

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF )  
OKLAHOMA GAS AND ELECTRIC COMPANY )  
FOR AN ORDER OF THE COMMISSION )  
AUTHORIZING APPLICANT TO MODIFY ITS )  
RATES, CHARGES, AND TARIFFS FOR RETAIL )  
ELECTRIC SERVICE IN OKLAHOMA )

CAUSE NO. PUD 201700496

**FILED**  
MAY 02 2018

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CORPORATION COMMISSION  
OF OKLAHOMA



RESPONSIVE TESTIMONY

OF

DAVID MELVIN

MAY 2, 2018

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**INTRODUCTION**

**Q: Please state your name and your business address.**

A: My name is David Melvin. My business address is Oklahoma Corporation Commission, Public Utility Division, Jim Thorpe Office Building, Room 580, 2101 North Lincoln Boulevard, Oklahoma City, Oklahoma 73105.

**Q: Have you previously testified before the Oklahoma Corporation Commission (“OCC” or “Commission”) and were your qualifications accepted?**

A: Yes. I have previously testified before the Commission and my qualifications were accepted at that time.

**Q: What is your occupation and who employs you?**

A: I am employed by the Public Utility Division (“PUD”) of the Commission as a Public Utility Regulatory Analyst.

**Q: How long have you been so employed?**

A: I have been employed by the Commission since October 2016.

**Q: What are your duties and responsibilities with PUD?**

A: I conduct research and perform comparative analysis of utility applications, reports, financial records, and workpapers to ensure that PUD can make accurate recommendations. My work focuses on Plant in Service, Operations and Maintenance (“O&M”), and Depreciation of electric and gas production, distribution, and transmission

1 systems. For a complete list of my work history and educational background, please  
2 review the attached curriculum vitae.<sup>1</sup>

3 **PURPOSE**

4 **Q: What is the purpose of your Testimony regarding the Application filed by Oklahoma**  
5 **Gas and Electric Company (“OG&E” or “Company”) for an order of the**  
6 **Commission authorizing Applicant to modify its rates, charges, and tariffs as filed in**  
7 **Cause No. PUD 201700496?**

8 **A:** The purpose of my Testimony is to present PUD’s recommendations concerning Cause No.  
9 PUD 201700496. This Testimony will focus on recommendations in three major areas:

10 (1) *Depreciation Expenses, Accumulated Depreciation, and Adjustments:* including  
11 Acquisition Adjustments, Adjustments for Accumulated Depreciation during the test year,  
12 and Adjustments for Depreciation Differential.

13 (2) *Plant in Service and Adjustments:* Arkansas Allowance for Funds Used During  
14 Construction (“AR AFUDC”), Adjustment to Plant in Service for Construction Work in  
15 Progress (“CWIP”) to six-month post test year, Reimbursable Projects, Holding Company  
16 Assets, and Plant Held for Future Use (“PHFU”).

17 (3) *Electric System Operation and Maintenance (“O&M”) Expenses:* Non-Fuel O&M in  
18 WP H-3, Summary of Operating Expenses.

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<sup>1</sup> Exhibit DM-1.

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The Public Utility Division (“PUD”) reviewed Oklahoma Gas and Electric Company’s (“OG&E” or “Company”) Application and Direct Testimony, prior rate causes, relevant statutes, and Commission rules. PUD issued multiple data requests and reviewed the responses. PUD also reviewed the data requests and responses issued by intervenors. Additionally, PUD reviewed Company workpapers, general ledgers, invoices, and other supporting documentation. PUD performed trend analyses on Plant in Service, Plant Operation and Maintenance (“O&M”) Expense, and Plant Depreciation. PUD conducted multiple onsite audits at the Company’s corporate office in Oklahoma City, Oklahoma, and interviewed Company personnel regarding areas under review. PUD attended tours at the Mustang Power Plant, McClain Power Plant, and Sooner Power Plant. PUD also toured substation, transmission, and distribution projects in progress.

After review, PUD recommends the Commission accept the Company's Adjustments included in the Application for the following areas: Acquisition Adjustments, Accumulated Depreciation, Depreciation Differential, Arkansas Allowance for Funds Used During Construction ("AFUDC"), Reimbursable Projects, Holding Company Assets, Plant Held for Future Use ("PHFU"), and Non-Fuel O&M. PUD recommends two adjustments to Rate Base for six-month post test year updates: (1) PUD recommends Adjustment B-6 to reflect six-month post test year activity which increases the pro forma Total Utility Plant in Service included in Schedule B-2 of the Application by \$6,896,920 for Construction Work in Progress ("CWIP") projects completed by March 31, 2018; (2) PUD recommends PUD Adjustment B-12 to decrease rate base by \$11,419,714 for

1 Accumulated Depreciation for the six-month post test year period. These amounts were  
2 included in the updated schedules provided by OG&E in responses to Data Request AG  
3 12-3 on April 17, 2018. PUD also recommends PUD Adjustment H-12 which decreases  
4 Revenue Requirements by \$3,368,275 for Depreciation Expense in accordance with six-  
5 month post test year updates provided by OG&E in response to Data Request AG 12-3.

### 6 DEPRECIATION

7 **Q: What is the purpose of this Testimony regarding Depreciation?**

8 A: Regarding Depreciation Expenses and Accumulated Depreciation, the purpose of this  
9 testimony is to: (1) ensure the reserves for Accumulated Depreciation agree with  
10 Company books; (2) determine that both Plant in Service and Accumulated Depreciation  
11 are based upon the same time-frame (i.e., test year end or six-month post test year); (3)  
12 determine that the Company's adjustments to Accumulated Depreciation, Plant in  
13 Service, Salvage Receipts, and Removal Costs are reflected properly in Accumulated  
14 Depreciation and amortization balances; and (4) evaluate the appropriateness of the  
15 proposed Depreciation Rates and Depreciation Study provided.

16 **Q: Did the Accumulated Depreciation reserves match the Company's books?**

17 A: Yes. PUD performed an onsite audit to verify book balances on the schedules provided  
18 against the Company's general ledger.

19 **Q: Did OG&E include Accumulated Depreciation on PHFU?**

20 A: No. Adjustment No. 4 shown on Schedule C-2 and detailed in WP B 3-11 is to remove

1 any PHFU not acquired within the last ten years. PHFU is covered further in the Plant in  
2 Service portion of this Testimony. No depreciation was recorded with this adjustment.

3 **Q: Do Schedules D-1, D-2, C-1, and C-2, with corresponding pro forma adjustments,**  
4 **cover the same period?**

5 A: Yes. The Schedule D-1 pro forma adjustments include Adjustment No. 4 from Schedule  
6 D-2. This adjustment is detailed on WP B 3-13, and adds Depreciation Expenses to the  
7 March 31, 2018, six-month post test year. The pro forma adjusted Electric Plant on  
8 Schedule C-1, after adding in Plant Completed by March 31, 2018, matches the amounts  
9 shown on Schedule D 1-1, and used for the Accumulated Depreciation calculation.

