

**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)
GRANTING PREAPPROVAL OF THE PURCHASE)
OF THE REDBUD GENERATING FACILITY)
AND AUTHORIZING A RECOVERY RIDER)

CAUSE NO. PUD 200800086

FILED
MAR 20 2008

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CORPORATION COMMISSION
OF OKLAHOMA

Direct Testimony

of

Roger D. Walkingstick

On behalf of

Oklahoma Gas and Electric Company

March 20, 2008

1 **QUALIFICATIONS, EXPERIENCE AND PURPOSE**

2 **Q. Would you please state your name, title, and business address?**

3 A. My name is Roger Walkingstick. I am Director of Costing & Pricing for Oklahoma Gas
4 and Electric Company (OG&E or the Company) and my business address is 321 North
5 Harvey, Oklahoma City, Oklahoma 73102.

6
7 **Q. On whose behalf are you submitting this direct testimony?**

8 A. I am submitting this Direct Testimony on behalf of OG&E.

9
10 **Q. Would you please summarize your education and professional background?**

11 A. I have a bachelor's degree in electrical engineering from the University of Oklahoma. I
12 also have a Masters of Business Administration from Oklahoma City University. I am a
13 licensed professional engineer in the State of Oklahoma. I have been employed at OG&E
14 for over 25 years, of which over 20 years have been involved with load research, rates,
15 costing, rate administration, regulatory issues, and pricing functions for the Company.

16
17 **Q. Have you previously filed testimony before the Oklahoma Corporation Commission**
18 **(the "Commission" or "OCC") and have your credentials been accepted by this**
19 **Commission?**

20 A. Yes. I have previously filed testimony and testified before this Commission and my
21 credentials have been accepted.

1 Q. **What is the purpose of your testimony in this proceeding?**

2 A. The purpose of my testimony is threefold: 1) discuss the design of the Redbud
3 Acquisition Recovery Rider (RARR); 2) present the estimated customer impacts from the
4 RRAR with offsets; and 3) review OG&E's current rates as described in the latest Edison
5 Electric Institute (EEI) rate publication¹.

6

7 **The Redbud Acquisition Recovery Rider**

8 Q. **Please provide a general explanation of how the RARR will function.**

9 A. The RARR tariff, attached to my testimony as Exhibit RDW-1, is designed to
10 concurrently recover the annual revenue requirement associated with the acquisition of
11 the Redbud generating facility. The rider will be implemented the first billing cycle of the
12 month following OG&E's ownership of Redbud and will continue until new rates are
13 implemented in the next rate case. If the rider is approved by the Commission, the bills
14 for Oklahoma retail customers will reflect the class appropriate billing factors.
15 Regardless of the exact billing timeframe associated with RARR, a proposed true-up
16 mechanism is an integral part of the rider.

17

18 Q. **Please discuss how the revenue requirement for each customer class is determined**
19 **under the RARR?**

20 A. OG&E has determined the revenue requirement for the rider based upon the rate base
21 associated with the Redbud facility times the tax adjusted return (from OG&E's last
22 approved general rate case Cause No. PUD200500151) plus any expected associated
23 fixed and variable O&M, depreciation, and ad valorem expenses. The 2009 estimated

¹ The Edison Electric Institute Typical Bills and Average Rates Report, Summer 2007.

1 total company annual revenue requirement for Redbud is \$89,157,447. The estimated
2 Oklahoma portion is \$75,392,785, which is reflected in Exhibit RDW-2. The Oklahoma
3 revenue requirement is then allocated to the major Oklahoma retail customer classes
4 using the production demand allocator (as approved in Cause No. PUD200500151). The
5 RARR revenue requirement for the remaining classes was created by combining those
6 classes into an "Other" category. The revenue requirements for each of the four major
7 classes and the "Other" category are identified on line 1 of Exhibit RDW-2. Once these
8 revenue requirements are allocated to each of the five groups, the forecasted 2009 kWhs
9 as reflected in the rider are used to determine the RARR factors found on line 3 of
10 Exhibit RDW-2. The RARR factors will then be applied to the monthly customer bills.

11
12 **Q. Will the RARR include a true-up provision?**

13 **A.** Yes. OG&E's proposed RARR has a true-up mechanism as a part of the rider and the
14 true-up will track the recovered costs of the rider. Once these final recovered costs are
15 determined, they will be compared to the Redbud revenue requirement based upon actual
16 costs that were incurred during the RARR term. The difference will be credited or
17 recovered through the Fuel Cost Adjustment.

