

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) CASE NO. PUD 202300087
RATES, CHARGES, AND TARIFFS FOR RETAIL)
ELECTRIC SERVICE IN OKLAHOMA)

Direct Testimony

of

Kimber L. Shoop

on behalf of

Oklahoma Gas and Electric Company

December 29, 2023

Kimber L. Shoop
Direct Testimony

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

2 A. My name is Kimber L Shoop. My business address is 321 North Harvey, Oklahoma
3 City, Oklahoma 73102.

4

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

6 A. I am employed by Oklahoma Gas and Electric Company (“OG&E” or “Company”) as
7 the Director of Regulatory Affairs.

8

9 Q. **Please summarize your educational background and professional qualifications.**

10 A. I earned a Bachelor of Arts degree in Government from the University of Virginia
11 (1996) and a Juris Doctorate from the University of Oklahoma College of Law (2002).
12 I am a member of the Oklahoma Bar Association, the Arkansas Bar Association, and
13 the District of Columbia Bar Association. After law school, I practiced law in
14 Washington D.C. until accepting the position of Senior Attorney at OG&E in 2006. In
15 2015, I was named Managing Director of Law at OG&E. In 2017, I left OG&E to
16 establish a private law practice in Edmond, Oklahoma and continued to perform work
17 for OG&E. In 2020, I returned to OG&E as Director of Regulatory Policy and Planning
18 before being named Director of Regulatory Affairs in 2022.

19

20 Q. **Have you testified previously before this Commission?**

21 A. Yes.

22

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

24 A. The purpose of my testimony is to discuss the relief requested in this case and to explain
25 the basis for the change in base rates OG&E seeks. I also explain OG&E’s recent
26 investments in reliability and how these investments serve as the driver for the requested
27 rate change. In addition, I discuss some of the key issues in the Company’s application,
28 including OG&E’s continued focus on affordability and reliability, as well as a chart

1 that visually depicts the various components of the requested rate change. Finally, I
2 introduce each of the Company witnesses in this proceeding.

3
4 **SUMMARY OF RELIEF REQUESTED**

5 **Q. Please state the relief sought from the Commission through this application.**

6 A. OG&E is requesting a general rate change pursuant to the Commission Rules,¹ including
7 Chapter 70 Minimum Standard Filing Requirements. The accounting exhibits,
8 schedules, testimony, and evidence that support the general rate change are included in
9 the Application Package² filed in this cause.

10
11 **Q. Please generally describe OG&E's request for a general rate change in this filing.**

12 A. OG&E is requesting an overall increase in rates of approximately \$332.5 million
13 annually which reflects a total bill increase of 13.2 percent over the rates last set in July
14 of 2022. The Company expects the new rates to go into effect no later than July of 2024.

15
16 **Q. What impact will the proposed rate increase have on monthly residential electric
17 bills?**

18 A. The average residential customer will see an increase in their bills of \$19.02 per month
19 when compared to current rates. For residential customers, this represents about a 13.85
20 percent increase in the monthly bill. As this Commission is aware, on November 1,
21 2023, OG&E implemented a fuel factor reduction that lowered the average residential
22 bill by approximately \$21 per month (which constituted an approximately 15.4 percent
23 decrease). OG&E witnesses Gwin Cash and Bryan Scott explain the allocation of the
24 proposed increase to each customer class.

¹ OAC 165:70-1-2. Definitions. “**General Rate Change**” means a change in rates and charges which exceeds three percent (3%) based on the previous twelve (12) months revenue generated by the existing rates for an association or electric cooperative subject to the Commission's jurisdiction pursuant to 17 O.S. Section 158.27 et seq; or a change in rates resulting in more than a one percent (1%) increase in a utility's jurisdictional annual gross operating revenues unless otherwise allowed by law. A change mandated by regulation or legislation, a change in the terms and conditions of service, a request for a special contract, or a request for a new and/or optional service does not constitute a general rate change.

