BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF OKLAHOMA GAS AND ELECTRIC COMPANY FOR APPROVAL OF A GENERAL CHANGE IN RATES AND TARIFFS	))))	DOCKET NO. 08-103-U

Direct Testimony

of

Bryan J. Scott

on behalf of

Oklahoma Gas and Electric Company

August 29, 2008

QUALIFICATIONS, EXPERIENCE AND PURPOSE

Q. **Would you please state your name, business address and job responsibilities.**

A. My name is Bryan Scott. My business address is 321 North Harvey, Oklahoma City, Oklahoma 73102. In March 2008, I joined OG&E as a Pricing Strategist with the Rates and Costing team. I am responsible for rate design and pricing strategy.

Q. **On whose behalf are you submitting this direct testimony?**

A. I am submitting this Direct Testimony on behalf of Oklahoma Gas and Electric Company ("OG&E" or the "Company").

Q. **Would you please summarize your education and professional background?**

A. I graduated from the University of Tulsa with a Bachelor of Science degree in Economics. I began working at Public Service Company of Oklahoma (PSO) in 1979 where I held various positions in its Rates Department. In 1994, I joined the Central and South West (CSW) Rates Department as Manager of Pricing and Costing. (CSW was the holding company over PSO.) In 1995, I became responsible for new pricing programs as Senior Project Manager for Pricing Development for CSW. In 2000, I became the Manager of Texas Retail Pricing for AEP in preparation for the deregulated market in Texas (AEP assumed control of CSW in 2000.) In 2002, I left AEP to become a consultant with B&B Consulting International and then UtiliPoint International. I joined OG&E in March, 2008 as a Pricing Strategist. I have been involved with pricing, costing, rate administration and regulatory issues for over 29 years.

Q. **Have you previously filed testimony before the Arkansas Public Service Commission (the "Commission" or "APSC")?**

A. Yes. I have previously filed testimony on behalf of Southwestern Electric Power Company (SWEPCO) in Docket 95-358-TF, Docket 97-202-TF (docket withdrawn), and in Docket 99-205-TF. I have submitted testimony and testified in various hearings and proceedings before the Oklahoma Corporation Commission, the Louisiana Public Service Commission, and the Public Utility Commission of Texas. I have also submitted testimony to the Federal Energy Regulatory Commission.

PURPOSE OF TESTIMONY

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

A. The purpose of my testimony is to sponsor pro forma revenue adjustments (Schedule E-13), sponsor the proposed tariffs, and proof of revenue (Schedule H), introduce new tariffs for customers, and propose changes to the existing retail rates. The new tariffs provide residential and smaller commercial customers the opportunity to respond to time-differentiated prices and provide larger commercial and industrial customers the opportunity to respond to hourly pricing. There is also a proposed tariff to allow customers to purchase renewable energy credits. The proposed changes to the existing retail rates are based upon the equalized rates of return (ROR) revenue requirements for each class from OG&E's Cost of Service study filed concurrently in this proceeding. I also sponsor minor changes to Terms and Conditions of Service (T&C).

PRO FORMA ADJUSTMENTS

Q. **Are you sponsoring the pro forma adjustments shown on Section E, Schedule E-13?**

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

- Adjustment #1 Unbilled Revenue and Fuel Lag
- Adjustment #2 January Rate Change and AFL Phase-In;
- Adjustment #3 Customer Migration;
- Adjustment #4 Energy Efficiency Cost Recovery (EECR) Removal;
- Adjustment #5 Energy Cost Recovery (ECR) Removal;
- Adjustment #6 Weather Normalization; and
- Adjustment #7 Year End Customer.

Q. **Please describe each of these adjustments and their purpose.**

A. These adjustments are necessary to accurately compute costs for customer groups, and thereby, produce fair and reasonable rates. The purpose of these adjustments is to normalize the test-year financial data in order to provide a stable basis for rate design. Removing any non-recurring or atypical events provides a foundation for establishing cost-based rates. In addition, the convention in Arkansas is to design rates exclusive of fuel costs and other riders.

Adjustment #1, is comprised of two amounts, the first is unbilled revenue of $600,000 and the second is the over or under-recovery of fuel expense of $6,501,934. The source of these two numbers is the monthly OG&E accounting data.

Adjustment #2, the January Rate Change and Athletic Field Lighting (AFL) rate change Phase-In, increases revenues for the month of January 2007 to reflect current rates.

OG&E was granted a rate change that was effective with the revenue month of February 2007. The January Rate Change adjustment reflects the price change granted and applies it to the month of January. OG&E was granted an increase greater than 10% for the AFL customers and the increase was phased-in over 2 years. The AFL rate change Phase-In adjusts the revenues to the second year level, or the full increase level, for those customers. For the test year, these resulted in a revenue increase of $348,182 to the Arkansas jurisdiction.

Adjustment #3, Customer Migration, adjusts revenues for certain Arkansas retail customers to reflect the rate currently applicable to them. The adjustment reflects some customers moving from the General Service (GS) rate to the Power and Light (PL) rate, from the PL rate to the Municipal Pumping (PM) rate, and from the AFL rate to the PL rate. These customers were re-billed at their year-end rate for the test year and the difference in revenues constitutes the adjustment. For the test year, this resulted in a revenue increase of $61,305 and an increase of 3,861 MWh to the Arkansas jurisdiction.

Adjustment #4 removes the EECR revenue collected from the Arkansas retail customers during the test year. The EECR recovers the cost of certain DSM expenditures. For the test year, this resulted in a revenue decrease of $86,519 to the Arkansas jurisdiction.

Adjustment #5 is for ECR removal. The ECR recovers the cost of fuel and certain energy related expenses. Base rate design changes are made exclusive of the ECR fuel revenues. This adjustment decreases the Arkansas test year revenues by $90,860,205. It should be noted that when rate design changes are completed, ECR (and EECR) revenues are again included for proof of revenues and to determine customer impacts.

Adjustment #6 adjusts test year revenues to reflect 30-year normal weather ending in the test year. Weather adjustments are necessary since the effects of weather on electricity usage can cause significant annual revenue swings and cause test year revenues to differ from the expected revenue outcome for an average year. This adjustment decreases Arkansas jurisdiction revenue by $308,320 and decreases MWh by 10,151. In the previous docket, Staff suggested that OG&E modify its weather normalization process. Staff suggested that OG&E change from decade ending 30 year weather to test year ending 30 year weather for purposes of calculating weather normalization. OG&E has made the suggested change and this adjustment reflects the change.

Adjustment #7 is OG&E's Year End Customer adjustment. This adjustment reflects the end of test year customer count and includes revenues and billing units associated with these customers. The average number of Arkansas customers during the test year was 71,848, which includes Outdoor Security Lighting fixture count of 8,233. For the Arkansas jurisdiction, this adjustment reflects the year end customer count of 72,124, increases revenues by $229,946 and increases MWh by 7,342.

SECTION H and TARIFFS

Q. **Are you sponsoring Section H and the Proposed Tariffs?**

A. Yes, I am. I sponsor the following list of schedules and the proposed tariffs:

- Schedule H-1 Summary of Current and Proposed Revenues by Rate Class;
- Schedule H-2 Analysis of Revenue by Detailed Rate Schedule;
- Schedule H-3 Typical Bill Analysis;
- Schedule H-4a Bill Frequency (Only Electronic Copy Provided);
- Schedule H-5 Calculation of Rates by Rate Schedule;

- Tariffs "Red-Line" Changes and Proposed Tariffs ; and
- Changes to Terms and Conditions of Service.

Q. **Please describe these schedules and their purpose.**

A. These schedules document that the proposed price changes produce the revenue requirement and collect the revenue deficiency for each rate class. The schedules also provide some information documenting the impact of the changes in rates to customers. Finally, the "red-line" tariffs show the changes to the current tariffs and document the proposed pricing and tariff terms. The proposed tariffs reflect the final rates. The proposed changes to Terms and Conditions of Service are also identified in the "red-line" tariffs.