10 **Q: Please describe PUD's review process in determining that the Company's**  
11 **adjustments to Accumulated Depreciation, Plant in Service, Salvage Receipts, and**  
12 **Removal Costs are reflected properly in Accumulated Depreciation balances.**

13 A: PUD reviewed the previous Cause No. PUD 201500273, Commission Order No. 662059,  
14 Testimony, and exhibits regarding depreciation. PUD also reviewed the Company's data  
15 request responses to other intervenors regarding Accumulated Depreciation. PUD  
16 conducted an onsite audit to ensure the general ledger amounts matched the amounts  
17 provided in the Application Schedules, and verified that those general ledger amounts  
18 matched the amounts listed in Schedules B-2 and D-1, which were provided in the  
19 Application regarding Accumulated Depreciation. PUD issued data request DMN-2  
20 requesting an updated WP D-1 with verifiable start dates to match the prior year's FERC  
21 reported data with the beginning test year data in the Application. PUD verified that the

1 starting amounts for the test year matched the revised WP D-1 provided in the data  
2 request response. PUD also reviewed amounts of salvage value, retirements, and  
3 removals to ensure the amounts agreed with Company general ledger amounts. PUD  
4 verified the starting Plant in Service amounts against FERC reported data. PUD verified  
5 the value assigned to property salvaged from the plant retirements was recorded in the  
6 general ledger.

7 **Q: What is PUD's recommendation regarding the Company's adjustments to**  
8 **Accumulated Depreciation, Plant in Service, Salvage Receipts, and Removal Costs**  
9 **being reflected properly in Accumulated Depreciation balances?**

10 A: OG&E records a scrap value for Plant accounts on an allocation basis, but any large  
11 salvage items are recorded to the project with which they are associated. PUD verified  
12 that the amounts of salvage and removals matched the appropriate general ledger  
13 amounts, and determined that the Company's adjustments to Accumulated Depreciation,  
14 Plant in Service, Salvage Receipts, and Removal Costs are reflected properly in  
15 Accumulated Depreciation and Amortization balances. PUD confirmed that the starting  
16 balances of Accumulated Depreciation matched FERC reports. PUD verified the six-  
17 month post test year amounts included in the Application for Plant in Service and  
18 Accumulated Depreciation were for the same period. PUD verified the amounts included  
19 in the Application for PHFU and Acquisition Adjustments did not include Depreciation  
20 Expenses. PUD reviewed the updated schedules provide by OG&E in response to Data  
21 Request AG 12-3 on April 17, 2018. After review, PUD recommends PUD Adjustment



1 B-12 decreasing rate base for Accumulated Depreciation \$11,419,714 for the six-month  
2 post test year period.

3 **Q: What is the purpose of the adjustment, and the impact on Depreciation Expenses for**  
4 **Schedule H-2 Adjustment No. 44, Acquisition Adjustments?**

5 A: The Acquisition Adjustments are based on the difference between the purchase price of  
6 an asset and its original cost. Adjustment No. 44 to Schedule H-2 is the equivalent of  
7 depreciation expense for the acquisition premium associated with the plant purchase of  
8 the Redbud Power Plant. This adjustment increases expenses by \$5,567,337. This  
9 adjustment is detailed on WP H 2-44.

10 **Q: Please describe PUD's review process for Schedule H-2, Adjustment No. 44 related**  
11 **to the Redbud Power Plant.**

12 A: PUD reviewed Company Testimony, Schedule H-2, WP H 2-44, and general ledger  
13 entries for Acquisition Adjustments. PUD performed an onsite audit to review the  
14 general ledger entries for the Acquisition Adjustments for Redbud Power Plant detailed  
15 on WP H 2-44. PUD reviewed previous Cause No. PUD 201500273 and Commission  
16 Order No. 662059 in which the Administrative Law Judge ("ALJ") approved the  
17 recovery of the Acquisition Adjustment of \$5,567,337 for RedBud Power Plant, an  
18 adjustment to which no party took exception.<sup>2</sup> Lastly, PUD spoke with accounting  
19 personnel regarding the Acquisition Adjustments for the Redbud Power Plant.

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<sup>2</sup> OCC Final Order No. 662059 Page 65 Section I – Acquisition Adjustments.

1 **Q: What is PUD's recommendation for Schedule H-2, Adjustment No. 44, Acquisition**  
2 **Adjustments?**

3 A: After review of the associated schedules, Company Testimony, workpapers, and previous  
4 Commission Order No. 662059 in which the ALJ approved the recovery of the  
5 Acquisition Adjustments of \$5,567,337 for the Redbud Power Plant, PUD recommends  
6 the Commission accept Adjustment No. 44, Acquisition Adjustment in the amount of  
7 \$5,567,337. This is detailed on WP H-2-44, and included in Schedule H-2 as pro forma  
8 Adjustment No. 44 to Operating Expenses.

9 **Q: Please describe PUD's review process in determining that Applicant's proposed**  
10 **Depreciation Rates and Depreciation Study were appropriate.**

11 A: PUD reviewed Company Testimony, Workpapers, Depreciation Study, Data Responses  
12 regarding the Depreciation Study, conducted trend analysis, and made comparisons to  
13 other electric utilities operating in Oklahoma and the United States. PUD reviewed the  
14 Company's policy for retirements, and reviewed work orders to verify the retirement  
15 policy was followed and the general ledger entries were appropriate. For  
16 reclassifications, transfers, and adjustments, PUD verified the Company policy was  
17 followed and amounts of accumulated depreciation transferred were calculated and  
18 entered into the general ledger correctly. PUD reviewed salvage accounts and verified  
19 against the general ledger entries and Company policy.

