

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

COURT CLERK'S OFFICE — OKC
CORPORATION COMMISSION
OF OKLAHOMA



RESPONSIVE TESTIMONY
of
FAIRO MITCHELL
on
COST OF CAPITAL

JUNE 22, 2009

BEFORE THE CORPORATION COMMISSION OF THE
STATE OF OKLAHOMA

RESPONSIVE TESTIMONY

OF

FAIRO MITCHELL

JUNE 22, 2009

INDEX

INTRODUCTION.....	3
PURPOSE	4
EXECUTIVE SUMMARY.....	4
OVERVIEW OF OG&E.....	9
RATE OF RETURN STANDARDS	11
COMPARATIVE COMPANIES	14
RETURN ON EQUITY REQUIREMENT	17
CONSTANT GROWTH DISCOUNTED CASH FLOW METHODOLOGY.....	18
CAPITAL ASSET PRICING MODEL.....	21
COMPARABLE EARNINGS TEST	27
RETURN ON EQUITY CONCLUSIONS.....	28
CURRENT MARKET CONDITIONS.....	31
ELECTRIC UTILITIES' FINANCIAL CONDITION.....	32
OBSERVATIONS OF DR. MURRY'S CONCLUSIONS	33
CAPITAL STRUCTURE	34
COST OF LONG-TERM DEBT	36
OVERALL RATE OF RETURN.....	36
LIST OF EXHIBITS.....	40
LIST OF TABLES and GRAPHS.....	66

1 **INTRODUCTION**

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

3 **A:** My name is Fairo Mitchell. My business address is the Jim Thorpe Office
4 Building, Room 580, 2101 North Lincoln Boulevard, Oklahoma City, Oklahoma
5 73152-2000.

6
7 **Q: Please state briefly your educational background and professional
8 experience.**

9 **A:** See my qualifications outline, attached as Exhibit FM-1.

10

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

12 **A:** I am employed by the Public Utility Division ("PUD" or "Staff") of the Oklahoma
13 Corporation Commission ("OCC" or "Commission") as the chief of the Economic
14 Analysis and Research Group.

15

16 **Q: How long have you been so employed?**

17 **A:** I have been employed with the Commission since October 2005.

18

19 **Q: What are your duties and responsibilities with the PUD?**

20 **A:** My principal responsibility is to manage a six-person group whose duties include
21 the analysis of general rate change applications, particularly cost of service
22 studies, cost of capital, rate design, and financial analysis; renewable energy;
23 demand-side management; decoupling; weather normalization; vegetation

1 management; overhead wire line to underground conversion; rulemakings;
2 economic impact studies; the Southwest Power Pool; and the Federal Energy
3 Regulatory Commission ("FERC").
4

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

7 **A:** Yes, I have testified before the Commission, and my qualifications have been
8 accepted.
9

10 PURPOSE

11 **Q: What is the purpose of your testimony in the application filed by OG&E for**
12 **approval of a general rate change in the state of Oklahoma filed as Cause**
13 **No. PUD 200800398?**

14 **A:** The purpose of my testimony is to present Staff's recommendations to the
15 Commission regarding a fair rate of return on capital for the Company's rate base
16 for Oklahoma customers. Also, Staff's discussion will address the testimony of
17 OG&E witness Dr. Murry.
18

19 EXECUTIVE SUMMARY

20 The cause being reviewed is the application of Oklahoma Gas and Electric
21 Company ("OG&E" or "Company") for an adjustment in its rates and charges for electric
22 service in the state of Oklahoma with the test year ending September 30, 2008. I am
23 presenting Staff's recommendations regarding:
24

- 1 1. Return on Equity ("ROE");
- 2 2. Long-Term Debt Cost;
- 3 3. Capital Structure; and
- 4 4. Overall Rate of Return.

5 In preparing its recommendation, Staff used the following analyses to estimate
6 the cost of common equity:

- 7 1. The Discounted Cash Flow ("DCF");
- 8 2. The Capital Asset Pricing Model ("CAPM"); and
- 9 3. The Comparable Earnings ("CE") methodologies.

10 Also included in Staff's analysis were reviews of rate of return decisions from
11 various other state regulatory commissions. Staff's recommendation is summarized
12 below:
13

14 **Table 1: Staff's Proposed ROE on Common Equity**

MEASURE	DCF	CAPM	CE	Average ROE	Weight	Estimated ROE Range
3rd Quartile*	11.75%	9.17%	11.33%	10.75%	25.00%	2.69%
Average of Medians	10.72%	9.17%	10.54%	10.14%	75.00%	7.61%
Upper Range						10.29%
Lower Range	10.72%	9.17%	10.54%	10.14%	100.00%	10.14%
Midpoint						10.22%

*CAPM is not calculated at the 3rd Quartile because a separate size premium was factored as shown on Exhibits FM-11 through FM-13 and FM-20.

15 The results of the DCF, CAPM and CE models establish an estimated return on equity
16 range for OG&E of 10.14% to 10.29% with a mean of 10.22%, which is lower than the
17 12.25% that OG&E requested in its application. Staff recommends a ROE that falls in
18 the range of 10.14% to 10.29% because this result is based on a cross-mix of historical,
19 current and projected information, which is fair, just and reasonable for both the
20 ratepayers and the Company.

1 The criteria used to determine a fair and reasonable rate of return included the
2 economic guidelines and standards known as the Comparable Earnings and Capital
3 Attraction Standards established by the Supreme Court of the United States in two
4 decisions, *Bluefield Water Works v. Public Service Commission*, 262 U.S. 679 (1923)
5 and *FPC v. Hope Natural Gas Co.*, 320 U.S. 591 (1944)¹. The relevant economic
6 criteria enunciated by the Court are: (1) to maintain the financial integrity of enterprise;
7 (2) to enable the utility to attract the new capital it needs to serve the public; and (3) to
8 provide a return on common equity that is commensurate with returns on investments in
9 other enterprises of corresponding risk.²

10 The utility has the opportunity to earn this return on the rate base allowed by the
11 Oklahoma Corporation Commission (“OCC” or “Commission”). Current and projected
12 economic conditions and projected industry information, as well as the returns on
13 investments of comparable risk were considered.

14 The DCF model is derived from present value theory and rests on the assumption
15 that the value of a financial asset is determined by its ability to generate future earnings.
16 The results of the constant growth DCF analyses are shown on Exhibits FM-3 through
17 FM-8, FM-20 and FM-21. The ROE estimate based on the three calculated DCF medians
18 is 10.72%.

¹ In *Bluefield*, the Court found that a “public utility is entitled to such rates as will permit it to earn a return on the value of property which it employs for the convenience of the public equal to that generally being made at the same time...in other business undertakings which are attended by corresponding risks and uncertainties....The return should be reasonably sufficient to assure confidence in the financial soundness of the utility and should be adequate, under efficient and economical management, to maintain and support its credit and enable it to raise money necessary for the proper discharge of its public duties. A rate of return may be reasonable at one time and become too high or too low by changes affecting opportunities for investment, the money market and business conditions generally.”

In *Hope*, the Court found that “the return to the equity owner should be commensurate with returns on investments in other enterprises having corresponding risks. That return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise, so as to maintain its credit and to attract capital.”

1 The theory supporting the CAPM method of determining return rests on the
2 premise investors require a rate of return commensurate with the risk of the investment.
3 The interest rate on a current 20-year U.S. Treasury bond is used as a proxy for risk-
4 free investment. Added to this premise is an estimate of the particular investment's
5 risk, relative to the market as a whole, known as beta. Finally, a premium is added to
6 account for OG&E's size (a small utility company based on revenues and market
7 capitalization) relative to the comparison groups (larger companies). Computation of
8 the CAPM medians indicates a ROE estimate of 9.17% for the proxy group. (See
9 Exhibits FM-11 through FM-13, FM-20 and FM-21).

10 The CE test examines realized returns on common equity. This approach
11 indicates whether a company's return on equity, based on that company's market-to-
12 book ratio, would be acceptable to investors. Utilities with market-to-book ratios greater
13 than one are able to attract new equity capital without dilution. Staff used historically
14 realized returns and forecasted returns to show that a mean average return on common
15 equity of 10.54% can support a mean average market-to-book ratio of 1.31, under the
16 comparable earnings test. (See Exhibit FM-14 through FM-17). The mean average
17 ROE from the DCF model, the CAPM method and the CE test results in a value of
18 10.14%; however, Staff made an adjustment to the ROE average in consideration of
19 the small size of OG&E in contrast to the relative size of the comparable companies.
20 Staff calculated quartiles based on the mean average ROE and placed a 25% weight
21 on the third quartile and a 75% weight on the calculated mean average ROE to
22 determine the upper range of 10.29%. To determine the lower range, Staff used the

² Charles F. Phillips, Jr., *The Regulation of Public Utilities*, [Public Utilities Reports, Inc.: Arlington, VA, 1993], p. 381.

1 calculated mean average ROE, which is 10.14% as shown in Exhibits FM-20 and FM-
2 21. The midpoint was taken to determine a recommendation of 10.22% as shown
3 Exhibit FM-21.

4 OG&E requested 6.56% for the cost of long-term debt and a capital structure of
5 45.86% long-term debt and 54.14% common equity. An ideal capital structure contains
6 a debt-to-equity ratio that strikes a fair and equitable balance between the consumers
7 and investors. A capital structure consisting of debt and equity ratios comparative to that
8 of the industry achieves a balance between investors' preference for lower risk and
9 greater returns and the consumers' preference for lower prices.

10 While OG&E's capital structure has less debt than equity, its capital structure still
11 strikes a balance between typical investor interest in lower risk and ratepayers' interest in
12 lower cost of debt, which should translate to lower prices. Staff reviewed and compared
13 the median average capital structure from the comparative electric utility companies
14 and the median average of the total electric utility industry, provided by *Value Line*, to
15 OG&E's capital structure and determined that OG&E's cost of long-term debt and
16 capital structure are acceptable. The capital structure for industry is 50.80% long-term
17 debt and 48.17% common equity shown in Exhibits FM-18 and FM-19. With a similar
18 ratio, the comparable companies' long-term debt is 51.35% and their common equity is
19 48.80% shown in Exhibits FM-18 and FM-19; therefore, Staff recommends the following
20 overall rate of return:

21 **Table 2: Staff's Proposed Capital Structure**

Components of Capital	Ratio	Rate	Rate of Return
Long-term Debt	45.86%	6.56%	3.01%
Recommended ROE	54.14%	10.22%	5.53%
Total	100.00%		8.54%

1 OVERVIEW OF OG&E

2 **Q: Please briefly describe OG&E.**

3 **A:** OG&E is an indirectly wholly owned subsidiary of OGE Energy Corp. OG&E is
4 engaged in the generation, purchase, sale, transmission and distribution of
5 electricity to more than 771,000 customers in Oklahoma and Arkansas. OG&E is
6 subject to FERC and OCC regulation.

7
8 RATE OF RETURN

9 **Q: What is rate of return?**

10 **A:** Rate of return is an investment's gain or loss over a specified period, expressed
11 as a percentage increase or decrease from the initial investment cost.
12 Expressed another way, the rate of return is a retrospective look at the earned
13 return on a utility's rate base.³ A utility's rate base is the valuation of a utility's
14 accumulated capital cost of facilities purchased or installed as approved by the
15 Commission for the purpose of determining the rates the utility is permitted to
16 charge its customers.⁴ A utility's rate of return is a display of profitability and is
17 measurable through accounting data.⁵ Also, the rate of return can be estimated
18 by determining the utility's cost of capital.⁶

19
20

³ The Cost of Capital – A Practitioner's Guide. David C. Parcell 1997, pg 2-9

⁴ P.U.R. Glossary for Utility Management, Public Utilities Report 1992, pg 117.

⁵ The Cost of Capital – A Practitioner's Guide. David C. Parcell 1997, pg 2-9

⁶ Id.

1 **Q: What is the cost of capital?**

2 **A:** The cost of capital is an estimate of a utility's liability base. Simply stated, liabilities
3 are funds that were borrowed and are now owed to the investors who supplied the
4 funds. The utility normally uses these funds to purchase assets such as plant and
5 equipment that allow the utility to supply the utility's services to their customers.
6 However, the use of investor funds comes at a cost. Therefore, the utility must pay
7 the initial amount that was borrowed and must compensate the investor for use of
8 investment funds, normally through interest payments on loans and bonds, and
9 dividends on stocks. But most importantly, the cost of capital is an opportunity
10 cost which cannot be measured, but must be estimated from economic and
11 financial data.

12

13 **Q: What is the role of rate of return in setting a utility's rates?**

14 **A:** The rate of return serves to compensate investors for capital used to finance the
15 plant, equipment and other functions necessary to provide utility services. In
16 regulating utilities, public utility commissions determine a utility's allowable cost to
17 provide service to its customers. Investor-supplied capital is included in the
18 allowable cost determination. The rate of return serves to compensate investors
19 for capital supplied to finance plant, equipment, supplies and other functions
20 necessary to provide utility services. These assets along with other items are
21 known as the rate base. The rate base, measured in dollars, is multiplied by the
22 rate of return, expressed as a percentage, to determine the portion of the revenue
23 requirement needed to allow the utility to recover its capital costs. There are three

1 primary components that must be reviewed and examined to determine a
2 regulated utility's appropriate capital costs, they are:

- 3 1. Cost of common equity;
- 4 2. Cost of debt; and
- 5 3. Capital structure.