CHANGES TO TERMS AND CONDITIONS OF SERVICE

Q. **Are any changes proposed to the Allowable Expenditure calculation in the Terms and Conditions of Service?**

A. Yes. In Section 409-A, Sheet-No 156, Allowable Expenditure, a change has been made to the formula.

Q. **Why has OG&E proposed this change?**

A. This change is proposed to benefit customers. The change clarifies the issue of how to handle fuel costs in the Allowable Expenditure Calculation, given the current implementation of the Energy Cost Recovery (ECR) and the EECR. Prior to the ECR, some fuel expense was recovered through base rates and considered part of EAR (Estimated Annual Revenue). Fuel adjustments were excluded on a monthly basis.

Production Costs would then subtract out base rate fuel which is now included in the ECR. This effectively removed fuel cost twice and lowered the Allowable Expenditure. In addition, the EECR has been removed from the calculation.

Q. **Please describe the changes to Part III-Standard Extension Policy of the T&C.**

A. Section 401 of the Standard Extension Policy now states that a basic philosophy of the Company is to provide the best possible service *and point of delivery of service* to the customer at the most reasonable investment. All applicable alternatives shall be given consideration when applying the extension policy.

Q. **Please describe the changes to the right-of-way of the T&C.**

A. Section 402 of the T&C now has an added paragraph that states: *All customers requesting service from the utility shall comply with all easement guidelines as specified under this section. Failure to meet these guidelines shall, at the utility's sole discretion, relieve the utility of any obligation to provide electric service until such time that compliance is met.*

Q. **Please describe changes to line extension policy for indeterminate service.**

A. Section 410.A. is replaced with a Performance Guaranty Contract which is attached as Exhibit BJS-1. New Section 410.C. states: *Service requests by oil and gas customers to meet their needs of exploration, production and recovery shall be classified as indeterminate service and shall be subject to all of the provisions of Section 410 of the Standard Extension Policy.*

Q. **Are any other changes proposed to the fees contained in the Terms and Conditions of Service?**

A. No other changes are proposed to the fees at this time.

Q. **Are any changes proposed to the Net Metering tariff language?**

A. Yes, there is minor language clarification proposed at this time. The tariff was modified to conform to APSC rules. Accordingly, residential customers are limited to 25 kW of generation and other customers are limited to 300 kW of generation under this tariff.

CHANGES TO EXISTING RATES

Q. **Please describe the revenue deficiency for each class of customers.**

A. The Arkansas jurisdictional total revenue deficiency is $26,391,288 and is reflected in the table below and can also be found in Mr. Greg Veitch's direct testimony as filed in this docket. This deficiency represents a 14.02 % increase in jurisdictional revenues. The Revenue Deficiency column, as shown below, is used to calculate the required Total Revenue % Change, shown in the last column. The revenue and percentage increases for OG&E's rate classes of service are shown below.

Customer Group (Rate Class)	COS Revenue Deficiency	Percent Change
Residential	$7,514,446	12.88 %
General Service	$2,621,208	15.30 %
Power & Light	$6,666,360	13.32 %
PL TOU	$8,710,962	14.79 %
Municipal Pumping	$60,673	43.10 %
Athletic Field Lighting	$14,416	17.56 %
Lighting (OSL and LM)	$803,225	21.87 %
Total Arkansas Jurisdiction	**$26,391,288**	**14.02 %**

Table 1. Summary of the Revenue Deficiency

Residential Rate Design

Q. **In general, please describe the changes to the Residential tariff.**

A. I propose changes to the peak season prices and the customer charge in the residential tariff to recover the revenue deficiency. The table below shows the proposed prices and the current prices. I also propose the addition of a time of use tariff for residential customers.

RS Monthly Prices	Proposed	Current
Monthly Customer Charge	$11.70	$6.50
Peak Season	**June-Oct**	**June-Oct**
0-1,500 kWh	4.6¢ per kWh	4.066¢ per kWh
Over 1,500 kWh	8.2¢ per kWh	4.335¢ per kWh
Off Peak Season	**Nov-May**	**Nov-May**
0-600 kWh	3.0¢ per kWh	2.948¢ per kWh
Over 600 kWh	1.6¢ per kWh	1.6¢ per kWh

Table 2. Comparison of Residential Prices

Q. **What is the revenue deficiency of the Residential class (RS)?**

A. The RS revenue percentage deficiency is $7,514,446 or 12.88%. I propose that the entire increase become effective in the initial year. I propose changes to the residential price in three specific areas: the customer charge will be increased, the peak season kWh price for the tail block will be increased, and the initial kWh block price for both seasons will be increased slightly.

Q. **What is the impact of these changes to residential customers?**

A. The impact of these changes is shown in the table[1] below.

Customer Sub-Group	Number of Customers	Annual kWh per Customer	$ per Customer per Month Change	Annual % Change
Zero Users	141	0	$5.20	80.0%
Larger Users	108	73,717	$103.60	22.4%
Lower Income	2,724	13,608	$10.34	11.3%
Not Lower Income	46,505	13,598	$12.13	13.1%
Peak Users	7,161	11,128	$13.43	16.5%
Off Peak Users	7,767	14,056	$8.28	9.2%
Total Residential	**49,229**	**13,599**	$12.03	13.0%

Table 3. Residential Customer Sub-Group Impacts

Q. **How did you determine the impact of these changes to customers?**

A. I determined the impact by computing the bills for all customers with 12 months of data under the current prices and then the proposed prices, and then computing the change in billing. Specifically, to determine the impact to customers, OG&E first extracted the customer data for 2007 from the billing system for all residential customers. Next, I excluded customers without a complete year of data, i.e. customers with days service less than 345 or greater than 385 (20 days different from 365 days) were excluded. The result was a database of 49,229 residential customers.[2]

The final step was to identify sub-groups of customers to ascertain the impact of price changes to them. The first sub-group is lower income customers. A customer was identified as lower income if any one the following criteria were true:

[1] Note that the sub-groups (except for the Lower Income and Not Lower Income) are not mutually exclusive or contain only a subset of customers, so they cannot be added together to equate to Total Residential.

- the customer received a LIHEAP payment, or
- the customer received the Low Income Residential Utility Customer Tax Exemption, or
- the customer received bill payment assistance from a community agency.

The next sub-group was comprised of customers who predominantly use electricity during the peak season. The ratio of peak season usage to total annual usage was computed for each customer. Therefore a customer with all usage occurring during the peak season would have a peak ratio of 1.0 and a customer with all usage occurring during the off peak season would have a peak ratio of 0.0. The mean (0.497) and standard deviation (0.131) of the peak ratio for the population was computed. Customers with a peak ratio greater than one standard deviation from the mean (.628) were labeled peak users and customers with a peak ratio less than one standard deviation from the mean (.366) were labeled off peak users.

The final sub-groups were larger users and zero users. Larger users were customers who use more than 60,000 kWh annually. Zero users are customers who have electric service connected, but used absolutely no energy for the entire year.

Q. **Please discuss the impact of the proposed changes to customers identified as lower income?**

A. The lower income customers receive, on average, an increase of 11.3% or $10.34 per month, while the remaining residential customers receive an increase of 13.1% or $12.13 per month. The proposed price changes do not unduly impact OG&E's lower income

[2] Note that this database was used solely for the purpose of evaluating the impact of price changes to customers. The proposed rate design and proof of revenue were developed using all customer data and all pro forma adjustments as is shown in Schedule H and Schedule E-13.

customers. The lower income customers' average annual usage is 13,608 kWh, while the remaining residential customers' average annual usage is 13,598 kWh. This result is consistent with data for OG&E's residential customers in Oklahoma. OG&E's lower income customers use amounts of energy similar to other OG&E residential customers. OG&E's residential customer data refutes the conventional assumption that lower income customers are also lower usage customers.

Q. **How do the proposed changes affect customers identified as peak users?**

A. Customers identified as peak users receive, on average, an increase of 16.5% or $13.43 per month. These customers predominantly use energy during the higher cost and higher load months. The current peak season price differential of 0.3¢ per kWh between the initial block and the tail block appears to offer a minimal price signal to reflect the increasing cost of capacity and to encourage the wise use of electricity during higher cost periods. The proposed peak season price changes will encourage residential customers to consider conservation initiatives and time-differentiated pricing such as that proposed by OG&E in this docket. In Docket No, 06-070-U, OG&E increased the off peak season price by approximately 50%. In this docket, OG&E proposes to adjust its peak season pricing to more appropriately reflect the cost of peak season consumption.