20 **Q: What were the results of PUD's review and recommendation in regards to the**  
21 **appropriateness of the Depreciation Rates and Depreciation Study?**

A: PUD found no discrepancies in the recording of salvage, retirements, or transfers of property when verified against the general ledger entries. The proposed Depreciation Depletion and Amortization Rates shown on Schedule I 1-1 use the Depreciation Rates from the Depreciation Study prepared by John Spanos. PUD found no discrepancies in the data used by Mr. Spanos in preparation of the Depreciation Study. PUD compared the Depreciation Rates included in Schedule I 1-1 to six other investor owned electric utility companies within the United States and operating in Oklahoma. The results of that review are listed in the table below:

**TABLE 1**  
**Comparison of OG&E Proposed Rates to Other Investor Owned Utilities for 2012-2016**

Function	AEP	Dominion	El Paso Electric	Empire District Electric	Kansas Gas and Electric	Duke Energy Indiana, LLC	OG&E Proposed Rates
Intangible Plant	17.89%	10.20%	5.81%	5.97%	7.03%	4.90%	6.24%
Steam Production Plant	2.94%	2.94%	3.04%	2.51%	2.43%	3.12%	2.99%
Transmission Plant	1.80%	2.10%	1.66%	2.21%	2.49%	2.25%	2.44%
Distribution Plant	2.98%	3.24%	1.97%	3.43%	1.99%	3.05%	2.93%
General Plant	2.71%	3.62%	4.46%	3.33%	4.33%	4.43%	4.81%

With the exception of General Plant, OG&E's proposed depreciation rates fall within the range of other utilities operating in the U.S. and Oklahoma. On average the depreciation rates for Intangible Plant are actually a little lower than that of other utilities. PUD did not have any other concerns with the proposed Depreciation Rates and recommends the Commission accept the proposed Depreciation Rates as submitted. PUD also recommends PUD Adjustment H-12 which decreases Operating Expenses \$3,368,275 for

1 Depreciation Expense accounting for six-month post test year updates provided by  
2 OG&E in response to Data Request AG 12-3.

3 **ACCUMULATED DEPRECIATION DIFFERENTIAL**

4 **Q: What is the purpose of the Accumulated Depreciation Differential Adjustment, and**  
5 **how does the adjustment impact Depreciation Expenses and Plant in Service?**

6 A: These adjustments are made to Accumulated Depreciation to allow for the difference  
7 between the FERC rates and Commission-approved rates for the test year and pro forma  
8 period. Depreciation reported to FERC is a blended rate comprised of a combination of  
9 the current Oklahoma and Arkansas rates. These adjustments are detailed on WP B 3-16,  
10 shown on Schedule D-2, and remove the difference of Accumulated Depreciation  
11 reported to FERC and Oklahoma jurisdictional amounts. This adjustment decreases  
12 Depreciation Expense by \$3,051,280, and increases Rate Base in Schedule B-3  
13 Adjustment No. 15 by the same amount for the test year and pro forma period.

14 **Q: Please describe PUD's review process for the Accumulated Depreciation Differential**  
15 **Adjustments.**

16 A: PUD reviewed the Direct Testimony of Jason Bailey, Schedule B-3, Schedule D-2, and  
17 WP B 3-16. In addition, PUD conducted an onsite audit to speak with Company  
18 accounting personnel regarding the calculation of this adjustment. PUD verified the  
19 difference in the amount of \$3,051,280 reflected the inclusion of Accumulated  
20 Depreciation rates in the blended rate that the Company reported to FERC.

1   **Q:    What is the result of PUD's review and recommendation for the Accumulated**  
2       **Depreciation Differential Adjustments?**

3   A:    PUD discovered no discrepancies in the Application schedules when compared to the  
4       general ledger amounts. PUD verified there are differences between the accounting of  
5       Accumulated Depreciation that is reported to FERC, and the accounting with respect to  
6       Oklahoma jurisdictional amounts. PUD recommends the Commission accept the  
7       adjustment for the Accumulated Depreciation Differential in the amount of \$3,051,280.  
8       This adjustment will decrease Accumulated Depreciation in the amount of \$3,051,280,  
9       and increase Rate Base by the same amount for the test year and pro forma period.

10                               **PLANT IN SERVICE**

11   **Q:    Please describe PUD's review process for Plant in Service.**

12   A:    PUD reviewed the Company Testimony and Schedules pertaining to Plant in Service for  
13       accuracy. PUD performed a trend analysis for Plant in Service from 2012 to 2016 and  
14       test year amounts using OG&E's FERC Form 1 submissions. PUD issued data requests  
15       to obtain additional information on a random sample of Plant in Service projects  
16       constructed or purchased during the test year, additional information on Arkansas  
17       AFUDC, Depreciation Expense Reconciliation, Interests on Customer Deposits, and  
18       Contributions In Aid of Construction ("CIAC"). PUD conducted onsite audits to review  
19       Plant in Service general ledger accounts. PUD reviewed the general ledger accounts and  
20       verified them against the schedules provided with the Application. PUD spoke with  
21       OG&E accounting and engineering personnel. PUD performed tours at Sooner, Mustang,  
22       and McClain power plants. PUD also toured distribution, transmission, and substation

1 projects in progress.

2 **Q: What are the trends regarding Plant in Service for OG&E since 2012?**

3 A: According to the FERC Form 1 data submitted by OG&E, from 2012 to 2013 OG&E's  
4 Plant in Service increased 6.32%. From 2013 to 2014, Plant in Service increased 8.59%.  
5 From 2014 to 2015, Plant in Service increased 3.47%. From 2015 to 2016, Plant in  
6 Service increased 3.87%. On average, the increase every year from 2012 to 2016 was  
7 approximately 5.56%. The amount of increase in Plant in Service from 2016 to the 2017  
8 test year amounts in this Cause was 3.47%.

9 **Q: What is PUD's recommendation regarding Plant in Service?**

10 A: After reviewing the Company Testimony, Schedules, workpapers, and a random sample  
11 of Plant in Service projects, PUD did not discover any discrepancies in the Plant in  
12 Service included in the end of test year amounts in Schedule C-1. Sample projects and  
13 schedules matched the general ledger accounts and FERC Form 1 filings. A trend  
14 analysis shows a Plant in Service increase of less than the amounts in previous years.  
15 PUD recommends the Commission accept the Total Company Plant in Service included  
16 in Schedule C-1 Line 71 of \$11,032,167,713.

17 **Q: What is the purpose of the Arkansas AFUDC Adjustment, and what is the impact**  
18 **on Rate Base?**

19 A: The purpose of this adjustment is to add back to Rate Base a net book value of  
20 \$3,437,645, because these assets were accounted "below the line" due to an Arkansas

1 jurisdictional cap on AFUDC that doesn't apply to Oklahoma. This adjustment is  
2 detailed in Schedule B-3 and supported by WP B 3-1 and the Direct Testimony of Jason  
3 Bailey. Mr. Bailey states in his Testimony, "In order to accurately reflect the AFUDC  
4 calculated and booked for the Oklahoma jurisdiction, an adjustment has to be made to  
5 Plant in Service. This adjustment increases Plant in Service by \$3,670,937 and increases  
6 Accumulated Depreciation by \$233,292, resulting in an increase in Net Plant of  
7 \$3,437,645."<sup>3</sup>

8 **Q: Please explain PUD's process for reviewing the Arkansas AFUDC adjustment?**