6 7 RATE OF RETURN STANDARDS

8 **Q: What criteria were used to determine a fair and reasonable rate of return?**

9 **A:** The economic guidelines established in the *Bluefield* and *Hope* decisions were
10 used in Staff's analysis. In those cases, the United States Supreme Court
11 identified two standards that generally are considered the guidelines for setting a
12 reasonable rate of return: (1) the comparable earnings standard and (2) the
13 capital attraction standard.

14 The comparable earnings standard asserts the expected rate of return on a
15 public utility's debt and equity capital should be proportionate with the expected
16 rate of return on the debt and equity of entities having comparable risk. The
17 capital attraction standard provides a utility's return should be sufficient to
18 maintain and support the utility's credit needs and its ability to attract capital on
19 reasonable terms; and to continue operations in accordance with its public utility
20 obligations. According to these standards, a firm that offers a return that is
21 proportionate with the return on investments of comparable risk will be paying the
22 market capitalization rate and that firm will be able to attract the funds needed to
23 cover its operating expenses and capital costs.

1 **Q: What is the market capitalization rate?**

2 **A:** When investors buy utility stocks or bonds, they are postponing consumption or
3 giving up the opportunity to spend their money elsewhere, and they are also
4 exposing their money to financial and inflationary risk. Therefore, investors
5 demand adequate compensation for postponing consumption and running the
6 risk of not having their money returned.

7 For example, shareholders expect cash payments through dividend
8 income--which is the investment's market price value increase--or a combination
9 of both dividend income and market price appreciation. This return is called the
10 market capitalization rate. In other words, the market capitalization rate
11 represents the expected return required to compensate investors for the risk
12 incurred by investing in a particular asset. Differences in risk translate into different
13 levels of return expected by investors. An investor will require a higher return for a
14 company that has a higher risk level than other similar companies that are less
15 risky in the same industry.

16

17 **Q: Are investors guaranteed their required return?**

18 **A:** No. A utility is not guaranteed it will earn a specific level of return nor are investors
19 assured to receive their expected return. The utility has the opportunity to earn a
20 return on the Commission allowed rate base.

1 **Q: Does Staff's recommended return on equity and overall rate of return satisfy**
2 **the commonly used comparable earnings and capital asset standards?**

3 **A:** Yes. Staff's analysis used three methods that consider historic data, current
4 economic conditions and projected industry information, as well as the returns on
5 investments with comparable risk. These methods are the DCF, CAPM and the
6 CE test.

7 The CE test is based on the economic concept of opportunity cost, which is
8 the investor's forgone chance to earn a return on another investment of equal risk.⁷

9 The CAPM describes the relationship between a security's investment risk
10 and the security's rate of return.⁸ This relationship identifies the rate of return that
11 investors expect a security to earn so that its market return is comparable to the
12 market returns earned by other securities of similar risk.⁹

13 The DCF model shows that a company's current stock price is equal to the
14 present value equivalent of the expected dividends and the profits from the
15 eventual sale of the stock.

16 The comparable earnings' opportunity cost concept, the CAPM concept that
17 risk determines a security's rate of return, and DCF concept that stock price is
18 equal to future earnings are sufficient to assure confidence in the company's
19 financial integrity, to maintain the company's credit and to permit the company to
20 attract new capital on reasonable terms. These are the standards set out in
21 *Bluefield and Hope*.

⁷ David C. Parcell, *The Cost of Capital – A Practitioner's Guide* (SURFA 1997), pg 7-1.

⁸ Id at pg 6-1.

⁹ Id.

1 companies are analyzed in the proxy group because the best way to infer the cost
2 of capital is to examine evidence from capital markets for companies in the same
3 line of business.

4
5 **Q: Please explain Staff's method and criteria used to select the proxy group it**
6 **used in its analysis?**

7 **A:** Staff's goal was to select publicly traded electric industry companies that are
8 similar in business risk to OG&E. Staff's initial review began with companies
9 exhibiting the following factors:

- 10 • Similar business lines;
- 11 • Publicly-traded common stock on the New York Stock Exchange;
- 12 • Reported in *Value Line*;
- 13 • Reported a dividend in the last five years;
- 14 • Have a market capitalization between \$1 billion and \$5.1 billion;
- 15 • Have projected positive earnings and dividends;
- 16 • Common equity of at least 40 percent of its permanent capital; and,
- 17 • Not involved in a merger or acquisition.

18 Staff used these criteria in previous cases including Cause Nos. PUD
19 200600285 and PUD 200800144, which were the two most recent major electric
20 utility rate cases decided by the Commission.

21
22 **Q: Did OG&E provide a list of comparative companies?**

23 **A:** Yes. The Company's witness, Dr. Murry, provided a proxy group for comparison
24 that included seven companies; whereas staff's proxy group contained 10
25 companies. Dr. Murry's proxy group and staff's proxy group include five
26 companies in common.

1 **Q: What are the companies that are included in staff's proxy group for OG&E**
2 **based on the criteria listed above?**

3 **A:** Based on the criteria listed above, staff chose Alliant Energy, Cleco Corp, DPL
4 Inc., DTE Energy, Nstar, Pinnacle West, SCANA Corp, Vectren, Westar Energy;
5 and Wisconsin Energy.

6

7 **Q: Are the proxy groups used by Staff and Dr. Murry the similar?**

8 **A:** Yes, they are similar, but there are some differences between the two proxy
9 groups. Staff's proxy group consists of companies that have smaller market
10 capitalizations that more reflect the market capitalization of OG&E. Dr. Murry's
11 proxy group has a market capitalization range of \$2 billion to \$8 billion, which is
12 more reflective of OGE Energy Corp, the parent company of OG&E, which has a
13 market capitalization of \$2.2 billion. Staff's proxy group consists of companies
14 that have market capitalizations between \$1 billion and \$5 billion. OG&E is a
15 subsidiary of OGE Energy Corp and does not have publicly traded stock; therefore
16 a market capitalization is not determined for OG&E.

17

18 **Q: Did Staff review the bond ratings of the proxy group?**

19 **A:** Yes. Staff reviewed the bond rating of each comparable company. The proxy
20 group has a Standard and Poor's bond rating of A+ to BBB-, which means that
21 all of the companies are investment grade companies and should be able to
22 secure future debt.¹¹ OG&E's bond rating is BBB+.

¹¹ Standard and Poor's bond rating index ranges from "AAA" to "D". Intermediate ratings are offered at each level between AA and CCC (e.g., BBB+, BBB and BBB-). An obligation rated 'AAA' has the highest rating. With a rating of AAA, the

1 RETURN ON EQUITY REQUIREMENT

2 **Q: What methods were used to estimate a fair ROE for OG&E?**

3 **A:** Staff's return on equity recommendation is estimated based upon DCF, CAPM,
4 and CE approaches.

5
6 **Q: Why did Staff use more than one approach to estimate OG&E's equity cost?**

7 **A:** Reliance on one individual method does not provide sufficient evidence to
8 determine a fair return because any one model has its advantages and
9 disadvantages. Instead, several approaches should be used to estimate a
10 utility's cost of capital. The advantage of employing different methodologies is the
11 results of one can be used to check and validate the others and the strengths of
12 one method can help balance the deficiencies of other methods.

13
14 **Q: Please identify the major factors that affect a utility's cost of equity.**

15 **A:** The following factors are important in a utility's cost of equity:

- 16 1. The equity payment is informational by providing a signal to potential
17 investors about the utility's future and current earnings;
- 18 2. Utilities have limited capital gains potential because they are regulated.
19 Utilities must be comparable with unregulated firms in the capital market to
20 attract capital. To attract capital, the utilities' total return (dividends and
21 capital gains) is adjusted for generally lower risk.

borrower's capacity to meet its financial commitment on the obligation is extremely strong whereas a borrower with an 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than borrowers in higher-rated categories. However, the borrower's capacity to meet its financial commitment on the obligation is still strong. A borrower rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation. Bonds with bond rating lower than BBB- are not considered investment grade bonds. Standard and Poor's Rating Definitions, LONG-Term Issuer Credit Rating, www2.standardandpoors.com/portal/site/sp/en/us/page/article/2,1,1,4,12048401817021.html#ID489 October 22, 2008.

1 3. Higher dividend payout ratios reduce the future equity costs. By increasing
2 its dividend payout ratio, a publicly traded utility is forced to sell stock more
3 often to raise capital. Bankers, analysts, investors, and other capital
4 providers tend to increase their scrutiny through monitoring of utilities when
5 utilities sell stock. This heightened monitoring has the potential to reduce
6 future equity costs of the utility.

7
8 **CONSTANT GROWTH DISCOUNTED CASH FLOW METHODOLOGY**

9 **Q: Briefly describe the DCF model.**

10 **A:** The DCF model is derived from present value theory and rests on the
11 assumption that a financial asset's value is determined by its ability to generate
12 future earnings. In terms of common stock, the current price is represented by
13 the future cash flows of owning the stock and the proceeds from the final sale of
14 the stock (the market capitalization rate). Current stock prices give investors an
15 indication of the expected flow of future dividends. Investors impute a discount to
16 future dividends because a future dividend is valued less than a dividend received
17 today. The DCF model can be used to estimate the rate at which future cash flows
18 are discounted to equal the current stock price. This valuation process can be
19 expressed by the traditional constant growth DCF formula:

20
21 $K_e = D_1/P_o + g$
22 Where: K_e = the investor's expected return on equity (the discount rate);
23 D_1 = the expected annual dividend;
24 P_o = the current market price per share of stock; and
25 g = the expected growth rate of future dividends.
26

27 With this formula, under certain assumptions, the cost of common equity equals
28 the sum of the dividend yield (D_1/P_o) plus the expected growth rate in dividends (g).

1 The formula makes the following assumptions:

- 2 1. A constant expected average growth for both dividends and earnings;
- 3 2. A discount rate in excess of the expected growth rate; and
- 4 3. An expected constant price-earnings ratio in which the growth in stock
5 price equals the growth in earnings and dividends.

6
7 **Q: Briefly explain how Staff applied the DCF model in this proceeding.**

8 **A:** Staff did not apply the DCF model directly to OG&E because OG&E does not
9 have publicly traded stock. OG&E is a privately held company with a limited
10 number of shares of stock. Therefore, it was necessary to use the comparative
11 group of market-traded electric utility companies as a proxy for estimating the
12 Company's risk and return requirement. This estimation involved calculating each
13 comparative company's ROE using the DCF model, and then using the
14 comparative company's mean average as the Company's cost of equity.

15
16 **Q: How did Staff estimate the variables for the DCF model to derive K_e for the
17 comparative companies?**

18 **A:** Staff used the annual dividends for 2008 and the current stock prices, as
19 reported in the March 27, 2009, May 8, 2009 and May 29, 2009 editions of *Value*
20 *Line Investment Survey*. From *MSN Money*, Staff used the last 12 months
21 dividend rate, and the 50-day and 200-day moving averages for the current stock
22 prices, as reported on May 29, 2009. Finally, with *Yahoo! Finance*, Staff used
23 the Trailing Annual Dividend Rate and the 50-day and 200-day moving averages
24 for the current stock prices, as reported on May 29, 2009. Staff used this data
25 for D_1/P_0 because current information is important when applying the DCF
26 model. According to the efficient market hypothesis (EMH), recent prices

1 indicate the present value of cash flows better than any other price.¹² In an
2 efficient market, stock prices should reflect all the relevant information about a
3 given stock on a particular day. In other words, prices should adjust to all current
4 information.¹³

5
6 **Q: How did Staff determine the growth rate used in your DCF analysis of**
7 **OG&E?**

8 **A:** Recognizing the growth estimate represents the rate at which dividends and
9 earnings are expected to increase. Staff used three different sources to estimate
10 growth. From the most current applicable issues of *Value Line*, Staff used five-
11 year projected estimates and five-year historical rate average for growth from
12 earnings, dividends and book value. From *MSN Money*, Staff used five-year
13 historical earnings and dividends and five-year projected earnings. Finally from
14 *Yahoo! Finance*, Staff used five-year earnings projected growth rates as reported
15 to *Yahoo! Finance*.¹⁴

16
17 **Q: Did Staff rely solely on projected rates and not historical rates?**

18 **A:** No. Staff reviewed both historical and projected rates because investors may rely
19 on past growth rates as an indication of future growth of a company. However,
20 Staff believes projected growth rates are better indicators of investors' financial
21 expectations, not past growth rates.

¹² Eugene Fama developed EMH in the early 1960s.

¹⁴ Edgar Online provided the financial data. Hemscott Americas provided dividend data. Commodity Systems, Inc. (CSI) provided historical chart data and daily updates. Fund summary, fund performance and Morningstar Index data provided by Morningstar. Analyst estimates data provided by Thomson Financial Network.