² OAC 165:70-1-2. Definitions. “**Application package**” means the required schedules and testimony filed by a Class A or B utility to initiate a general rate change. See OAC 165:70-3-1 and 165:70-5-4.

1 Q. **Did OG&E provide the Commission advance notice of the Company's**
2 **Application?**

3 A. Yes. A utility is required to provide the Commission a 45-day notice of its intent to file
4 an application for a general rate change.³ The notice is required to be in writing and
5 filed with the Commission's Court Clerk. On November 13, 2023, OG&E filed a Notice
6 of Intent that the Company would be filing an application on or about December 29,
7 2023, requesting a modification to its rates and charges for its Oklahoma jurisdiction
8 customers.

9
10 Q. **What test year was utilized in developing the Application Package?**

11 A. The Company's exhibits are based on the financial results of the test year⁴ ended
12 September 30, 2023. The Application Package contains *pro forma* adjustments to rate
13 base⁵ and *pro forma* adjustments to operating income.⁶ *Pro forma* adjustments reflect
14 reasonably known and measurable changes that occur during and after the test year.
15 OG&E plans to update its request with known and measurable changes occurring six
16 months after the test year during the pendency of this case, which is through March 31,
17 2024.

18
19 **RELIABILITY INVESTMENTS**

20 Q. **What is the primary driver for this rate increase?**

21 A. The largest driver for the requested rate increase is the additional capital investment
22 since the last rate case. This capital investment was directed at the power delivery
23 system and OG&E's generating facilities, as explained by OG&E witnesses Brian
24 Huckabay and Robert Doupe respectively. OG&E has purposely made these needed
25 investments to build a more resilient grid for the benefits of our customers who rely on
26 reliable delivery of electric service to power their homes and businesses.

³ OAC 165:70-3-7(a).

⁴ OAC 165:70-1-2. Definitions. "Test Year" means the twelve (12) month period used in determining rate base, operating income, and rate of return.

⁵ Application Package, Volume II, Section B, Schedule B-4.

⁶ Application Package, Volume II, Section H, Schedule H-3.

1 Given Oklahoma has increasingly extreme weather conditions, OG&E is
2 focusing on investments in transmission, distribution and grid enhancement/hardening
3 to improve reliability and resiliency during events that are outside the control of the
4 Company. Our Grid Enhancement projects are designed to improve grid resiliency,
5 harden our grid against extreme weather, install grid automation equipment that sense
6 and isolate disruptions on our system, and employ new technologies to identify outage
7 locations and restore power more efficiently. OG&E is reducing outages and improving
8 restoration times by replacing aging infrastructure, upgrading to better technology and
9 equipment and hardening the distribution system so that it is more resilient in various
10 weather conditions. At the same time, OG&E is investing in new infrastructure to
11 support new and expanding businesses in our service area, to address storm damage, to
12 add new lighting technology, to replace defective and failing equipment, and to upgrade
13 certain assets, facilities, and tools used in providing electric service to the communities
14 OG&E serves. OG&E witness Huckabay details how the Company has invested
15 approximately \$987 million in the past two years on its power delivery system.

16
17 **Q. Why is OG&E investing in the power delivery system?**

18 **A.** Our customers' priorities are focused on reliability, security and resilience. OG&E
19 seeks to better meet the needs of our customers and to mitigate the impact of increasing
20 extreme weather by investing in a more resilient electric grid while balancing
21 affordability. That is why OG&E has performed 525 grid enhancement projects across
22 193 circuits and 35 substations, replaced over 3,000 distribution line poles and fortified
23 another 11,270 distribution poles, added connecting infrastructure to 5,000 new load
24 projects, and spent \$132 million to replace equipment damaged in 25 storms over the
25 past two years. OG&E has also continued to improve the transmission system.

26 Not only do our customers demand improvements in reliability, security, and
27 resilience, but a thriving Oklahoma economy depends on those improvements. As a
28 state with multiple types of severe weather and ranked second by the Federal Energy
29 Management Agency for the frequency of severe weather, OG&E must strive even
30 harder to provide the most reliable power infrastructure possible to sustain economic
31 development and growth for Oklahoma.

