

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



PRE-FILED RESPONSIVE TESTIMONY OF
SCOTT GRASS

JUNE 22, 2009

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INTRODUCTION

1 **Q: Please state your name, by whom you are employed, in what capacity, and**
2 **your business address.**

3 A: My name is Scott Grass. I am employed by the Oklahoma Corporation
4 Commission ("OCC" or "Commission"), in the public utility division ("PUD"), in the
5 energy and water department. I am employed as the coordinator of
6 fuels/certified public accountant. My business address is the Jim Thorpe Office
7 Building, Room 580, 2101 N. Lincoln Blvd., Oklahoma City, Okla. 73152-2000.

8

9 **Q: Please state how long you have been employed by the OCC.**

10 A: I have been employed by the OCC in the Public Utility Division since January
11 2007.

12

13 **Q. Have you previously testified before this Commission and has this**
14 **Commission accepted your qualifications?**

15 A. Yes, I have testified before this Commission and my qualifications have been
16 accepted. My qualifications are further explained in my *curriculum vitae*, which is
17 included as Attachment SG-1.

18

19 **Q: Please describe your present duties.**

20 A: In this position, I am responsible for conducting audits of electric, gas, and water
21 utilities during their requests for rate changes. I also am responsible for reviewing
22 the fuel procurement and generating practices of the electric and gas utilities and

1 assisting with processing the tariff change applications of water, gas, and electric
2 utilities. I am also responsible for the monthly fuel adjustment clause ("FAC")
3 and purchased gas adjustment ("PGA") filings review process and assisting with
4 the coordination of the annual audits related to these filings. I am under the
5 supervision of CPA/ manager of accounting Bob Thompson and chief of energy
6 and water Brandy Wreath.

7
8 **PURPOSE**

9
10 **Q: In connection with Oklahoma Gas and Electric Company ("OG&E" or "the**
11 **Company") Cause Number PUD 200800398, application for an adjustment**
12 **in its rates and charges for electric service in the state of Oklahoma, what**
13 **were your responsibilities?**

14 **A:** It was my responsibility to audit the Company's: 1) coal and oil inventories, 2)
15 materials and supplies inventory, 3) prepayments, 4) fuel and purchased power
16 expenses, 5) generation expenses, 6) line losses, and 7) off-system sales, as
17 well as the adjustments pertaining to these areas.

18
19 **Q: What is the purpose of your testimony?**

20 **A:** The purpose of my testimony is to provide the Commission with the results of
21 Staff's review pertaining to the Company's coal and oil inventories, materials and
22 supplies inventory, prepayments, fuel expense, purchased power expense,
23 generation expenses, line losses and off-system sales revenue and expenses, as
24 well as the adjustments pertaining to these areas, and to support Staff's positions
25 and recommendations.

EXECUTIVE SUMMARY

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Staff reviewed the Company's filed application package, including the pre-filed and direct testimonies. Staff issued data requests and reviewed the company's responses to those data requests. Staff reviewed the Company's books, including the ledger detail, invoices, and other supporting documentation. Additionally, Staff reviewed the data requests issued by interveners and OG&E's responses to those data requests. Staff recommends the amounts, as proposed by the Company with the exceptions noted below.

Coal Inventory: Staff adjustment RB-7 reduces the Company's requested amount by \$2,178,000.

Materials and Supplies Inventory: Staff adjustment RB-6 reduces the Company's requested amount by \$3,933,581.

Prepayments – Other: Staff adjustment RB-8 reduces the Company's requested amount by \$1,937,295.

Staff believes these adjusted amounts are fair, just, and reasonable, are in the public interest, and should be approved.

1 Company had a coal inventory level of 1,782,927 tons at \$20.10 per ton for a
2 total of \$35,834,037 for the test year ending September 2008. The Company's
3 rate of \$33 per ton is the estimated replacement costs for coal for 2009. The
4 resulting proposed increase of \$29,505,963 was included in Company
5 adjustment #4 on Schedule B-3 of the Company's Application.