1 **Q: What are the results of your constant growth DCF analysis?**

2 **A:** Two medians each were calculated using data from *Value Line*, *MSN Money*, and
3 *Yahoo! Finance*, which are shown in Table 3 below.

4
5
6

Table 3: DCF Results

Financial Sources	Median	DCF Estimate
DCF <i>Value Line</i> Projected Growth	11.49%	
DCF <i>Value Line</i> Historical Growth	9.34%	
DCF <i>MSN Money</i> 50-Day Moving Average	10.53%	
DCF <i>MSN Money</i> 200-Day Moving Average	9.65%	
DCF <i>Yahoo! Finance</i> 50-Day Moving Average	11.85%	
DCF <i>Yahoo! Finance</i> 200-Day Moving Average	11.45%	10.72%

7
8 As shown in Table 3, the ROE mean average based on the DCF medians is
9 10.72%. These DCF calculations can be found in Exhibits FM-3 through FM-8,
10 FM-20 and FM-21.

11
12 **Q: Did you make any observations about the DCF findings?**

13 **A:** Yes. Several of the historical growth rates reported for *Value Line* have negative
14 earning, which had a lower median average than the other estimates. However,
15 Staff did not discredit the historical findings and included them along with the other
16 DCF estimates.

17

18 **CAPITAL ASSET PRICING MODEL**

19 **Q: Why did Staff choose the CAPM model to estimate OG&E's rate of return?**

20 **A:** Staff chose the CAPM model because it is a forward looking model based on the
21 concept of risk and return and recognizes that investors diversify their

1 investments. Also, Staff chose CAPM because it is often used in the investment
2 communities because it is very structured, easy to use and the inputs are readily
3 available to make the computation.

4
5 **Q: Please describe the theory supporting CAPM.**

6 **A:** Investors require a rate of return proportionate with the investment risk when
7 estimating capital costs under the CAPM method. Higher-risk investments must
8 offer investors higher returns while lower-risk investments usually yield lower
9 returns. An assumption under CAPM is that investors are reluctant to take on risk,
10 but if they do take risk, then investors require compensation for bearing such risk.
11 Therefore, investors must be attracted away from risk-free investments. To attract
12 investors away from risk-free investments, a "risk premium" must be offered. An
13 investor's required rate of return is shown by the following formula:

14
15 Where: $K_e = R_f + RP_i$
16 K_e = the investor's required rate of return;
17 R_f = the "risk free" rate of return; and
18 RP_i = the risk premium required by investors.

19
20 **Q: How is this risk versus return trade off applied to determine ROE?**

21 **A:** The following equation restates the CAPM method with explicit, rather than
22 theoretical variables.

23 Where: $K_e = R_f + B(R_m - r_f) + SP$
24 K_e = the required return on investment;
25 R_f = the current risk free rate of return;
26 B = the investment beta;
27 R_m = the historic rate of return on the market portfolio;
28 r_f = the historic rate of return on U.S. Treasury Securities; and
29 SP = Size Premium

1 The term $(R_m - r_f)$ is the risk premium for the universal portfolio of common stocks.
2 Beta reflects the risk of the investment as it relates to the risk of the market
3 portfolio.

4 **Q: How is the risk-free rate R_f determined?**

5 **A:** The variable for the current risk-free rate R_f is the yield offered on 20-year U.S.
6 Treasury Bonds. The interest rate on 20-year U.S. Treasury Bonds is used
7 because it best reflects the long-term investment horizon and is less affected by
8 the short-run actions of the Federal Reserve Bank.

9
10 **Q: What did Staff use to establish the risk-free rate R_f ?**

11 **A:** Staff compared a one-month median average of the Daily Treasury Yield Curve
12 Rates for 20-year U.S. Treasury Bonds with a one-month historical median for
13 30-year U.S. Treasury Bonds and one-year projected median average for 30-
14 year Treasury Bonds to determine whether using the 20-year U.S. Treasury
15 bonds is reasonable to estimate the risk-free rate. The three rates are shown to
16 be within one hundredths of one percentage point of one another to establish the
17 risk-free rate of 4.16%. (See Exhibit FM-9).

18 **Q: What is the investment beta?**

19 **A:** According to Ibbotson's *S&P 500 2008 Classic Yearbook*, Harrington, James P.,
20 (Morningstar, 2009), which is a common reference used to estimate rate of
21 return, beta is the systematic risk of a security as estimated by regressing the
22 security's returns against the market portfolio's returns.¹⁵ The slope of the
23 regression is beta.

¹⁵ James P. Harrington, *Ibbotson's, S&P 500 2009 Classic Yearbook*, (Morningstar 2009), pg. 200.

1 **Q: How is the beta determined?**

2 **A:** Beta is determined by comparing over a long horizon how returns on a particular
3 stock vary and co-vary with the returns in the entire market. For example, if a
4 stock's return is more volatile than overall market returns, then a beta in excess of
5 one occurs, which indicates a risk greater than the market portfolio. If a stock's
6 return is less volatile than the returns on the market portfolio, then a beta of less
7 than one occurs, which indicates risk is less than the market portfolio. Public
8 utilities generally have betas of less than one.

9

10 **Q: What are the criticisms that pertain to the use of betas as a risk indicator?**

11 **A:** Beta is not wholly accepted as a comprehensive risk measure. Also, the true beta
12 may be difficult to determine, and betas cannot be measured prospectively.

13

14 **Q: What did Staff use to establish beta?**

15 **A:** Staff used betas reported by *Value Line*, *MSN Money* and *Yahoo! Finance*.

16

17 **Q: What is the definition of variable R_m ?**

18 **A:** The term R_m is the return on the market portfolio.

19

20 **Q: What did Staff use to establish R_m ?**

21 **A:** Staff used the historical returns found in *Ibbotson's S&P 500 2009 Classic*
22 *Yearbook*, as referenced above, which is a common reference used to estimate
23 rate of return. This book is a compilation of years of study and research and

1 contains the return calculations over various holding periods for common stocks,
2 T-Bills, and U.S. Treasuries. The arithmetic total return mean of common stocks
3 reported, or R_m , is 12.20%.¹⁶

4
5 **Q: What is the definition of r_f ?**

6 **A:** The term r_f means the historic rate of return on U.S. Treasury securities.

7
8 **Q: How did Staff establish r_f ?**

9 **A:** Staff used the historic arithmetic mean of income of long-term U.S. Government
10 securities as reported by Ibbotson of 6.5%.¹⁷

11
12 **Q: What is the risk premium, or yield differential, between common stocks and
13 U.S. Government securities?**

14 **A:** The risk premium is the historic common stock total return as reported by
15 Ibbotson of 12.20%¹⁸ minus the historic income arithmetic mean on long-term
16 U.S. Government securities of 6.5%.¹⁹ While this risk premium varies over time, it
17 has centered on an average return differential of 5.7% over the period 1926-2008.
18 In the CAPM analysis, the risk premium is estimated by this 5.7% value.

19
20 **Q: What is the definition of size premium?**

21 **A:** Size premium is an adjustment based on underestimates of CAPM for small
22 companies.

¹⁶ James P. Harrington, *Ibbotson's, S&P 500 Classic Yearbook*, (Morningstar 2009), pg. 200.

¹⁷ Id.

¹⁸ Id.

¹⁹ Id.

1 **Q: Why was a size premium applied to the comparable companies?**

2 **A:** The size premium was applied based on the results of reviewing the Company's
3 assets and revenues in comparison to the proxy group. Staff was unable to rely on
4 Ibbotson's basis of market capitalization, which is stock price multiplied by the
5 number of a company's outstanding shares, because OG&E does not have
6 publicly traded stock. However, using the market capitalization of OGE Energy
7 Corp, the parent company of OG&E, as a comparison to the proxy group, shows
8 OGE Energy Corp's market capitalization is lower than the median average of the
9 proxy group's market capitalization. Also, Staff's comparison of the Company's
10 revenues and assets to the proxy group's revenues and assets shows OG&E's
11 revenue is lower than the median average of the proxy group's revenue, while
12 OG&E's assets are higher than the proxy group's assets. Given the differences in
13 OG&E's market capitalization and revenues as compared to the proxy group's
14 market capitalization and revenues, a size premium was used to compensate for
15 OG&E's smaller size. (See Exhibit FM-10).

16
17 **Q: How did Staff establish the size premium?**

18 **A:** Staff used Table C-1, Key Variables in Estimating the Cost of Capital as reported
19 by Ibbotson.²⁰ This chart subtracts actual return in excess of the riskless rate from
20 the CAPM Return to determine the size premium. Staff used 1.63% as the size
21 premium from the sixth decile, which represents the smaller companies that were
22 measured by Ibbotson.

²⁰James P. Harrington, *Ibbotson's, SBBI 2008 Classic Yearbook*, (Morningstar 2008), Pg 142.

1 Q: Are staff's and Dr. Murry methodology similar for the CAPM in applying a
2 size premium to his proxy group?

3 A: Yes. Dr. Murry applied a size premium; but Dr. Murry's premium was 0.92, which
4 would be more appropriate for a company the size of OGE Energy Corp; whereas
5 staff made concessions for the smaller size of OG&E when it applied the premium
6 of 1.63.

7
8 Q: What are the results of the CAPM analysis?

9 A: The median average was calculated using data from *Value Line*, *MSN Money*
10 and *Yahoo! Finance*. This resulted in medians of 9.63%, 9.03% and 8.83%
11 respectively. The CAPM calculations result in a 9.17% ROE. (See Exhibits FM-11
12 through FM-13, FM-20 and FM-21).

13
14 COMPARABLE EARNINGS TEST

15 Q: How is the comparable earnings test used in Staff's analysis of OG&E's
16 common equity cost?

17 A: Staff conducted the comparable earnings test by examining realized returns on
18 equity for the comparative companies. The comparable earnings test is an
19 indicator of whether returns on common equity by reference to the market-to-
20 book ratios are acceptable to investors. Utilities with market-to-book ratios
21 greater than one are able to attract new equity capital without dilution (i.e., above
22 book value). As a result, one objective of a fair cost of equity is the maintenance
23 of stock prices above book value.

24

1 **Q: Please describe the comparable earnings results.**

2 **A:** Staff used historical realized returns and forecast returns to show that a 10.54%
3 return on equity can support a market-to-book ratio of 1.31. (See Exhibit FM-14
4 through FM-16). A market-to-book ratio greater than one indicates that a
5 company should be able to attract new equity capital without decreasing their
6 equity position, while a market-to-book ratio that is much greater than one would
7 indicate that a company is over earning. Here, a market-to-book ratio of 1.31
8 would indicate that a company would not over earn.

9

10

RETURN ON EQUITY CONCLUSIONS

11 **Q: Based on the various analyses performed, what was the mean average**
12 **ROE for the comparable companies?**

13 **A:** The mean average ROE for the comparable companies was 10.14%. However,
14 Staff made an adjustment to the ROE mean average to reflect the size of the
15 Company in contrast to the relative size of the comparable companies. OG&E,
16 given its relative small company size, may be susceptible to financial risks larger
17 companies may not likely face, such as large unexpected changes in its
18 revenues or expenses.

19

20 **Q: What adjustment did Staff make to the mean average ROE of the**
21 **comparable companies?**

22 **A:** Staff segmented the mean average ROE results in quartiles and chose the third
23 quartile because they represent companies with slightly higher ROEs relative to
24 the comparable group. Staff believes OG&E's ROE estimate should reflect the
25 comparative companies that showed greater ROE mean averages because

1 normally risk is greater due to the smaller the size of the company; therefore,
2 Staff used a weight factor to determine OG&E's estimated ROE, similar to the
3 methodology used in Cause No. PUD 200600285 and PUD 200800144.

4 Here, Staff placed a 75% weight on the 10.14% mean average ROE and
5 a 25% weight on the 10.75% from the third quartile of the comparable
6 companies to determine the upper range of the ROE estimate, which results in a
7 value of 10.29%. It is important to note that Staff did not include the CAPM
8 result in the third quartile because a separate size premium was previously
9 established. The calculated mean average ROE of 10.14% was used to
10 determine the lower range. The mean was taken from the lower and upper
11 range of the estimated ROE of 10.14% and 10.29% to determine the
12 recommended ROE of 10.19%. Staff believes that any value chosen within the
13 recommended range is a reasonable estimate for OG&E's return on equity
14 because this result is based on a cross-mix of historical, current and projected
15 information, which is fair, just and reasonable for both the rate payers and the
16 company.

17
18 **Q: What was staff's ROE recommendation in the last major electric rate case**
19 **at this Commission?**

20 **A:** In Cause No. PUD 200800144, staff's recommendation for Public Service
21 Company of Oklahoma (PSO) was 10.97%.