1 Q. **Please explain how OG&E investments have supported economic development in**
2 **Oklahoma over the last several years.**

3 A. OG&E's system continues to expand with the demands of new load growth. OG&E
4 works collaboratively with state and municipal entities to attract new companies and
5 customers to Oklahoma and invests in its transmission, distribution, and generation
6 infrastructure to accommodate new load growth. Increasing economic prosperity and
7 improving the quality of life in the communities we serve translates to strong local and
8 regional economies. As detailed in the direct testimony of Brian Huckabay, OG&E has
9 executed over 5,000 projects and invested over \$300 million in its transmission and
10 distribution system to support new business projects since the last rate review. These
11 projects drive growth in Oklahoma's economy through attracting new jobs to Oklahoma
12 and by employing engineers, vendors, suppliers, and contractors that provide the
13 materials, supplies, and services required to complete Company projects. OG&E's
14 reliable power system and affordable rates attract new business to our service area that
15 supports new jobs and new investment in communities all across Oklahoma.

16

17 Q. **In addition to the investments in the power delivery system, is OG&E also investing**
18 **in its generating facilities?**

19 A. Yes. As detailed by OG&E witness Robert Doupe, OG&E has a robust program to
20 assess the health of its generating assets. Over the past two years, OG&E engineers
21 identified investments in the generating units that improve their safety, performance,
22 and reliability. As this Commission is aware, reliability does not start with delivery of
23 electricity; it begins with the reliable creation of electricity at the various power plants
24 across Oklahoma. OG&E must ensure that a reliable supply of electricity is continually
25 placed on the power delivery system to meet our customers' constant and growing
26 demand. Witness Doupe explains the major investments OG&E has made at its
27 Seminole, Muskogee, Frontier, Mustang, McClain, River Valley, and Sooner generating
28 facilities since the last rate review.

1 Q. **Please explain the increase in the cost of these transmission, distribution, and**
2 **generation investments.**

3 A. As this Commission is aware, there have been extraordinary inflationary pressures on
4 all aspects of the economy. Like other businesses, OG&E has experienced the same
5 inflation on prices for equipment and materials. It is more expensive in this economic
6 environment to invest in OG&E's system, both through capital investments and through
7 general operating and maintenance expenses.

8 Rising interest rates have affected many aspects of the Company's costs as well.
9 First, the cost of OG&E's debt has risen after new debt issuances in the past two years.
10 The weighted average cost of debt has risen from 4.50 percent to 4.85 percent and the
11 cost to service that debt has risen accordingly. Interest rates have also contributed to a
12 request for a higher return on equity, as explained by OG&E witnesses Ann Bulkley and
13 Charles Walworth. Also, as explained by OG&E witness Jason Thenmadathil, market
14 changes have caused an increase in pension and post-retirement medical expense. In
15 addition, with fewer offsetting tax credits and federal/state tax reductions available,
16 income tax expense is also higher.

17
18 Q. **Is there also a specific request by the Company in terms of vegetation management**
19 **operating and maintenance expense?**

20 A. Yes. OG&E's vegetation management expense included in base rates remains
21 unchanged since OG&E's 2015 rate case.⁷ In the last two years in particular, OG&E
22 has experienced inflationary increases to labor rates for tree trimming and it is becoming
23 more difficult to do the work necessary to manage vegetation with the existing base rate
24 expense level. Therefore, OG&E is requesting the expense level in rates for vegetation
25 management be increased by approximately \$28 million on a prospective basis. Witness
26 Robert Shaffer explains in his direct testimony why increasing the expense level is
27 extremely important given the increased investment and improvement in the electric
28 grid. OG&E's investment in its delivery system to improve reliability and performance
29 can be jeopardized by vegetation issues.

⁷ See Cause No. PUD 201500273.