9 A: PUD verified the amounts included in WP B 3-1 were accurately reflected in Schedule C-  
10 2. PUD conducted an onsite audit to review the system used for AFUDC and the amount  
11 requested in this adjustment. PUD issued a data request DMN 2-2 to obtain an  
12 explanation for the Arkansas AFUDC pro forma adjustment as shown on W/P B 3-1.<sup>4</sup>  
13 The Company's Oklahoma jurisdictional calculation of AFUDC was included in the  
14 Application as WP C-8. In response to data request PUD DMN 2-2, OG&E stated:

15 "In order to comply with the [Arkansas AFUDC Rate], beginning in June  
16 2009 OG&E made appropriate adjustments to comply with the Arkansas  
17 order. The normal AFUDC calculation was derived and the Arkansas  
18 adjustment was included as a supplement to this calculation. Property  
19 accounting management, the Regulated Assistant Controller, and the Chief  
20 Accounting Officer agreed that we would recognize this adjustment as a  
21 reduction to the normal general ledger accounts that normally get charged  
22 AFUDC. Property accounting reduced plant in service for this adjustment  
23 and reduced depreciation expense and accumulated [depreciation] to  
24 reflect the impact on plant in service. Property accounting continued this  
25 adjustment until a further commission ruling no long required this  
26 restriction to the calculation effective 6/1/2017."

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<sup>3</sup> Direct Testimony of Jason Bailey, Page 4, Lines 1 through 5, and Page 5, Lines 1 and 2.

<sup>4</sup> Data Request PUD DMN 2-2.

1 Because of this restriction in the Arkansas jurisdiction, and the reduction in plant in  
2 service and depreciation expense, this amount was added back to Plant and Accumulated  
3 Depreciation to make the AFUDC account whole and return it to Rate Base for the  
4 Oklahoma jurisdiction. OG&E provided a calculation of the AFUDC to show the  
5 Arkansas AFUDC Cap and the amounts. OG&E also provided an example of projects  
6 and how the costs flowed through to Plant in Service. PUD performed an onsite audit to  
7 verify the calculation of this adjustment and verified amounts in the general ledger.

8 **Q: What is PUD's recommendation regarding the Arkansas AFUDC adjustment?**

9 A: After review, onsite audit, and receipt of data request responses, PUD recommends the  
10 Commission accept Adjustment #1 in Schedule C-2 and Schedule B-3 for Arkansas  
11 AFUDC increasing Plant in Service by \$3,670,937. PUD also recommends the  
12 Commission accept the associated increase in Accumulated Depreciation in Adjustment  
13 #1 of Schedule B-3 of \$233,292.

14 **Q: What is the purpose of the CWIP adjustment, and what is the impact on Rate Base?**

15 A: The purpose of this adjustment is to adjust Plant in Service to include projects completed  
16 within the six-month post test year. The total of CWIP in WP C-4 at the time of the  
17 Application was \$893,908,571. The CWIP adjustment #3 shown on Schedule B-3  
18 removes the portion of CWIP that will not be completed by March 31, 2018.  
19 Adjustments #6 and #7 add the total of WP B 3-6 and WP B 3-7 CWIP projects that are  
20 reasonably expected to be completed by the six-month post test year date. These  
21 adjustments increase Plant in Service and Rate Base by \$617,537,760. This amount is



1 shown in Schedule B-3 Adjustments to Rate Base and Schedule C-2 as Adjustment No. 3.  
2 These adjustments are detailed in WP C-4, WP B-3-6, WP B-3-7, and the Direct  
3 Testimony of Jason Bailey.

4 **Q: Please describe PUD's review process for CWIP amounts.**

5 A: PUD reviewed the schedules, workpapers, and Company Testimony related to the CWIP  
6 projects and Plant in Service projects. PUD verified the CWIP projects provided in WP  
7 B-3-6 and WP B-3-7 against Schedule C-2 and B-3. PUD issued data request DMN-1 for  
8 additional information on a random sample of the CWIP projects provided in WP B 3-6  
9 and WP B 3-7. The additional information requested in Data Request PUD DMN 1-7  
10 was as follows: (1) Initial Budget or cost estimate; (2) AFUDC Collected, if any; (3)  
11 CIAC collected, if any; (4) Reason or need for the project/purchase; (5) Procurement  
12 Process (e.g., competitive bid, in-house construction purchase, etc.); (6) Alternatives  
13 considered; and (7) Short narrative about the project/purchase. PUD reviewed the data  
14 request responses and calculated the variances between the initial estimates and the final  
15 construction costs and detailed the reasons for variances that were over or under by more  
16 than 10%.

17 **Q: What is PUD's recommendation regarding the CWIP adjustment?**

18 A: PUD discovered no discrepancies in the reasons or needs for the projects contained in  
19 CWIP. PUD also audited the CWIP sample projects and believes the projects were  
20 prudently incurred. During review and examination of the Application, PUD looked for  
21 changes to Plant in Service that were considered by OG&E to be either currently known

1 and measurable, or ones that were reasonably certain to occur within six months of the  
2 end of the test period upon which the rate review is based.<sup>5</sup> The CWIP balance is known  
3 and measurable and was verified by PUD during its onsite audit as well as during its  
4 review of a selected sample of projects. On April 17, 2018, OG&E provided data request  
5 responses to Data Request AG 12-3 with updated schedules for Plant in Service to  
6 include the six-month post test year amounts. The previous amount of pro forma Plant in  
7 Service included in Rate Base Schedule B-2 was \$10,590,863,620. The amount included  
8 in the revised Schedule C-1 and to be included in Rate Base was \$10,597,760,540, and  
9 the resulting difference of \$6,896,920 is the CWIP completed by March 31, 2018. PUD  
10 reviewed these responses and recommends Adjustment B-6 to increase the pro forma  
11 Total Utility Plant in Service included in Schedule B-2 of the Application by \$6,896,920  
12 for CWIP projects completed by March 31, 2018, and shown in updated schedules  
13 provided in data request responses to AG 12-3.

14 **Q: What are Reimbursable Projects, and how are reimbursements treated?**

15 A: Reimbursable Projects include CIAC and Highway relocation projects where  
16 Government entities pay a portion of the project costs to move utility right-of-ways and  
17 utility assets for road widening or relocations. The reimbursements are used to reduce  
18 the original cost of the project and Plant in Service. Additional review on CIAC is  
19 provided in PUD witness Elbert Thomas' Testimony.

20 **Q: Please describe PUD's review process for Reimbursable Projects.**

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<sup>5</sup> 17 O.S. § 284.

1 A: PUD reviewed Company Testimony and WP C 4-3. PUD issued Data Request DMN-1  
2 requesting supporting documentation for removal of reimbursements from project costs.  
3 PUD reviewed the data request response and verified the process used to remove  
4 reimbursements from project costs. Examples were provided showing how OG&E's  
5 accounting software, SAP, handles these reimbursements. PUD conducted an onsite  
6 audit to verify the reimbursements against the general ledger amounts.