1 **Q: Is Staff's reasoning consistent with staff's reasoning in PSO?**

2 **A:** Yes. The methodology is similar. In the previous rate case staff used a proxy
3 group and the DCF, CAPM and CE methods to estimate ROE; whereas in this
4 cause more growth rates were relied upon to account for the wide range of
5 information that investors might use to determine the appropriate return for a
6 particular stock. As mentioned previously, staff relied on growth rates that were
7 historical and estimated. Also, staff relied on growth rates for earnings,
8 dividends and book value.

9 Turning to the comparison between the recommendation staff gave to
10 PSO as compared to the recommendation for OG&E; while OG&E has only
11 200,000 more customers than PSO, OG&E's rate base is twice the size of PSO,
12 which is reflected in my lower recommendation for OG&E. Also, the downturn in
13 the market had not occurred when Staff's recommendation was prepared for
14 PSO. This downturn in the market is also reflected in the lower recommendation
15 for OG&E. But it is important to note that PSO's recommendation was not used
16 as a basis for the recommendation for OG&E; this comparison is referenced to
17 show that staff's methodology is consistent

18

19 **Q: Please summarize Staff's ROE recommendation.**

20 **A:** Based upon the most current results of the DCF, CAPM and comparable
21 earnings test, including a weight factor due to the small size of OG&E, Staff's
22 estimate of the fair return on equity results in a range of 10.14% to 10.29%,

1 shown in Exhibit FM-20. The estimated ROE is summarized in Table 1 shown
 2 below.

3 **Table 1: Staff's Proposed ROE on Common Equity**

MEASURE	DCF	CAPM	CE	Mean Average ROE	Weight	Estimated ROE Range
3rd Quartile*	11.75%	9.17%	11.33%	10.75%	25.00%	2.69%
Average of Medians	10.72%	9.17%	10.54%	10.14%	75.00%	7.61%
Upper Range						10.29%
Lower Range	10.72%	9.17%	10.54%	10.14%	100.00%	10.14%
Midpoint						10.22%

*CAPM is not calculated at the 3rd Quartile because a separate size premium was factored as shown on Exhibits FM-11 through FM-13 and FM-20.

4

5

CURRENT MARKET CONDITIONS

6

Q: Are market indicators signaling that the market is rebounding?

7

A: No. There is not an indication that market conditions are changing. According to the April 2009 *Economic Indicators*, a document prepared for the United States Congress' Joint Economic Commission, the Gross Domestic Product ("GDP"), which measures total output, income, and spending, in the first quarter 2009, fell 3.5% at the annual rate, with Real GDP falling 6.1% using dollars from the year 2000.²¹ Also for April, employment rose by 120,000 and unemployment rose by 563,000 for an unemployment rate of 8.9%, up from the previous month's rate of 8.5%. Another indicator, Industrial Production and Capacity Utilization, which measures production and business activity, fell 1.5% from proceeding month and fell 12.8 % from the previous year. Also, producer prices and consumer prices fell. Producer prices fell 1.2% in March for all finished goods; whereas finished

17

1 consumer goods fell 0.7%. Prices for other finished goods fell 1.8%, and capital
2 equipment prices fell 0.2%. Consumer Prices for all urban area consumers fell
3 0.1%, seasonally adjusted, and rose 0.2%, non-seasonally adjusted. Consumer
4 Prices have fallen 0.4% percent from a year earlier.

6 ELECTRIC UTILITIES' FINANCIAL CONDITION

7 **Q: Has the recent downturn in market conditions adversely affected publicly**
8 **held electric utilities' ability to attract capital?**

9 **A:** No. According to Value Line's assessment of the Electric Utility (East) Industry,
10 "despite investors' fears about dividend cuts... during challenging economic
11 times investors tend to migrate towards utility stocks due to their relative stability
12 and attractive dividend yields" compared to other stocks.²² Likewise, the Edison
13 Electric Institute, which is the association of U.S. shareholder-owned electric
14 companies, in its 2008 fourth quarter report on stock performance, stated the
15 following:

16 The relatively stronger performance of utility stocks in both the
17 [fourth] quarter and the year [of 2008] offer a classic illustration of
18 their traditional role as a defensive investment in times of market
19 stress, [which is often referred to as the flight-to-quality]. In a
20 weakening economy, investors are drawn to the relative stability
21 offered by utilities' dividend yields and more predictable earnings
22 (in comparison with other sectors of the economy)...²³

23
24 This flight-to-quality phenomenon is also explain by Dr. Murry on page 7 lines 29
25 and 30 and continues on page 8 lines 1 and 2 of his testimony.

²¹ U.S. Congress, Joint Economic Committee by the Council of Economic Advisers, *Economic Indicators*, 111th Cong., 1st sess., 2009 (Washington, DC: United States Government Printing Office 2009) pgs 1, 11, 17, and 22.

²²Electric Utility (Central) Industry, March, 27, 2009 pg. 687, Electric Utility (East) Industry, May 29, 2009 pg. 148 and Electric Utility (West) Industry, May 8, 2009 pg. 2232.

1 According to EEI's first quarter report on stock performance, for the year
2 of 2008, while all of the stock indices had negative returns, the EEI index fared
3 better with a negative 25.9% return compared to the Dow Jones Industrial, S&P
4 500 and the NASDAQ Composite, which all produced returns of negative 31.9%,
5 negative 37.9% and negative 40.5% respectively.²⁴ The negative return trend
6 has continued in the first quarter of 2009 with the EEI Index producing a negative
7 11%; likewise the Dow Jones Industrial, S&P 500 and the NASDAQ Composite
8 again produced negative returns of negative 12.5%, negative 11.0% and
9 negative 3.1%.²⁵

10
11 **Q: Did Staff review the bond ratings of the proxy group?**

12 **A:** Yes. Staff reviewed the bond rating of each comparable company. The
13 comparable companies have a bond rating of BBB- to A+, which means that all
14 of the companies are investment grade companies and should be able to secure
15 future debt.

16 **OBSERVATIONS OF DR. MURRY'S CONCLUSIONS**

17 **Q: Is OG&E's financial risk the same as the proxy group's business risks?**

18 **A:** No. Dr. Murry stated that OG&E faces similar business risk such as fuel
19 expenditures and expenses associated with storm damage. However, OG&E has
20 established riders for these costs as well as many other riders to recover costs
21 outside of the traditional rate base. As long as OG&E prudently incurs these costs
22 then OG&E will receive recovery of these items through its respective riders.

²³ Capital Markets EEI 2008 Financial Review pg 75.

²⁴ EEI Q1 2009 Financial Update pg 1.

²⁵ Id.

1 **Q: What are Staff's observations of Dr. Murry's ROE calculation?**

2 **A:** Dr. Murry calculated the mean average and not the median average, which
3 inflated his results. Also, Dr. Murry did not consider the results of his DCF model
4 based on dividends nor did Dr. Murry consider the lower estimates that resulted
5 from the current stock price. Dr. Murry considered only the 52-week results,
6 which were higher. If Dr. Murry calculated the median average and not the mean
7 average, then the ROE range would have been 9.88% to 12.90% with an overall
8 mean of 11.93%. Also, if Dr. Murry considered the dividend results and the
9 current stock price results, then the ROE range would have been 10.19% to
10 11.71% with a mean of 10.95% shown in Exhibit FM-23. Therefore, it is Staff's
11 opinion that Dr. Murry's recommendation of 12.25% is not a reasonable estimate
12 for OG&E's ROE.

13 CAPITAL STRUCTURE

14 **Q: What capital structure did Staff use for OG&E?**

15 **A:** Staff used OG&E's capital structure as presented in its application, which is
16 45.86% for long-term debt and 54.14% for common equity. It should be noted
17 that OG&E is investor-owned and the investor allocates OG&E's capital. Also, as
18 mentioned previously, OG&E does not have publicly held stock or debt so its
19 capital structure is not subject to the market scrutiny of a publicly traded company.

20
21 **Q: How did Staff determine reasonable proportions of long-term debt ratio for
22 the purpose of establishing OG&E's rates?**

23 **A:** Staff used common equity and long-term debt ratios of the comparable companies
24 to determine reasonable proportions and cost rates to establish OG&E's rates.
25 These ratios are found in Exhibits FM-18 and FM-19.

1 **Q: Why does Staff recommend OG&E's proposed capital structure be used to**
2 **determine reasonable rates?**

3 **A:** An ideal capital structure contains a debt-to-equity ratio that strikes a fair and
4 equitable balance between the consumers and investors. Generally, since
5 consumers are interested in low product prices, and since the interest rate on
6 debt is lower than the cost of equity (and income tax deductible), customers prefer
7 a more leveraged capital structure, which translates into a higher debt component.
8 At the same time, a utility does not want its debt component so large as to
9 discourage risk-averse investors.

10 A competitive market tends to drive a company's debt-to-equity ratio to the
11 optimal level for that company and for that particular industry. However, in a
12 regulated environment strict competition is not achieved. Thus, a utility cannot rely
13 on the market to balance its use of debt and equity. A capital structure consisting
14 of debt and equity ratios comparable to the industry achieves a balance between
15 investors' preference for lower risk and greater returns and the consumers'
16 preference for lower prices. In its application, OG&E shows that it has more debt
17 than equity, which is favorable to ratepayers because of the lower cost of debt.
18 Also, the capital structure of the comparative companies and OG&E's capital
19 structure are similar; therefore, Staff agrees with the Company's capital structure
20 as filed in its application because it is comparable to the proxy group's capital
21 structure and because this structure is balanced between benefits to investors
22 and ratepayers.

23

1 **COST OF LONG-TERM DEBT**

2 **Q: What is Staff's estimate of OG&E's cost of long-term debt?**

3 **A:** Staff reviewed OG&E's cost of long-term debt of 6.56%, in Section F of its
4 Application and agrees that the estimate is reasonable because it is consistent
5 with the 10-year bond offering for other electric utilities. The cost of debt for
6 electric utilities was at its highest point in the last five years in the fourth quarter
7 of 2008, according to data compiled by EEI. Also, in the fourth quarter, the
8 average coupon rate for electric utilities' 10-year bond offerings rose to 8.2%.²⁶
9 In comparison, the average for new issues in the first, second and third quarters
10 were 5.7%, 6.1% and 6.2% respectively; however the average coupon dropped
11 to 6.7% in the beginning of 2009, which is in range with OG&E's requested cost
12 of long-term debt of 6.56%.²⁷

13
14 **OVERALL RATE OF RETURN**

15 **Q: Please describe Staff's recommendation regarding OG&E's capital structure**
16 **and overall rate of return.**

17 **A:** Staff recommends the following capital structure and overall rate of return:

18 **Table 2: Staff's Proposed Capital Structure**

19

Components of Capital	Ratio	Rate	Rate of Return
Long-term Debt	45.86%	6.56%	3.01%
Common Equity	54.14%	10.22%	5.53%
Total	100.00%		8.54%

20
21
22

²⁶ EEI Q4 Financial Update pg 5.

²⁷ Id.

1 Q: Has Staff reviewed another source to compare the reasonableness of
2 Staff's recommended ROE?

3 A: Yes. Staff reviewed the ROEs reported in Edison Electric Institute's (EEI) second
4 quarter 2009 Financial Update.
5

6 Q: What is the trend for awarded ROEs in other jurisdictions since OG&E's
7 last rate case in Oklahoma?

8 A: In other jurisdictions over the last year, there have been 48 shareholder-owned
9 electric utility rate cases filed, as reported by EEI. According to EEI, the average
10 ROE for each quarter, from the second quarter of 2008 to the first quarter of
11 2009, are as follows:

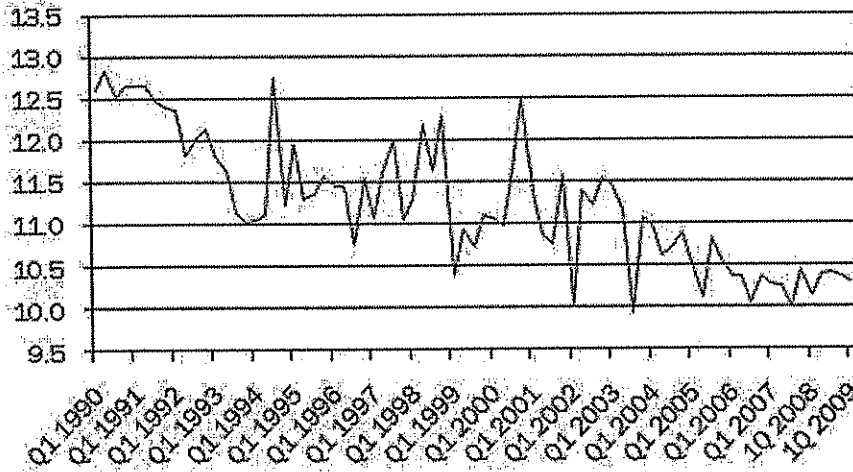
12 **Table 4: Electric Utilities' Average Awarded ROEs**

Quarter	Rate Cases Filed	Awarded ROE	Requested ROE
Q2 2008	8	10.41%	10.93%
Q3 2008	21	10.42%	11.26%
Q4 2008	6	10.38%	11.21%
Q1 2009 ²⁸	13	10.31%	11.79%
	Median	10.40%	11.24%

13 As shown in Table 4, in other jurisdictions, commission-awarded ROEs have
14 been declining from the mid 10% range. Overall ROEs have been declining over
15 the past 20 years, as reflected in Graph 1.
16

²⁸ Includes rate case information from Cause No. PUD 200800144 for Public Service Company of Oklahoma.