1 As explained by OG&E witnesses Jason Thenmadathil and Robert Shaffer,
 2 OG&E is requesting the Commission authorize the use of a tracker for the Company's
 3 variable vegetation management costs. This tracker would authorize OG&E to record
 4 a regulatory asset or liability for vegetation management related expenses above or
 5 below the amount set in base rates in this current case. Vegetation management costs
 6 are highly variable. As explained by witness Shaffer, not only have the costs for
 7 vegetation management been changing fast due to inflationary pressures and higher
 8 demand for these services, but there is a lot of variability given the size of the
 9 Company's service area and the unpredictable nature of weather-related events.
 10 Vegetation management expense also varies due to vegetation growth rates, urban
 11 versus rural differences, complications with access to equipment, and the number and
 12 specifics of customer requests.

13
 14 **AFFORDABILITY**

15 **Q. Does OG&E make every effort to balance the need for investment in an aging**
 16 **power system with the need to maintain affordable rates for its customers?**

17 **A.** Yes. OG&E challenges itself to grow, develop, and stay true to the commitments made
 18 to our customers: to provide safe, reliable and affordable electricity, to maintain a
 19 resilient grid, and to grow the communities we serve. Each of these commitments is
 20 very important. OG&E doesn't sacrifice one for the other — a balanced approach is
 21 required as all these factors are interrelated and impact each other. Investing in our
 22 facilities is required for ongoing success of our customers, our company, the businesses
 23 that rely on the power we provide, and the growth of Oklahoma's economy.

24
 25 **Q. How will OG&E's rates compare to the national average?**

26 **A.** OG&E's overall retail rates are competitive and will continue to be so even with the
 27 proposed change in rates. Currently, OG&E's overall retail rates are 20 percent below
 28 the national average and residential rates specifically are 19 percent below the national
 29 average, inclusive of fuel costs.⁸

30

⁸ S&P Global Market Intelligence Average Retail Price of Electricity, 2022.

1 Q. **How does OG&E help its customers manage their monthly bill?**

2 A. OG&E has implemented many rate and billing options to help customers manage their
3 monthly bill, including:

4 • **Average Monthly Billing:** This program helps level out the unusually high bills
5 during months of high electricity use. The customer's total annual cost for electricity
6 remains about the same, but you have the convenience of a more consistent bill each
7 month.

8 • **Guaranteed Flat Bill:** Under this program, customers pay the same amount for their
9 electric bill every month for one full year.

10 • **Silver Energy (Senior Citizen) Program:** Customers aged 65 and over who enroll
11 in a SmartHours rate currently qualify for a \$5 monthly credit, June through October.
12 As discussed below, OG&E is proposing an increase to the Silver Energy credit in
13 this case.

14 • **Low Income Assistance Program:** This program is a credit of \$13.00 per month
15 applied to all individually metered residential customers who are qualified by the
16 Oklahoma Department of Human Services ("DHS"), and who are certified to OG&E
17 by the DHS for payments under the federally funded Low Income Home Energy
18 Assistance Program. This discount was increased by 30% in OG&E's last rate
19 review.

20 • **SmartHours:** Our SmartHours (Time-of-Use and Variable Peak Pricing) programs
21 empower customers to shift their energy usage outside of peak hours (Monday-
22 Friday, 2-7 p.m.) from June 1 to September 30 and save significantly by paying a
23 lower price for off-peak usage.

24 Q. **What change is OG&E proposing in this case to the Silver Energy Program to
25 provide additional relief for senior citizens?**

26 A. OG&E currently offers senior citizens enrolled in SmartHours a \$5 per month discount
27 for the five months June through October. OG&E is proposing to double this discount
28 to \$10 per month during those 5 months, as well as add a \$5 per month discount in the
29 other months of the year. This would increase the annual benefit of the program from
30 \$25 per year to \$85 per year and provide the benefit on a year-round basis. OG&E

1 recognizes that many of our senior customers may operate on a fixed income and during
2 this period of inflation and economic stress, an increase in this discount would provide
3 some predictability and financial relief to these fixed-income customers.