6
7 **Q: Does Staff recommend any adjustments to OG&E's coal inventory which is**
8 **included in rate base? Please explain your answer.**

9 **A:** Yes. The Company had a coal inventory level of 2,518,645 tons at \$28.34 per ton
10 for a total of \$71,376,811 as of March 2009 (six months post test year). Staff
11 agrees with the coal tonnage level of 1,980,000 as this results in a 60-day supply
12 of coal. This level was approved by the Commission in Final Order 516261 of
13 OG&E's last rate case, Cause No. PUD 200500151, and seems to remain a
14 reasonable level in Staff's opinion. However, Staff recommends the March 2009
15 actual purchases/additions rate of \$31.90 per ton, as this is known and
16 measurable, whereas the \$33 per ton proposed by the Company is an estimate.
17 Staff was able to verify the expense level of \$31.90 using invoices and actual
18 experience. As a result of recalculating the 1,980,000 tons of coal based upon
19 the \$31.90 actual rate during March 009, Staff proposes that the coal inventory
20 level be reduced by Staff adjustment RB-7, \$2,178,000, from \$65,340,000 to
21 \$63,162,000. Coal costs have increased over the past several months and
22 continue to increase, therefore, Staff chose to use the latest rate available
23 instead of a 13- month average.

OIL INVENTORY

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Q: Please describe the fuel oil inventory and any adjustments that the Company has included in its Application for a rate change.

A: The Company is requesting an oil inventory level of 699,325 gallons at \$2.65 per gallon for a total of \$1,853,211 to be included in rate base. The Company had an oil inventory level of 647,727 gallons at \$2.30 per gallon for a total of \$1,487,927 for the test year ending September 2008. The Company's rate of \$2.65 per gallon is the estimated replacement costs for oil for 2009. The resulting proposed increase of \$365,284 was included in Company adjustment #4 on Schedule B-3 of the Company's application.

Q: Does Staff recommend any adjustments to OG&E's fuel oil inventory which is included in rate base? Please explain your answer.

A: No. Staff's analysis determined that OG&E's fuel oil inventory level and related adjustments appear to be correct. Therefore, Staff proposes no adjustments. Additionally, Staff will be conducting additional review of the Company's fuel inventories during its regular annual fuel audits.

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MATERIALS AND SUPPLIES INVENTORY

Q: Please describe the materials and supplies inventory and any adjustments that the Company has included in its application for a rate change.

A: The Company is requesting a materials and supplies inventory level of \$67,804,355, which is the test year ending balance, to be included in rate base. Per response to Staff data request SG 9-1, the Company believes that the cost of materials has been steadily trending upwards and that the year-end balance would be more appropriate than a 13-month average to be included in rate base.

Q: Does Staff recommend any adjustments to OG&E's materials and supplies inventory which is included in rate base? Please explain your answer.

A: Yes. First Staff was provided an Excel spreadsheet as part of OG&E's response to Attorney General data request 12-12. This spreadsheet was described by the Company as being a physical inventory listing of material and supply items as of September 30, 2008. According to this spreadsheet, the total amount is \$3,531,212 less than what was included in the Company's ledgers and application. The Company was not able to provide Staff with an explanation regarding the differences. Therefore, Staff is proposing that this amount be removed from the materials and supplies inventory beginning September 30, 2008. This results in a materials and supplies inventory amount at September 30, 2008, of \$64,273,143. Second, in order to be consistent with Final Order 516261 of OG&E's last rate case, Cause No. PUD 200500151, Staff recommends a 13-

1 month average for materials and supplies inventory as of March 31, 2009. This
2 results in an additional reduction to materials and supplies inventory of \$402,369
3 for a total reduction of \$3,933,581, Staff adjustment RB-6.

4

5 **PREPAYMENTS- OTHER**

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7 **Q: Please describe the prepayments and any adjustments that the Company**
8 **has included in its application for a rate change.**

9 A: The Company is requesting prepayments of \$4,427,571 (excluding prepaid
10 pension), which is the 13-month average as of the end of the test year, to be
11 included in rate base. Company adjustment number 8 to the rate base reduces
12 the September 30, 2008, balance by \$900,831.

