just those who are experiencing some financial difficulties.

17 **SECTION III: OG&E'S STRATEGIC PLAN**

18 Q. **Please summarize the business environment faced by OG&E and other electric**
19 **utilities.**

20 A. The energy industry is subject to considerable uncertainty at the present time from
21 several factors, including market conditions, future energy and environmental policy, and
22 regulatory policies. The needs of our customers also continue to evolve, as reflected in
23 their interest in new products and services from OG&E. OG&E must deal with these
24 uncertainties and customer expectations even as cost-effective supply options are
25 becoming more limited.

26
27 Q. **Please elaborate on the uncertainty associated with future energy and regulatory**
28 **policy.**

29 A. Regulatory policies continue to evolve, with greater emphasis being placed on alternative
30 energy resources and using electricity and other energy sources more efficiently. We are

1 seeing significant changes in energy policy and environmental regulation with the seating
2 of the new administration in Washington.

3 The Obama administration's first priority was the enactment of an economic stimulus
4 package which included increased government spending on infrastructure projects, as a
5 way to reduce the length and depth of the current recession. One of the primary
6 investment areas being targeted is energy technology, particularly renewable energy, and
7 technologies that will improve the efficiency of energy production and usage, including
8 Smart Grid technologies. New energy technologies will also contribute to the
9 administration's goal of reducing the nation's carbon footprint. Supply options for
10 electric generation will obviously be limited in the immediate future. The stimulus
11 package investments can benefit OG&E and our customers, and also advance the goal of
12 Oklahoma to be a leader in renewable wind energy development.

13
14 **Q. How does the direction in Washington fit with OG&E's strategic plan?**

15 **A.** It is a near certainty that some form of national renewable portfolio standards (RPS) will
16 be enacted. OG&E has been making great strides on our own with our commitment to
17 significantly expand the amount of wind energy in our portfolio and in the transmission
18 facilities necessary to deliver wind energy to our service area. It is also clear that the new
19 administration will emphasize conservation and demand side management programs as a
20 means to reduce energy costs and emissions.

21
22 **Q. How do the market conditions, regulatory uncertainty and customer expectations
23 OG&E is currently experiencing affect the Company's strategic plan?**

24 **A.** They confirm that OG&E should stay the course. The Company has focused on actions
25 that reduce risk and help keep electricity costs low. To this point, those actions have
26 primarily related to the acquisition of generation facilities. The Company has turned its
27 attention to increasing its renewable portfolio. OG&E can also reduce costs to customers
28 by helping them reduce demand during high cost periods. This is accomplished either by
29 shifting demand from peak periods to off-peak periods (through better price signals, for
30 example) or by reducing demand across all time periods, including the peak period.
31 More aggressive DSM programs and the SmartPower program will contribute to this

1 goal. In essence, the current conditions suggest OG&E should continue to pursue
2 initiatives that will address long-term customer needs. These include protection from
3 volatile market prices, enhanced transmission and distribution system reliability, and the
4 ability to manage electricity consumption and costs.

5
6 **Q. Please describe OG&E's current strategic plan.**

7 **A.** OG&E's strategic plan has four fundamental initiatives:

- 8 1) Invest in distribution system infrastructure that will help OG&E provide
9 reliable service and address its aging infrastructure and mitigate the impact of
10 future ice storms, high winds and tornados;
- 11 2) Develop renewable electricity sources, including the transmission
12 infrastructure necessary to deliver wind energy to our customers, with a
13 particular emphasis on hedging fuel and environmental risks;
- 14 3) Defer any new fossil-fueled generation until 2020; and
- 15 4) Transform the way OG&E serves customers and maintains system reliability
16 through deployment of new technologies.

17 Of course, maintaining a sound financial condition is fundamental to achieving the
18 strategy. Scott Forbes addresses this important consideration in more detail. Our
19 objective with these initiatives is to help customers through a difficult economic climate,
20 reduce peak period electricity consumption, diversify the resource portfolio, employ new
21 technologies that provide customers with greater control by increasing price transparency
22 and also constrain O&M costs, and improve the efficiency of electricity use through new
23 DSM programs. However, none of these objectives can be fully achieved unless the
24 Company maintains a sound financial condition.