4
5 **DISCUSSION OF OTHER ISSUES**

6 Depreciation

7 **Q. Are there any changes to OG&E's depreciation rate schedules that you would**
8 **like to address?**

9 A. Yes. OG&E is recommending a change in depreciation expense to account for the
10 increased level of plant requested in this case, as well as new depreciation rates. Our
11 current depreciation rates are not reflective of the actual useful lives of the assets that
12 are in service and underestimate the appropriate level of depreciation expense. OG&E
13 Witness Dane Watson, in testimony and in his depreciation study, explains the proposed
14 changes in depreciation rates. When depreciation rates are too low, there remains an
15 unrecovered investment as exhausted utility assets are retired. As a result, customers
16 then simultaneously pay rates that include the investment for new plant as well as the
17 unrecovered old investment. It is necessary to apply more reasonable and realistic
18 service lives so that customers will not incur higher long-term costs.

19
20 **Q. Why is depreciation important?**

21 A. Depreciation is how the Company recovers its capital investment over the actual period
22 of time those capital assets will be serving customers. Using unreasonable service lives
23 for assets means that the Company cannot recover investment during the lives of these
24 assets and customers pay over a longer period of time (while also paying for replacement
25 assets at the same time). Depreciation decisions by the Commission impact future costs
26 to customers, future cost recovery and cash flows to the Company. Costs should be
27 allocated over the asset service lives so that customers' rates reflect the costs of the
28 assets over the time that those assets are used to serve those customers.

29 Consider the analogy of financing a car for an unreasonably long amount of time.
30 If you finance a car too long, you may continue to pay for the car when you also have
31 to begin paying for your next car. It is important to have depreciation rates that reflect

1 the actual life of the assets, so customers do not have to pay for a return on assets that
2 are retired, obsolete or replaced (while also paying for new assets). That is,
3 unreasonably long depreciable lives increase the risk of assets failing (or becoming
4 functionally obsolete) prior to being recovered, thus creating potential stranded cost
5 issues with which both the Company and the Commission will have to address at a later
6 date.

7
8 Incentive Compensation

9 **Q. Should the Company be able to recover the costs of its total, market-based**
10 **compensation paid to employees?**

11 A. Yes. OG&E pays its employees a total compensation package composed of a base salary
12 and incentive compensation. An attractive total compensation package allows OG&E
13 to be competitive in the job market and attract and retain the necessary people to provide
14 excellent service to our customers. OG&E must provide market-based compensation,
15 which includes attractive incentive compensation similar to other electric companies.

16
17 **Q. Could OG&E remain competitive if it removed incentive compensation from its**
18 **compensation packages altogether?**

19 A. No. Removal of incentive compensation from its compensation packages would require
20 OG&E to increase base salaries to remain competitive. This is a sub-optimal approach.
21 OG&E believes that it is important to link a portion of compensation to performance.
22 Incentive compensation allows individual employees to be rewarded when they help the
23 Company succeed in operating under safe conditions, achieving improvements in
24 customer satisfaction, managing O&M costs, and generally running the utility
25 efficiently. While OG&E could just pay a base salary at a higher level, it would remove
26 this important link between employee compensation and Company and employee
27 performance and, importantly, would not result in lower rates.

1 Q. **Does it make sense that the Commission has continually excluded incentive**
2 **compensation from rates?**

3 A. No. In every rate case, OG&E has recommended recovery of the total amount of
4 compensation that it pays OG&E employees, both salary and incentive compensation.
5 Despite evidence that this incentive compensation is a necessary piece of compensation
6 to attract and retain employees and to keep up with market compensation practices, the
7 Commission has historically disallowed 100 percent of long-term incentive
8 compensation and 50 percent of the short-term incentive compensation. The rationale
9 for excluding these reasonable and necessary costs comes from the Company's inclusion
10 of some financial metrics in assessing performance within the incentive compensation
11 structure.

