BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF OKLAHOMA GAS AND ELECTRIC COMPANY FOR APPROVAL OF A GENERAL CHANGE IN RATES AND TARIFFS	))))	DOCKET NO. 08-103-U

Direct Testimony

of

Jesse B. Langston

On behalf of

Oklahoma Gas & Electric Company

August 29, 2008

Q. Please state your name, your employer, and your business address.

A. My name is Jesse B. Langston. I am employed by Oklahoma Gas and Electric Company ("OG&E" or "Company") and my business address is 321 N. Harvey, P. O. Box 321, Oklahoma City, Oklahoma 73101.

Q. What position do you hold with OG&E?

A. I hold the position of Vice President of Utility Commercial Operations. I have served in this capacity for over 2 years. Prior to assuming my current duties, I served as Director of Corporate Planning for OGE Energy Corporation for approximately four years where my primary duties were to lead the Company's corporate and business strategy development. My current responsibilities include the Company's resource planning efforts. The resource planning team assesses OG&E's power supply requirements and evaluates the resources needed to meet these requirements at the lowest reasonable cost, with due consideration of risk factors.

Q. Please summarize your professional experience and educational background.

A. I have been employed by OG&E since 1985. I have over 20 years of experience in the electric utility industry in various areas including corporate planning, business planning, engineering, transmission, distribution, metering, end-use forecasting, load forecasting, telecommunications, corporate marketing, demand-side management and generation planning. Over the past few years, I have led a number of significant initiatives within the Company including the acquisition of McClain and the development of Centennial, a state-of-the-art 400MW natural gas combined cycle plant and a 120MW wind farm, respectively.

I hold an MBA from Oklahoma City University (May 2002) and a Bachelor of Science degree in Electrical Engineering from Oklahoma State University (1985).

Q. Have you testified previously before the Arkansas Public Service Commission ("Commission")?

A. I have appeared before the Commission on a number of occasions to provide oral testimony regarding various issues related to industry restructuring and to address OG&E's activities regarding electric deregulation and resource planning. Additionally, I filed written testimony in Docket No. 06-070-U[1] supporting the Company's acquisition of McClain and in Docket No. 06-079-U[2] supporting the Company's acquisition of Centennial.

Q. What is the purpose of your testimony in this proceeding?

A. As OG&E is requesting that the Commission approve inclusion of the Redbud generating plant ("Redbud") in OG&E's generation fleet, with the concomitant inclusion of its cost in rate base in the pro forma test year, my testimony provides an overview of the transaction in which OG&E has agreed to purchase a 51% interest in Redbud and will address the following four major areas. First, I will describe the Redbud plant, key commercial terms and the Oklahoma Corporation Commission ("OCC") regulatory approvals that OG&E requires to close the transaction. Second, I will review the business rationale and decision-making process utilized by OG&E during the bid and negotiation process. Third, I will identify and describe benefits that will accrue to OG&E's customers from acquiring a controlling interest in the Redbud. Fourth, I will summarize the Joint Stipulation and Settlement Agreement executed in the OCC Redbud preapproval application.

Q. Please describe the Redbud transaction.

A. On January 21, 2008 OG&E, with two partners, Grand River Dam Authority ("GRDA") and the Oklahoma Municipal Power Authority ("OMPA") entered into agreements to acquire the 1,230 MW Redbud generating plant from Kelson Holdings, LLC ("Kelson")

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[1] In the Matter of the Application of Oklahoma Gas and Electric Company for Approval of a General Change in Rates and Tariffs

[2] Application of Oklahoma Gas and Electric Company for a Declaratory Ruling Authorizing the Jurisdictional Allocation of Energy and Costs related to the Construction, Ownership and Operation of the Centennial Wind Facility Project

for $852 million. These agreements ("the transaction") were the end-products of a competitive sales process conducted by Kelson's investment bank, Goldman Sachs.