25
26 **Q. Does OG&E have a proposal to mitigating the impact of future ice storms, high
27 winds and tornados?**

28 **A.** Yes. OG&E filed a proposal to recover "system hardening" investments through a rate
29 rider (PUD Cause No. 200800387). The goal of this program is to reduce the damage
30 caused by future ice storms by making incremental capital investments and expending
31 incremental O&M than would normally be included in capital and O&M budgets.

1 OG&E expects to invest approximately \$115 million over the next six years on a
2 narrowly defined set of investments that include swapping out old cable with new cable
3 and reinforcing network structures. OG&E also proposes to implement a more aggressive
4 tree-trimming program by shortening tree-trimming cycles. OG&E is not seeking
5 recovery of these investments in this rate case proceeding.
6

7 **Q. Please describe OG&E's efforts to develop renewable energy sources.**

8 A. OG&E will continue its expansion of wind energy with the development of 700 MW of
9 new wind energy. The Commission has already authorized OG&E to commence
10 development of the 115-mile, 345-kilovolt (kV) transmission line between Woodward
11 and Oklahoma City. This transmission line is needed to deliver the wind energy that is a
12 key component of the 2020 Plan. These actions will increase the contribution of wind
13 energy on OG&E's system to 870 MW by 2012. The transmission line will also serve
14 other customers across the region and is a first step in OG&E's plans to encourage the
15 development of large quantities of wind energy in western Oklahoma.
16

17 **Q. Renewable development aside, what recent steps has OG&E taken to defer any new
18 fossil fuel generation until 2020?**

19 A. In October 2008, OG&E completed the acquisition of the Redbud power plant. Among
20 its many benefits, the operational flexibility of the Redbud plant allows the Company to
21 support more renewable energy as part of its generation portfolio. In 2008, OG&E also
22 announced the construction of OU Spirit wind farm, a 101 MW wind generation facility
23 located near Woodward, Oklahoma. On December 9, 2008, OG&E issued an RFP for up
24 to 300 MW of wind energy. Lastly, OGE Energy Corp., our parent company, formed a
25 joint venture with American Electric Power Company ("AEP") and Mid-American
26 Energy Holdings, Inc. to develop 765 kV transmission lines from the Kansas-Oklahoma
27 border to Woodward, Oklahoma and from Woodward to Guymon, Oklahoma.

1 Q. **Is OG&E considering other generation related options which will allow the**
2 **company to defer new fossil fuel generation until 2020?**

3 A. Yes. OG&E will consider the termination or modification of its existing wholesale
4 contracts. Assuming growth in capacity and energy requirements occur as expected and
5 the other programs I have discussed perform as expected, the deferral of new fossil fuel
6 generation until 2020 would depend on termination of OG&E's wholesale contracts. In
7 response to the requirements of part O of the Joint Stipulation and Settlement Agreement,
8 which was adopted by the OCC in PUD 200800086, OG&E included a new section in the
9 IRP update describing customer impacts associated with existing wholesale contracts.
10 The updated IRP indicates retail customers benefit from the existing wholesale load and
11 would pay higher rates if wholesale customer contracts are terminated prior to 2017 and
12 the associated revenue requirements are reallocated back to retail customers. It is
13 OG&E's plan to continue evaluating the advisability of continuing to serve wholesale
14 load as new information becomes available.

15
16 Q. **How does OG&E plan to better serve customers and improve reliability by the**
17 **employment of new technologies?**

18 A. As discussed in the testimony of Kenneth Grant, OG&E is proposing to provide
19 customers options and improve reliability using SmartPower technologies. The
20 SmartPower initiative represents a longer-term vision of technology-enabled changes in
21 the way customers purchase electricity and the way the Company operates its system.
22 From the customer perspective, it involves technology that provides customers with real-
23 time information regarding the amount of electricity they consume and the cost of doing
24 so along with an enhanced ability to control their consumption. It provides a platform for
25 more effective DSM and other home solutions.

26 From the OG&E distribution system perspective, SmartPower provides automated
27 switching for faster outage recognition and restoration, automated meter reading and
28 remote service activation and deactivation, which should result in significant operational
29 savings.

1 Q. **What are the next steps for OG&E's SmartPower initiative?**

2 A. OG&E is proposing to implement the first phase of the SmartPower initiative by
3 installing 42,000 meters in the Norman area. We are asking the Commission to approve
4 funding for that phase in this proceeding. The Company is also reviewing the availability
5 of federal funding contained in the recently passed Stimulus legislation. Mr. Grant will
6 describe both efforts in more detail. In addition, the direct testimony of Bryan Scott will
7 describe new tariffs OG&E is proposing that will provide customers the ability to use
8 SmartPower technology to respond to price signals.

