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

Greg Veitch

on behalf of

Oklahoma Gas and Electric Company

August 29, 2008

Q. Please state your name and business address.

A. My name is Greg Veitch. My business address is 321 N. Harvey, Oklahoma City, Oklahoma 73102.

Q. By whom are you employed and in what capacity?

A. I am employed by the Oklahoma Gas and Electric Company (OG&E) as a Retail Costing Specialist in the Costing and Pricing Department.

Q. What is your educational background and experience with OG&E?

A. I earned a Bachelor of Science degree in Accounting from Central State University in 1988. In 1991, I became a Certified Public Accountant, licensed to practice in Oklahoma, and a member of the Oklahoma Society of Certified Public Accountants. I have been employed by OG&E for thirty-five years. Except for my earlier experience at OG&E in utility operations (1973-1988), my corporate experience has been in the areas of accounting, tax and regulation. I have worked in various job positions covering several accounting functions, including a manager's position for four years. My experience in accounting included Securities and Exchange Commission filings, Federal Energy Regulatory Commission Form I filings, internal and external financial accounting, and preparation and filing of the fuel adjustment clauses for all jurisdictions. My seven years experience in tax was primarily property tax related that required working closely with the Oklahoma Tax Commission and county officials and being involved with legislative issues. My regulatory experience in Costing and

Pricing (2005 to present) has been primarily in cost of service studies, rate case support and administration of fuel adjustment clauses for all jurisdictions. I have attended various courses and seminars on cost of service, rate design and utility industry related issues.

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

A. No. I have not.

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

A. My testimony discusses the following items:

- The development of the Company's cost-of-service study for the test year 2007.
- The production, transmission and distribution demand allocators used in the cost-of-service study.
- The schedules that I sponsor.
- The results of the cost-of-service study.

Q. **What is the purpose of the cost-of-service study you are sponsoring in this proceeding?**

A. The cost-of-service study is used to determine OG&E's total revenue requirement and to allocate the cost of service components to determine the revenue requirements for the Arkansas customer classes. As a result, rates of return for each customer class are developed to be used as a guide for rate design.

Q. **Mr. Veitch, please describe the term "cost of service" in common terms.**

A. The total revenue this Commission allows a public utility an opportunity to collect should be equal to the total costs, including a fair rate of return, the public utility incurs to provide electric service to its customers. In a cost-of-service study, particular costs are allocated or directly assigned to customer classes to determine the cost of service for each class. Because costs are generally determined from historical accounting records, this type of analysis is referred to as an "accounting" or "embedded" cost-of-service study. Costs are allocated to customer classes on a cost causation basis; referred to as a "fully distributed" or "fully allocated" cost-of-service study.

Q. **What are the "cost" components of the cost-of-service study you are sponsoring?**

A. The cost of providing electric service generally includes: (1) Operation and Maintenance Expenses, (2) Depreciation Expenses, (3) Federal and State income taxes, (4) Taxes Other Than Income taxes, and (5) Costs of Capital (Return).

Q. **What are the major steps required in the development of a fully allocated cost-of-service study?**

A. The development of a fully allocated cost-of-service study consists of three major steps: (1) functionalization, (2) classification, and (3) allocation or assignment. First, embedded costs are categorized by operating function with which the costs are primarily associated. The functional categories ordinarily used in ratemaking are production, transmission, distribution and customer service. These functionalized costs are then classified to reflect the manner in which the costs were incurred. Generally, classification further defines functional costs into demand-related (demand usage), energy-related (energy consumption), customer-related (the number of customers served) and directly assigned components. Classification arranges costs into categories so that these costs may be allocated to customer classes based on their respective cost causative service characteristics. The typical cost classifications associated with each functional category are summarized in Chart 1

Chart 1

Cost Function	Cost Classification
Production	Demand-Related Energy-Related
Transmission	Demand-Related Energy-Related
Distribution	Demand-Related Customer-Related
Customer Service	Customer-Related

Demand-related costs are generally fixed, and tend not to vary with the use of electric plant facilities or energy production or delivery. Thus, demand-related costs typically are allocated to customer classes based on their respective megawatt (MW) load, or demand characteristics.

Energy-related costs, however, do vary with use of electric plant facilities. Fuel and variable operation and maintenance expenses are primarily energy-related costs. These costs have been allocated to customer classes based on an analysis of class energy consumption, including losses in delivery.

Customer-related costs are those expenses that are a function of the number and size of customers. Customer-related plant investment includes facilities needed to give customers access to OG&E's system. Other customer-related costs include expense items such as customer accounts, customer service and information, meter operation and plant-associated O&M expenses.

Q. **What does the third step – allocation or assignment – involve?**

A. The final step in the process is allocation, which involves apportioning (dividing) functionalized and classified costs to jurisdictions and customer classes of service. Direct assignments are used when costs can be identified as being wholly attributable to a particular customer, customer class, or jurisdiction. After all costs have been allocated or assigned to jurisdictions and customer classes, a cost to serve is calculated for each jurisdiction and customer class; the respective sum of such service costs constitutes the total company cost to provide service.

Q. **What criteria should be considered in the development of appropriate allocation factors?**

A. The following criteria, although not an exhaustive list, provides an objective basis upon which to judge the appropriateness of an allocation methodology:

1. The method should reflect the operating and planning characteristics of the utility system.

2. The method should recognize the various customer class characteristics such as peak demand, energy usage, load factor, diversity characteristics, number and size of customers, points of delivery, etc.