Q. **What was your role in this transaction?**

A. I was responsible for the overall Redbud transaction and my involvement included participation in the bid, due diligence and negotiation phases of the process.

Q. **Please summarize the factors that led to OG&E's decision to acquire an interest in Redbud.**

A. OG&E's decision to acquire a 51% interest in Redbud was based on the following factors:

(1) The Redbud transaction price represents the lowest reasonable cost to our customers, as supported by our resource planning analyses, extensive due diligence, and third-party plant valuations. The Redbud transaction price of $852 million ($693/kW) was approximately 24% less than the cost of new construction at the time with estimates for combined cycle plants exceeding $900/kW. Moreover, current estimates exceed $1000/kW. In addition, Redbud represents "iron-in-the-ground" capacity that is not subject to development and construction cost risks.

(2) The purchase allows the Company to acquire a relatively new, highly efficient gas fired generation plant that will enable us to meet our growing load obligations. Due in part to the Oklahoma Corporation Commission ("OCC") Red Rock decision, Order No. 545240, dated October 7, 2007, and the uncertainties attributable to future environmental regulation, it became apparent that our next capacity addition would be a gas-fired option, whether it be the result of a new build, acquisition or purchase power agreement ("PPA").

(3) The facility is ideally located within our service area with adequate transmission capability to deliver into the OG&E system.

(4) The acquisition of Redbud will enhance reliability of supply for our customers and lower our production costs by allowing dispatch of this facility ahead of older, less

efficient units. It also complements our planned expansion of wind energy and DSM programs.

I. TRANSACTION SUMMARY

Q. **Please summarize the Redbud transaction.**

A. On January 21, 2008, the Company entered into a Purchase and Sale Agreement ("PSA") to acquire 100% of Redbud Energy LP, from three entities controlled by Kelson. Redbud Energy LP's principal asset is the Redbud generating facility located near Luther, Oklahoma.

Immediately upon closing the purchase, OG&E will dissolve Redbud Energy LP and sell a 49% undivided interest of the plant through an Asset Purchase Agreement ("APA") to OMPA and GRDA, which will own a 13% and 36% undivided interest in the plant. The purchase from Kelson will not close unless OMPA and GRDA have each deposited their respective purchase price amounts in an escrow account. After these two transactions are completed, OG&E will retain a 51% undivided interest in Redbud or 627 MW based on the nameplate capacity.

The new owners have agreed to pay Kelson $852 Million or $693/kW, subject to a net working capital adjustment. OG&E's portion of the unadjusted purchase price is $434.5 million. The APA mirrors the PSA in all material respects with the exception of Article IV, which provides that OMPA and GRDA must rely on the representations and warranties made by Kelson to OG&E and they cannot look to OG&E to enforce those commitments on their behalf. A third agreement, the Ownership & Operating Agreement ("O&O Agreement"), governs the ownership and operation of Redbud following the consummation of the transaction.

Q. **Please describe the Redbud generating facility.**

A. Redbud is a 1,230 MW gas-fired combined-cycle plant located near Luther, Oklahoma and situated on 320 acres of land. The plant uses four GE 7FA combustion turbines with a heat recovery system comprised of four additional steam turbines. These eight turbines are supplemented with four duct burners that boost the output of the plant to meet peak demand conditions. Accordingly, this configuration allows Redbud to serve base-load, mid-merit and peaking needs based on the dispatch needs of our portfolio. Redbud completed operational testing in 2003 and began commercial operations in May 2004. Redbud is interconnected to OG&E's transmission system and relies on transmission services arranged by the Southwest Power Pool ("SPP") and is governed by the FERC. Redbud is also interconnected to ONEOK Partners, LP's interstate gas transmission system. Energy management services are currently provided by Westar Energy, Inc. and plant operations are performed by North American Energy Services Company. Redbud has long-term agreements with General Electric International, Inc.