12

13 Q. **Does the Company agree with the rationale for such a disallowance of incentive**
14 **compensation from rates?**

15 A. No. Incentive compensation is a very necessary and reasonable expense for the utility.
16 It makes little sense to disallow those necessary expenses because some of the metrics
17 are financial in nature and involve a review of the Company's financial performance.
18 These financial metrics simply indicate how efficiently the Company is run, which ends
19 up benefiting customers as well through access to capital at reasonable rates and lower
20 cost debt. Disallowance of incentive compensation simply penalizes the Company for
21 paying its employees compensation amounts that are required by and standard in the
22 market.

23

24 Q. **Is the Commission's historical disallowance of 50 percent of the short-term**
25 **incentive compensation performance measures consistent with the contribution of**
26 **financial metrics to the level of cost?**

27 A. No. Even if the Commission were to exclude financial metrics from the calculation of
28 short-term incentives included in rates, which would mean that OG&E should be
29 entitled to reflect 70 percent (not 50 percent) of short-term incentive costs in rates. The
30 target breakdown for most OG&E members between operational and financial metrics
31 is approximately 70 percent and 30 percent, respectively. That 70 percent of the short-

1 term incentive metrics can be broken down into the following categories: O&M,
2 customer satisfaction, safety, and environmental operations.

3
4 **Q. Please explain the Long-Term Incentive program.**

5 A. The long-term incentive program ("LTI") is designed to motivate leaders at OG&E to
6 operate at a very high level of innovation, ownership, and strategic thinking. After
7 benchmarking the long-term incentive plans of our peers, the Company determined that
8 a mix of performance units and restricted units was the most common and best practice.
9 The performance units are granted and then, dependent on the performance of the
10 Company, may or may not pay out at the 3-year cliff vesting schedule. However, the
11 restricted stock units are designed to be time-based and help to retain the key talent by
12 being granted and then vesting based on the 3-year cliff vesting schedule. These
13 restricted stock units pay out if the employee continues to be employed through the
14 vesting date. The restricted stock units have now been added to the mix of long-term
15 incentive compensation as 35 percent of the overall long-term incentive grant.
16 Therefore, 35 percent of LTI is not based on financial metrics but rather the time of
17 employment.

18
19 **Q. Overall, what is OG&E requesting with regard to the recovery of incentive
20 compensation in this proceeding?**

21 A. The Company is recommending the inclusion of 100 percent of its short-term incentive
22 and long-term incentive compensation in rates. However, OG&E believes that this
23 Commission should at a minimum allow OG&E to include 70 percent short-term
24 incentive compensation in rates because that percentage of short-term incentive
25 compensation is based on operational metrics like O&M, customer satisfaction, safety
26 and environmental operations. Also, since 35 percent of the long-term incentive is
27 guaranteed to pay out every year if an employee stays and is not based on any
28 performance metrics, OG&E believes that at least 35 percent of the long-term incentive
29 compensation should also be included in rates.

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INTRODUCTION OF OG&E WITNESSES

Q. Please identify the OG&E witnesses and purposes of their testimonies.
A. Table 1 lists OG&E’s witnesses and a brief description of the purpose of each testimony.