7 **Q: What were the results of PUD's review for Reimbursable Projects?**

8 A: After speaking with accounting personnel, and after reviewing WP C 4-3 and data request  
9 responses provided by the Company, PUD discovered no discrepancies in the calculation  
10 of Plant in Service regarding reimbursements.

11 **Q: What was the purpose for Schedule C-2 Adjustment No. 2, Holding Company**  
12 **Assets, and what is the impact on Rate Base?**

13 A: The adjustment of \$14,260,201 decreases Plant in Service and removes from Rate Base  
14 the portion of Holding Company Assets allocated to non-utility activities. The non-utility  
15 activity is investment in OG&E, and not used in connection with any utility activities and  
16 services. OG&E shared certain assets with another holding company affiliate, Enable  
17 Midstream Partners, LP ("Enable"), such as software and computer equipment. These  
18 non-utility assets are not separate assets from the utility assets, but rather just a method  
19 for OG&E to bill Enable for its portion of the assets which are shared. OG&E bills  
20 Enable for its portion through the depreciation of these assets. The basis of the non-  
21 utility assets is the depreciation and amortization assigned to Enable. The 15.35%

1 allocated to non-utility activity on WP B 3-2 is calculated by dividing Enable's portion of  
2 assigned depreciation and amortization by the total Holding Company's depreciation and  
3 amortization for the test year. This 15.35% represents the removal of Enable's portion of  
4 the Holding Company assets used. As of October 2017, OG&E is no longer sharing  
5 assets with Enable.

6 **Q: Please describe PUD's review process for Schedule C-2 Adjustment No. 2 Holding**  
7 **Company Assets.**

8 A: PUD reviewed WP B 3-2 Holding Company Assets, and verified amounts against  
9 Schedule C-2. PUD compared the general ledger amounts to the amounts provided in  
10 Schedule C-2 and WP B 3-2. PUD also spoke with Company personnel regarding this  
11 adjustment.

12 **Q: What is PUD's recommendation for Schedule C-2 Adjustment No. 2 Holding**  
13 **Company Assets?**

14 A: PUD recommends the Commission accept Adjustment No. 2 decreasing Plant in Service  
15 in the amount of \$14,260,201 in Schedule C-2 and Schedule B-3. The 15.35% allocated  
16 to non-utility activity on WP B 3-2 is calculated by dividing Enable's portion of assigned  
17 depreciation and amortization by the total Holding Company's depreciation and  
18 amortization for the test year. This 15.35% represents the removal of Enable's portion of  
19 the Holding Company Assets used.

20 **Q: For PHFU adjustments, what is the purpose of this adjustment and the impact on**

1       **Plant in Service?**

2    A:    The purpose of the PHFU adjustment is to account for land held for future electric  
3           infrastructure as the system expands through 2025. The PHFU included in the  
4           Application is primarily for future substation areas that will be needed in the future,  
5           though some are for future transmission upgrades. The amount of PHFU included in  
6           Plant in Service Schedule C-1 is \$2,758,727 and is detailed on WP C-13 and shown in  
7           Rate Base Schedule B-2. Adjustment No. 11, shown in Schedule B-3, decreases Plant in  
8           Service by \$1,400,243. This adjustment is detailed on WP B 3-11 and reduces Rate Base  
9           in Schedule B-2 and Schedule B-3. The purpose of Adjustment No. 11 is to remove from  
10          PHFU any properties that have been held for longer than 10 years in accordance with  
11          previous rate case treatment.

12   **Q:    Please describe PUD's review process for PHFU.**

13   A:    PUD reviewed Company Testimony, Schedule B-2, Schedule B-3, Schedule C-1,  
14          Schedule C-2, WP B 3-11, and WP C-13 regarding PHFU. PUD conducted an onsite  
15          audit to discuss the PHFU with Company accountants and to review the general ledger  
16          accounts for accuracy. PUD further reviewed the treatment of PHFU in previous Cause  
17          No. PUD 201500273.

18   **Q:    What is PUD's recommendation for PHFU?**

19   A:    PUD discovered no discrepancies between Schedule C-1, Schedule C-2, the Direct  
20          Testimony of Jason Bailey, WP B 3-11, and WP C-13. PUD discovered in previous  
21          Cause No. PUD 201500273, PHFU was included in Rate Base, if the PHFU was acquired

1 in the previous 10 years. PUD verified the PHFU included was acquired in the last 10  
2 years. PUD also verified there was a plan in place to use the PHFU within the near term.  
3 After review, PUD recommends the Commission accept the Rate Base increase included  
4 in Schedule C-1 of \$2,758,727 and Adjustment No. 11 on Schedule B-3 decreasing Plant  
5 in Service by \$1,400,243.

### 6 **ELECTRIC SYSTEM O&M**

7 **Q: Please describe PUD's review process for Non-fuel O&M.**

8 A: PUD reviewed the Company Testimony, Schedule H-1, Schedule H-2, WP H-3, general  
9 ledger entries, responses to data requests from intervenors regarding Plant O&M, and  
10 associated workpapers for Plant O&M activities. PUD conducted a trend analysis on  
11 Plant O&M reported since 2012 on FERC Form 1. PUD conducted an onsite audit with  
12 OG&E engineering, mapping, financial, and planning personnel to determine the O&M  
13 activities associated with Plant in Service and Reliability Reports. This Testimony  
14 reviews the Plant O&M accounts associated with the operation of the Electric System  
15 only. The Administrative and General costs, Sales Costs, Marketing Costs, Southwest  
16 Power Pool Expenses, Fuel Costs, Purchased Power Costs, and Advertising costs will be  
17 covered in other PUD witnesses' Testimony.

18 **Q: What are the basic O&M activities and reliability indices for OG&E's electric**  
19 **system?**

20 A: OG&E maintains reliability on its electric system via two methods. The first is  
21 vegetation management which plays a key role in reliability and will be covered in PUD

1 witness Jason Chaplin's Testimony. The second is the circuit reliability program, an  
2 annual program to improve the reliability of the previous year's worst-performing  
3 circuits. OG&E plans its O&M projects based on the worst 5% of performing circuits,  
4 excluding major storms, and these projects are included as part of the OCC reliability  
5 reports submitted annually by OG&E. The worst 5% of performing circuits are  
6 determined using a combined score of the System Average Interruption Duration Index  
7 ("SAIDI") and the System Average Interruption Frequency Index ("SAIFI"). Analysis is  
8 performed on each circuit to identify the cause of the poor performance and determine if  
9 action is required. From this analysis the projects are identified. With each report a 10-  
10 year cycle of projects are scheduled and budgeted under the Distribution Line Reliability  
11 Program ("DLRP"). For the transmission system, the worst-performing circuits are fixed  
12 immediately due to the possibility of a power failure leaving large numbers of consumers  
13 without service. The transmission projects are planned using aerial inspections four  
14 times a year, one with a helicopter, and are scheduled with the vegetation seasonal  
15 inspections in spring, mid-summer, end-summer, and fall. Ground line treatment and  
16 wooden pole inspection are done on a 10-year cycle for the transmission system. The  
17 transmission projects identified for repair or replacement are budgeted under the  
18 Transmission Line Reliability Program ("TLRP").