13

14 **Q: Does Staff recommend any adjustments to OG&E's prepaid expenses?**
15 **Please explain your answer.**

16 A: Yes. Per the Company's response to Attorney General data request number 11-
17 15, the Company states that the prepayments related to economic development-
18 City of Enid and commercial paper interest have been excluded from rate base
19 due to zero balances at September 30, 2008. However, these items have not
20 been excluded from the Company's calculation of the 13-month average and
21 should have been. Additionally, OG&E has included Enogex storage and
22 transportation fees, which are applicable for the following month, in their prepaid
23 balances. Since these costs are recovered through the FAC and pertain to costs

1 incurred in the following month (short time period), Staff recommends removal of
2 these items from the rate base. Also, per Final Order 516261 of OG&E's last rate
3 case, Cause No. PUD 200500151, the Commission excluded all Edison Electric
4 Institute membership dues from OG&E's prepaid balance after Staff
5 recommended such treatment. The Commission found that these dues/fees were
6 a normal cost of doing business and were recovered through the cost of service.
7 Staff recommends an adjustment reducing OG&E's prepaid balances included in
8 rate base by \$1,937,295, Staff adjustment RB-08, in order to adjust for the
9 aforementioned items. This adjusts the Company's prepaid balance, excluding
10 prepaid pension, to \$2,490,276.

11
12 **FUEL AND PURCHASED POWER EXPENSE**

13
14 **Q: Does Staff recommend any adjustments to OG&E's fuel and purchased**
15 **power expenses? Please explain your answer.**

16 **A:** No. Staff's analysis determined that OG&E's fuel and purchased power expenses
17 and related adjustments appear to be correct. Therefore, Staff proposes no
18 adjustments. Additionally, Staff will be conducting additional review of the
19 Company's fuel and purchased power expenses during its regular annual fuel
20 audits.

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GENERATION EXPENSES

Q: Does Staff recommend any adjustments to OG&E's generation expenses? Please explain your answer.

A: No. Staff's analysis determined that OG&E's generation expenses and related adjustments appear to be correct. Therefore, Staff proposes no adjustments.

LINE LOSSES

Q: Does Staff recommend any adjustments to OG&E's line losses? Please explain your answer.

A: No. Staff's analysis determined that OG&E's line losses and related adjustments appear to be correct. Therefore, Staff proposes no adjustments. Additionally, Staff will be conducting additional review of the Company's line losses during its regular annual fuel audits.

OFF-SYSTEM SALES REVENUE

Q: Does Staff recommend any adjustments regarding OG&E's off-system sales? Please explain your answer.

A: No. Staff's analysis determined that off-system sales revenue and related adjustments appear to be correct. Therefore, Staff proposes no adjustments.

1 Additionally, Staff will be conducting additional review of the Company's off-
2 system sales revenue during its regular annual fuel audits

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4

RECOMMENDATIONS

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6 **Q: What is Staff's recommendation regarding OG&E's application?**

7 **A:** Staff recommends the amounts for coal and oil inventory, materials and supplies
8 inventory, and prepayments proposed by the Company, as adjusted by Staff, to
9 be included in the Company's rate base. Staff also recommends the amounts for
10 generation expenses proposed by the Company, to be included in the
11 Company's cost of service. Additionally, Staff agrees with the methodology and
12 treatment by the Company for fuel expense, purchased power expense, line
13 losses, and off-system sales revenue and expenses. Staff believes that these
14 amounts are fair, just, reasonable, in the public interest, and should be approved.

15

16 I state under penalty of perjury under the laws of Oklahoma that the foregoing is true

17 and correct. *Scott Grass by:*

18 *[Handwritten Signature]*

19 (Signature)

20 6-22-09

21 (Date and Place)

CERTIFICATE OF SERVICE

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

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