Table 1: OG&E Witness List

Witness	Title	Purpose of Testimony
Kimber L. Shoop	Director, Regulatory	Identifies each of the Company witnesses, outlines the relief requested, explains why OG&E is seeking a rate increase at this time and discusses key issues such as depreciation, and incentive compensation.
Ann Bulkley	Senior Vice President, Concentric Energy Advisors	Provides independent analysis of the Company’s cost of equity and recommends an allowed rate of return on equity (“ROE”) of 10.5 percent, which is within the range of 10.25 percent to 11.25 percent, to allow the Company to both attract capital on reasonable terms and maintain financial strength. She also supports OG&E’s capital structure.
Charles Walworth	OGE Energy Corp Treasurer	Supports the Company’s capital structure and the requested ROE.
Dane Watson	Partner, Alliance Consulting Group	Sponsors the Company’s Depreciation Study.
Brian Huckabay	Director, Distribution Engineering Technical Services	Supports the reasonable and prudent investments made to the Transmission and Distribution systems included for recovery in this case
Robert Shaffer	Manager, Asset Management	Supports the request for changes to OG&E’s vegetation management program
Robert Doupe	Director, Power Supply Services	Supports OG&E’s capital investment at its generating facilities.
Jason J. Thenmadathil	Senior Manager Regulatory Accounting	Supports the Company’s <i>pro forma</i> adjustments to operating expense and to remove rider cost from the test year in Schedule H.
James Fenno	Lead Regulatory Accountant	Supports the Company’s <i>pro forma</i> adjustments to rate base in Schedule B.
James Alexander	Senior Pricing Analyst	Details and supports the changes that were made to OG&E tariffs (Schedule N)
Lauren Maxey	Manager, Cost of Service	Supports the Company’s development of the jurisdictional and class allocations and class cost of service studies.
Gwin Cash	Manager, Pricing and Tariff Administration	Describes the process of developing rates, shows comparisons between current and proposed rates and discusses the customer impacts, and sponsors OG&E’s proof of revenue (Schedule M).
Johnny Nguyen	Lead Pricing Analyst	Sponsors the pro forma revenue adjustments to Schedule H
Bryan Scott	Director, Pricing and Load Analysis	Supports the allocation of the jurisdictional revenue requirement among customer classes

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CONCLUSION

Q. Is there a visual depiction of the various components that make up OG&E's requested revenue increase in this case?

A. Yes. Chart 1 below contains such a visual depiction of the major drivers and components of the revenue request in this case.