Graph 1: Average Awarded ROE: 1990 — Q1 2009 (Quarterly)



Source: SNL Financial / Regulatory Research Assoc. and EEI Rate Department

Q: Recently have other commissions lowered electric utilities' ROE as Staff is recommending for OG&E?

A: Yes. As shown in Exhibit FM-24, ROEs for electric utilities have been reduced from what they were prior to the rate case. When the median average is taken of the 43 utilities that were reported, the ROE reduced from 10.60% to 10.50%. It is also important to note that Staff is recommending a ROR, which is the number that is applied to rate base, higher than the median of this same reported group of companies. The reported group has a ROR median of 8.28, while Staff has recommended a ROR of 8.53% percent for OG&E.

Q: Is Staff's recommended ROE comparable to the ROEs awarded in other jurisdictions?

A: Yes. Staff's recommended ROE range is 10.14% to 10.29% is fair, just and reasonable and is comparable to the 10.50% mean average for ROEs awarded

1 in 2008 and in the first quarter of 2009, which has a range from 8.75% to 11.50%
2 shown in Exhibits FM-24.

3

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

5 Jairo Mitchell
6 (Signature)
7

June 22, 2009 Oklahoma City, Oklahoma

**Oklahoma Gas and Electric Company
LIST OF EXHIBITS**

FM-1	Qualifications Outline
FM-2	Standard and Poor's Bond Ratings
FM-3	DCF <i>Value Line</i> Projected Growth
FM-4	DCF <i>Value Line</i> Historical Growth
FM-5	DCF <i>MSN Money</i> 50-Day Moving Average
FM-6	DCF <i>MSN Money</i> 200-Day Moving Average
FM-7	DCF <i>Yahoo! Finance</i> 50-Day Moving Average
FM-8	DCF <i>Yahoo! Finance</i> 200-Day Moving Average
FM-9	Risk Free Rate / 20-Year US Treasury Security Yield Rate
FM-10	Revenues, Assets and Market Capitalization Comparison
FM-11	Capital Asset Pricing Model - <i>Value Line</i>
FM-12	Capital Asset Pricing Model - <i>MSN Money</i>
FM-13	Capital Asset Pricing Model - <i>Yahoo! Finance</i>
FM-14	Comparable Earnings - <i>Value Line</i>
FM-15	Comparable Earnings – <i>MSN Money</i>
FM-16	Comparable Earnings – <i>Yahoo! Finance</i>
FM-17	Average Market-to-Book Ratio
FM-18	Comparable Companies – Long Term Debt Ratio
FM-19	Comparable Companies – Common Equity Ratio
FM-20	Average Return on Equity
FM-21	Estimated Return on Equity
FM-22	Components of Capital
FM-23	DR. Murry's Calculations
FM-24	Current and Previous ROEs Awarded in Other States



Fairo Mitchell

Chief of Economic Analysis and Research

Oklahoma Corporation Commission
580 Jim Thorpe Building
P. O. Box 52000
Oklahoma City, OK 73152
Tel: (405) 521-4115
Fax: (405) 522-3336
Email: f.mitchell@occcemail.com

Professional Experience

Oklahoma Corporation Commission,
Public Utility Division

- Chief, *Economic Analysis and Research Group*
- *Public Utility Regulatory Analyst*
- *Intern, General Counsel Office*

MCI

- *Property Accountant*

Total Mortgage Solutions

- *Tax Specialist*

Education

- J.D. Oklahoma City University School of Law
- MBA, Finance, University of Central Oklahoma
- B.A., Accounting, Morehouse College

Professional Associations

- Member, Society of Utility and Regulatory Financial Analysts
- Accounting and Finance Subcommittee Member, National Association of Regulatory Utility Commissions

Expert Witness Testimony

- » Public Service Company of Oklahoma
 - Rate Case
 - Cost of Capital
 - Cost of Service
 - Rate Design
 - RFP
 - Coal Fuel Supply
 - Coal Transportation
 - Natural Gas Supply
 - Natural Gas Transportation
 - Capacity
- » CenterPoint Oklahoma Gas
 - Weather Normalization
- » Arkansas Oklahoma Gas
 - Rate Case
 - Cost of Capital
- » Oklahoma Gas and Electric
 - RFP
 - Coal Fuel Supply
 - Short Term Capacity and Energy

Qualifications Outline of Fairo Mitchell

Mr. Mitchell is the Chief of Economic Analysis and Research for Energy in the Public Utilities Division at the Oklahoma Corporation Commission with ten years of experience in the areas of accounting, finance and economics.

Particular Areas of Expertise

Cost of capital; cost of service; rate design; request for proposals for electric generation; financial analysis; rulemakings; and expert witness testimony.

Professional Experience

Chief, Economic Analysis and Research

Energy Division

Manage a six person group whose duties include: renewable energy, demand side management, decoupling, weather normalization, vegetation management, rule makings and economic impact studies

Public Utility Regulatory Analyst II

Energy Division

Provided expert testimony in two rate cases and several other causes before the Oklahoma Corporation Commission

Involved in approximately ten utility RFPs

Involved in (OCC) and (FERC) rulemakings

Oklahoma Corporation Commission rulemakings - Assisted in drafting and editing the rules, and conducting technical conferences

Federal Energy Regulatory Commission rulemakings - Researched and drafted the OCC's comments.

Addressed issues concerning the utilities' request-for-bids (RFP) for long procurement

Monitor Activity within the Southwest Power Pool

Prepared and assisted in the preparation of exhibits, comments, testimony, and interrogatories

Reviewed administrative law judge reports and Commission orders for technical accuracy

Researched and prepared reports on demand side management, smart metering, co-generation facilities and renewable energy

Property Accountant

MCI

Prepared and maintained schedules for audits, and oversaw compliance of capitalization policies

Determined technical and cost related information for property assets

Tax Specialist

Total Mortgage Solutions

Identified, researched, corrected and reported post-cycle accounting errors

**Qualifications Outline
Of
Fairo Mitchell**

Conferences and Meetings Attended:

National Association of Regulatory Utility Commissioners 119th Annual Convention

Society of Utility and Regulatory Financial Analysts 39th Financial Forum – “Revisiting the Cost of Capital: Everything Old is New Again?”

Society of Utility and Regulatory Financial Analysts 38th Financial Forum – “Regulatory Climate: Changing Tides, or the Perfect Storm?”

Other Experience:

Rose State College, Midwest City, OK

Adjunct Professor, January 2003 - May 2003

- *Courses Taught: Microeconomics and Macroeconomics*

Oklahoma State Certified Mediator

**Oklahoma Gas and Electric Company
Comparative Electric Companies
Standard and Poor's Bond Ratings**

1	Alliant Energy	BBB+
2	Cleco Corp.	BBB
3	DPL Inc.	A-
4	DTE Energy Co.	BBB
5	Nstar	A+
6	Pinnacle West	BBB-
7	SCANA Corp.	BBB+
8	Vectren Corp	A-
9	Westar Energy	BBB-
10	Wisconsin Energy	A-
	OG&E	BBB+

**Oklahoma Gas and Electric Company
Discounted Cash Flow Analysis
5-Year Growth Estimates
Value Line Data**

Comparable Companies	2008 Dividend	Stock Price	Dividend Yield	Earnings Projected Growth	DCF Based on Earnings	Dividends Projected Growth	DCF Based on Dividends	Book Value Projected Growth	DCF Based on Book Value	DCF Estimate
1 Alliant Energy	\$ 1.40	\$22.75	6.15%	5.00%	11.15%	7.00%	13.15%	4.00%	10.15%	11.49%
2 Cleco Corp.	\$ 0.90	\$20.80	4.33%	10.50%	14.83%	9.50%	13.83%	6.00%	10.33%	12.99%
3 DPL Inc.	\$ 1.10	\$21.73	5.06%	8.00%	13.06%	3.50%	8.56%	10.50%	15.56%	12.40%
4 DTE Energy Co.	\$ 2.12	\$26.02	8.15%	4.50%	12.65%	2.50%	10.65%	3.00%	11.15%	11.48%
5 Nstar	\$ 1.43	\$29.41	4.86%	8.00%	12.86%	5.50%	10.36%	5.50%	10.36%	11.20%
6 Pinnacle West	\$ 2.10	\$27.04	7.77%	3.00%	10.77%	1.00%	8.77%	1.00%	8.77%	9.43%
7 SCANA Corp.	\$ 1.84	\$29.20	6.30%	4.00%	10.30%	3.00%	9.30%	4.50%	10.80%	10.13%
8 Vectren Corp.	\$ 1.31	\$19.09	6.86%	6.00%	12.86%	3.00%	9.86%	6.00%	12.86%	11.86%
9 Westar Energy	\$ 1.16	\$16.69	6.95%	4.00%	10.95%	4.50%	11.45%	6.00%	12.95%	11.78%
10 Wisconsin Energy	\$ 1.08	\$38.31	2.82%	8.00%	10.82%	12.00%	14.82%	6.00%	8.82%	11.49%
Average			5.93%	6.10%	12.03%	5.15%	11.08%	5.25%	11.18%	11.43%
Median			6.23%	5.50%	11.90%	4.00%	10.50%	5.75%	10.58%	11.49%

Source: Value Line - March 27, 2009, May 8, 2009 and May 29, 2009

**Oklahoma Gas and Electric Company
Discounted Cash Flow Analysis
Past 5-Year Rates
Value Line Data**

Comparable Companies	2008 Dividend	Stock Price	Dividend Yield	Past Earnings Rate	DCF Based on Earnings	Past Dividend Rate	DCF Based on Dividends	Past Book Value Rate	DCF Based on Book Value	DCF Estimate
1 Alliant Energy	\$ 1.40	\$ 22.75	6.15%	3.00%	9.15%	-10.50%	-4.35%	0.50%	6.65%	3.82%
2 Cleco Corp.	\$ 0.90	\$ 20.80	4.33%	-2.00%	2.33%	0.50%	4.83%	7.00%	11.33%	6.16%
3 DPL Inc.	\$ 1.10	\$ 21.73	5.06%	-1.00%	4.06%	1.00%	6.06%	2.50%	7.56%	5.90%
4 DTE Energy Co.	\$ 2.12	\$ 26.02	8.15%	-2.00%	6.15%	--	8.15%	4.00%	12.15%	8.81%
5 Nstar	\$ 1.43	\$ 29.41	4.86%	4.00%	8.86%	6.00%	10.86%	5.00%	9.86%	9.86%
6 Pinnacle West	\$ 2.10	\$ 27.04	7.77%	-1.00%	6.77%	5.00%	12.77%	3.00%	10.77%	10.10%
7 SCANA Corp.	\$ 1.84	\$ 29.20	6.30%	3.50%	9.80%	6.50%	12.80%	4.00%	10.30%	10.97%
8 Vectren Corp.	\$ 1.31	\$ 19.09	6.86%	5.50%	12.36%	3.50%	10.36%	4.50%	11.36%	11.36%
9 Westar Energy	\$ 1.16	\$ 16.69	6.95%	32.00%	38.95%	-5.00%	1.95%	6.00%	-4.50%	12.13%
10 Wisconsin Energy	\$ 1.08	\$ 38.31	2.82%	6.00%	8.82%	4.50%	7.32%	6.00%	7.50%	7.88%
Average			5.93%	4.80%	10.73%	1.28%	7.08%	4.25%	8.30%	8.70%
Median			6.23%	3.25%	8.84%	3.50%	7.73%	4.25%	10.08%	9.34%

Source: Value Line - March 27, 2009, May 8, 2009 and May 29, 2009

Oklahoma Gas and Electric Company
Discounted Cash Flow Analysis
50-Day Moving Average
5-Year Growth: Projected and Historical
MSN Money Data