Q. **How do the proposed changes affect customers identified as larger users?**

A. Customers identified as larger users receive, on average, an increase of 22.4% or $103.60 per month. These customers use an average of 73,717 kWh annually or 540% of the typical residential customer annual usage and currently have an average annual bill of over $5,500. Although some of these customers are large enough to qualify for the PL or

PLTOU rates, they are residential customers. OG&E plans to install time-differentiated metering on these customers and examine their consumption behavior.

Residential Rate Design Detail

Q. **What changes does OG&E propose to the customer charge?**

A. OG&E proposes to increase the customer charge for RS customers from $6.50 per month to $11.70 per month. OG&E has prepared its cost of service study in accordance with the preferences stated by the APSC staff and AG witness Marcus in Docket No. 06-070-U as related to determination of "customer related" costs for residential customers (please refer to the direct testimony of Mr. Greg Veitch). OG&E allocated a lower amount of costs to the residential customer classification in this COS study than would have resulted under OG&E's previous (and preferred) cost classification and allocation methods. The monthly cost per customer from the "customer" classification cost of service study for RS is $11.73. The table below summarizes the results of the study.

Classification Data	*Customer ($/month)*	*Energy ($/kWh)*	*Demand ($/kWh)*
RS	$11.73	$0.003642	$0.034267

Table 4. Classification Cost Data for Residential Customers

Regardless of the methodology used, the implication has not changed from the last docket: the COS study supports a meaningful increase to the customer charge. Accordingly, I propose that the price be increased to $11.70 per month.

Q. **Does OG&E propose any changes to the kWh block structures for the RS tariff?**

A. No, it does not.

Q. **What changes does the Company propose to the energy prices?**

A. OG&E proposes an increase to the peak season (usage billed during the months of June through October) initial block (0 to 1,500 kWh) of approximately $0.005 per kWh and proposes an increase of approximately $0.038 per kWh for all usage above 1,500 kWh. Inverted block pricing indicates to customers that during certain times of the year, electricity does cost more, and that additional usage during those periods increases the need to add generating capacity.

OG&E proposes a minor increase (less than $0.001 per kWh) to the initial block (0 to 600 kWh) price for the off peak season and no change to the price for additional usage. As previously mentioned, in the last docket OG&E increased the off peak season tail block price 50%. The classification study shows that the energy classified costs are approximately $0.0036 per kWh and all proposed RS energy prices are well above that level. Of course, all fuel costs are recovered through the ECR rider and are not included in the COS study. Currently, the ECR rider applicable to residential customers is $0.043967 per kWh. Therefore, the lowest price OG&E's residential customers could pay for electricity is $0.060174 per kWh[3].

General Service Rate Design

Q. **In general, please describe the proposed changes to the General Service (GS) tariff.**

A. OG&E proposes changes to the peak season prices and the customer charge in the tariff to recover the revenue deficiency. The table below shows the proposed prices and the current prices. The Company also proposes the addition of a Commercial Time of Use (CTOU) tariff available to GS customers, as well as Municipal Pumping and Athletic

[3] The price also includes the EECR amount of $0.000207 per kWh. $0.060174 = $0.0160 + $0.043967 + $0.000207.

Field Lighting customers. OG&E plans to consider combining the GS and PM classes in the next rate review.

GS Monthly Prices	Proposed	Current
Monthly Customer Charge	$21.55	$21.67
Peak Season	June-Oct	June-Oct
All kWh	5.7¢ per kWh	3.242¢ per kWh
Off Peak Season	Nov-May	Nov-May
0 to 1,000 kWh	2.3¢ per kWh	2.271¢ per kWh
Over 1,000 kWh	1.4¢ per kWh	1.355¢ per kWh

Table 5. Comparison of Current and Proposed General Service Prices

Q. **What is the revenue deficiency for the GS customer class?**

A. The GS revenue deficiency is $2,621,208 which is 15.30%. OG&E proposes that the entire increase become effective in the initial year. OG&E proposes changes to the GS price in three specific areas: the customer charge will be decreased a negligible amount, the peak season kWh price will be increased approximately $0.025 per kWh, and both kWh block prices for the off peak season will be increased slightly.

Q. **What is the impact of these changes to GS SL-5 customers?**

A. The average GS SL-5 customer uses 23,683 kWh annually and would receive a monthly bill increase of $24.49 or 15.5%.

Q. **How did OG&E determine the impact of these changes to customers?**

A. OG&E determined the impact using the same method described for residential customers. A database of all GS customers with a complete year of data was created. The impact was

determined by computing annual bills under the current prices, the proposed prices, and then determining the difference in revenue.

Municipal Pumping Rate Design

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

A. The PM revenue deficiency is $60,673 which results in an increase of 43.10 %. The Company proposes that the entire increase become effective in the initial year.

Q. **Please describe the changes to the Municipal Pumping (PM) tariff?**

A. OG&E proposes to slightly decrease the customer charge to $28.00 per month. OG&E proposes to increase the kWh prices to 5.2¢ per kWh for the peak season and to 5¢ per kWh for the off peak season to recover the revenue deficiency. The Company also proposes to make available the proposed CTOU tariff to these customers as an alternative tariff.

Athletic Field Lighting Rate Design

Q. **What is the revenue deficiency for the AFL class?**

A. The revenue deficiency is $14,416 or 17.56%. OG&E proposes that the entire increase become effective in the initial year.

Q. **In general, please describe the proposed changes to the AFL tariff.**

A. OG&E proposes to slightly increase the customer charge to $28.00 per month and to increase the energy price to 4.7¢ per kWh to recover the revenue deficiency. OG&E also proposes to make available the proposed CTOU tariff to these customers as an alternative

tariff.

Power & Light (PL) and PL Time of Use (PLTOU) Rate Design

Q. **Please describe the changes to the PL tariffs.**

A. The Company proposes minor changes to the energy prices and to increase the demand charges in the PL and PL-TOU tariffs to recover the revenue deficiency. OG&E also proposes the addition of an hourly pricing program, Day Ahead Pricing (DAP), for these customers. DAP is sometimes referred to as real-time pricing or RTP.

Q. **What is the revenue deficiency of the PL class and the PLTOU class?**

A. The Power & Light percentage revenue deficiency is 13.32%. The Power & Light Time of Use percentage revenue deficiency is 14.79%. The Company proposes that the entire deficiency be eliminated in the first year of new rates. Please refer to the following tables for a list of changes to the prices for these customer groups.

PL-1	**Proposed**	**Current**
Monthly Customer Charge	**$300.00**	**$125.00**
All Seasons kWh	**0.460¢ per kWh**	**0.245¢ per kWh**
Peak Season	***June-Oct***	***June-Oct***
kW	**$7.70 per kW**	**$5.07 per kW**
Off Peak Season	***Nov-May***	***Nov-May***
kW	**$4.90 per kW**	**$3.21 per kW**

PL-2,3,4	**Proposed**	**Current**
Monthly Customer Charge	**$300.00**	**$160.00**
All Seasons kWh	**0.460¢ per kWh**	**0.314¢ per kWh**
Peak Season	***June-Oct***	***June-Oct***
kW	**$9.60 per kW**	**$6.21 per kW**
Off Peak Season	***Nov-May***	***Nov-May***
kW	**$6.40 per kW**	**$3.96 per kW**

PL-5	Proposed	Current
Monthly Customer Charge	$73.00	$75.00
All Seasons kWh	0.460¢ per kWh	0.416¢ per kWh
Peak Season	*June-Oct*	*June-Oct*
kW	$14.00 per kW	$8.98 per kW
Off Peak Season	*Nov-May*	*Nov-May*
kW	$7.00 per kW	$5.54 per kW