9
10 Q. **Is the Company also planning to provide more immediate cost saving opportunities
11 to its customers?**

12 A. Yes. OG&E is proposing to develop several new and expanded programs to be rolled out
13 in 2009. The programs are intended for all categories of residential customers (including
14 those residential customers with low and fixed income) and small and large commercial
15 customers. These programs focus on weatherizing homes of OG&E's low and fixed
16 income customers, improving the thermal efficiency of existing residential customer
17 homes, offering incentives to home builders to adhere to green building standards,
18 offering incentives for the use of geothermal heat pump technology in residential and
19 commercial applications, offering rebates for commercial lighting upgrades and expanded
20 education initiatives. OG&E will soon file a separate application with this Commission
21 asking to modify its existing DR tariffs to make them available to a wider group of
22 customers.

23
24 Q. **Please summarize the benefits of OG&E's strategic plan.**

25 A. I have been describing OG&E's plan to address key challenges facing our customers,
26 Oklahoma and our nation. The solutions are complex, difficult and expensive. And, just
27 as the challenges have many moving parts, our solutions must be multi-faceted as well. I
28 believe we have a great opportunity in responding to these challenges to define a new
29 utility-customer relationship through SmartPower. This is an opportunity to create a
30 business relationship that enables OG&E, by offering a comprehensive array of energy
31 management products and services, to optimize its utility system in collaboration with

1 our customers, an approach that recognizes not only the value of hard assets such as
2 power plants, poles and transmission, but the value created by empowering customers
3 through information, education and functionality.

4 The diverse set of initiatives proposed by OG&E addresses the needs of our customers
5 over the next decade or longer. It commits OG&E to expand DSM programs, to continue
6 to replace aging infrastructure, to develop 700 MW of wind energy, and to plan now for
7 the big win potential of Smart Grid technologies. It is responsive to the current and likely
8 future direction of energy and regulatory policy and it will mitigate the risks faced by
9 OG&E and its customers attributable to volatile energy prices and future environmental
10 regulation.

11 **SECTION IV: INVESTMENTS SINCE OG&E'S PRIOR RATE CASE**

12 **Q. In Section II of your testimony, you referenced OG&E's investments to enhance its**
13 **resource portfolio and maintain downward pressure on fuel costs. What factors**
14 **influenced the Company's decisions to invest in these areas?**

15 **A.** OG&E's strategic plan did not begin in 2008. For the last several years our investments
16 have been driven by the evolving needs of our customers, changes in the outlook of key
17 markets, a need to reinvest in an aging infrastructure, and opportunities to take advantage
18 of excess generation capacity in the region. We consider what our customers want from
19 their electric utility, as well as what we assess they will be looking for in the future. We
20 are in a position to pursue today's initiatives and particularly to meet the new regulatory
21 challenges I have described because of our past efforts.

22
23
24 **Q. How have market factors influenced OG&E's investment decisions?**

25 **A.** There are several market developments over the past few years that have led us to
26 diversify our resource portfolio in an effort to protect our customers from risk and
27 maintain downward pressure on fuel costs. These risk factors include:

- 28 1) Extended periods of high and volatile natural gas prices;
- 29 2) Delivered coal prices that are increasing;
- 30 3) Considerable uncertainty over CO₂ regulation;
- 31 4) SPP interest in significantly expanding transmission capacity within the

1 region and to interconnect with neighboring regions; and

- 2 5) Continued advances in wind generation technologies and validation of the
3 potential contribution of Oklahoma-sourced wind generation to regional
4 power needs.

5
6 **Q. How have customer needs evolved over this period?**

7 **A.** Customers have been responding to many of these same market forces. For example,
8 they have shown an increasing interest in price stability in order to avoid the impact of
9 high natural gas prices on their electricity bill. This is evidenced by the fact that over
10 130,000 of our customers have signed up for three rate options that are designed to
11 provide price stability: the guaranteed flat bill, average monthly billing, and wind energy.
12 In addition, while the cost of electricity may be of paramount concern, they are
13 increasingly aware of the impact of electric generation on the environment. Finally, the
14 December 2007 ice storm was a painful reminder of the how vitally important the
15 reliability of the electric network is to our customers, leading to a heightened interest in
16 how OG&E and other utilities can more quickly restore power in major outages.

