

**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. 10-067-U

Direct Testimony

of

John Wendling

On behalf of

Oklahoma Gas and Electric Company

September 28, 2010

I. INTRODUCTION

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Q. Would you please state your name and business address?

A. My name is John Wendling. My business address is 321 North 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” or the “Company”) as Managing Director Generation Planning and Control for the Power Supply division.

Q. What are the duties and responsibilities of your position with OG&E?

A. I work in the Power Supply division. My specific responsibilities include oversight of OG&E’s generation dispatch center, generation fuels management and procurement, generation asset/business planning, energy contract management, regulatory support, and compliance assurance.

Q. Would you please summarize your educational background and professional experience?

A. I received a Bachelor of Science degree in Mechanical Engineering from Oklahoma State University (1979) and a Masters degree in Business Administration from Oklahoma City University (2001). I have been employed by OG&E in various engineering and engineering management positions at the Company for over thirty one (31) years, serving as plant manager at two of OG&E’s gas-fired generating stations, Horseshoe Lake and Mustang, and at the Company’s Sooner coal-fired generating station, as well as other division leadership roles in Power Supply before assuming my current position. During my tenure at OG&E I have been directly responsible for the budgeting and oversight of all expenditures both at the plant level and for Power Supply as a whole. I am very familiar with the planning and spending of O&M dollars and the processes OG&E utilizes to account for these costs.

1 Q. **Have you previously testified before the Arkansas Public Service Commission?**

2 A. No.

3

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

5 A. I will support the need for the Company's proposed \$16.95 million pro forma adjustment
6 to test year 2009 non-fuel production Operations and Maintenance ("O&M") expenses.
7 The pro forma adjustment reflects the upward trend in non-fuel production O&M
8 expenses, including expected expenditures in 2010 (see WP C 2-41) and the annualized
9 O&M expenses for the OU Spirit Wind Farm that became fully operational in the latter
10 months of 2009 (see WP C 2-45).

11

12 Q. **How is your testimony organized?**

13 A. First, I will describe the generation facilities owned and operated by OG&E (the
14 "Plants"). Second, I will discuss the historic and expected future O&M requirements of
15 the Plants. Third, I will discuss the issues related to the test year and the need for the pro
16 forma adjustment. Fourth, I will describe the components of the proposed pro forma
17 adjustment.

18

19

II. THE OG&E GENERATION PLANTS

20 Q. **Please generally describe the Generation facilities owned and operated by OG&E.**

21 A. OG&E owns and operates nine fossil fueled power plants, two of which are coal fired and
22 seven of which are natural gas fired. Fossil fuel plants are the backbone of our generation
23 operations and produced approximately 98% of the electricity consumed by our
24 customers in 2009. Currently, the Company also owns and operates two wind farms and
25 has begun construction on a third wind farm, Crossroads, which is not a part of this
26 proposed pro forma adjustment.

27 In considering the appropriateness of the proposed pro forma adjustment, it is important
28 to keep in mind the vintage of our fossil-fueled plants. These facilities range in age from
29 7 to 60 years with an average age of 34 years. This places OG&E in the top 20th
30 percentile for the oldest average age plants when compared to the fossil-fueled plants
31 owned by the 100 largest utilities in the nation. See Exhibit JW-1. In short, OG&E's

1 aging generation capacity is critical to supplying our customers, but it is also increasingly
2 expensive to maintain and operate.

3
4 **Q. Has OG&E made any significant plant additions in recent years?**

5 A. Yes. Since 2007, OG&E has added the Centennial and OU Spirit wind farms. The
6 Company also purchased a 51% ownership in and is the operator of the natural gas fired
7 Redbud power plant. These acquisitions also contribute to the growth in operational
8 O&M requirements and associated O&M expenses.

9
10 I. OG&E POWER SUPPLY O&M EXPENSES

11 **Q. How do OG&E's non-fuel production O&M expenses compare with other utilities?**

12 A. Despite operating older than average plants, OG&E's non-fuel production O&M
13 expenses compare very favorably with other utilities. Based on FERC Form 1 data for
14 2009, OG&E experienced a production non-fuel O&M cost of \$7.99 per MWh of
15 generation, as shown in Exhibit JW-2. This compares to an average of \$11.02 for the
16 utilities reviewed.