18
19 **Q. Please provide an example of one calculation of a class' revenue requirement and an
20 example of the RARR factor that would be applied to a customer's bill.**

21 **A.** As an example, please refer to the LPL formula of the RARR (Exhibit RDW-1) which
22 calculates the LPL class factor and is duplicated below:

23

$$RARR_{lpl} = \frac{CRR_{lpl}}{\text{Base LPL kWhs}} = \text{LPL \$ per kWh}$$

1 Based on OG&E's estimate of the 2009 RARR revenue requirement, the factor for the
2 LPL class would be determined as follows. The 2009 Class Revenue Requirement for the
3 LPL class, designated as "CRRlpl", is projected to be \$12,659,504. The projected Base
4 LPL kWhs for 2009 is 5,722,416,805. Dividing the CRRlpl by Base LPL kWhs results in
5 a factor of \$.002212 which will be applied to all LPL kWhs during the calendar year
6 2009. The factors for the remaining classes are calculated similarly and can be found in
7 Exhibit RDW-2.

8 9 Customer Impacts

10 Q. **Please discuss the process used to estimate the customer impacts associated with the**
11 **Redbud acquisition.**

12 A. The process used to estimate the customer impacts is as follows: 1) determine the
13 allocated Oklahoma jurisdiction revenue requirement of Redbud by class, 2) determine
14 the allocated Oklahoma jurisdiction fuel savings attributable to the Redbud acquisition,
15 and 3) determine the net impact to the "average" customer in each of the major rate
16 classes. This calculation is shown in Exhibit RDW-2 on lines 1 through 13.

17
18 Q. **Please describe the basis for your fuel savings offset.**

19 A. The Company estimates that the Oklahoma jurisdiction in 2009 will receive
20 approximately \$40 million in fuel savings due to the purchase of Redbud. Of the \$40
21 million, approximately \$10 million of the offset will occur because of the elimination of
22 the capacity charges associated with the Redbud purchase power agreement. The other
23 \$30 million savings results from the integration of the Redbud facility into OG&E's

1 generation portfolio. The estimated average fuel and capacity charge savings for our
2 Oklahoma retail customers equates to \$.001753 per kWh.

3
4 Q. **What is the estimated impact to the “average” customer in each of the major rate
5 classes?**

6 A. Over the course of one year the net monthly impact for an average customer in each of
7 the four major rate classes is as follows: Residential customer - \$2.82 per month; General
8 Service - \$3.94 per month; Power and Light - \$40.71 per month; Large Power and Light -
9 \$2,078.88 per month (Exhibit RDW-2).

10 11 **EEI Rate Comparison Report**

12 Q. **How will OG&E rates compare nationally and regionally after the implementation
13 of the RARR?**

14 A. According to Edison Electric Institute, Typical Bills and Average Rates Report –
15 Summer 2007, the Company’s current rates are approximately 28% lower than the
16 national average, 17% lower than the regional average and 2% lower than the State of
17 Oklahoma average cost of electricity. This comparison was based on what customers paid
18 for electricity during the 12-month period ending June 30, 2007. Assuming a total impact
19 from the RARR of approximately 2%, OG&E rates will continue to be very favorable
20 when compared with the rates of other companies in the state, region, and nation.

21 When you consider that most utilities in our region and across the nation will also be
22 adding generation resources in the near future, the Company expects its rates to continue
23 to compare favorably.

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

2 A. Yes.

STANDARD PRICING SCHEDULE: RARR STATE OF
OKLAHOMA
REDBUD ACQUISITION RECOVERY RIDER

EFFECTIVE IN: All territory served.

APPLICABILITY: The purpose of this rider is to charge the Oklahoma retail jurisdictional customers for Oklahoma's portion of the 2009 revenue requirement for acquisition and purchase costs related to 51% ownership of the Redbud facility. This rider is applicable to all kWhs of the respective Oklahoma retail rate classes except those kWhs exempted under specific special contract provisions. The following formulas calculate the Redbud Acquisition Recovery Rider (RARR) class factors which are used for monthly customer billings during the rider term. Depending upon which class factor is appropriate for each customer, the class kWh factors shall be charged on a per kilowatt-hour (kWh) basis for each customer's monthly kWh usage during the RARR term:

$$RARR_{lpl} = \frac{CRR_{lpl}}{Base \quad LPL \quad kWhs} = LPL \text{ \$ per kWh}$$

$$RARR_{res} = \frac{CRR_{res}}{Base \quad RES \quad kWhs} = RES \text{ \$ per kWh}$$

$$RARR_{pl} = \frac{CRR_{pl}}{Base \quad PL \quad kWhs} = PL \text{ \$ per kWh}$$

$$RARR_{gs} = \frac{CRR_{gs}}{Base \quad GS \quad kWhs} = GS \text{ \$ per kWh}$$

$$RARR_{other} = \frac{CRR_{other}}{Base \quad Other \quad kWhs} = Other \text{ \$ per kWh}$$

Effective _____

Rates Authorized

by _____
(Order No.) (Cause/Docket No.) (Date of Order)