PL-TOU-1	Proposed	Current
Monthly Customer Charge	$300.00	$125.00
TOU Meter Charge	N/A	$9.00
All Seasons kWh	0.460¢ per kWh	0.245¢ per kWh
Peak Season	*June-Oct*	*June-Oct*
kW On Peak	$6.20 per kW	$4.08 per kW
Max kW	$1.50 per kW	$0.99 per kW
Off Peak Season	*Nov-May*	*Nov-May*
Max kW	$4.90 per kW	$3.21 per kW

PL-TOU-2,3,4	Proposed	Current
Monthly Customer Charge	$300.00	$160.00
TOU Meter Charge	N/A	$9.00
All Seasons kWh	0.460¢ per kWh	0.314¢ per kWh
Peak Season	*June-Oct*	*June-Oct*
kW On Peak	$9.65 per kW	$4.98 per kW
Max kW	$2.40 per kW	$1.23 per kW
Off Peak Season	*Nov-May*	*Nov-May*
Max kW	$6.20 per kW	$3.96 per kW

PL-TOU-5	Proposed	Current
Monthly Customer Charge	$73.00	$75.00
TOU Meter Charge	N/A	$9.00
All Seasons kWh	0.460¢ per kWh	0.416¢ per kWh
Peak Season	*June-Oct*	*June-Oct*
kW On Peak	$11.60 per kW	$7.36 per kW
Max kW	$2.45 per kW	$1.62 per kW
Off Peak Season	*Nov-May*	*Nov-May*
Max kW	$8.30 per kW	$5.54 per kW

Table 6. Comparison of Current and Proposed PL and PLTOU Prices

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

A. Rate design for this class is proposed as follows: energy charges were increased moderately, customer charges were increased for service levels (SL) 1 through 4 and

were slightly reduced for SL 5, and then demand changes were adjusted to recover the remaining revenue requirement. OG&E also proposes to increase the power factor adjustment charge from 80% to 90%

Q. **What is the impact of these changes to PL SL-5 customers?**

A. The impact of these changes to PL SL-5 customers is shown in the table below. The table segments customers by size (maximum demand) and load factor. Then each segment lists the number of customers within that segment, the revenue change and the percent change. For example, under the 61-70% load factor column, for the Over 1,100 kW row, there is one customer in that segment that received an increase of $40,660 which was a 9% change in annual revenue. The total change in revenue for all 906 customers analyzed was $4,710,181 or $5,199 per customer per year which was 13%.

New PL-1-5	0-10%	11-20%	21-30%	31-40%	41-50%	51-60%	61-70%	71-80%	81-90%	91-100%	Total
Over 1,100 kW	0	1 $39,271 21%	0	0	0	5 $289,118 10%	1 $40,660 9%	0	0	0	7 $369,049 11%
1,001 to 1,100 kW	0	0	0	0	1 $34,383 12%	0	0	1 $36,876 9%	0	0	2 $71,259 10%
901 to 1,000 kW	0	0	1 $30,923 18%	0	0	0	0	0	0	0	1 $30,923 18%
801 to 900 kW	0	2 $53,430 22%	0	3 $87,142 14%	0	1 $29,661 11%	0	0	0	0	6 $170,234 15%
701 to 800 kW	1 $26,247 25%	1 $13,217 13%	0	0	0	1 $24,731 11%	0	0	0	0	3 $64,195 15%
601 to 700 kW	0	1 $18,591 19%	1 $22,626 15%	1 $17,413 13%	3 $63,736 11%	1 $22,209 10%	0	0	0	0	7 $144,575 12%
501 to 600 kW	0	0	4 $66,913 17%	2 $30,818 13%	3 $53,992 12%	3 $52,314 10%	0	0	0	0	12 $204,037 12%
401 to 500 kW	0	9 $123,727 19%	7 $95,377 15%	6 $88,299 13%	4 $59,003 12%	4 $55,923 10%	4 $59,770 9%	1 $16,889 9%	0	0	35 $498,987 13%
301 to 400 kW	3 $30,549 25%	3 $28,843 19%	3 $27,427 15%	12 $129,123 13%	4 $46,257 11%	4 $44,165 11%	0	0	0	0	29 $306,364 13%
201 to 300 kW	2 $13,776 25%	21 $146,293 19%	17 $115,522 15%	23 $183,782 13%	14 $120,472 12%	9 $73,187 10%	3 $26,344 9%	2 $16,594 8%	1 $10,536 8%	0	92 $706,505 13%
101 to 200 kW	18 $87,214 24%	72 $302,247 19%	54 $230,782 15%	51 $229,105 13%	40 $199,279 11%	36 $181,448 10%	6 $30,716 9%	1 $6,572 8%	0	0	278 $1,267,363 14%
1 to 100 kW	0	37 $88,034 17%	113 $256,493 15%	116 $213,339 13%	100 $189,163 11%	53 $101,863 10%	11 $17,419 9%	3 $8,868 9%	1 $1,513 8%	0	434 $876,692 13%
Totals	24 $157,786 24%	147 $813,652 19%	200 $846,063 15%	214 $979,020 13%	169 $766,285 11%	117 $874,619 10%	25 $174,908 9%	8 $85,799 9%	2 $12,049 8%	0 $0 0%	906 $4,710,181 13%

Table 7. PL SL-5 Customer Impact: Load Factor by Size (Maximum kW)

Q. **What is the impact of these changes to PLTOU SL-5 customers?**

A. The PLTOU SL-5 customers received an average increase of approximately $21,442 per customer per year which is 14%. The details of the impact of these changes to PLTOU-5 customers are shown in the table below.

New PLTOU-5	0-10%	11-20%	21-30%	31-40%	41-50%	51-60%	61-70%	71-80%	81-90%	91-100%	Total
Over 1,100 kW	0	0	0	0	1 $45,960 14%	1 $53,935 14%	3 $310,327 12%	0	0	0	5 $410,222 12%
1,001 to 1,100 kW	0	0	0	1 $44,324 17%	0	0	0	0	0	0	1 $44,324 17%
901 to 1,000 kW	0	0	0	0	1 $33,294 14%	0	0	0	0	0	1 $33,294 14%
801 to 900 kW	0	0	0	0	0	0	0	0	0	0	0 $0 0%
701 to 800 kW	0	1 $29,330 25%	0	1 $29,861 18%	0	0	0	0	0	0	2 $59,191 21%
601 to 700 kW	0	0	1 $23,669 18%	0	0	0	0	0	0	0	1 $23,669 18%
501 to 600 kW	0	0	1 $16,221 16%	1 $22,659 17%	1 $20,396 14%	0	0	0	0	0	3 $59,275 15%
401 to 500 kW	0	0	1 $18,033 18%	0	1 $18,311 14%	1 $18,155 12%	0	0	0	0	3 $54,499 14%
301 to 400 kW	0	1 $12,445 23%	1 $12,688 19%	0	0	0	1 $15,552 11%	0	1 $15,812 10%	0	4 $56,497 14%
201 to 300 kW	0	0	0	1 $10,394 18%	0	1 $9,461 13%	0	0	0	0	2 $19,855 15%
101 to 200 kW	0	2 $8,481 20%	2 $9,667 17%	1 $6,117 15%	2 $11,192 14%	0	0	0	0	0	7 $35,457 16%
1 to 100 kW	0	0	2 $2,788 12%	4 $8,160 15%	3 $7,568 14%	0	0	0	0	0	9 $18,516 14%
Totals	0 $0 0%	4 $50,256 24%	8 $83,066 17%	9 $121,514 17%	9 $136,721 14%	3 $81,551 13%	4 $325,879 12%	0 $0 0%	1 $15,812 10%	0 $0 0%	38 $814,799 14%

Table 8. PLTOU SL-5 Customer Impact: Load Factor by Size (Maximum kW)

Q. **Why is power factor improvement important?**

A. Improvements to PF on the OG&E system will reduce energy losses on the system and lower customer's generation requirements (kVA). Energy losses result in costs to all customers. While energy losses cannot be totally eliminated, the closer the power factor relationship between real power (expressed in kW) and apparent power (expressed in kVA) is to 1.0 or 100%, the higher the efficiency of the system, the lower the energy

losses, and the lower the demand on the system. The formula is generally expressed as follows:

$$Power\ Factor = kW \div kVA$$

where 100% or 1.0 is the ideal relationship.