17
18 **Q. Is the Company requesting a Pro Forma adjustment for each of the non-fuel
19 production O&M cost categories?**

20 A. No. In Exhibit JW-3, I demonstrate the trend in the major categories that contribute to
21 the requested adjustment. This exhibit shows OG&E's 2007, 2008 and 2009 actual
22 expenses, as well as the forecasted 2010 expenditures, in these major categories. Please
23 note that the expenses in the various categories are generally trending higher. The largest
24 exception to that trend is in the area of Contract Technical & Construction Services
25 ("CT&CS") expenditures in 2009. I will address the reasons for that fluctuation later in
26 my testimony.

27
28 **Q. What has contributed to this trend of higher non-fuel production O&M costs?**

29 A. There are several reasons for this trend. As previously mentioned, a primary driver is
30 OG&E's aging generation infrastructure, with an average fossil fuel fired unit age of 34
31 years. As you would expect, these older units require more maintenance than newer units

1 to remain operational. As our Plants continue to age, parts become obsolete; components
2 have excessive wear due to age and are prone to fail. As such, the costs associated with
3 non-fuel production O&M related activities will increase over time.

4 As also mentioned earlier, OG&E has added plants in recent years. Specifically, we have
5 added two wind farms (OU Spirit and Centennial) and a 51% interest in a combined cycle
6 plant (Redbud) into our Plants from 2007 to 2010. These additional plants have added to
7 our overall O&M expenses and are contributors to continued growth in O&M expenses.

8 OG&E has also experienced increased regulatory related expenses, mainly due to
9 increasing SPP Fees. Expenses related to environmental fees, NERC requirements, and
10 Occupational Safety and Health Administration (“OSHA”) standards have increased as
11 well. OG&E expects this trend to continue.

12 In addition, OG&E’s O&M costs have also been impacted by increased commodity costs
13 in several areas, such as steel, copper, and chemicals. These cost increases are directly
14 tied to our plant maintenance and repair activities and are typically incorporated by
15 suppliers into expense categories such as CT&CS or Materials and Supplies.

16
17 **Q. How does the Company’s current generation planning impact this trend of growing**
18 **O&M costs?**

19 **A.** It has a significant impact. The Company has a goal to reach year 2020 without adding
20 fossil-fueled electric generation. The success of achieving this goal is dependent on
21 several generally known Company initiatives, including the addition of renewable
22 resources, the success of energy efficiency programs and the implementation of smart
23 grid technology. However, another very important component supporting this goal is the
24 success of a Power Supply’s Mechanical Integrity Plan (“MIP” or “Plan”) for our
25 generation assets.

26
27 **Q. What is the purpose of the MIP?**

28 **A.** The purpose of the MIP is to extend the productive life of the Company’s aging Plants by
29 keeping our existing equipment in reliable condition for longer while maintaining or
30 increasing their operational safety. This Plan will emphasize increased testing and
31 inspections with a focus on optimizing maintenance and repair activities for more than

1 thirty distinct plant systems/components. Examples would include enhanced testing and
2 inspections for our critical piping systems, steam generating systems, large motors,
3 critical pumps, insulation, cathodic protection, and steam turbine generator components.
4 This will involve employing additional internal and external resources. Even though the
5 MIP won't be "final" until later this fall, preliminary analysis indicates that annual
6 Generation O&M costs, when compared to the 2010 pro forma expenditures shown
7 above, will be \$10 to \$30 million higher in 2011 and beyond.

8
9 **Q. Will any costs associated with the MIP be expended in 2010?**

10 **A.** Yes. 2010 is a transitional year for MIP and the Company will expend some costs related
11 to MIP during 2010. For example, funds have already been expended in association with
12 our High Energy Piping Inspections and Turbine Inspections and Repairs.

13
14 **Q. Are these MIP costs included in the Pro Forma adjustment the Company is**
15 **requesting?**

16 **A.** Yes.

17
18 **Q. What do you believe would be the result if OG&E did not expend increased O&M**
19 **dollars in 2010 or failed to implement the MIP for years subsequent to 2010?**

20 **A.** In my professional opinion, the approximately \$16.95 million in O&M spending
21 reflected in the proposed pro forma adjustment reflect dollars which are absolutely
22 necessary to maintain the Company's generation assets for the benefit of its customers
23 and to operate the units in a safe and reliable manner. I will elaborate on the basis for this
24 conclusion in more detail later in my testimony.