Comparable Companies	2008 Dividend	Stock Price	Dividend Yield	Earnings Projected Growth	DCF Based on Earnings	Past Earnings Rate	DCF Based on Past Earnings	Past Dividend Rate	DCF Based on Past Dividends	Average
1 Alliant Energy	\$ 1.50	\$ 23.90	6.28%	6.00%	12.28%	4.40%	10.68%	6.96%	13.24%	12.06%
2 Cleco Corp.	\$ 0.90	\$ 21.50	4.19%	14.50%	18.69%	2.30%	6.49%	0.00%	4.19%	9.79%
3 DPL Inc.	\$ 1.14	\$ 22.37	5.10%	7.40%	12.50%	8.80%	13.90%	3.19%	8.29%	11.56%
4 DTE Energy Co.	\$ 2.12	\$ 28.94	7.33%	6.00%	13.33%	-0.90%	6.43%	0.58%	7.91%	9.22%
5 Nstar	\$ 1.50	\$ 30.74	4.88%	7.00%	11.88%	5.30%	10.18%	5.55%	10.43%	10.83%
6 Pinnacle West	\$ 2.10	\$ 27.14	7.74%	5.50%	13.24%	-2.40%	5.34%	4.01%	11.75%	10.11%
7 SCANA Corp.	\$ 1.88	\$ 30.30	6.20%	5.00%	11.20%	3.20%	9.40%	5.92%	12.12%	10.91%
8 Vectren Corp.	\$ 1.34	\$ 21.32	6.29%	7.30%	13.59%	1.00%	7.29%	3.37%	9.66%	10.18%
9 Westar Energy	\$ 1.20	\$ 17.54	6.84%	5.70%	12.54%	1.10%	7.94%	8.83%	15.67%	12.05%
10 Wisconsin Energy	\$ 1.35	\$ 39.65	3.40%	8.40%	11.80%	5.90%	9.30%	6.19%	9.59%	10.23%
Average			5.82%	7.28%	13.10%	2.87%	8.69%	4.46%	10.28%	10.69%
Median			6.24%	6.50%	12.52%	2.75%	8.62%	4.78%	10.04%	10.53%

Source: MSN Money as reported on May 29, 2009

Oklahoma Gas and Electric Company
Discounted Cash Flow Analysis
200-Day Moving Average
5-Year Growth: Projected and Historical
MSN Money Data

Comparable Companies	2008 Dividend	Stock Price	Dividend Yield	Earnings Projected Growth	DCF Based on Earnings	Past Earnings Rate	DCF Based on Earnings	Past Dividend Rate	DCF Based on Past Dividends	Average
1 Alliant Energy	\$ 1.50	\$ 27.92	5.37%	6.00%	11.37%	4.40%	9.77%	6.96%	12.33%	11.05%
2 Cleco Corp.	\$ 0.90	\$ 22.38	4.02%	14.50%	18.52%	2.30%	6.32%	0.00%	4.02%	5.17%
3 DPL Inc.	\$ 1.14	\$ 22.26	5.12%	7.40%	12.52%	4.20%	9.32%	3.19%	8.31%	8.82%
4 DTE Energy Co.	\$ 2.12	\$ 33.98	6.24%	6.00%	12.24%	-0.90%	5.34%	0.58%	6.82%	6.08%
5 Nstar	\$ 1.50	\$ 32.60	4.60%	7.00%	11.60%	5.30%	9.90%	5.55%	10.15%	10.03%
6 Pinnacle West	\$ 2.10	\$ 30.43	6.90%	5.50%	12.40%	2.40%	9.30%	4.01%	10.91%	10.11%
7 SCANA Corp.	\$ 1.88	\$ 33.51	5.61%	5.00%	10.61%	3.20%	8.81%	5.92%	11.53%	10.17%
8 Vectren Corp.	\$ 1.34	\$ 24.02	5.58%	7.30%	12.88%	1.00%	6.58%	3.37%	8.95%	7.76%
9 Westar Energy	\$ 1.20	\$ 19.31	6.21%	5.70%	11.91%	-1.10%	5.11%	8.83%	15.04%	10.08%
10 Wisconsin Energy	\$ 1.35	\$ 41.83	3.23%	8.40%	11.63%	5.90%	9.13%	6.19%	9.42%	9.27%
Average			5.29%	7.28%	12.57%	2.67%	7.96%	4.46%	9.75%	8.85%
Median			5.48%	6.50%	12.08%	2.80%	8.97%	4.78%	9.78%	9.65%

Source: MSN Money as reported on May 29, 2009

**Oklahoma Gas and Electric Company
Discounted Cash Flow Analysis
50-Day Moving Average
5-Year Growth: Projected and Historical
Yahoo! Finance Data**

Company	2008 Dividend	Stock Price	Dividend Yield	Projected Earnings Growth	DCF Based on Projected Rate	Past Rate	DCF Based on Past Rate	DCF Estimate
1 Alliant Energy	\$ 1.45	\$ 23.72	6.11%	5.95%	12.06%	7.31%	13.42%	12.74%
2 Cleco Corp.	\$ 0.90	\$ 21.28	4.23%	11.70%	15.93%	0.32%	4.55%	10.24%
3 DPL Inc.	\$ 1.12	\$ 22.27	5.03%	7.43%	12.46%	9.19%	14.22%	13.34%
4 DTE Energy Co.	\$ 2.12	\$ 29.47	7.19%	3.50%	10.69%	13.46%	20.65%	15.67%
5 Nstar	\$ 1.45	\$ 30.33	4.78%	6.67%	11.45%	5.88%	10.66%	11.06%
6 Pinnacle West	\$ 2.10	\$ 27.28	7.70%	4.50%	12.20%	1.43%	9.13%	10.66%
7 SCANA Corp.	\$ 1.85	\$ 30.18	6.13%	5.42%	11.55%	3.27%	9.40%	10.47%
8 Vectren Corp.	\$ 1.33	\$ 21.60	6.16%	6.90%	13.06%	10.65%	16.81%	14.93%
9 Westar Energy	\$ 1.17	\$ 17.51	6.68%	3.59%	10.27%	-2.43%	4.25%	7.26%
10 Wisconsin Energy	\$ 1.22	\$ 39.20	3.11%	8.93%	12.04%	10.14%	13.25%	12.65%
Average			5.71%	6.46%	12.17%	5.92%	11.63%	11.90%
Median			6.12%	6.31%	12.05%	6.59%	11.96%	11.85%

Source: YAHOO! Finance as stated on May 29, 2009

**Oklahoma Gas and Electric Company
Discounted Cash Flow Analysis
200-Day Moving Average
5-Year Growth: Projected and Historical
Yahoo! Finance Data**

Comparable Company	2008 Dividend	Stock Price	Dividend Yield	Projected Earnings Growth	DCF Estimate	Past Rate	DCF Estimate	Average
1 Alliant Energy	\$ 1.45	\$ 26.14	5.55%	5.95%	11.50%	7.31%	12.85%	12.17%
2 Cleco Corp.	\$ 0.90	\$ 21.63	4.16%	11.70%	15.86%	0.32%	4.48%	10.17%
3 DPL Inc.	\$ 1.12	\$ 21.63	5.18%	7.43%	12.61%	9.19%	14.37%	13.49%
4 DTE Energy Co.	\$ 2.12	\$ 31.58	6.71%	3.50%	10.21%	13.46%	20.17%	15.19%
5 Nstar	\$ 1.45	\$ 32.58	4.45%	6.67%	11.12%	5.88%	10.33%	10.73%
6 Pinnacle West	\$ 2.10	\$ 29.02	7.24%	4.50%	11.74%	1.43%	8.67%	10.20%
7 SCANA Corp.	\$ 1.85	\$ 32.08	5.77%	5.42%	11.19%	3.27%	9.04%	10.11%
8 Vectren Corp	\$ 1.33	\$ 23.18	5.74%	6.90%	12.64%	10.65%	16.39%	14.51%
9 Westar Energy	\$ 1.17	\$ 18.37	6.37%	3.59%	9.96%	-2.43%	3.94%	6.95%
10 Wisconsin Energy	\$ 1.22	\$ 40.99	2.98%	8.93%	11.91%	10.14%	13.12%	12.51%
Average			5.41%	6.46%	11.87%	5.92%	11.33%	11.60%
Median			5.64%	6.31%	11.62%	6.59%	11.59%	11.45%

Source: YOHOO! Finance as stated on May 29, 2009

**Oklahoma Gas and Electric Company
Historical and Projected
US Treasury Security Yield Rate**

DATE	20 yr	30 yr	Date	30 yr
5/1/2009	4.14%	4.09%	4Q 2009	3.80%
5/4/2009	4.11%	4.06%	1Q 2010	4.00%
5/5/2009	4.11%	4.06%	2Q 2010	4.20%
5/6/2009	4.12%	4.09%	3Q 2010	4.30%
5/7/2009	4.26%	4.25%		
5/8/2009	4.25%	4.28%		
5/11/2009	4.15%	4.18%		
5/12/2009	4.13%	4.16%		
5/13/2009	4.06%	4.09%		
5/14/2009	4.04%	4.06%		
5/15/2009	4.07%	4.09%		
5/18/2009	4.16%	4.18%		
5/19/2009	4.19%	4.21%		
5/20/2009	4.11%	4.14%		
5/21/2009	4.27%	4.30%		
5/22/2009	4.36%	4.38%		
5/26/2009	4.42%	4.45%		
5/27/2009	4.58%	4.59%		
5/28/2009	4.52%	4.54%		
5/29/2009	4.34%	4.34%		
Average	4.22%	4.23%		4.08%
Median	4.16%	4.18%		4.17%

**Oklahoma Gas and Electric Company
Comparison of Revenue, Assets and Market Capitalization
Comparable Group**

Comparable Companies		Revenues in millions	Assets in millions	Market Cap in billions
1	Alliant Energy	\$ 3,681.7	\$ 332.2	\$ 2.5
2	Cleco Corp.	\$ 1,080.2	\$ 408.7	\$ 1.3
3	DPL Inc.	\$ 1,601.6	\$ 426.3	\$ 2.5
4	DTE Energy Co.	\$ 9,329.0	\$ 266.7	\$ 4.2
5	Nstar	\$ 3,345.4	\$ 2,454.9	\$ 3.1
6	Pinnacle West	\$ 3,367.1	\$ 1,286.3	\$ 2.7
7	SCANA Corp.	\$ 5,319.0	\$ 1,088.6	\$ 3.5
8	Vectren Corp	\$ 2,484.7	\$ 1,997.1	\$ 1.5
9	Westar Energy	\$ 1,839.0	\$ 947.5	\$ 1.8
10	Wisconsin Energy	\$ 4,431.0	\$ 1,301.0	\$ 4.5
	Mean	\$ 3,647.9	\$ 1,050.9	\$ 2.8
	Median	\$ 3,356.3	\$ 1,018.0	\$ 2.6
	OG&E*	\$ 1,959.5	\$ 4,851.2	
	OGE Energy Corp.			\$ 2.2

*Source: 2008 SEC 10K filing

Source: Value Line - March 27, 2009, May 8, 2009 and May 29, 2009

**Oklahoma Gas and Electric Company
Capital Asset Pricing Model
Value Line Data**

Comparable Companies		Historic Market Portfolio	Historic Long Term Bonds	Risk Premium	Value Line Beta	Beta * RP	Current Risk Free Rate	CAPM	Size Premium	Size Adjusted CAPM
		(Rm	- 'rf)	= RP		Beta(RP)	Rf =			
1	Alliant Energy	12.20%	6.50%	5.70%	0.65	3.71%	4.16%	7.86%	1.63%	9.49%
2	Cleco Corp.	12.20%	6.50%	5.70%	0.75	4.28%	4.16%	8.43%	1.63%	10.06%
3	DPL Inc.	12.20%	6.50%	5.70%	0.60	3.42%	4.16%	7.58%	1.63%	9.21%
4	DTE Energy Co.	12.20%	6.50%	5.70%	0.65	3.71%	4.16%	7.86%	1.63%	9.49%
5	Nstar	12.20%	6.50%	5.70%	0.65	3.71%	4.16%	7.86%	1.63%	9.49%
6	Pinnacle West	12.20%	6.50%	5.70%	0.70	3.99%	4.16%	8.15%	1.63%	9.78%
7	SCANA Corp.	12.20%	6.50%	5.70%	0.70	3.99%	4.16%	8.15%	1.63%	9.78%
8	Vectren Corp	12.20%	6.50%	5.70%	0.75	4.28%	4.16%	8.43%	1.63%	10.06%
9	Westar Energy	12.20%	6.50%	5.70%	0.75	4.28%	4.16%	8.43%	1.63%	10.06%
10	Wisconsin Energy	12.20%	6.50%	5.70%	0.65	3.71%	4.16%	7.86%	1.63%	9.49%
	Average				0.69	3.90%		8.06%		9.69%
	Median				0.68	3.99%		8.00%		9.63%

Source: Value Line as reported March 27, 2009, May 8, 2009, and May 29, 2009

**Oklahoma Gas and Electric Company
Capital Asset Pricing Model
October 2008 MSN Money Beta**

Comparable Companies	Historic Market Portfolio	Historic Long Term Bonds	Risk Premium	MSN Money Beta	Beta RP	Current Risk Free Rate	CAPM	Size Premium	Size Adjusted CAPM	
		$(R_m - r_f) = RP$			$Beta(RP) + R_f =$					
1	Alliant Energy	12.20%	6.50%	5.70%	0.58	3.31%	4.16%	7.46%	1.63%	9.09%
2	Cleco Corp.	12.20%	6.50%	5.70%	0.56	3.19%	4.16%	7.35%	1.63%	8.98%
3	DPL Inc.	12.20%	6.50%	5.70%	0.58	3.31%	4.16%	7.46%	1.63%	9.09%
4	DTE Energy Co.	12.20%	6.50%	5.70%	0.71	4.05%	4.16%	8.20%	1.63%	9.83%
5	Nstar	12.20%	6.50%	5.70%	0.28	1.60%	4.16%	5.75%	1.63%	7.38%
6	Pinnacle West	12.20%	6.50%	5.70%	0.60	3.42%	4.16%	7.58%	1.63%	9.21%
7	SCANA Corp.	12.20%	6.50%	5.70%	0.55	3.14%	4.16%	7.29%	1.63%	8.92%
8	Vectren Corp	12.20%	6.50%	5.70%	0.38	2.17%	4.16%	6.32%	1.63%	7.95%
9	Westar Energy	12.20%	6.50%	5.70%	0.63	3.59%	4.16%	7.75%	1.63%	9.38%
10	Wisconsin Energy	12.20%	6.50%	5.70%	0.36	2.05%	4.16%	6.21%	1.63%	7.84%
Average					0.52	2.98%		7.14%		8.77%
Median					0.57	3.25%		7.40%		9.03%