Q. **What is the PF requirement in current PL and PLTOU rates?**

A. The current level of PF adjustment occurs at 80%. The new tariff adjusts that PF number to 90%. Customers would need to maintain an average monthly PF of at least 90% or their billing demand will be increased.

Q. **Will all customers be required to meet the new PF threshold of 90%?**

A. No. Only customers that are on demand rates (PL, PLTOU). OG&E will require kVAr metering (metering equipment necessary to measure PF) on all PL and PLTOU customers with a maximum demand of 300 kW or more and will, at its discretion, install kVAr metering on any PL or PLTOU below that level when it believes the customer has loads such that the 90% PF threshold is not maintained.

Q. **When will the change in PF requirements become effective?**

A. The change will become effective one year after the rates are approved by this Commission. This delay will allow customers who currently do not maintain a 90% PF the time to install the equipment necessary to correct their PF and avoid any additional billing.

Q. **Was the potential revenue that would result from the change in PF requirements included as part of the proposed revenues in Schedule H?**

A. No. The potential additional revenue was not included, since customers can make investments in equipment to correct their PF and OG&E would not receive any additional revenue. OG&E proposes this change in PF requirements to encourage customers to use electricity efficiently. If customers correct their PF, their billing demand will be reduced, the kVA demand on the OG&E system will be reduced, and all customers will benefit.

LM and OSL Rate Design

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

A. The deficiency for the Lighting class (comprised of the OSL and LM tariffs) is $803,225 which is 21.78%. The rates were designed by moving lighting pole prices to current installation costs and then increasing fixture costs sufficient to recover the revenue requirement. Prices for similar fixtures under ML and OSL are now priced the same. Prices for ML and OSL are shown in the proposed tariffs and in Schedule H-2.

NEW PROPOSED TARIFFS

Q. **Please describe the new tariffs proposed for customers.**

A. OG&E proposes to offer two time-of-use (TOU) tariffs, Residential TOU and Commercial TOU, a day-ahead hourly pricing (DAP) tariff, and a Renewable Energy Program (REP) tariff. The proposed TOU tariffs will be offered to Residential, General Service, Municipal Pumping, and Athletic Field Lighting customers. The DAP tariff will be offered to PL and PLTOU customers. The proposed REP tariff is a voluntary program that will be offered to all Arkansas retail customers as a surcharge to their standard tariff.

Q. **Why is OG&E seeking approval for these proposed programs?**

A. The proposed time-differentiated programs hold substantial promise for providing OG&E with price responsive loads that could contribute to meeting its overall resource needs. These programs are designed to motivate subscribers to shift loads through time-differentiated prices. Customers who respond to these prices will not only earn benefits, they also will generate benefits that will be passed on to all customers. Time-differentiated pricing not only allows customers to lower their current electric bills, but supports investment decisions in conservation and efficiency that could pay increasing dividends in the future. The last proposal is to offer a Renewable Energy Program tariff which allows Arkansas retail customers to voluntarily purchase renewable energy credits (REC). One REC is equivalent to the environmental, social and other positive attributes of power generated by one MWh of renewable generation.

Residential TOU (RTOU)

Q. **Does OG&E currently offer a residential TOU tariff to its Oklahoma customers?**

A. Yes it does. OG&E also offers a TOU tariff to its PL customers in Arkansas. OG&E wants to provide its Arkansas customers similar opportunities to earn benefits from TOU.

Q. **Please explain how the RTOU and CTOU tariffs were designed.**

A. The RTOU is designed by first establishing a typical hourly load shape for the residential class. Next the total peak period kWh and the percent of kWh occurring during the defined peak period were determined. Then, a revenue requirement was established for each pricing period based on the proposed revenue requirement of the standard residential tariff. From this, the revenue recovery needed from peak and off peak prices was

determined and the prices were calculated. The same methodology was used to establish the CTOU prices.

Q. **What are the qualifications associated with the RTOU?**

A. The customer must have suitable metering in place and commit to an initial term of 12 months. If suitable metering is not in place, OG&E will install the appropriate metering and the customer can elect to subscribe effective with the start of their next billing cycle. Subscription is also contingent upon the availability of suitable metering.

Q. **Can non-participating customers benefit from a TOU program?**

A. Yes. System load factor improvement benefits the utility and other customers because it allows a greater number of units (kWh) to bear the overall fixed costs of the system without adding new capacity. Customers on TOU tend to use more electricity in non-peak periods of usage which can actually increase system load factor, but TOU usage across the peak tends to decrease or remain constant. The increase in system load factor due to TOU may actually lower base costs for all customers.

Q. **How have customers in Oklahoma responded to RTOU?**

A. OG&E has approximately 1,200 residential customers from the total population of 601,000 customers subscribed to RTOU. The RTOU tariff was initially offered in 1986. As of July 2008, 1,240 residential customers in Oklahoma subscribed to RTOU. Generally, customer subscription increased slowly over time to approximately 350 by early 2007. However, in the summer of 2007, there was a noticeable increase in subscription to RTOU. OG&E had re-launched its promotion of RTOU. Customers

became aware of the program, the benefits it can provide, and chose to subscribe. OG&E is pleased with the recent response by Oklahoma customers and wants its customers in Arkansas to have similar opportunities. The implementation challenge with TOU pricing is to motivate customers to subscribe. OG&E has diligently examined the proposed TOU tariffs to reduce barriers to subscription and to enable customers to subscribe to TOU plans with confidence.

Commercial TOU (CTOU)

Q. **Please describe the proposed Commercial TOU program?**

A. The CTOU is available to General Service, Municipal Pumping, and Athletic Field Lighting customer classes. The CTOU is structured similar to the RTOU program. The design incorporates kWh price differences for the On-Peak and Off-Peak seasons and time periods.

Q. **What are the qualifications associated with CTOU?**

A. The customer must have suitable metering in place and commit to an initial term of 12 months. If suitable metering is not in place, OG&E will install the appropriate metering and the customer can elect to subscribe effective with the start of their next billing cycle. Subscription is also contingent upon the availability of suitable metering.

Q. **What is the financial impact attributable to offering TOU pricing to additional customers in Arkansas?**

A. At this time, the impact is not known since it is unclear how many customers will subscribe and how subscribers will respond. In the interim, OG&E adjusted price levels

in each tariff to be equivalent to the corresponding standard rate. After sufficient experience with customer response in Arkansas, OG&E will be able to link prices more closely to costs by time period.

FIRST YEAR BEST RATE PROVISION

Q. **Please describe the first year best rate provision OG&E proposes to offer in conjunction with RTOU and CTOU.**

A. The first year best rate provision allows customers to subscribe to RTOU or CTOU (collectively RCTOU) with additional security. Under the proposed first year best rate provision, the subscriber will receive the lesser of billing under the otherwise applicable rate (OAR) and billing under the RCTOU. OG&E proposes that this provision be limited and available only to first-time subscribers to RCTOU for the initial year of service under the RCTOU tariff. After the initial twelve months, customers will be asked to commit to continued subscription under the RCTOU or return to the OAR and will no longer be eligible for best rate treatment.

Q. **Why does OG&E propose the first year best rate provision?**

A. Experience with time-differentiated rates in other jurisdictions indicates that customers may find this feature a cogent reason to try out the service for a one-year term and overcome their concerns of higher than expected bills. Moreover, this provision is critical to allaying customers' concerns of whether or not they can realize the potential benefits of subscription and be willing to try out, what is for most customers, a new way to buy electricity. Because of its importance in overcoming customers' reluctance to try these programs, OG&E proposes to offer this customer protection provision with RCTOU.

DAP PROGRAM DESCRIPTION

DAP Eligibility

Q. **Is the proposed DAP program unique to OG&E's current portfolio of service offerings?**

A. No, it is not. DAP is virtually identical in its design to the program that OG&E has operated in Oklahoma for almost twelve years. OG&E's proposed Arkansas DAP program introduces a few design changes that are in response to the experience gained in the Oklahoma jurisdiction. OG&E proposes to introduce DAP with changes in Arkansas and to standardize it with the program offered to customers in Oklahoma.