25 On a going forward basis, the increased annual costs associated with the MIP allows the
26 Company to systematically target critical areas of our aging plant infrastructure, better
27 determine system condition in those areas and make better, more timely investment
28 decisions. All of which contributes to the ability of OG&E's generation assets to perform
29 reliably in meeting our customer's needs now and into the future. Without the MIP and
30 the associated increase in O&M expenditures, performance of the units will suffer,

1 impacting individual plant and system reliability. This would, in turn, lead to higher
2 overall costs to OG&E's customers.

3
4 **IV. COMPONENTS OF THE REQUESTED PRO FORMA ADJUSTMENT**

5 **Q. What elements generally make up the proposed \$16.95 million Pro Forma**
6 **adjustment?**

7 A. \$14.7 million of the expected increase relate to the broad categories of: 1.) Contract
8 Technical and Construction Services ("CT&SC"); 2.) Materials and Supplies; 3.) Fees,
9 Permits, and Licenses; 4.) Rentals; 5.) Safety Clothing; and 6.) Vegetation Management
10 (See WP C 2-41). By far the largest portion of this cost increase, \$12.3 million, is
11 associated with CT&CS expenses. In addition, \$2.25 million in costs are related to the
12 first year of operation for OG&E's OU Spirit wind farm (See WP C 2-45).

13
14 **Q. Please describe the CT&CS costs for 2008, test year 2009 and as projected for 2010**
15 **shown in Exhibit JW-3.**

16 A. As shown in Exhibit JW-3, the 2009 CT&CS cost was \$19.5 million, which was \$2.88
17 million less than the Company spent in 2007 and \$10.35 million less than the \$29.85
18 million the Company spent in 2008. The expected 2010 expenditure level, which is the
19 basis for the pro forma adjustment request, restores the CT&SC costs to the appropriate
20 level.

21
22 **Q. Would it be appropriate to utilize a three year average 2007-2009 to establish the**
23 **CT&CS expense level for the pro forma adjustment?**

24 A. No. Using a three year average would result in a \$23.91 prospective expense level. The
25 Company is projecting to spend \$31.8 million in this category in 2010 and, as discussed
26 earlier, expects additional increases in 2011 and forward because of the MIP.

27
28 **Q. Why did OG&E's CT&CS expenses decline in 2009?**

29 A. Beginning in the fall of 2008 and continuing well into 2009, the Company, like everyone
30 else, was seeing a severe downturn in the general business climate throughout the United
31 States, including significant lack of liquidity in the capital markets. OG&E's executive

1 management team was very concerned that the Company might be required to take
2 drastic steps to maintain viability, including but certainly not limited to, the possibility of
3 significant reductions in force ("RIF"). To forestall potential RIF's and other steps which
4 could immediately affect our workforce as well as the quality of service to our customers,
5 company leaders were asked to look for temporary ways to reduce expenses. Power
6 Supply reviewed its business needs and identified ways to temporarily reduce expenses
7 with a minimum potential impact on system reliability. For example, as we reviewed
8 various contracts associated with the Seminole Unit 1 outage scheduled for the fall of
9 2009, it was discovered that the vendor replacing the control system was falling behind.
10 The Company and the vendor agreed to reschedule to a mutually agreeable time in early
11 2010.

12
13 **Q. Please more specifically discuss the expenses which are integral to the estimated**
14 **\$12.3 million increase in CT&CS when compared to the test year expenditures.**

15 A. The bulk of the pro forma adjustment for this category reflects work in the first half of
16 2010 on Seminole unit 1 (mentioned previously) and a Seminole unit 2 outage, work on
17 Mustang unit 4 which occurred in the second and third quarters of 2010, and work related
18 to outages of the Redbud units 1-4 in the spring of 2010. In each instance, the work
19 performed was necessary to maintain the integrity of OG&E's plants and return them to a
20 safe and reliable condition.

21
22 **Q. Please discuss the expenses which led to the expected \$500,000 increase related to**
23 **Materials and Supplies ("M&S") over 2009 test year expenditure.**

24 A. The pro forma adjustment for Materials and Supplies expenses total \$500,000. The
25 outage work associated with Seminole units 1 and 2 resulted in additional M&S related
26 costs. OG&E also experienced an outage at Muskogee that contributed to additional
27 M&S costs needed to support maintenance. All the work and associated cost incurred
28 were necessary to maintain the integrity of OG&E's plants and return them to a safe and
29 reliable condition to meet the needs of OG&E's customers.