Source: MSN Money as reported on May 29, 2009

**Oklahoma Gas and Electric Company
Capital Asset Pricing Model
Yahoo! Finance Beta**

Comparable Companies	Historic Market Portfolio	Historic Long Term Bonds	Risk Premium	Yahoo! Finance Beta	Beta* RP	Current Risk Free Rate	CAPM	Size Premium	Size Adjusted CAPM
	(Rm	-	'rf)	=	RP	Beta(RP)	+ Rf =		
1 Alliant Energy	12.20%	6.50%	5.70%	0.50	2.85%	4.16%	7.01%	1.63%	8.64%
2 Cleco Corp.	12.20%	6.50%	5.70%	0.50	2.85%	4.16%	7.01%	1.63%	8.64%
3 DPL Inc.	12.20%	6.50%	5.70%	0.61	3.48%	4.16%	7.63%	1.63%	9.26%
4 DTE Energy Co.	12.20%	6.50%	5.70%	0.78	4.45%	4.16%	8.60%	1.63%	10.23%
5 Nstar	12.20%	6.50%	5.70%	0.28	1.60%	4.16%	5.75%	1.63%	7.38%
6 Pinnacle West	12.20%	6.50%	5.70%	0.60	3.42%	4.16%	7.58%	1.63%	9.21%
7 SCANA Corp.	12.20%	6.50%	5.70%	0.57	3.25%	4.16%	7.40%	1.63%	9.03%
8 Vectren Corp	12.20%	6.50%	5.70%	0.00	0.00%	4.16%	4.16%	1.63%	5.79%
9 Westar Energy	12.20%	6.50%	5.70%	0.67	3.82%	4.16%	7.97%	1.63%	9.60%
10 Wisconsin Energy	12.20%	6.50%	5.70%	0.36	2.05%	4.16%	6.21%	1.63%	7.84%
Average				0.49	2.78%		6.93%		8.56%
Median				0.54	3.05%		7.20%		8.83%

Source: YAHOO! Finance as reported on May 29, 2009

**Oklahoma Gas and Electric Company
Comparable Earnings
Value Line Data**

Comparable Companies	High Market Value per Share	Low Market Value per Share	Average Market Value per Share	2008 Book Value per Share	Market to Book	2008 Return on Common Equity%	2012-14 Return on Common Equity%	Average
1 Alliant Energy	\$ 42.40	\$ 22.80	\$ 32.60	\$ 25.56	1.28	9.90%	10.50%	10.20%
2 Cleco Corp.	\$ 28.40	\$ 17.30	\$ 22.85	\$ 17.55	1.30	9.50%	12.00%	10.75%
3 DPL Inc.	\$ 30.50	\$ 18.50	\$ 24.50	\$ 8.77	2.79	24.80%	19.00%	21.90%
4 DTE Energy Co.	\$ 45.30	\$ 27.80	\$ 36.55	\$ 36.55	1.00	7.40%	9.00%	8.20%
5 Nstar	\$ 40.00	\$ 25.70	\$ 32.85	\$ 16.74	1.96	13.30%	14.50%	13.90%
6 Pinnacle West	\$ 42.90	\$ 26.30	\$ 34.60	\$ 34.16	1.01	6.20%	9.00%	7.60%
7 SCANA Corp.	\$ 44.10	\$ 27.80	\$ 35.95	\$ 25.81	1.39	11.40%	10.50%	10.95%
8 Vectren Corp	\$ 32.20	\$ 19.50	\$ 25.85	\$ 17.33	1.49	9.50%	10.00%	9.75%
9 Westar Energy	\$ 25.90	\$ 16.00	\$ 20.95	\$ 20.38	1.03	6.20%	8.00%	7.10%
10 Wisconsin Energy	\$ 49.60	\$ 34.90	\$ 42.25	\$ 28.54	1.48	10.70%	12.00%	11.35%
Average					1.47	10.89%	11.45%	11.17%
Median					1.35	9.70%	10.50%	10.48%

Source: Value Line - March 27, 2009, May 8, 2009 and May 29, 2009

**Oklahoma Gas and Electric Company
Comparable Earnings
MSN Data**

Comparable Companies	High Market Value per Share	Low Market Value per Share	Average Market Value per Share	2008 Book Value per Share	Market to Book	2008 Return on Common Equity%	5-year Average Return on Equity%	Average
1 Alliant Energy	\$ 20.31	\$ 37.83	\$ 29.07	\$ 28.02	1.04	10.20%	10.20%	10.20%
2 Cleco Corp.	\$ 17.32	\$ 27.85	\$ 22.59	\$ 17.54	1.29	8.40%	14.50%	11.45%
3 DPL Inc.	\$ 18.52	\$ 28.79	\$ 23.66	\$ 8.84	2.68	24.60%	18.00%	21.30%
4 DTE Energy Co.	\$ 23.32	\$ 44.97	\$ 34.15	\$ 37.29	0.92	8.40%	8.50%	8.45%
5 Nstar	\$ 25.67	\$ 40.00	\$ 32.84	\$ 16.95	1.94	13.50%	13.40%	13.45%
6 Pinnacle West	\$ 22.32	\$ 37.88	\$ 30.10	\$ 31.29	0.96	2.00%	7.90%	4.95%
7 SCANA Corp.	\$ 26.01	\$ 44.06	\$ 35.04	\$ 27.43	1.28	11.20%	11.40%	11.30%
8 Vectren Corp	\$ 18.08	\$ 32.20	\$ 25.14	\$ 17.11	1.47	10.40%	10.70%	10.55%
9 Westar Energy	\$ 14.86	\$ 24.97	\$ 19.92	\$ 20.48	0.97	6.20%	9.50%	7.85%
10 Wisconsin Energy	\$ 34.89	\$ 48.58	\$ 41.74	\$ 29.68	1.41	11.40%	10.90%	11.15%
Average					1.39	10.63%	11.50%	11.07%
Median					1.28	10.30%	10.80%	10.85%

Source: MSN Money May 29, 2009

**Oklahoma Gas and Electric Company
Comparable Earnings
Yahoo! Finance**

	Comparable Companies	Low Market Value per Share	High Market Value per Share	Average Market Value per Share	Book Value per Share	Market to Book	2008 Return on Common Equity%
1	Alliant Energy	\$ 20.31	\$ 37.83	\$ 29.07	\$ 25.82	1.13	10.20%
2	Cleco Corp.	\$ 17.32	\$ 27.85	\$ 22.59	\$ 17.52	1.29	8.36%
3	DPL Inc.	\$ 18.52	\$ 28.79	\$ 23.66	\$ 8.64	2.74	24.60%
4	DTE Energy Co.	\$ 23.32	\$ 44.97	\$ 34.15	\$ 37.56	0.91	8.35%
5	Nstar	\$ 25.67	\$ 40.00	\$ 32.84	\$ 16.95	1.94	13.53%
6	Pinnacle West	\$ 22.32	\$ 37.88	\$ 30.10	\$ 31.29	0.96	1.97%
7	SCANA Corp.	\$ 26.01	\$ 44.06	\$ 35.04	\$ 26.50	1.32	11.23%
8	Vectren Corp	\$ 18.08	\$ 32.20	\$ 25.14	\$ 17.11	1.47	10.40%
9	Westar Energy	\$ 14.86	\$ 24.97	\$ 19.92	\$ 20.29	0.98	6.17%
10	Wisconsin Energy	\$ 34.89	\$ 48.58	\$ 41.74	\$ 29.42	1.42	11.37%
	Average					1.42	10.62%
	Median					1.31	10.30%

Source: YAHOO! Finance May 29, 2009

**Oklahoma Gas and Electric Company
Comparable Companies
Average Market-to-Book Ratio**

	Median
<i>Value Line</i> Common Equity Ratio	10.48%
<i>MSN Money</i> Common Equity Ratio	10.85%
<i>Yahoo! Finance</i> Common Equity Ratio	<u>10.30%</u>
Mean	10.54%
<i>Value Line</i> Market-to-Book Ratio	1.35
<i>MSN Money</i> Market-to-Book Ratio	1.28
<i>Yahoo! Finance</i> Market-to-Book Ratio	<u>1.31</u>
Mean	1.31

**Oklahoma Gas and Electric Company
Comparable Companies
Long-Term Debt Ratio**

Comparable Companies		2006	2007	2008	2009	2010	2012-14	Mean
1	Alliant Energy	41.60%	31.40%	32.40%	36.30%	35.50%	32.00%	
2	Cleco Corp.	46.30%	40.90%	43.20%	50.80%	52.50%	46.00%	
3	DPL Inc.	61.30%	67.90%	63.30%	57.60%	55.00%	49.50%	
4	DTE Energy Co.	50.00%	45.20%	48.90%	50.00%	51.00%	50.50%	
5	Nstar	51.20%	50.70%	52.40%	55.00%	55.50%	54.00%	
6	Pinnacle West	63.20%	58.70%	49.30%	54.00%	52.50%	52.50%	
7	SCANA Corp.	60.40%	59.20%	58.90%	59.50%	49.50%	49.50%	
8	Vectren Corp	57.10%	54.60%	54.10%	54.00%	54.00%	53.00%	
9	Westar Energy	43.20%	48.40%	47.00%	48.50%	49.50%	50.00%	
10	Wisconsin Energy	51.40%	50.90%	48.40%	51.00%	50.00%	50.00%	
	Mean	52.57%	50.79%	49.79%	51.67%	50.50%	48.70%	50.67%
	Median	51.40%	50.90%	49.30%	54.00%	52.50%	50.00%	51.35%
	Electric Utility West	51.70%	50.80%	51.00%	51.00%	51.00%	49.00%	
	Electric Utility East	51.80%	51.00%	51.00%	51.00%	51.00%	49.00%	
	Electric Utility Central	51.80%	51.00%	51.00%	51.00%	51.00%	49.00%	
	Mean	51.77%	50.93%	51.00%	51.00%	51.00%	49.00%	50.78%
	Median	51.80%	51.00%	51.00%	51.00%	51.00%	49.00%	50.80%
	OG&E as stated in the application							45.86%

Source: Value Line Industry Commentary - Electric Utility - West, East and Central
March 27, 2009, May 8, 2009 and May 28, 2009

**Oklahoma Gas and Electric Company
Comparable Companies
Common Equity Ratio**

Comparable Companies		2006	2007	2008	2009	2010	2012-14	Mean
1	Alliant Energy	40.60%	46.30%	59.00%	50.50%	53.00%	53.00%	
2	Cleco Corp.	52.00%	57.80%	56.70%	51.00%	49.00%	54.00%	
3	DPL Inc.	53.30%	48.60%	51.00%	50.00%	51.00%	54.00%	
4	DTE Energy Co.	50.00%	54.80%	51.10%	50.00%	49.00%	49.50%	
5	Nstar	48.00%	49.30%	47.60%	45.00%	44.50%	46.00%	
6	Pinnacle West	35.10%	39.70%	48.80%	44.00%	46.50%	46.50%	
7	SCANA Corp.	38.60%	39.70%	40.10%	39.50%	49.50%	49.50%	
8	Vectren Corp	42.30%	45.10%	45.90%	46.00%	46.00%	47.00%	
9	Westar Energy	56.80%	51.60%	53.00%	51.50%	50.50%	50.00%	
10	Wisconsin Energy	46.60%	47.20%	49.70%	47.50%	48.50%	48.50%	
	Mean	46.33%	48.01%	50.29%	47.50%	48.75%	49.80%	48.45%
	Median	47.30%	47.90%	50.35%	48.75%	49.00%	49.50%	48.80%
	Electric Utility West	44.20%	47.40%	48.30%	48.50%	48.50%	50.00%	
	Electric Utility East	47.10%	47.90%	48.00%	48.00%	48.00%	50.00%	
	Electric Utility Central	47.10%	48.90%	48.00%	48.00%	48.00%	50.00%	
	Mean	46.13%	48.07%	48.10%	48.17%	48.17%	50.00%	48.11%
	Median	47.10%	47.90%	48.00%	48.00%	48.00%	50.00%	48.17%
	OG&E as stated in application							54.14%

Source: Value Line Industry Commentary - Electric Utility - West, East and Central
March 27, 2009, May 8, 2009 and May 28, 2009