Q. **Who would be eligible for subscription to DAP?**

A. DAP is proposed for customers who qualify for the PL or PLTOU tariffs. The eligibility limitations for DAP are that this schedule is not available for resale or in conjunction with the Company's supplemental, backup, and maintenance services, temporary service, unmetered service, or any tariffs and riders containing specific exclusions. I discuss these restrictions below.

DAP Subscription

Q. **How do customers subscribe to DAP?**

A. Customers apply for service by executing a DAP Service Agreement, Attachment A to the DAP tariff, which for DAP stipulates the hourly customer baseline load (CBL) quantities and other billing determinants.

Q. **What is the length of the initial term of subscription?**

A. The initial term is one year.

Q. **What happens at the end of the initial term?**

A. DAP subscription is automatically renewed on a month-to-month basis. However, the subscriber may cancel subscription by providing 30 days written notice to become effective at the start of the next regular billing cycle for the customer. If subscription has been canceled, the subscriber shall return to their otherwise applicable rate by following the procedures described below.

Q. **Please describe the process for returning DAP subscribers to their OAR.**

A. The subscriber must submit a written notice that indicates the service to which he wishes to return—the subscriber may elect any other service for which he qualifies. For the purposes of determining the subsequent billing demand for that tariff, when that determination involves comparing current metered demand with historical levels, OG&E will use the customer's CBL demands until such time as sufficient meter readings on the new service are available to establish a new billing demand. For example, a DAP subscriber who returns to an OAR which contains a demand ratchet provision, will be assigned a billing demand based on the greater of either 1) the current month's metered demand, or 2) the highest metered demand that would otherwise apply using a) historical meter readings, or b) the CBL, whichever is applicable.

Q. **How is the CBL developed for customers?**

A. The role of the CBL is to establish what the customer's usage would be under the OAR. In developing the CBL, OG&E will utilize a variety of metered data, including hourly loads recorded for the customer and other relevant hourly load data where required to develop a complete profile.

In some cases, OG&E will not have sufficient historical time-differentiated data to develop an adequate profile. For these customers, the CBL hourly profile will be derived from available data sources, such as OG&E's library of load research data, and, from load profiles available from other sources. Once a base profile has been established, it will then be reconciled to match the customer's billing quantities using the most recent continuous twelve months of billing data. Reconciliation ensures that the kWh and kW quantities in the CBL correspond to the customer's actual usage history or to projected usage levels.

For customers without sufficient historical usage data, projections will be developed by OG&E using data provided by the customer to establish service connection and size local facilities.

Once the CBL is established for the customer's initial subscription to DAP, it shall remain at that level, adjusted for annual date mapping, for continuous subscription to DAP service, unless both OG&E and the subscriber agree to changes.

Q. **What is date mapping?**

A. Because the CBL incorporates hourly kW levels for each day, the days of the previous year must be assigned to the corresponding days of the next year to maintain the correspondence of weekdays, weekends, and holidays from the previous CBL to

comparable periods in the new CBL. This assignment process is called date mapping. In addition, during leap years, February 29 hourly loads must be added to the CBL. Date mapping is performed each year and the new CBL becomes effective on January 1. Date mapping does not materially affect the level of monthly kW and annual kWh in the CBL.

Q. **What constitutes continuous subscription?**

A. Customers who maintain subscription to DAP uninterrupted by a change to any other tariff service are considered to have maintained continuous service for the purposes of determining whether the CBL is maintained.

Q. **What happens to the CBL if a customer, after breaking continuous service to DAP, desires to subscribe again to DAP?**

A. If, at some future time, the customer re-subscribes to DAP, OG&E shall develop a new CBL using the same procedures used for a first-time subscriber.

DAP Commercial Service Characterization

Q. **What is the general character of the proposed service?**

A. DAP provides firm electric service, equivalent in its service reliability to that associated with OG&E's other firm services. DAP is distinguished from conventional tariffs in that its prices are not posted months or years in advance. Instead, new hourly prices are posted one business day in advance.

Q. **How is the monthly bill determined under DAP?**

A. The monthly bill is the sum of the Standard Bill, the DAP Energy Charge, and the Administrative Charge.

Q. **How is the Standard Bill component calculated under DAP?**

A. The Standard Bill charge applied to the bill each month is the cost of that month's CBL under the provisions of the OAR, as follows:

Standard Bill = {CBL @ OAR}, where

CBL @ OAR = the CBL billed under the provisions of the OAR.

Q. **How is the DAP energy charge billed under DAP?**

A. Since the Standard Bill charge collects the base revenues, thereby establishing the revenue neutrality provision, the DAP energy charge is applied to changes in usage from the CBL. DAP applies the hourly energy prices to changes in usage from the CBL load (kWh) as follows:

$$EC = \Sigma [P * (AL - CBL)],$$

Where:

EC = DAP monthly energy charge,

P = hourly DAP price ($/kWh),

AL = hourly actual metered load (kWh), and

CBL = hourly customer baseline load (kWh).

Therefore, the summation of the hourly load changes multiplied by the corresponding hourly price equates to the monthly energy charge.

DAP Price Postings and Communication

Q. **How often are the DAP energy prices updated?**

A. By following formulations approved for OG&E's Oklahoma DAP program and utilizing procedures and practices that have been established for that program, OG&E will post the hourly prices applicable for each day by 4:00 PM on the previous business day. However, prices posted on Fridays, and prices posted two or more days in advance when a holiday intercedes, may be revised and re-posted one day in advance of their effective date by OG&E.

Q. **How are DAP prices delivered to customers?**

A. OG&E proposes to offer customers a simple, yet reliable means, along with a backup mechanism, for receiving DAP prices. Prices will be posted daily to customers via email. In the event that a subscriber does not have access to e-mail, an internet web site, facsimile transmission, or text messaging via telephone will be used as the interim means of price communication. The cost for providing this service is covered by the monthly program charge.

Q. **Please describe the DAP administrative charge.**

A. A monthly program charge of $150 will be added to the bill to recover the cost of program administration, billing, and daily price communication. The program charge covers the cost of providing 24 hourly energy prices via a secure internet website or facsimile transmission. OG&E will also provide a monthly summary of the subscriber's CBL, actual hourly loads, and hourly prices via the website to customers.

DAP Pricing - -Component Elements

Q. **What elements comprise the DAP hourly energy price?**

A. The hourly price under DAP is comprised of four cost components:

1. marginal energy cost (MEC);
2. marginal outage cost (MOC);
3. losses (LAF), defined by voltage level; and
4. a risk adjustment factor (RAF).

The MEC and LAF cost components are included in all hours of the year. The MOC component is applied only in those hours when there is a need to augment the DAP price signal because of expected system constraints.

Q. **Please describe the marginal energy cost component of the hourly price.**

A. The first component of the hourly price, the MEC, consists of the forecasted cost to OG&E (in $/kWh) to produce an additional kWh for the subscriber, or the savings to OG&E if a subscriber reduces usage by one kWh in that hour. It is calculated by identifying the costs associated with the operation of the unit that would serve load changes in that hour, or the cost of purchased power in the case where such a resource would be designated to serve load changes. The magnitude of this component will vary with the hourly mix of generation resources that are available to provide service to customers.

Q. **Please describe the marginal outage cost component.**

A. The MOC reflects the relationship between the forecasted hourly load and the forecasted availability of resources to meet that load. In most hours, the probability of OG&E not

being able to serve additional load, on a forecast basis, is small and the need to price congestion is negligible. If load increases cause the system to become more stressed, the need to reflect congestion rises in proportion to the increase in the probability of loss of load. The MOC component signals customers that continued and prolonged usage during times of system stress could result in OG&E needing to increase production capability. OG&E expects subscribers to reduce consumption as prices rise, thereby exercising efficient price rationing of available resources.

Q. **How are losses incorporated?**

A. The loss component adjusts the DAP hourly cost elements (except RAF) for losses between the generator and the subscriber's meter. The system loss factors, which change by service voltage level, will be taken from OG&E's most recent approved loss adjustment study. Losses are incorporated into the hourly prices by applying the LAF to the sum of the MEC and MOC components.