1 Q. **Please discuss the causes for the expected \$500,000 increase in expenses related to**
2 **Fees, Permits, and Licenses over 2009 test year expenditures.**

3 A. On January 1, 2010 the Southwest Power Pool (“SPP”) Administrative Fees rates
4 increased to \$0.195/MWh which will result in an approximate \$500,000 increase over
5 2009 costs. Payment of these fees is mandatory because OG&E is a member of the SPP.
6 It also should be noted that the SPP Board of Directors, in their July 27, 2010 meeting,
7 approved an increase to the “cap” currently in the SPP tariff for these fees. This increase,
8 once approved by FERC, will allow the SPP to raise its rate as high as \$0.35/MWh in the
9 coming years to accommodate such things as the cost of the new Day Ahead Market.
10 OG&E believes that the rate will increase from the current \$0.195 to \$0.25 in January
11 2011 and increase each year thereafter until the cap of \$0.35 is reached. These increases
12 are, of course, not been included in the current pro forma adjustment.
13

14 Q. **Please discuss the expected \$800,000 increase related to Rental Expenses over 2009**
15 **test year expenditures.**

16 A. The majority of the projected \$800,000 increase in Rental Expenses in 2010 is related to
17 the rental of a temporary exciter for the Muskogee power plant. The Company expects to
18 see rental costs in this expense category to continue for this type of need, as well as the
19 rental of cranes to facilitate O&M work at our wind farms.
20

21 Q. **Please discuss the increase in expenses which led to the proposed adjustment of**
22 **\$400,000 related to Safety Clothing.**

23 A. OSHA standard, 29 CFR 1910.132(d), requires employers to conduct a hazard
24 assessment and use the assessment to establish minimum personal protective equipment
25 (“PPE”) which employees must wear in the workplace. If the PPE required is not
26 normally worn public, then OSHA requires employers to provide the required PPE to its
27 employees. OG&E’s most recent assessment indicated that fire retardant (“FR”) clothing
28 is required to be worn by our members and contractors in the operating areas of all power
29 plants.

1 OG&E began to purchase FR clothing in December 2009 and expects to spend an
2 incremental \$400,000 in 2010. These additional costs are expected to continue as
3 replacement FR clothing will be required on an ongoing basis.
4

5 Q. **Please discuss the expenses which led to the expected \$150,000 increase related to**
6 **Vegetation Management over the 2009 test year expenditure.**

7 A. OG&E has experienced a projected \$150,000 annual increase in costs related to mowing
8 and spraying at Power Supply facilities due to increased contractor costs.
9

10 Q. **Please discuss the expenses which led to the expected \$2.25 million increase related**
11 **to OU Spirit wind farm over the 2009 test year expenditure.**

12 A. The \$2.25 Million pro forma expense adjustment for OU Spirit reflects the cost of the
13 first full year of operations, which includes CT&CS and land lease payments, which were
14 capitalized in 2009. The CT&CS costs will also continue through the useful life of the
15 OU Spirit Wind Farm, and is composed of the maintenance contract and operating costs
16 of the Wind Farm.
17

18 II. CONCLUSION

19 Q. **Please summarize your testimony?**

20 A. OG&E is requesting a \$16.95 million pro forma adjustment. \$14.7 million is to reflect
21 additional on-going non-fuel production O&M costs related to Contract Technical and
22 Construction Services, Materials and Supplies, Fees, Permits, and Licenses, Rentals,
23 Safety Clothing, and Vegetation Management. \$2.25 million is to annualize O&M
24 expenses for the OU Spirit Wind Farm that became fully operational in the latter months
25 of 2009. These 2010 pro forma adjustment costs together with the implementation of the
26 MIP will be necessary now and in the future to allow the Company to continue to safely
27 provide reliable electric service to its customers at a reasonable overall cost.
28

29 Q. **Does this complete your testimony?**

30 A. Yes.

Average Age of Fossil Fleet in Years - Straight Average
Largest 100 Fossil Fleets by Owned Capacity