17
18 **Q. What actions has OG&E taken in response to these customer and market drivers?**

19 **A.** OG&E has been focused on a enhancing its resource portfolio to increase fuel diversity,
20 protect from the risks associated with fuel price volatility, prepare for the likely
21 implementation of a new CO₂ regulatory scheme, and take advantage of oversupply in
22 regional generation markets. We have acquired power plants at discounted prices, built
23 wind generation and entered into or extended purchase power arrangements. The fact
24 that the acquired power plants were operating allowed OG&E and its customers to
25 eliminate construction cost risks from escalating steel and other input costs.

26 We have continued an aggressive, but reasonable, replacement of our aging
27 infrastructure. For example, we replace analog and digital control systems as reliability
28 degrades and replacement parts are no longer available. Heat exchangers are replaced if
29 repairs are extensive and beyond that recommended by industry standards. Other
30 equipment, including boilers and generators, are also replaced if performance degrades
31 beyond an acceptable level. While it is difficult to quantify these benefits, these

1 replacements reduce equipment failures, which result in lower repair and maintenance
2 costs and a more efficient network. More importantly, new infrastructure will perform
3 markedly better over the long run than patchwork maintenance of facilities and
4 equipment to keep aging infrastructure in service. This is particularly true for utilities
5 that experience growth, as has been the case for OG&E, as higher loading places
6 additional stress on old equipment.

7
8 **Q. Please enumerate the major actions OG&E has taken to restructure its generation
9 portfolio?**

10 **A.** OG&E has acted to reduce both the cost and risks associated with supplying energy to
11 our customers. These major actions include:

- 12 1) Purchase of 50 MW of wind energy from Florida Power & Light Co.
13 ("FPL"), the leading developer of wind energy in the United States (2004);
- 14 2) Renegotiation of the PowerSmith cogeneration contract (2004);
- 15 3) Extension of purchases from the AES Shady Point cogeneration contract
16 (2004);
- 17 4) Acquisition of a 77% interest (400 MW) in the McClain generating
18 station at a substantial discount (2004);
- 19 5) PPA purchases from Westar Energy from the Redbud plant at competitive
20 prices (2006, 2007, and 2008);
- 21 6) Development of the 120 MW Centennial wind energy project (2007);
- 22 7) Termination of the 110 MW MCPC cogeneration PPA (2008); and
- 23 8) Acquisition of the Redbud plant at a substantial discount (2008).

24
25 **Q. Are there other recent OG&E programs that help customers reduce their electricity
26 bills?**

27 **A.** Yes. In an effort to encourage more efficient use of electricity by our customers, OG&E
28 established seven "Quick Start" programs this past year. Although OG&E has offered
29 energy efficiency and demand response programs for many years, this set of programs
30 provides additional options for customers in advance of a more comprehensive set of
31 permanent programs that are under development. The Quick Start programs include

1 lighting, weatherization for low-income customers, motor replacement, and efforts to
2 educate customers (and their children!) about energy savings opportunities. OG&E has
3 been educating children for decades with its safety programs.

4
5 **SECTION V: REQUESTED REGULATORY APPROVALS**

6 **Q. What regulatory approvals is OG&E seeking in this case?**

7 A. The regulatory approvals fall in the following areas: (1) revenue requirements, (2)
8 program approval, and (3) tariff modifications. In addition, although OG&E is not
9 requesting affirmation of its strategic plan, we welcome any feedback that the
10 Commission may have in this area.

11
12 **Q. Please identify the revenue requirement.**

13 A. OG&E is seeking approval to set rates designed to recover an increase in its cost of
14 service of \$110,325,328. As described by Howard Motley, OG&E is also requesting to
15 terminate certain rate riders (rolling the investments and associated revenue recovery into
16 base rates) and modify or extend others.

17
18 **Q. What other approvals is OG&E requesting?**

19 A. OG&E is seeking approval of the Norman phase of our SmartPower roll out. OG&E is
20 requesting approval to recover the costs of the Norman phase through a rate rider Mr.
21 Motley will discuss. OG&E is also requesting certain tariff changes as discussed in the
22 testimony of Bryan Scott.

23
24 **Q. Does this conclude your direct testimony?**

25 A. Yes.