

**FILED**  
MAR 20 2008

BEFORE THE  
CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

COURT CLERK'S OFFICE - OKC  
CORPORATION COMMISSION  
OF OKLAHOMA

CAUSE NO. PUD 200 800080

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 )

**APPLICATION**

COMES NOW Oklahoma Gas and Electric Company ("OG&E", "Company" or "Applicant") and shows to the Commission as follows:

1. **Parties.**

OG&E is an investor owned electric public utility with plant, property and other assets dedicated to and for the production, transmission, distribution and sale of electric power and energy to wholesale and retail customers within the states of Oklahoma and Arkansas. The Company is incorporated within the State of Oklahoma and is subject to the regulatory jurisdiction of this Commission. Applicant's principal place of business is located at 321 North Harvey, Oklahoma City, Oklahoma 73102. OG&E is represented in these proceedings by William J. Bullard, OBA #1302, Patrick D. Shore, OBA #8205 and Kimber L. Shoop, OBA #19571, Oklahoma Gas and Electric Company, P.O. Box 321, Oklahoma City, Oklahoma 73101 and Dustin R. Fredrick, OBA #19095, Rainey, Ross, Rice & Binns, P.L.L.C., 735 First National Center West, Oklahoma City, Oklahoma 73102.

2. **Facts.**

A. OG&E is a retail electric supplier and an electric public utility with the exclusive right, as well as, the obligation to serve electric consuming facilities within its certified territory.<sup>1</sup>

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<sup>1</sup> 17 O.S. §§158.21 *et seq.*

Additionally, OG&E is obligated to provide a reliable supply of electric power and energy to those electric consuming facilities constituting the Company's Oklahoma retail customers.<sup>2</sup>

B. On October 11, 2007, the Commission issued Order No. 545240 in Cause No. PUD 200700012 denying OG&E's request for an order granting pre-approval to construct the Red Rock Generating Facility.

C. In late October 2007, UBS Investment Bank contacted OG&E regarding an auction process being conducted by Goldman, Sachs and Company to sell a package of electric generation facilities, including the Redbud Generating Facility, owned by Kelson Holdings, LLC ("Kelson"). The timing of the auction process conducted by Goldman, Sachs and Company required OG&E to submit a preliminary bid by mid-November, effectively precluding OG&E from conducting its own competitive bid process concurrent with the auction. OG&E first inquired as to whether a non-conforming bid which addressed the purchase of the Redbud Generating Facility on a stand-alone basis would be considered. Kelson agreed to consider a stand alone bid for the Redbud Generating Facility separate from the package of generation facilities. After conducting analyses as to the fair market value of the plant and a preliminary test of the plant's fit in OG&E's generation portfolio, the Company submitted an initial bid on November 15, 2007.

D. The Redbud Generating Facility is a 1,230 MW gas-fired, combined-cycle plant near Luther, Oklahoma. The Redbud Generating Facility is ideally located in OG&E's service area with adequate transmission capability to deliver into the Company's system. Additionally, OG&E's acquisition of the Redbud Generating Facility will benefit OG&E customers by enhancing the reliability of supply, lowering production costs by allowing dispatch of the facility ahead of older, less efficient units, and complementing the Company's planned expansion of wind energy resources and demand side management programs.

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<sup>2</sup> OAC 165:35-25-3(d).

E. Because of the size of the Redbud Generating Facility, OG&E felt it was necessary to acquire partners in order to complete the transaction. On December 7, 2007, OG&E executed a Memorandum of Understanding with the Oklahoma Municipal Power Authority (“OMPA”) and the Grand River Dam Authority (“GRDA”) forming a partnership arrangement. On December 18, 2007, the partnership submitted a final bid for the Redbud generating facility.