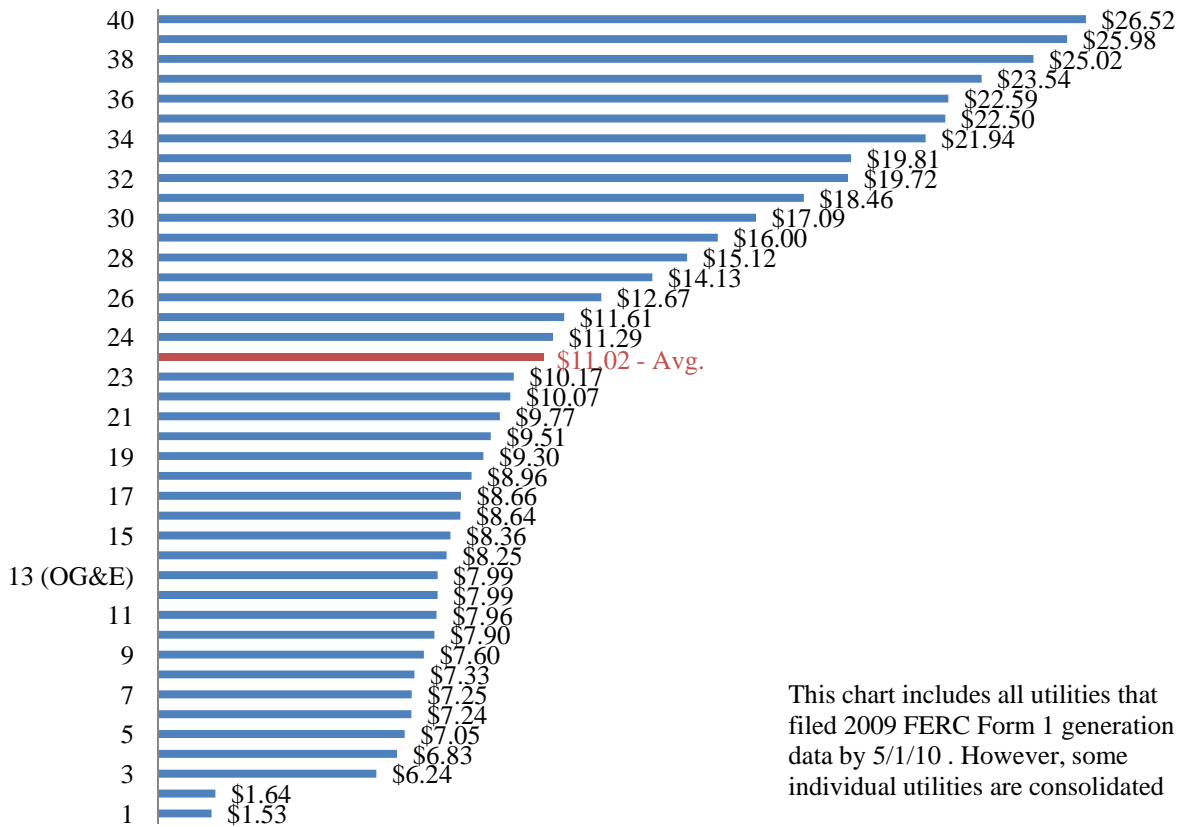
Size Rank	Ultimate Parent	Owned Capacity (KW)	Average of Vintage
76	Ohio Valley Electric Corporation	224,890	55.0
78	Nebraska Public Power District	215,670	50.0
21	FirstEnergy Corp.	866,200	45.1
18	Mirant Corporation	1,028,140	44.3
28	Exelon Corporation	654,196	42.2
42	National Grid plc	463,650	41.2
19	DTE Energy Company	985,981	39.7
12	RRI Energy, Inc.	1,445,695	38.8
16	AES Corporation	1,164,270	38.6
7	Entergy Corporation	2,028,781	38.3
2	American Electric Power Company, Inc.	3,337,229	38.0
41	Pepco Holdings, Inc.	474,920	37.4
8	Progress Energy, Inc.	1,971,991	36.7
50	DPL Inc.	396,439	36.7
6	NRG Energy, Inc.	2,222,641	36.4
26	OGE Energy Corp.	678,196	36.4
23	E.ON AG	795,384	36.4
59	East Kentucky Power Cooperative Inc.	298,170	36.3
22	Allegheny Energy, Inc.	851,000	36.2
30	Westar Energy, Inc.	633,780	36.0
34	US Power Generating Company	555,450	35.5
89	Big Rivers Electric Corporation	175,720	35.5
46	SCANA Corporation	434,140	34.9
14	Texas Energy Future Holdings LP	1,353,780	34.8
39	Pinnacle West Capital Corporation	527,081	34.8
3	Duke Energy Corporation	2,818,782	34.7
55	NiSource Inc.	332,410	34.7
58	Dow Chemical Company	302,950	34.6
10	Xcel Energy Inc.	1,521,418	34.6
1	Southern Company	3,778,585	34.1
24	PPL Corporation	778,253	34.0
27	CMS Energy Corporation	656,727	33.7
36	Salt River Project	543,621	33.5
47	CPS Energy	406,300	32.8
5	Tennessee Valley Authority	2,317,420	32.5
31	NV Energy, Inc.	605,998	32.4
25	Constellation Energy Group, Inc.	678,947	31.9
15	Public Service Enterprise Group Incorporated	1,232,835	31.5
9	Dominion Resources, Inc.	1,874,139	31.5
13	MidAmerican Energy Holdings Company	1,392,094	31.0
32	Wisconsin Energy Corporation	602,058	30.6
11	Ameren Corporation	1,484,741	30.5
61	Omaha Public Power District	285,900	30.5
68	Integrus Energy Group, Inc.	260,658	30.4
37	Great Plains Energy Inc.	542,878	30.3
71	Exxon Mobil Corporation	239,568	30.1
72	UniSource Energy Corporation	239,247	29.3
17	Edison International	1,083,418	29.1
33	Alliant Energy Corporation	580,697	28.8
88	Industry Funds Management Ltd.	176,651	27.9
52	JEA	367,346	27.4
60	TransCanada Corporation	295,160	27.2
90	Hawaiian Electric Industries, Inc.	174,360	27.2
97	Buckeye Power, Inc.	144,977	26.5
51	Los Angeles Department of Water and Power	394,530	26.1
94	Brazos Electric Power Cooperative Inc.	156,300	25.6
96	IDACORP, Inc.	147,330	25.3
70	Tri-State Generation & Transmission Association, Inc.	251,342	25.3
93	BP plc	163,138	25.1
49	Cleco Corporation	402,400	24.9