Chart 1: Visual Depiction of Rate Increase Drivers

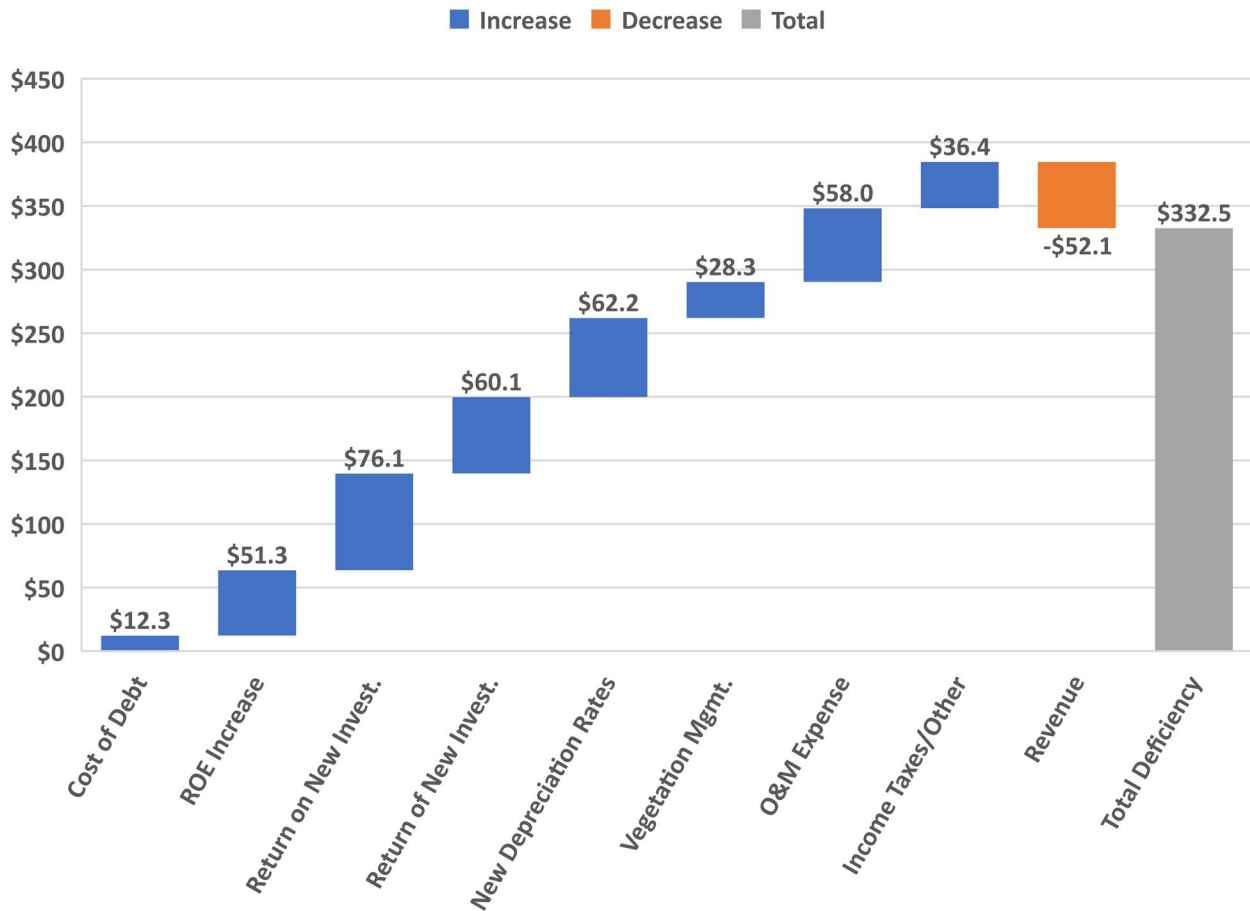


Chart Notes:

- ROE Increase: Only the change from existing 9.5% ROE to proposed 10.5% ROE.
- Return on New Investment: Existing rate of return (debt + equity) on new investment.
- Return of New Investment: Depreciation expense of new investment at existing depreciation rates.

1 Q. **Do you believe that the requested increase should be approved by this**
2 **Commission?**

3 A. Yes. OG&E has made significant investments on behalf of its customers to continue
4 providing reliable and affordable service. In order to maintain the Company's financial
5 health and continue attracting investment to its service territory, OG&E needs the
6 Commission to recognize the need for these investments and include them in rates at
7 terms that reasonably compensate its investors for providing the capital necessary to
8 maintain the electric system.

9
10 Q. **Why is it important to have a financially healthy utility?**

11 A. A financially healthy utility can access capital under reasonable terms during all
12 economic conditions to continue to grow its service territory. As OG&E supports
13 economic growth in our local communities, OG&E works with state and municipal
14 entities to attract jobs and investment across our service territory. OG&E and our
15 customers benefit from growing our business and attracting more customers. If OG&E
16 has more customers, it can spread its total costs across the sale of more kilowatt hours
17 and customers pay less for energy. A financially healthy utility is able to invest and
18 bring new customers on-line and power their businesses and industries.

19 At the same time, OG&E maintains the critical infrastructure that Oklahoma
20 needs to fuel its economy. Oklahoma economic strength is powered by OG&E's reliable
21 and resilient grid. Just like Oklahoma invests in roads and bridges to make the state
22 ready for economic growth, OG&E contributes by investing in and improving its
23 infrastructure to attract and retain businesses and its employees. A financially healthy
24 utility ensures that infrastructure investment will continue at a pace that keeps up with
25 customer expectations for reliability and the economic development goals of the state
26 of Oklahoma.

27
28 Q. **Do you have any concluding remarks?**

29 A. OG&E is a company with rates well below the national average and offers reliable
30 electric service. Balancing both reliable service and affordable rates is achieved by
31 engaging in sound planning, innovative thinking, and a strong focus on the customer.

1 OG&E comes before the Commission with the request to adjust its rates to reflect
2 the changes in the cost to provide reliable service, and I believe the requested rate
3 increase is fair, just and reasonable and in the public interest. OG&E respectfully
4 requests that this increase in rates be granted.

5

6 Q. **Does this conclude your testimony?**

7 A. Yes.