19 Additional O&M costs have been added to Intangible Plant for upgrades in software for  
20 Geospatial Information Systems ("GIS") mapping and planning. OG&E uses GIS  
21 extended proprietary software for planning purposes and vegetation management. These  
22 licenses have to be maintained in order to keep the software up to date and functional.

1 The DLRP and Vegetation Management projects can be identified and tracked via the  
2 GIS software. The TLRP cannot currently be tracked via the GIS software but OG&E is  
3 on track to add that capability in the future. The pole inspections for the electric system  
4 are performed or supervised by OG&E's vegetation management department.  
5 Maintenance is also performed when faults or outages occur. The repair teams are also  
6 brought to readiness when OG&E receives weather forecasts for storms in areas that  
7 could cause possible damage to the system. In preparation for storms, OG&E fuels  
8 vehicles and readies crews for fast response. According to the latest reliability report  
9 submitted by OG&E for 2017, OG&E's SAIDI for Oklahoma Service Territory was 144.  
10 This means OG&E's average duration of outage was 144 minutes, a performance  
11 improvement from 2016. OG&E's SAIFI index was 0.867. The SAIFI index is intended  
12 to determine the frequency of outages for an average OG&E customer during a year. This  
13 means the average OG&E customer experiences an outage less than once per year.

14 **Q: For Electric System O&M, what were the results of PUD's review process and**  
15 **recommendation?**

16 A: After reviewing Company Testimony, Schedules, workpapers general ledger entries, and  
17 interviews with accounting personnel, PUD discovered no discrepancies in the  
18 Application documents. PUD discovered no other discrepancies in the activities  
19 performed, the selection of contractors, or in-house personnel activities. PUD  
20 interviewed distribution planners and engineers and determined the activities performed  
21 were typical of any electric utility. PUD recommends the Commission approve the  
22 Electric System Non-fuel O&M for the test year of \$719,891,531 detailed on WP H-3



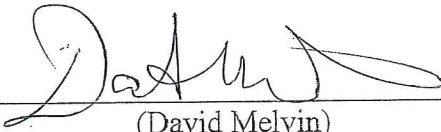
1 Line 86 Total Non-fuel O&M and Schedule H, Line 8, Total Company per Books.

2 **RECOMMENDATION**

3 **Q: What is PUD's recommendation to the Commission concerning Cause No. PUD**  
4 **201700496?**

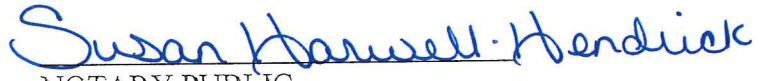
5 A: After review, PUD recommends the Commission accept the Company's Adjustments  
6 included in the Application for the following areas: Acquisition Adjustments,  
7 Accumulated Depreciation, Depreciation Differential, Arkansas AFUDC, Reimbursable  
8 Projects, Holding Company Assets, PHFU, and Non-fuel O&M. PUD recommends two  
9 adjustments to Rate Base for six-month post test year updates: (1) PUD recommends  
10 Adjustment B-6 to reflect six-month post test year activity which increases the pro forma  
11 Total Utility Plant in Service included in Schedule B-2 of the Application by \$6,896,920  
12 for CWIP projects completed by March 31, 2018; (2) PUD recommends PUD  
13 Adjustment B-12 to decrease Rate Base by \$11,419,714 for Accumulated Depreciation  
14 for the six-month post test year period. These amounts were included in the updated  
15 schedules provided by OG&E in responses to data request AG 12-3 on April 17, 2018.  
16 PUD also recommends PUD Adjustment H-12 which decreases Operating Expenses by  
17 \$3,368,275 for Depreciation Expense in accordance with six-month post test year updates  
18 provided by OG&E in response to data request AG 12-3. PUD believes these  
19 recommendations to be fair, just, reasonable and in the public interest.

I state, under penalty of perjury under the laws of Oklahoma, that the foregoing is true and correct to the best of my knowledge and belief.

  
(David Melvin)

State of Oklahoma  
County of Oklahoma

Subscribed and sworn to before me this 1<sup>ST</sup> day of MAY, 2018

  
NOTARY PUBLIC

(Seal, if any)



Regulatory Analyst  
Title

My Commission Number: 02017119

My Commission Expires: 10/27/18

**Oklahoma Gas and Electric Company – Cause No. PUD 201700496**

**LIST OF EXHIBITS**

DM-1

*Curriculum Vitae*



**Curriculum Vitae of David A. Melvin**

Jim Thorpe Office Building, Room 580, 2101 N. Lincoln Blvd, Oklahoma City, OK 73105  
(405) 522-3376; d.melvin@occcemail.com

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**Summary of Expertise**

Mr. Melvin is a Public Utility Regulatory Analyst for the Public Utility Division of the Oklahoma Corporation Commission with 18 years of experience in the utility industry and 20 years of experience in the construction industry.

Mr. Melvin has participated in selling Federally-owned utilities to private industry since 1999, with over 300 systems investigated. These systems included electric distribution/transmission, water distribution and treatment, wastewater collection and treatment, steam distribution, chilled water distribution, natural gas distribution, storm water collection and co-generation plants. Mr. Melvin performed projections of Operations and Maintenance (O&M) expenses, Life Cycle Cost Analysis (LCCA), Renewals and Replacement (R&R) Schedules, Fair Market Values (FMV), condition assessments, technical libraries and construction estimates for projects needed to bring systems up to industry and federal standards for the fifty-year contracts offered on each system.

As a distribution planner since 2006, Mr. Melvin modeled electric distribution systems and prepared Construction Work Plans (CWP) and Long Range Plans (LRP) for Rural Electric Cooperatives in Kansas, Oklahoma, Texas, and Iowa. These plans were used to meet Rural Utility Service (RUS) and National Electric Safety Code (NESC) requirements.

Mr. Melvin worked as a logistics and supply acquisition specialist in the U.S. Army for four years, specializing in acquisition, accountability of supplies and supply readiness of a 1,200 soldier battalion during overseas training operations. Performed inventory accounting and inspection of all supply rooms and armories of the companies assigned to the battalion.

**Particular Areas of Expertise**

Inventory development, inventory valuation, LCCA, depreciation expense, Operations O&M, condition assessments, system boundary definition, preparation of electric system models, electric utility system CWPs (4 years) and LRPs (up to 20 years) to meet federal standards, logistics operations and supply characteristics of large organizations.