Q. **Does OG&E have experience with Redbud?**

A. Yes. As noted above, Redbud is located within our operating control area and is a transmission service customer of OG&E. In 2003, before Redbud began commercial operations, OG&E discussed a potential acquisition of the Redbud plant with Intergen, the previous owner, before ultimately acquiring the McClain plant. Finally, OG&E has purchased energy and capacity from Redbud since 2005, most recently under a Purchase Power Agreement ("PPA") for 300 MW to meet OG&E's 2008 and 2009 load requirements.

Q. **Did OG&E perform any tests on the Redbud units?**

A. Yes. As part of OG&E's due diligence process, OG&E retained the services of Mechanical Dynamics and Analysis, LTD to perform an operational test on January 8, 2008. The operational test results indicate that the Redbud plant meets or exceeds performance design.

Q. **Is the closing of the transaction subject to any regulatory conditions?**

A. Yes. In addition to several customary commercial closing conditions detailed in Article VII of the PSA and certain conditions imposed on GRDA and OMPA by law, the closing is subject to (1) receipt of an order from FERC authorizing the transactions contemplated by the PSA and APA pursuant to Section 203 of the Federal Power Act and (2) an order from the OCC recognizing the prudence of the transaction and approval of a cost recovery mechanism.

Q. **Can the agreement to acquire Redbud be terminated?**

A. Yes. The PSA can be terminated by mutual written consent of the purchaser and seller. The agreement also allows either party to terminate if the closing has not occurred on or before 300 days after the execution of the PSA. The termination date can be extended beyond 300 days in the seller's sole discretion not to exceed 180 days if the conditions that I have just described are not satisfied.

Q. **How will Redbud be operated between the execution of the transaction agreements and the closing date?**

A. The current owners of Redbud will continue to operate the plant until the transaction closes and ownership changes hands. However, the buyers have negotiated terms in the PSA that ensure that the value of the asset is maintained during this period. For example, the seller cannot sell any material assets materially change the level of inventory, enter into power or fuel contracts for terms longer than one year from the signing date, except if contracts are with any of the three purchasers (and then, only up to their pro rata share of the output of the facility).

Q. **How will major capital investments and operating decisions be made by the new owners?**

A. The O&O agreement governs the ownership and operation of the Redbud facility including, but not limited to Governance, Defaults, Dispute Resolution, Operations, Limits on Liability and Fuel Procurement. OG&E will be Operations Manager with oversight from an Executive Committee with representation by each owner of the plant in accordance with each owner's respective ownership share. However, major issues, such as material changes to the Operations & Maintenance Agreement or other material contracts, require a "supermajority" (+60%) approval. This effectively requires that OG&E and at least one other owner to approve these supermajority decisions.

II. OG&E DECISION-MAKING PROCESS

Q. When did OG&E learn of the opportunity to acquire Redbud?

A. In late October 2007, OG&E was contacted by UBS Investment Bank ("UBS") who informed OG&E of an ongoing auction process to sell a package of Kelson assets that included Redbud. The process was being conducted by Goldman Sachs. OG&E subsequently executed a confidentiality agreement with Kelson and was provided with the offering memorandum and limited access to the transaction data room. Kelson's offering memorandum described a plan to sell four natural gas combined cycle plants as a package. However, OG&E expressed an interest in Redbud on a stand-alone basis and Kelson agreed to consider a bid for Redbud separately from the rest of the portfolio.

Q. What factors contributed to OG&E's decision to pursue making a bid for Redbud?

A. Redbud's location within OG&E's control area, the age of Redbud and OG&E's reliance on Redbud for energy through the years was reason enough to spark our interest in the sale process. OG&E's analysis indicated that we had a need for capacity in a time frame that could be met by an acquisition of Redbud. OG&E had been counting on its proposed Red Rock plant to meet this need until the OCC decision in Cause No. PUD 200700012. OG&E concluded, after the Red Rock decision, that natural gas-fired capacity, through a PPA, a new build or acquisition, was the most viable capacity option within the next five years. We were aware that Redbud has the operational flexibility to serve a range of needs throughout the year including base load, peaking and mid-merit needs. In particular, we recognized that Redbud's operational capabilities would complement our prospective investments in wind energy.