F. On January 21, 2008, OG&E executed a Purchase and Sale Agreement (“PSA”) with the Redbud owners, an Asset Purchase Agreement (“APA”) with GRDA and OMPA and an Ownership and Operating Agreement (“O&O”) with GRDA and OMPA. Through the PSA, OG&E will acquire a 100% interest in Redbud Energy, LP from Redbud Energy I, LLC, Redbud Energy II, LLC and Redbud Energy III, LLC. Immediately after closing the purchase, OG&E will dissolve Redbud Energy, LP and sell undivided interests in the facility to OMPA and GRDA such that OG&E, OMPA and GRDA will own the facility as tenants in common with interests of 51%, 13% and 36%, respectfully. Thus, OG&E will retain a 51% undivided interest representing approximately 627 MW while serving as the Operations Manager for the facility pursuant to the O&O.

G. The total purchase price for the Redbud Generating Facility is \$852,000,000. At closing, the purchase price may increase or decrease as described in the PSA for changes to adjusted working capital, certain ordinary and recurring items and changes to the value of un-depreciated inventory. Thus, OG&E’s portion of the unadjusted purchase price for which OG&E seeks pre-approval in this Application is \$434,520,000.

H. OG&E is requesting a determination from the Commission that OG&E’s decision to purchase a fifty-one (51%) interest in the Redbud Generating Facility for the agreed upon price is prudent.

I. OG&E is requesting a determination from the Commission that the Redbud Generating Facility is used and useful upon the closing of the purchase transactions and beginning operation of the plant.

J. OG&E is requesting the Commission to authorize the recovery of the annual revenue requirement associated with the Redbud Generating Facility through the Redbud Acquisition Recovery Rider from the time OG&E begins operating the plant until the conclusion of OG&E's next rate case and implementation of new rates.

K. OG&E is requesting the Commission to authorize the inclusion of the full investment or purchase price, O&M expenses, depreciation and ad valorem taxes associated with the Redbud Generating Facility in OG&E's cost of service in its next rate case.

L. In support of this Application, OG&E submits to the Commission the following Direct Testimony:

(1) James R. Hatfield is OG&E's Chief Financial Officer and Senior Vice President. Mr. Hatfield will describe the relief OG&E is seeking and illustrate the financial implications to the Company's financial statements and various measures of its financial strength if insufficient relief is granted by the Commission.

(2) Jesse B. Langston is OG&E's Vice President, Utility Commercial Operations. Mr. Langston will provide an overview of the transaction including key commercial terms and required regulatory approvals, the business rationale and decision-making process and benefits associated with the acquisition of the Redbud Generating Facility.

(3) John Wendling is OG&E's Vice President, Power Supply. Mr. Wendling will detail the operational characteristics and benefits of the Redbud Generating Facility, as well as, the Company's due diligence efforts.

(4) Phillip L. Crissup is OG&E's Director, Transmission Policy. Mr. Crissup will discuss the Federal Energy Regulatory Commission approval process and the potential for market power mitigation transmission investments.

(5) Roger D. Walkingstick is OG&E's Director, Costing/Pricing. Mr. Walkingstick will detail the design of the Redbud Acquisition Recovery Rider, sponsor the proposed tariff and quantify expected customer impact.

(6) Leon Howell is OG&E's Manager, Resource Planning. Mr. Howell will describe the Company's resource planning analysis supporting the transaction.

(7) John J. Reed is the Chairman and Chief Executive Officer of Concentric Energy Advisors. Mr. Reed will discuss the current market environment and provide an independent valuation of the Redbud Generating Facility.

M. OG&E is filing this Application pursuant to 17 O.S. §286(C) and OAC 165:35-38-5. Pursuant to 17 O.S. §286(C) and OAC 165:35-38-5, the Commission shall enter an order within two hundred forty (240) days of the filing of this Application.

**3. Legal Authority.**

The Commission has jurisdiction to grant the relief requested herein by virtue of Article IX, Section 18 *et seq.* of the Constitution of the State of Oklahoma, 17 O.S. §§151 *et seq.*, 17 O.S. §286(C), the Commission's Rules of Practice (OAC 165:5), the Commission's Electric Utility Rules (OAC 165:35), and all relevant Oklahoma case law.