Q. **What is the risk adjustment factor component?**

A. The final component, the risk adjustment factor (RAF), is a variable adder that compensates for risks associated with the implementation of this program. The risk adjustment factor will be calculated for each hourly price as follows:

RAF = Z * (STD – Basecost), subject to RAF > or = 0,

Where:

RAF	= DAP risk adjustment factor ($/kWh),
Z	= sharing proportion between 0 and 1, initial Z = 0.5,
STD	= the average price under the OAR, and
Basecost	= (MEC + MOC) * LAF.

Q. **Why is the risk adjustment factor added to the hourly prices?**

A. There are two main reasons why RAF should be included in the hourly prices. The first and primary reason is that OG&E needs to make provision for the risks associated with setting prices a day ahead, before its costs are known. The second reason is to recover program implementation and administration costs not recovered through the monthly program charge.

Renewable Energy Program (REP)

Q. **Please discuss proposed Renewable Energy Program (REP)?**

A. The REP rider offers renewable services to our customers. Our customers are asking about obtaining renewable energy and appear to be willing to subscribe to an environmental tariff. The Sooner wind facility is fully subscribed and the Company is expected to have 600 MW of new wind farm RECs, but has no tariff in place to sell them to our retail customers. OG&E proposed to return a portion of the margins (revenues less direct costs) to our customers as an offset to the cost of renewable developments.

Q. **Please discuss how the REP rider functions.**

A. The REP provides our customers an opportunity to purchase RECs to reduce what is commonly referred to as their carbon footprint. For example, if a customer consumes 10,000 kWh a year and subscribes for RECs at the 25% subscription level, that percentage would fall into the Level "A" pricing described in the tariff's section: "Annual Subscription Levels and Prices". This would add 9 mills per each subscribed kWh consumed to the customer's bill. Under this example, the customer would pay an additional $22.50 on their annual bill. Customers can choose to purchase larger quantities

of RECs as shown in the proposed tariff. By October 31 of each year the Company will post the REC pricing for the following calendar year.

Q. **What treatment do you propose for REC sales?**

A. The Company proposes that 80% of the net proceeds from REC sales associated with new renewable resources be credited to customers as an offset to future renewable resource development, and, fund research and development regarding technology and mitigation of environmental concerns. The remaining 20% will be retained by the Company. This treatment is similar to that proposed to and awaiting approval by the Oklahoma Corporation Commission as agreed to in settlement. OG&E requests that the APSC approve the proposed treatment in this docket.

FILINGS AND OTHER REGULATORY TREATMENTS

Q. **Is OG&E requesting specific findings from the Commission with respect to the regulatory treatment of the DAP program?**

A. Yes, it is. OG&E requests that specific findings be included in the Commission's order with respect to: 1) the fuel treatment of DAP kWh sales and fuel costs, and 2) the accounting of participants' loads for costing purposes.

Q. **What fuel treatment does OG&E request the Commission approve for the DAP program?**

A. The fuel treatment OG&E requests for DAP is as described below.

- The CBL load of DAP subscribers will be subject to the fuel recovery calculation.

- The net incremental and decremental usage of DAP subscribers from the CBL will be adjusted in the Energy Cost Recovery (ECR) calculation.
- Both the kilowatt-hours (kWh) and the corresponding marginal fuel costs associated with net incremental and decremental DAP usage from the CBL will be adjusted in calculating the monthly fuel recovery balances.

This is consistent with the treatment requested in Docket No. 95-358-TF and Docket No. 99-205-TF for SWEPCO's Arkansas RTP programs and is reflected in Footnote 5 to the ECR rider.

Q. **What treatment does OG&E propose the Commission approve for the accounting of DAP subscribers' loads for costing purposes?**

A. OG&E proposes that the DAP subscribers' CBL usage be used for purposes of cost of service studies.

Q. **Why do you believe OG&E'S proposed approach is proper for cost of service studies?**

A. The objective of the DAP program is to present marginal cost based prices to customers, so that they make consumption decisions based on the marginal cost of adding or subtracting an increment of load from the system. To the extent subscribers' load varies from the CBL for DAP, the variation is in response to the marginal cost signals provided and can be considered not to occur under the price signals provided by average cost embedded rates. Because of this attribute of the marginal cost pricing of the DAP program, OG&E believes that it is appropriate to use subscribers' CBL loads in preparing cost of service studies. In addition, this treatment was approved by the Oklahoma

Corporation Commission and was the treatment requested from this Commission in Docket Nos. 95-358-TF and 99-205-TF for SWEPCO's Arkansas RTP programs.

OG&E also requests that the Commission include in its order in this case a Finding of Fact acknowledging that changes in the CBL usage are attributable to the marginal price signals provided under the DAP program and would not occur under the otherwise applicable embedded cost rates. OG&E commits that the revenue responsibility of other customers shall not be affected by the recovery or non-recovery of the marginal capacity cost components of the DAP prices and that there shall be no pass-through to non-participating customers of either deficiencies or surpluses in the net recovery of such marginal capacity cost components.

Q. **Is the DAP tariff proposed by OG&E a discount tariff?**

A. No, it is not. Through the nature of the program's two-part pricing structure, typical usage levels, represented by the CBL, are priced at the standard tariff rate and the subscriber thereby retains the embedded cost responsibility assigned to it under OG&E's tariffs. Only usage that varies from the CBL is subject to the marginal cost based prices. Because the subscriber is faced with marginal cost based pricing, any load changes the subscriber undertakes to realize a benefit are also beneficial from a resource allocation perspective.

I define a "discount tariff" as a situation where a customer takes the same pattern, level, and type of service that is available under a standard tariff, but pays a lower price than other customers on that tariff. This does not characterize the DAP program. The subscriber faces greater price risk than a standard customer, and can conversely benefit, but only if it takes actions that are beneficial to itself and to OG&E's other customers.

This changed risk/reward relationship and the need to take affirmative actions to receive a benefit establish that DAP is not a "discount tariff".

Q. **Is the DAP tariff unduly discriminatory, preferential, prejudicial, predatory, or anti-competitive?**

A. No, it is not. Through the application of CBL for DAP customers, subscribers retain the embedded cost responsibility assigned under OG&E's tariffs. Prices for incremental usage—i.e., usage that varies from the CBL—exceed the cost incurred by OG&E to serve that usage. Through the assumption of greater price risk and the need for subscribers to take affirmative actions that are beneficial coincidentally to OG&E and its other customers in order to receive a benefit, the DAP subscribers are not similarly situated to non-participants. They have, by their own actions, elected to distinguish themselves from other customers. Consequently, subscribers are not favored to the prejudice or disadvantage of OG&E's non-participating customers.

Q. **Is OG&E's first year best rate provision a promotional practice as defined under the Arkansas Public Service Commission rules and regulations?**

A. No, it is not. The proposed first year best rate provision (trial provision) does not qualify as a promotional practice as defined under the Arkansas PSC Rules and Regulations Governing Promotional Practices of Electric and Gas Utilities (APSC Docket 90-205-R, Order No 13 entered May 8, 1992 as clarified and amended by Order No. 14 entered July 2, 1992, and Order 19 entered January 25, 1994).

Q. **How does the APSC rule define promotional practices?**

A. Promotional practices are defined as any consideration, expressed or implied, offered by a public utility to induce a customer to select or use a service offered by it [Section 2. Definitions, (g)]. The Rules and Regulations that cover such practices specify several specific categories which are defined as promotional practices, and also lists several that are not to be construed as promotional activities. In particular, [Section 2. Definitions, (g), (2) (F)] rates that reflect variations in the utility's actual cost of providing service including, but not limited to, time-of-use, summer/winter differential, and interruptible or curtailable are expressly deemed not to be promotional practices.