Average Age of Fossil Fleet in Years - Straight Average

Largest 100 Fossil Fleets by Owned Capacity

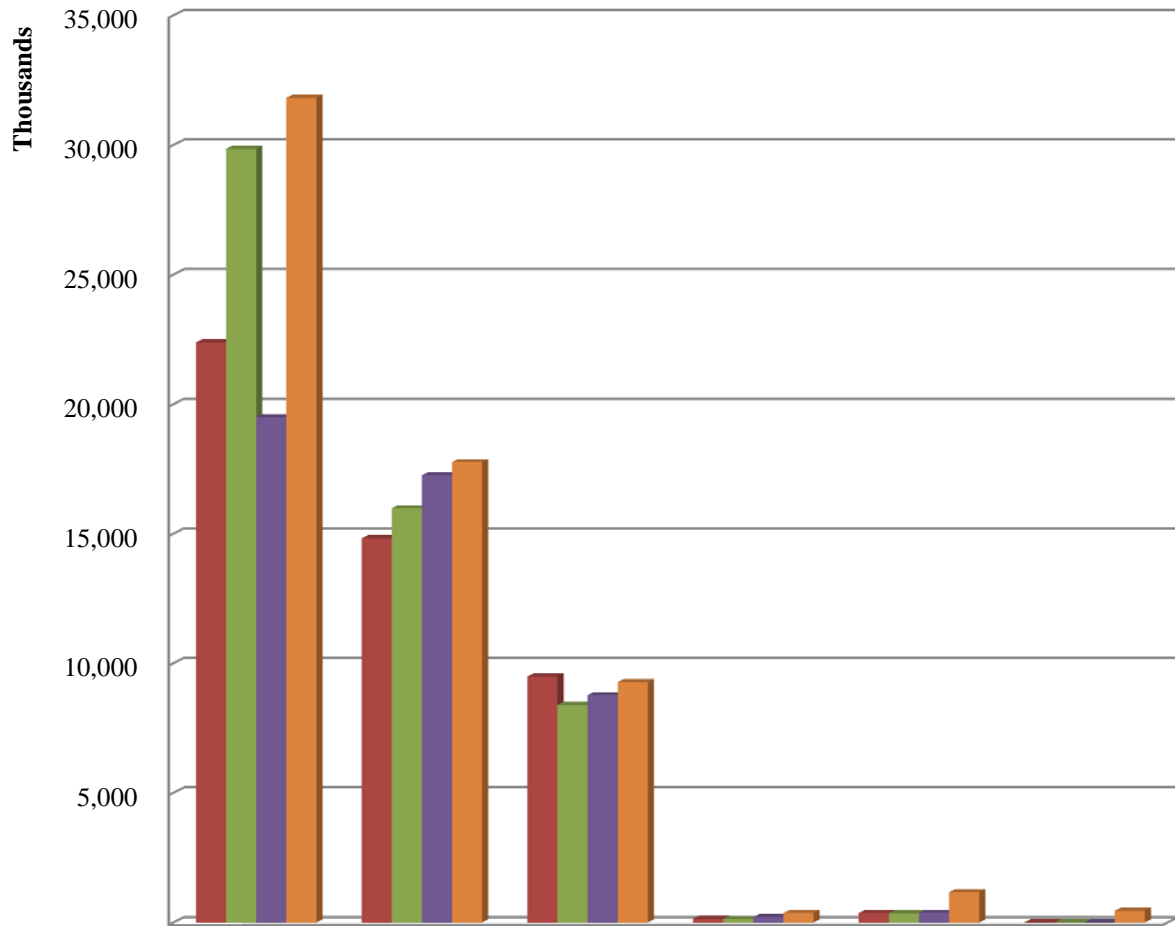
Size Rank	Ultimate Parent	Owned Capacity (KW)	Average of Vintage
69	Arkansas Electric Cooperative Corp.	255,995	24.5
63	Lower Colorado River Authority	285,000	24.4
87	Intermountain Power Agency	180,000	24.0
62	Great River Energy	285,560	23.6
86	PowerSouth Energy Cooperative	182,238	23.6
75	PNM Resources, Inc.	226,547	23.3
35	South Carolina Public Service Authority	548,880	23.0
73	Puget Holdings LLC	232,235	21.0
98	EQT Funds Management Limited	141,778	21.0
56	General Electric Company	328,200	20.3
84	TransAlta Corporation	188,550	20.2
48	Associated Electric Cooperative Inc.	402,440	18.9
53	Oglethorpe Power Corporation	365,570	18.9
65	Basin Electric Power Cooperative	271,775	18.3
81	Hoosier Energy R E C Inc	193,850	18.2
66	Energy Investors Funds Group	261,752	17.4
43	GDF Suez SA	448,556	16.5
95	Orlando Utilities Commission	150,049	15.8
74	Austin Energy	227,210	15.1
54	Harbert Management Corporation	333,631	14.9
44	ArcLight Capital Partners LLC	441,596	14.8
91	Occidental Petroleum Corporation	173,950	13.8
40	TECO Energy, Inc.	476,200	13.6
99	Centrica Plc.	135,300	13.3
77	Seminole Electric Cooperative Inc.	221,200	12.7
29	International Power, PLC	648,100	11.8
80	Manulife Financial Corporation	197,832	11.5