**4. Relief Sought.**

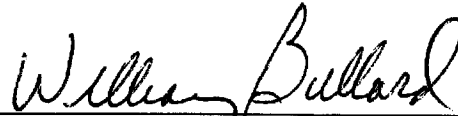
WHEREFORE, premises considered, OG&E requests that the Commission issue an Order within two hundred forty (240) days of the filing of this Application:

- a. determining that OG&E's decision to purchase a fifty-one percent (51%) interest in the Redbud Generating Facility for the agreed upon price is prudent;

- b. determining that the Redbud Generating Facility is used and useful upon the closing of the purchase transactions and beginning operation of the plant;
- c. authorizing the recovery of the annual revenue requirement associated with the Redbud Generating Facility through the Redbud Acquisition Recovery Rider from the time OG&E begins operating the Redbud Generating facility until the conclusion of OG&E's next rate case and implementation of new rates;
- d. authorizing the inclusion of the full investment or purchase price, operation and maintenance expenses, depreciation and ad valorem taxes associated with the Redbud Generating Facility in OG&E's cost of service in its next rate case; and
- e. granting such other and further relief as the Commission may determine to be fair, just and equitable in the premises.

Respectfully submitted,

OKLAHOMA GAS AND ELECTRIC COMPANY



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William J. Bullard, OBA #1302  
Patrick D. Shore, OBA #8205  
Kimber L. Shoop, OBA # 19571  
P.O. Box 321  
Oklahoma City, Oklahoma 73101  
Telephone: (405) 553-3182  
Facsimile: (405) 553-3198

-and-

Dustin R. Fredrick, OBA #19095  
Rainey, Ross, Rice & Binns, P.L.L.C.  
735 First National Center West  
Oklahoma City, Oklahoma 73102  
Telephone: (405) 235-1356  
Facsimile: (405) 235-2340

**CERTIFICATE OF MAILING**

I hereby certify that on the 19th day of March, 2008, a true and correct copy of the foregoing instrument was placed in the U.S. Mail, postage prepaid, addressed to the following:

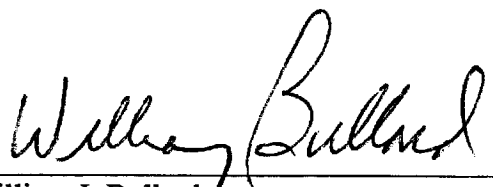
David B. Dykeman  
Director, Public Utility Division  
Oklahoma Corporation Commission  
P.O. Box 52000-2000  
Oklahoma City, Oklahoma 73152-2000

Andrew J. Tevington  
Deputy Director, Public Utility Division  
Oklahoma Corporation Commission  
P.O. Box 52000-2000  
Oklahoma City, Oklahoma 73152-2000

Lenora F. Burdine  
Deputy General Counsel  
Oklahoma Corporation Commission  
P.O. Box 52000-2000  
Oklahoma City, Oklahoma 73152-2000

William L. Humes  
Assistant Attorney General  
313 N.E. 21st Street  
Oklahoma City, Oklahoma 73105-4894

Cheryl A. Vaught  
Vaught & Conner, PLLC  
50 Penn Place Building  
1900 NW Expressway, Suite 1300  
Oklahoma City, Oklahoma 73118

  
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William J. Bullard

**CERTIFICATE OF DELIVERY**

I hereby certify that on the 20th day of March, 2008, a true and correct copy of the foregoing instrument was delivered to the following:


David B. Dykeman  
Director, Public Utility Division  
Oklahoma Corporation Commission  
P.O. Box 52000-2000  
Oklahoma City, Oklahoma 73152-2000

Andrew J. Tevington  
Deputy Director, Public Utility Division  
Oklahoma Corporation Commission  
P.O. Box 52000-2000  
Oklahoma City, Oklahoma 73152-2000

Lenora F. Burdine  
Deputy General Counsel  
Oklahoma Corporation Commission  
P.O. Box 52000-2000  
Oklahoma City, Oklahoma 73152-2000

William L. Humes  
Assistant Attorney General  
313 N.E. 21st Street  
Oklahoma City, Oklahoma 73105-4894

Cheryl A. Vaught  
Vaught & Conner, PLLC  
50 Penn Place Building  
1900 NW Expressway, Suite 1300  
Oklahoma City, Oklahoma 73118

  
\_\_\_\_\_  
William J. Bullard