**Professional Experience**

**Public Utility Regulatory Analyst, Oklahoma Corporation Commission – October 2016 – Present**

Mr. Melvin conducts research and performs comparative analysis of utility applications, reports, financial records, and workpapers to ensure that PUD can make accurate recommendations. Mr. Melvin's work focuses on Plant in Service, Maintenance, and Reliability of energy and gas distribution and transmission systems. Causes Mr. Melvin has prepared testimony or affidavits for Causes listed below:

PUD Cause No. 201700471 – Application of Empire District Electric Company for Approval of its Customer Savings Plan. Performed review of Depreciation Rates for Wind Farm Assets.

PUD Cause No. 201600468 – Application of the Empire District Electric Company for an adjustment in its rates and charges for electric service in the State of Oklahoma. Performed review and audits of Plant in

Service, Production Maintenance, Plant O&M Expenses, construction work in progress, and capitalized maintenance portions of the Application.

PUD Cause No. 201600494 – Application of Arkansas Oklahoma Gas Corporation for approval of the performance based rate adjustments for the twelve months ended August 31, 2016. Performed review and audits of Plant in Service portions of the Application.

PUD Cause No. 201700078 – Application of CenterPoint Energy Resources Corp., for approval of its performance based rate change plant calculations for the twelve months ended December 31, 2016. Performed review and audits of Plant in Service distribution assets portion of the Application.

PUD Cause No. 201700079 – Application of Oklahoma Natural Gas Company, a division of One Gas Inc. for approval of its performance based rate change plant calculations for the twelve months ended December 31, 2016. Performed review and audits of Plant in Service portion of the Application.

PUD Cause No. 201700150 – Annual informational filing by ITC Great Plains, LLC. Pursuant to OAC 165:35-43-4 for transmission only utilities. Performed review and audits of documents submitted.

PUD Cause No. 201700151 – Application of Public Service Company of Oklahoma for an adjustment in its rates and charges and the electric service rules, regulations, and conditions of service for electric service in the State of Oklahoma. Performed review and audits of Plant O&M, affiliate adjustments for O&M, Construction Work In Progress, Allowance for Funds Used During Construction, Red Rock Regulatory Asset, and Plant in Service.

PUD Cause No. 201700260 – Application of Brandy L. Wreath, Director of the Public Utility Division, Oklahoma Corporation Commission for a public hearing to review and monitor application of the Fuel Adjustment Clause of Oklahoma Natural Gas Company and for a prudence review of the fuel procurement processes and costs of Oklahoma Natural Gas Company for calendar year 2016. Performed prudence review of fuel procurement processes, policies, and decisions.

### **Privatization Consultant, Guernsey – 1999 – 2016**

Mr. Melvin was responsible for inventory development, cost estimates, O&M expenses, system condition assessment, system boundary definition, and technical library preparation. The inventories were utilized when evaluating privatization of utility systems involving natural gas distribution, steam generation and distribution, wastewater collection and treatment, storm water collection, potable water supply and treatment, and electrical transmission/distribution systems. Performed LCCA's to determine fair market value of the assets and determined the cost of O&M for the fifty-year term of the contract. Prepared a system specific bidder's report to include in Requests for Proposals (RFP) sent to prospective bidders. Bidder's report was included as part of the contract after award. A list of his most recent projects is below:

Utility Infrastructure Conveyance/Asset Transfer - Legacy Utility Systems - Project Support: Phase 1 and 2, Fort Bliss, Texas - Project Support

Technical Support for the Army Utility Privatization Program, USAESC, Huntsville, Alabama  
Defense Logistics Agency, Defense Energy Support - Utilities Privatization Support: DOD and U.S. Army Corps of Engineers, Baltimore District.

Aberdeen Proving Grounds, Maryland - Privatization Support: Update system inventory and technical library for the potential privatization of the natural gas distribution utility system.

Ft. Richardson, Greely and Wainwright, Alaska - Privatization Support: Update system inventory and technical library for the potential privatization of the natural gas distribution utility system.

Fort Polk, Louisiana - Privatization Support: Update system inventory and technical library for the potential privatization of the electrical distribution, potable water distribution, wastewater collection and treatment utility systems.

Fort Belvoir, Virginia - Privatization Support: Update system inventory and technical library for the potential privatization of the potable water distribution and wastewater collection systems.

Fort Bragg, North Carolina - Privatization Support: Update system inventory and technical library for the potential privatization of the natural gas distribution utility system.

Fort Stewart, Georgia - Privatization Support: Update system inventory and technical library for the potential privatization of the natural gas distribution utility system.

Fort Jackson, South Carolina - Privatization Support: Update system inventory and technical library for the privatization of the potable water distribution and wastewater collection utility systems.

U.S. Military Academy, West Point, New York - Privatization Support: Prepare a technical library for the potable water treatment and distribution, wastewater collection and treatment utility systems.

Oklahoma State University, Stillwater, Oklahoma - Outsourcing Support: Update the system inventory and technical library for the outsourcing of the electric distribution utility system.

University of Kansas, Lawrence, Kansas - Outsourcing Support: Perform a system inventory and technical library for the outsourcing of the electric distribution utility system.

#### **Senior Distribution Planner, Guernsey – 2006 - 2016**

As a distribution planner, Mr. Melvin modeled electric distribution systems using MilSoft WindMil Software. He also prepared CWP's and LRP's for Rural Electric Cooperatives from data in the models. A list of his most recent projects is below:

Nishnabotna Valley REC, Harlan, Iowa - Project Support: Developed a MilSoft WindMil engineering model using data collected from a field inventory including GPS points of poles and equipment.

Harmon Electric Association, Inc. Hollis, Oklahoma - Project Support: Support included analysis of the existing system capacity and operating conditions, recommendations of necessary system improvements and additions to enable Harmon to provide adequate and dependable service to its members through 2011. This plan also provided the necessary engineering support for requests to borrow capital from the Rural Utilities Services (RUS) and the National Utilities Cooperative Finance Corporation (CFC) on a concurrent basis.

Sedgwick County Electric Cooperative Assn. Inc. Cheney, Kansas - Project Support: LRP and CWP support included analysis of the existing system capacity, operating conditions and recommendations of necessary system improvements. These, additions enabled SCEC to provide adequate and dependable service to its members through 2029.

Southeastern Electric Cooperative Inc. Durant, Oklahoma - Project Support: Support included analysis of the existing system capacity and operating conditions, recommendations of necessary system improvements and additions to enable Southeastern to provide adequate and dependable service to its members through 2013. This plan also provided the necessary engineering support for requests to borrow capital from the RUS and the CFC on a concurrent basis.