4	Calpine Corporation	2,391,093	10.1
85	Riverstone Holdings, LLC	187,200	9.8
79	Mitsubishi Corporation	208,700	9.3
38	LS Power Group	540,130	9.0
20	Tenaska Inc.	970,613	8.6
82	Portland General Electric Company	189,570	8.5
83	Old Dominion Electric Cooperative	188,777	8.4
57	KGen Power Corporation	309,100	8.3
92	Electric Power Development Co. Ltd.	164,848	7.6
64	MACH Gen LLC	274,700	7.5
45	Entegre Power Group LLC	435,600	7.0
67	Sempra Energy	261,030	5.8

Comparison of Non-fuel Production O&M Expenses with other Electric Utilities based on 2009 Ferc Form 1 Data



This chart includes all utilities that filed 2009 FERC Form 1 generation data by 5/1/10 . However, some individual utilities are consolidated

Power Supply 2007 - 2010 Forecast O&M Cost Summary by Major Category



	Contract Tech & Construction Serv	Materials & Supplies	Fees, Permits and Licenses	Vegetation Management	Rentals	Safety Clothing
■ 2007	22,381,960	14,824,522	9,489,640	144,432	366,837	-
■ 2008	29,851,942	15,978,896	8,394,885	132,424	353,594	-
■ 2009	19,499,299	17,260,032	8,773,028	207,518	370,376	-
■ 2010F	31,819,462	17,761,949	9,275,225	362,519	1,168,537	448,484

ATTESTATION

I do hereby swear and affirm that the foregoing is my direct testimony in APSC Docket
No. 10-067-U.

A handwritten signature in cursive script, appearing to read "John H. ...", written over a horizontal line.

9/27/2010
Date