Q. **Please describe the method of cost allocation used to determine the jurisdictional and customer class production capacity responsibilities.**

A. The Peak and Average demand method ("1CP & Average") has been used to allocate production related demand costs to the Arkansas jurisdiction and classes. The 1CP & Average demand method incorporates two measurements in the allocation of demand-related costs. The first measurement, the coincident peak demand ("1CP"), is the load of all customer classes at the time of the Company's highest measured one-hour demand for the system in the test year. The second measurement, energy, is the total mega-watt hours used during the test year to determine the average demand ("Average"). The 1CP & Average demand method recognizes not only the class loads at the time of the system maximum peak, but also the amount of energy usage classes utilize during all hours of the test year.

Q. **Why was the 1CP and Average demand method used in the allocation of production plant?**

A. The coincident peak and energy usage determinants reflect the cause and effect relationship of production costs incurred to serve each class not only at the system peak, but also during all hours of the year. Second, the Arkansas Public Service

Commission ("APSC") has approved and the APSC staff ("Staff") has supported this method in previous dockets.

Q. **Please proceed with a discussion of the transmission allocation factor development.**

A. Investment and expenses functionalized to transmission are classified as primarily demand-related. The Company has used an average of twelve (12) monthly coincident peak demands (12CP) allocation method for allocating these costs. Under this method, transmission demand costs are allocated in proportion to the average of the coincident monthly peak demands of the customer classes (adjusted for losses) at the time of the monthly net system peak demands.

Q. **What allocation methodology did you use for demand-related distribution costs?**

A. Distribution costs are more a function of local load than system load. Local loads exhibit less diversity and associated costs are sized more nearly to the sum of the individual customer loads. For this reason, demand-related distribution costs were allocated based on the class yearly maximum non-coincident peak demand, adjusted for losses.

Q. **Does OG&E's cost-of-service study in this filing incorporate Staff's cost-of-service adjustments in the last rate case?**

A. Yes. In Docket No. 06-070-U, Staff recommended that 1) general distribution facilities be classified and allocated as demand, and 2) fixed charges, or interest, be allocated based on total allocated rate base. Additionally, OG&E agreed to 1) exclude Account 904 from the Supervision Operation and Maintenance Allocation Factor, and 2) allocate expenses in Accounts 583 & 584 the same as plant Accounts 364 & 365.

Q. **Please discuss the schedules you are sponsoring?**

A. I am sponsoring the schedules in the Cost of Service Analyses section of the Company's filing. The schedules G-1 through G-4 summarize the output of the Company's cost-of-service study and allocator development. I also sponsor schedules G-1-1A through G-3-1A, which reflect the cost of service shown on a functional basis.

Q. **Please discuss results of the cost of service study.**

A. The results of the Company's cost-of-service study shown on Schedule G-1 are also summarized in Chart 2.

Chart 2
Summary of OG&E COS Study

Customer Class	1 Non-Fuel Rate Schedule Revenues	2 Fuel Revenues	3 Rate Schedule Revenue (Col 1 + Col 2)	4 Revenue Deficiency (Excess)	5 Rate Schedule Total Revenue Requirement (Col 3 + Col 4)	6 Other Revenues	7 Total Revenue Requirement (Col 5 + Col 6)	8 %Change in Rate Schedule Rev. Req (Col 4 / Col 3)
Residential	$ 26,830,571	$ 31,490,924	$ 58,321,495	$ 7,514,445	$ 65,835,940	$ 356,496	$ 66,192,436	12.88%
General Service	$ 7,619,626	$ 9,507,881	$ 17,127,507	$ 2,621,208	$ 19,748,715	$ 70,718	$ 19,819,433	15.30%
Power & Light	$ 16,941,855	$ 33,102,270	$ 50,044,125	$ 6,666,360	$ 56,710,485	$ 119,793	$ 56,830,278	13.32%
Power & Light - TOU	$ 13,903,622	$ 44,991,884	$ 58,895,506	$ 8,710,961	$ 67,606,467	$ 121,239	$ 67,727,706	14.79%
Lighting	$ 2,480,754	$ 1,207,201	$ 3,687,955	$ 803,225	$ 4,491,180	$ 6,267	$ 4,497,447	21.78%
Municipal Pumping	$ 59,624	$ 81,163	$ 140,787	$ 60,673	$ 201,460	$ 407	$ 201,867	43.10%
Athletic Field Lighting	$ 40,610	$ 41,505	$ 82,115	$ 14,416	$ 96,531	$ 129	$ 96,660	17.56%
Total Arkansas Retail	$ 67,876,662	$ 120,422,828	$ 188,299,490	$ 26,391,288	$ 214,690,778	$ 675,049	$ 215,365,827	14.02%

Column four is the change in rates required to bring each class to a 7.38% return on rate base. The percent change for each class rate schedule is shown in Column eight.

The total requested deficiency for the Arkansas jurisdiction is $26,391,288 as shown in Column four. The overall increase in the jurisdictional revenue requirement is 14.02% shown in Column eight.

Q. **How were the fuel revenues in Column 2 of Chart 2 determined?**

A. The fuel revenues in Column 2 of Chart 2 were determined by multiplying the current annual Energy Cost Recovery Rider (ECRR) factor for each service level, which was filed on July 2, 2008 (interim filing effective August 1, 2008), by the pro forma kWhs for each customer class and service level.

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

A. Yes.