STANDARD PRICING SCHEDULE: RARR **STATE OF**
OKLAHOMA
REDBUD ACQUISITION RECOVERY RIDER

where:

CRRlpl = LPL RARR Revenue Requirement

CRRres = RES RARR Revenue Requirement

CRRpl = PL RARR Revenue Requirement

CRRgs = GS RARR Revenue Requirement

CRRother = Other RARR Revenue Requirement

The 2009 Redbud Revenue Requirement is based upon the total Oklahoma retail portion of the 2009 rate base associated with the Redbud facility times the tax adjusted return (from OG&E's last approved general rate case Cause No. PUD200500151) plus any estimated fixed and variable O&M, depreciation, and ad valorem expenses. The 2009 Oklahoma total revenue requirement will be allocated to the major (or Other) Oklahoma retail classes using the production demand allocator (from Cause No. PUD200500151). The class Redbud revenue requirement will then be divided by each Class kWhs as defined below to create a class kWh factor:

Class and Other kWhs below are forecasted 2009 kWhs for the Oklahoma Retail jurisdiction (with exclusions for exempt special contracts).

	<u>Forecasted 2009 OK Retail kWhs</u>	
Residential kWhs	-	8,290,764,804
General Service kWhs	-	1,621,578,002
Power & Light kWhs	-	6,532,353,608
Large Power & Light kWhs	-	5,722,416,805
Other Applicable kWhs -		848,502,229

Effective _____

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by _____
(Order No.) (Cause/Docket No.) (Date of Order)

OKLAHOMA GAS AND ELECTRIC COMPANY
P.O. Box 321
Oklahoma City, OK 73101

SHEET NO. _____
DATE ISSUED _____

Exhibit RDW-1
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STANDARD PRICING SCHEDULE: RARR **STATE OF**
OKLAHOMA
REDBUD ACQUISITION RECOVERY RIDER

RARR TRUE-UP: The OCC Staff shall perform an audit and review of the actual collected revenues of the RARR as compared to what should have been collected based on actual costs. Any over or under difference will become the true-up amounts which will be refunded or collected through the Rider for Fuel Cost Adjustment.

TERM: The rider will be effective the first billing cycle in January 2009 and ending with the last billing cycle of December 2009 unless the applicable term of this rider is modified by order of the Oklahoma Corporation Commission.

Effective _____

Rates Authorized

by _____
(Order No.) (Cause/Docket No.) (Date of Order)

Redbud Plant - Net Bill Impact to Oklahoma Classes
Projected Year January 1, 2009 through December 31, 2009

Line	(1) Description	(2) Residential	(3) General Service	(4) Power & Light	(5) Large Power & Light	(6) Other	(7) Total
1	Allocated Oklahoma Jurisdiction Revenue Requirement ¹	\$ 34,802,516	\$ 6,314,221	\$ 18,327,609	\$ 12,659,504	\$ 3,288,935	\$ 75,392,785
2							
3	Revenue Requirement Factor for Billing (Ln 1 / Ln 24)	\$ 0.004198	\$ 0.003894	\$ 0.002806	\$ 0.002212	\$ 0.003876	
4							
5	Allocated Oklahoma Jurisdiction Fuel Savings ²	\$ (14,531,215)	\$ (2,842,345)	\$ (11,449,252)	\$ (10,029,693)	\$ (1,487,330)	\$ (40,339,835)
6							
7	Net Impact to Average Customer per Rate Class (Ln 1 + Ln 5)	\$ 20,271,301	\$ 3,471,876	\$ 6,878,357	\$ 2,629,811	\$ 1,801,605	\$ 35,052,950
8							
9							
10							
11	Average Customer Impact by Class:						
12	Average Monthly kWh Usage	1,152	1,838	38,659	4,523,605		
13	Average Customer Monthly Impact (Ln 7 / Ln 24 X Ln 12)	\$ 2.82	\$ 3.94	\$ 40.71	\$ 2,078.88		
14							
15							
16	% Monthly Bill Impact	3.4%	2.5%	1.5%	1.2%		
17							
18							
19							
20							
21	Notes:						
22	¹ Revenue requirement allocated based on production demand allocator in PUD 151						
23	² Allocation of Fuel Savings:						
24	Projected 2009 kWh Usage less Atoka	8,290,764,804	1,621,578,002	6,532,353,608	5,722,416,805	848,502,229	23,015,615,448
25	% Usage by Class	36.022%	7.046%	26.382%	24.863%	3.687%	100.000%
26	Allocation of total fuel savings of (\$40,339,835)	\$ (14,531,215)	\$ (2,842,345)	\$ (11,449,252)	\$ (10,029,693)	\$ (1,487,330)	\$ (40,339,835)