Q. **Why is the trial provision not a promotional practice as defined under these rules?**

A. The trial provision is not a promotional practice because it does not fit either the letter or the spirit of those rules. The Commission set forth these rules governing certain promotional practices in order to regulate the manner in which utilities offered or represented their services to customers, especially services that go beyond the normal obligation of providing safe and reliable electric and that might be available from a competitive firm. I have reviewed the criteria laid out by the Commission for determining whether a practice is promotional. In the list of instances that are to be construed as promotional, 10 out of 12 clearly do not apply—they refer to the financing or offering of consideration by the utility for work performed or real goods, such as appliances or equipment, provided to a customer [Section 2. Definitions, (g) (1) (A) through (J)]. The risk free trial provision does not fit any of those instances. The instance in the list, item (G), whose terminology at first might be construed as relating to the trial provision, on

close inspection were not meant to apply to practices such as the OG&E's proposed risk free trial provision.

Q. **Please elaborate on the practice in the list that you indicate is not applicable, despite the fact it might appear to be applicable.**

A. The instance is item (G) in Section 2. Definitions, (g) (1), which prohibits, without explicit Commission approval, 'the guaranteeing of the maximum cost of electric or gas utility service. The risk free trial provision does not guarantee the maximum cost of electric service under RCTOU. Instead, it only ensures the customer that the cost under these programs will be no higher than the exact same service would be under their OAR. The inclusion of such guarantees as being promotional appears to be directed toward regulating promotions that might disassociate the amount paid for service from the metered quantity of energy or demand delivered to provide that service. In the case of the risk free trial provision, the customer is billed for actual metered service under approved usage prices. Since the bill's size depends upon the quantity of energy consumed, the risk free trial provision imposes no implicit or explicit limit on the size of the bill. The customer receives an alternate billing only if the amount it paid under the program in which it participated, (RTOU or CTOU), is greater than the amount it would have paid for the same level of usage for that month under the rates and provisions of its OAR.

Q. **Does this conclude your direct testimony at this time?**

A. Yes, it does.

PERFORMANCE GUARANTY CONTRACT

This Performance Guaranty Agreement ("Agreement"), made this ____ day of_____ 20____, is by and between_____(type of entity, address) (hereinafter the "Applicant") and Oklahoma , Gas and Electric Company, a corporation organized and existing under the laws of the State of Oklahoma, located at 321 North Harvey Avenue, Oklahoma City, Oklahoma 73012 (hereinafter the "Company").

WITNESSETH:

Whereas, in connection with the property located at _____, in _____, Arkansas (the "Premises"), Applicant has requested that Company install electric infrastructure in order to provide indeterminate electric service to the Premises; and

Whereas, Applicant's estimate of the electric power needs of the Premises will require an expansion of Company's present electric system and, due to their nature, location, voltage, or other characteristics, the requested facilities are not likely to be required by other customers within five years following the requested date for the proposed system expansion; and

Whereas, because of the uncertainty that Company will fully recover its investment in such infrastructure expansion in the event Applicant's projected load not materialize and the need to avoid placing the burden for those costs on Company's other customers; and

Whereas, Applicant is willing to provide assurance that Company will recover its investment in the expansion of Company's electric system based on Applicant's projections in the event that sufficient revenue from service to the Premises is not realized;

Now, Therefore, in recognition of the foregoing premises and in consideration of the covenants and promises set forth herein below, Company and Applicant do hereby agree as follows:

ARTICLE I - DEFINITIONS

1.01 "Base Revenue" is the portion of electric revenue received by Company during the Performance Guaranty Period for electric service to the Premises consisting only of applicable base demand charges, base non-fuel energy charges, and facilities rental charges, if applicable. Base Revenue excludes, without limitation, capacity payment, customer, conservation, environmental, and fuel charges, franchise fees, and taxes.

1.02 "Performance Guaranty Period" is the period of time commencing with the day on which the requested level of service is installed and available to Customer, as determined by Company, ("In-Service Date"), and ending on the third anniversary of the In-Service Date ("Expiration Date").

ARTICLE II - PERFORMANCE GUARANTY AMOUNT

2.01 The amount of the Performance Guaranty is the total cost of facilities to be installed to serve the Premises, as estimated by Company, less the amount of Contribution In Aid of Construction paid, if any, by the Applicant pursuant to Company's General Rules and Regulations for Electric Service.

$_____ Estimated total cost of facilities to be installed to serve the Premises

minus$_____ Contribution In Aid of Construction (CIAC) paid by Applicant

= $_____ Total cost, less CIAC paid by Applicant

times 1.46 Present value factor

= $_____ Performance Guaranty

The Applicant shall provide the above-specified Performance Guaranty to Company prior to Company installing the facilities to ensure that the Base Revenue justifies Company's investment.

2.02 This Agreement does not apply in lieu of CIAC. Nothing in this Agreement shall be construed as prohibiting Company from collecting from Applicant a CIAC for electric service, where otherwise applicable.

2.03 The facilities to be installed to serve the Premises, together with their estimated costs, are shown on Exhibit A of this Agreement.

ARTICLE III - PAYMENT AND REFUND

3.01 At Applicant's option, the Performance Guaranty may be posted with Company in cash, or may be secured either by a surety bond or irrevocable bank letter of credit in a form acceptable to Company. At the end of Performance Guaranty Period, or upon termination of service by Applicant, whichever is earlier, if the Base Revenue is less than the Performance Guaranty, Applicant shall pay to Company an amount equal to the Performance Guaranty, less the amount of Base Revenue.

3.02 If, during the Performance Guaranty Period, Base Revenue equals or exceeds the Performance Guaranty and Applicant secured the Performance Guaranty through a surety bond, or irrevocable letter of credit, such bond or letter of credit shall be released or cancelled, or the amount secured by such instrument shall be reduced by the amount of the Performance Guaranty, as applicable.

3.03 If the Applicant elects to post the Performance Guaranty in cash, the Company agrees on an annual basis to reduce the Performance Guaranty cash balance by the amount of the previous year's Base Revenue charges and credit the same amount to Applicant's previous year's electric service billing, until such time the Performance Guaranty cash balance is depleted.

3.04 In the event that Company's construction of facilities shown on Exhibit A commences but is not completed due to a change in Applicant's plans or other circumstances related to the Premises that are not within Company's control, or if twelve months following the effective date of this Agreement, the Company has been unable to complete the requested installation and provide an In-Service Date due to changes or delays in Applicant's schedule or plans, the Company shall be immediately entitled to an amount of the Performance Guaranty equal to Company's construction expenditures incurred in connection with this Agreement. Thereafter, Company may elect to terminate this Agreement and the balance, if any, of the Performance Guaranty will be refunded if Applicant posted a cash Performance Guaranty.

ARTICLE IV – TERM OF AGREEMENT

The term of this Agreement shall commence on the date first above written and end on the Expiration Date, or on the date Base Revenue equals the Performance Guaranty, whichever is earlier, unless terminated earlier pursuant to Section 3.04.

ARTICLE V - FINAL SETTLEMENT

Upon the termination or expiration of this Agreement, any portion of the Performance Guaranty not previously refunded or otherwise eligible for refund under the terms of this Agreement shall be retained by Company, and any remaining balance of the Performance Guaranty that is subject to a letter of credit or surety bond shall become immediately due and payable.

ARTICLE VI - TITLE AND OWNERSHIP

Title to and complete ownership and control over the above-referenced expansion shall at all times remain with Company and Company shall have the right to use the same for the purpose of serving other customers.

ARTICLE VII - ENTIRE AGREEMENT

This Agreement supersedes all previous agreements, or representations, whether written or oral, between Company and Applicant, made with respect to the matters herein contained, and when duly executed constitutes the entire agreement between the parties hereto.

ARTICLE VIII - HEIRS, SUCCESSORS, AND ASSIGNS

This Agreement shall inure to the benefit of and be binding upon the respective heirs, legal representatives, successors and assigns of the parties hereto, but Applicant shall not assign this Agreement without first having obtained the written consent of Company, such consent not to be unreasonably withheld.

In Witness Whereof, Applicant and Company hereby have caused this Agreement to be executed in triplicate by their duly authorized representatives to be effective as of the day and year first written above.

Charges and Terms Accepted by:

_____ OKLAHOMA, GAS, AND ELECTRIC COMPANY

Applicant (Print/Type Name of Organization)

By: _____ By: _____

Signature (Authorized Representative) Signature (Authorized Representative)

_____ _____

Title_____ Title_____