Altex Energy Corporation Enid, Oklahoma - Project Support: Prepared a model for new irrigation well startups. Added Transformers and Motors to each individual load and ran voltage drop analyses for

certain scenarios. The benefits of this study provided Altex with a way to bring on new loads and make system improvements to handle these loads.

**Supply Specialist, U.S. Army, Headquarters and Headquarters Battery 5th of the 5th Air Defense**

**Artillery (HHB 5/5 ADA), Korea – 1989 – 1992**

As a supply specialist, Mr. Melvin accounted for the supplies and ordinance for a 1200 person battalion while assigned overseas at Camp Stanton, Korea. He maintained the financial records and obtained orders for new supplies for all training exercises during his assignment. These supplies were time sensitive and required several checks and measures to maintain record accuracy.

**Education**

Bachelor of Science in Business Administration, Southern Nazarene University, Bethany, Oklahoma  
Electric Lineman Training Program, Oklahoma State University, Oklahoma City, Oklahoma  
MilSoft WindMil Certification, MilSoft Offices, Abilene, Texas  
ESRI GIS Training, Guernsey, Oklahoma City, Oklahoma  
AutoCAD Training, Guernsey, Oklahoma City, Oklahoma  
Member, Society of Depreciation Professionals

CERTIFICATE OF SERVICE

I, the undersigned, do hereby certify that on the 2<sup>nd</sup> day of May, 2018, a true and correct copy of the above and foregoing was sent **electronically**, addressed to the following:

Katy Boren  
Jared Haines  
Victoria Korrect  
A. Chase Snodgrass  
Jennifer Lewis  
Office of Attorney General  
313 NE 21<sup>st</sup> Street  
Oklahoma City, OK 73105  
[katy.boren@oag.ok.gov](mailto:katy.boren@oag.ok.gov)  
[jared.haines@oag.ok.gov](mailto:jared.haines@oag.ok.gov)  
[victoria.korrect@oag.ok.gov](mailto:victoria.korrect@oag.ok.gov)  
[chase.snodgrass@oag.ok.gov](mailto:chase.snodgrass@oag.ok.gov)  
[jennifer.lewis@oag.ok.gov](mailto:jennifer.lewis@oag.ok.gov)

Bill Bullard  
Williams, Box, Foshee & Bullard, PC  
522 Colcord Dr.  
Oklahoma City, OK 73102  
[bullard@wbfbllaw.com](mailto:bullard@wbfbllaw.com)

Kimber Shoop  
Crooks, Stanford & Shoop, PLLC  
171 Stone Bridge Blvd  
Edmond. OK 73010  
[ks@crooksstanford.com](mailto:ks@crooksstanford.com)

J. Eric Turner  
DERRYBERRY & NAIFEH, LLP  
4800 North Lincoln Blvd.  
Oklahoma City, OK 73105  
[eturner@derryberrylaw.com](mailto:eturner@derryberrylaw.com)

Cheryl A. Vaught  
Vaught & Conner, PLLC  
1900 NW Expressway, Suite 1300  
Oklahoma City, OK 73118  
[cvaught@vcokc.com](mailto:cvaught@vcokc.com)

William Humes  
John D. Rhea  
Dominic Williams  
OG&E  
Post Office Box 321  
Oklahoma City, OK 73101-0321  
[humeswl@oge.com](mailto:humeswl@oge.com)  
[rheajd@oge.com](mailto:rheajd@oge.com)  
[williardo@oge.com](mailto:williardo@oge.com)

Curtis M. Long  
Conner & Winters, LLP  
4000 Williams Center  
Tulsa, OK 74172  
[Clong@cwlaw.com](mailto:Clong@cwlaw.com)

Jack G. "Chip" Clark, Jr.  
Clark Wood & Patten PC  
3545 N. W. 58<sup>th</sup> Street Suite 400  
Oklahoma City, OK 73112  
[cclark@cswp-law.com](mailto:cclark@cswp-law.com)

Thomas P. Schroedter  
Hall Estill Hardwick Gable Golden & Nelson, PC  
320 S. Boston  
Suite 400  
Tulsa, OK 74103  
[tschroedter@hallestill.com](mailto:tschroedter@hallestill.com)

Jon Laasch  
Jacobson & Laasch  
212 East Second Street  
Edmond, OK 73034  
[jonlaasch@yahoo.com](mailto:jonlaasch@yahoo.com)



Jack G. "Chip" Clark, Jr.  
Clark Wood & Patten PC  
3545 N. W. 58<sup>th</sup> Street Suite 400  
Oklahoma City, OK 73112  
[cclark@cswp-law.com](mailto:cclark@cswp-law.com)

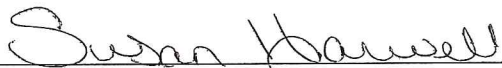
Ronald E. Stakem  
Cheek & Falcone, PLLC  
6301 Waterford Blvd., Suite 320  
Oklahoma City, OK 73118  
[rstakem@cheekfalcone.com](mailto:rstakem@cheekfalcone.com)

Rick D. Chamberlain  
Behrens, Taylor, Wheeler & Chamberlain  
Six Northeast 63<sup>rd</sup>, Suite 400  
Oklahoma City, OK 73105  
[rchamberlain@okenergylaw.com](mailto:rchamberlain@okenergylaw.com)

Deborah Thompson  
OK Energy Firm, PLLC  
PO Box 54632  
Oklahoma City, OK 73154  
[dthompson@okenergyfirm.com](mailto:dthompson@okenergyfirm.com)

Jim Roth  
Marc Edwards  
C. Eric Davis  
Phillips Murrah, P.C.  
Corporate Tower, 13<sup>th</sup> Floor  
101 N. Robinson  
Oklahoma City, OK 73102  
[Jaroth@phillipsmurrah.com](mailto:Jaroth@phillipsmurrah.com)  
[medwards@phillipsmurrah.com](mailto:medwards@phillipsmurrah.com)  
[cedavis@phillipsmurrah.com](mailto:cedavis@phillipsmurrah.com)

Andrew Unsicker  
Lanny Zieman  
Matthew Zellner  
AFLOA/JACE-USFSC  
139 Barnes Drive, Suite 1  
Tyndall Air Force Base, FL 32403  
[Andrew.unsicker@us.af.mil](mailto:Andrew.unsicker@us.af.mil)  
[Lanny.zieman.1@us.af.mil](mailto:Lanny.zieman.1@us.af.mil)  
[Matthew.zellner@us.af.mil](mailto:Matthew.zellner@us.af.mil)

  
TISH COATS, Manager  
BARBARA COLBERT, Administrative Assistant  
SUSAN HARWELL, Regulatory Analyst  
KELI WEBB, Administrative Assistant  
OKLAHOMA CORPORATION COMMISSION