**Oklahoma Gas and Electric Company
Comparable Companies
Average Return on Equity**

DCF <i>Value Line</i> Projected Growth	11.49%	
DCF <i>Value Line</i> Historical Growth	9.34%	
DCF <i>MSN Money</i> 50-Day Moving Average	10.53%	
DCF <i>MSN Money</i> 200-Day Moving Average	9.65%	
DCF <i>Yahoo! Finance</i> 50-Day Moving Average	11.85%	
DCF <i>Yahoo! Finance</i> 200-Day Moving Average	<u>11.45%</u>	<u>10.72%</u>
CAPM <i>Value Line</i>	9.63%	
CAPM <i>MSN Money</i>	9.03%	
CAPM <i>Yahoo! Finance</i>	<u>8.83%</u>	<u>9.17%</u>
Comparable Earnings <i>Value Line</i>	10.48%	
Comparable Earning <i>MSN Money</i>	10.85%	
Comparable Earning <i>Yahoo! Finance</i>	<u>10.30%</u>	<u>10.54%</u>
ROE Mean		10.14%

Oklahoma Gas and Electric Company
Estimated ROE

Proxy Group	VL DCF	VL DCF	MSN DCF	MSN DCF	YF DCF	YF DCF	VL CAPM	MSN CAPM	YF CAPM	VL CE	MSN CE	YF CE
1 Alliant Energy	11.49%	3.82%	12.06%	11.05%	12.74%	12.17%	9.49%	9.09%	8.64%	10.20%	10.20%	10.20%
2 Cleco Corp.	12.99%	6.16%	9.79%	5.17%	10.24%	10.17%	10.06%	8.98%	8.64%	10.75%	11.45%	8.36%
3 DPL Inc.	12.40%	5.90%	11.56%	8.82%	13.34%	13.49%	9.21%	9.09%	9.26%	21.90%	21.30%	24.60%
4 DTE Energy Co.	11.48%	8.81%	9.22%	6.08%	15.67%	15.19%	9.49%	9.83%	10.23%	8.20%	8.45%	8.35%
5 Nstar	11.20%	9.86%	10.83%	10.03%	11.06%	10.73%	9.49%	7.38%	7.38%	13.90%	13.45%	13.53%
6 Pinnacle West	9.43%	10.10%	10.11%	10.11%	10.66%	10.20%	9.78%	9.21%	9.21%	7.60%	4.95%	1.97%
7 SCANA Corp.	10.13%	10.97%	10.91%	10.17%	10.47%	10.11%	9.78%	8.92%	9.03%	10.95%	11.30%	11.23%
8 Vectren Corp.	11.86%	11.36%	10.18%	7.76%	14.93%	14.51%	10.06%	7.95%	5.79%	9.75%	10.55%	10.40%
9 Westar Energy	11.78%	12.13%	12.05%	10.08%	7.26%	6.95%	10.06%	9.38%	9.60%	7.10%	7.85%	6.17%
10 Wisconsin Energy	11.49%	7.88%	10.23%	9.27%	12.65%	12.51%	9.49%	7.84%	7.84%	11.35%	11.15%	11.37%
Median	11.49%	9.34%	10.53%	9.65%	11.85%	11.45%	9.63%	9.03%	8.83%	10.48%	10.85%	10.30%
4th Quartile	12.99%	12.13%	12.06%	11.05%	15.67%	15.19%	10.06%	9.83%	10.23%	21.90%	21.30%	24.60%
3rd Quartile	11.84%	10.75%	11.40%	10.10%	13.19%	13.24%	9.99%	9.18%	9.25%	11.25%	11.41%	11.34%
2nd Quartile	11.49%	9.34%	10.53%	9.65%	11.85%	11.45%	9.63%	9.03%	8.83%	10.48%	10.85%	10.30%
1st Quartile	11.27%	6.59%	10.12%	8.03%	10.52%	10.18%	9.49%	8.19%	8.04%	8.59%	8.89%	8.35%

MEASURE	DCF	CAPM	CE	Average ROE	Weight	Estimated ROE Range
3rd Quartile*	11.75%	9.17%	11.33%	10.75%	25.00%	2.69%
Average of Medians	10.72%	9.17%	10.54%	10.14%	75.00%	7.61%
Upper Range						10.29%
Lower Range	10.72%	9.17%	10.54%	10.14%	100.00%	10.14%
Midpoint						10.22%

*CAPM is not calculated at the 3rd Quartile because a separate size premium was factored as shown on Exhibits FM-11 through FM-13 and FM-20.

**Oklahoma Gas and Electric Company
Components of Capital**

Description	Adjusted Capital	Capital Ratio	Cost Rate	Weighted Average Cost
Long-Term Debt	1,545,250,000	45.86%	6.56%	3.01%
Common Equity	\$ 1,824,359,077	54.14%	10.29%	5.57%
Total Capital	\$ 3,369,609,077	100.00%		8.58%
Staff's Higher Range ROE Recommendation				

Description	Adjusted Capital	Capital Ratio	Cost Rate	Weighted Average Cost
Long-Term Debt	1,545,250,000	45.86%	6.56%	3.01%
Common Equity	\$ 1,824,359,077	54.14%	10.22%	5.53%
Total Capital	\$ 3,369,609,077	100.00%		8.54%
Staff's Recommended ROE				

Description	Adjusted Capital	Capital Ratio	Cost Rate	Weighted Average Cost
Long-Term Debt	1,545,250,000	45.86%	6.56%	3.01%
Common Equity	\$ 1,824,359,077	54.14%	10.14%	5.49%
Total Capital	\$ 3,369,609,077	100.00%		8.50%
Staff's Lower Range ROE Recommendation				

Description	Adjusted Capital	Capital Ratio	Cost Rate	Weighted Average Cost
Long-Term Debt	1,545,250,000	45.86%	6.56%	3.01%
Common Equity	\$ 1,824,359,077	54.14%	12.25%	6.63%
Total Capital	\$ 3,369,609,077	100.00%		9.64%

Source: Application

Oklahoma Gas and Electric Company
Dr. Murry's Results

Dr. Murry's Companies	DCF Projected		DCF Earnings		DCF Dividends		CAPM	
	52 Week	Current	52 Week	Current	52 Week	Current	Size Adjusted	Historical
	14.35%	15.6%	11.70%	12.97%	7.95%	9.22%	9.00%	10.58%
	11.43%	12.0%	11.64%	12.22%	10.48%	11.05%	9.71%	11.43%
	9.83%	10.4%	10.13%	10.68%	9.81%	10.36%	9.35%	11.00%
	9.42%	12.1%	11.23%	13.88%	12.65%	15.30%	9.71%	11.43%
	6.53%	7.4%	7.39%	8.25%	8.24%	9.10%	9.35%	11.00%
	8.86%	10.1%	8.09%	9.32%	9.13%	10.36%	9.35%	11.00%
	10.77%	11.1%	10.67%	11.04%	13.02%	13.40%	9.00%	10.58%
Average	10.17%	11.24%	10.12%	11.19%	10.18%	11.26%	9.35%	11.00%
Median	9.83%	11.14%	10.67%	11.04%	9.81%	10.36%	9.35%	11.00%

Staff Calculated Median	LOW	Calculated Median	HIGH
	10.49%		12.91%
	10.86%		11.70%
	10.09%		11.22%
	<u>9.35%</u>		<u>11.00%</u>
	10.19%	10.95%	11.71%

Using the median of Dr. Murry's included ROE numbers

Projected	10.17%	15.25%
Earnings	10.12%	12.45%
CAPRM	<u>9.35%</u>	<u>11.00%</u>
	9.88%	11.39%
		12.90%

Dividends Mean including Dividends	10.18%	12.51%
	9.96%	11.38%
		12.80%

**Oklahoma Gas and Electric Company
Current and Previous ROEs Awarded in Other States**

State	Company	ROR (%)	ROE (%)	Prior ROE (%)
Arizona	Tucson Electric Power Co.	8.03	10.25	10.67
Arizona	UNS Electric Inc.	9.02	10.00	10.70
California	San Diego Gas & Electric Co.	8.23	10.70	-
Connecticut	Connecticut Light & Power Co.	7.72	9.40	9.85
Washington D.C.	Potomac Electric Power Co.	7.96	10.00	11.10
Hawaii	Hawaiian Electric Co.	8.66	10.70	11.40
Idaho	Avista Corp.	8.45	10.20	10.40
Illinois	Central Illinois Light Co.	8.01	10.65	10.12
Illinois	Central Illinois Public	8.20	10.65	10.08
Illinois	Commonwealth Edison Co.	8.36	10.30	10.05
Illinois	Illinois Power Co.	8.68	10.65	10.08
Massachusetts	Fitchburg Gas & Electric Light	8.38	10.25	10.00
Michigan	Consumers Energy Co.	6.93	10.70	11.15
Michigan	Detroit Edison Co.	7.16	11.00	11.00
Minnesota	Otter Tail Corp.	8.33	10.43	12.00
Missouri	Empire District Electric Co.	8.92	10.80	10.90
Montana	MDU Resources Group Inc.	8.58	10.25	12.30
North Dakota	Northern States Power Co. - MN	8.80	10.75	11.00
New Mexico	Public Service Co. of NM	8.24	10.10	-
New Mexico	Southwestern Public Service Co	8.27	10.18	-
Nevada	Sierra Pacific Power Co.	8.41	10.60	10.60
New York	Consolidated Edison Co. of NY	7.34	9.10	10.30
New York	Orange & Rockland Utilts Inc.	7.69	9.40	9.10
Oregon	Portland General Electric Co.	8.33	10.10	10.10
Utah	PacifiCorp	8.29	10.25	10.25
Virginia	Appalachian Power Co.	7.69	10.20	10.00
Vermont	Central Vermont Public Service	8.50	10.71	10.75
Washington	Avista Corp.	8.22	10.20	10.20
Washington	Puget Sound Energy Inc.	8.25	10.15	-
Wisconsin	Northern States Power Co - WI	9.67	10.75	11.00
Wisconsin	Wisconsin Electric Power Co.	9.26	10.75	-
West Virginia	Appalachian Power Co.	7.65	10.50	10.50
Wyoming	PacifiCorp	8.29	10.25	10.75
California	Southern California Edison Co.	8.75	11.50	-
Connecticut	United Illuminating Co.	7.59	8.75	-
Florida	Tampa Electric Co.	8.11	11.25	-
Idaho	Idaho Power Co.	8.18	10.50	10.50
Indiana	Indiana Michigan Power Co.	7.62	10.50	12.00
Missouri	Union Electric Co.	8.34	10.76	10.20
Ohio	Cleveland Elec Illuminating Co	8.48	10.50	10.70
Ohio	Ohio Edison Co.	8.48	10.50	10.70
Ohio	Toledo Edison Co.	8.48	10.50	10.70
Oklahoma	Public Service Co. of OK	8.31	10.50	10.25
	Median	8.29	10.50	10.60

**Oklahoma Gas and Electric
LIST OF TABLES and GRAPHS**

Table 1: Staff’s Proposed Return on Common Equity.....5, 32

Table 2: Staff’s Proposed Capital Structure.....9, 38

Table 3: DCF Results.....21

Table 4: Electric Utilities’ Average Awarded ROE.....39

Graph 1: Average Awarded ROE: 1990 – Q1 2009 (Quarterly).....39

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:

William L. Humes
Elizabeth Ryan
Office of Attorney General
313 NE 21st Street
Oklahoma City, OK 73105

William J. Bullard
Kimber L. Shoop
Patrick D. Shore
OG&E
Post Office Box 321
Oklahoma City, OK 73101-0321

Christopher W. Flynn
Laura M. Earl
Jones Day
77 West Wacker
Chicago, IL 60601

Curtis M. Long,
Fellers, Snider, Blankenship, Bailey & Tippens
The Kennedy Building
321 South Boston, Suite 800
Tulsa, OK 74103-3318

Thomas P. Schroedter
James D. Satrom
Hall Estill Hardwick Gable Golden & Nelson
320 S. Boston, Suite 400
Tulsa, OK 74103

J. Fred Gist
Hall Estill Hardwick Gable Golden &
Nelson
2900 Chase Tower
100 North Broadway
Oklahoma City, OK 73102

Jack G. "Chip" Clark, Jr.
Ronald E. Stakem
Clark Stakem Wood & Patten PC
101 Park Avenue, Suite 400
Oklahoma City, OK 73102

Kendall W. Parrish
Ron Comingdeer & Associates
6011 N. Robinson
Oklahoma City, OK 73118

Shelton L. Benedict
Attorney at Law
406 S. Boulder Avenue, Suite 400
Tulsa, OK 74103

Rick D. Chamberlain
Behrens, Taylor, Wheeler & Chamberlain
6 N. E. 63rd Street, Suite 400
Oklahoma City, OK 73105-1401

Cheryl A. Vaught
Deborah R. Thompson
Vaught & Conner, PLLC.
1900 NW Expressway, Suite 1300
Oklahoma City, OK 73118