In addition, Redbud represents "iron-in-the-ground" capacity that is not subject to development and construction cost risks. It also has interconnections to natural gas and electric transmission facilities that can be costly infrastructure for new plants. More importantly, we expect purchase power costs to increase substantially and become volatile due to the tightening of the SPP market, a situation has been aggravated by the cancellation of planned coal plants. Finally, capacity needs vary within the SPP and we believe the market in OG&E's service territory is much tighter than the SPP as a whole.

Q. OG&E has an agreement to purchase power from Redbud through 2009. Why did OG&E feel it was important to pursue purchasing the plant in this auction process?

A. If another entity purchased Redbud or the present owners refinanced their debt, it is not clear when, if ever, OG&E would have another opportunity to acquire Redbud. The Kelson sales process represents a potential one-time opportunity for OG&E to lock in value for its customers. In short, I believe it would have been irresponsible for OG&E not to participate in this process given the capacity shortage in our service territory and other factors that I have described.

Q. Please describe in detail the timeline of the Kelson process.

A. OG&E's involvement in Kelson's auction process began in late October 2007. The timing communicated by Goldman Sachs, the seller's financial advisor, required OG&E to move quickly. We executed a Confidentiality Agreement on November 9th and were provided with the Offering Memorandum documents at that time. OG&E submitted a first round bid on November 15, 2007. The Company's transaction team was granted expanded on-line access to the data room on November 26, 2007 and received a briefing from Kelson's top management two days after that. We conducted an official site visit on December 6, 2007.

Simultaneously, OG&E was evaluating potential partners in the transaction. This led to the December 7, 2007 Memorandum of Understanding ("MOU") with GRDA and OMPA. On behalf of the newly formed partnership arrangement, OG&E submitted a second bid (along with a marked-up draft of the proposed PSA) on December 18, 2007. Due diligence took place throughout this timeframe and continued through the month of negotiations that ultimately resulted in executed transaction agreements on January 21, 2008.

Q. Why did OG&E begin discussions with potential partners?

A. OG&E understood that it could not purchase 100% of the plant. We also knew that other load serving entities in Oklahoma were likely in a similar situation. OG&E contacted OMPA who is currently our partner in the McClain plant. We have had an outstanding business relationship OMPA and believed that they would have an interest in partnering again on this opportunity. OG&E then contacted GRDA whom we saw as a logical partner on this project. This is our first opportunity to enter into a business arrangement with GRDA and I am confident they will be good partners as well.

Q. **What types of customers are served by GRDA and OMPA?**

A The GRDA serves 21 cities, 1 distribution cooperative, 2 public power joint action agencies representing approximately 105 municipalities and approximately 80 industrial customers located primarily in the Mid America Industrial Park. OMPA serves 35 cities or about 230,000 electric consumers throughout the State of Oklahoma.

Q. **Did the partners retain the services of any outside advisors?**

A. Yes. UBS was retained by OG&E, OMPA and GRDA due to the market knowledge and experience of its Power and Utilities team. The UBS team also had direct experience working with Kelson and a keen understanding of Kelson's transactional needs. The partners retained Sargent & Lundy LLC to conduct an independent engineering assessment of the facility as part of the operational plant due diligence. Sargent & Lundy is a leading provider of services to the fossil fuel industry and expert in the design, construction and operation of gas-fired power plants. The partners also retained Mechanical Dynamics and Analysis LTD to perform an operational test to confirm the operational characteristics of the plant.

In addition, OG&E retained Concentric Energy Advisors, Inc. ("CEA") to perform an independent external market valuation of the Redbud plant that was completed before we executed the transaction agreements. CEA is a leading energy consulting firm and has been identified by SNL Financial as among the top ten financial advisors in energy transactions over the past four years.

Q. **What did OG&E bid in the first round?**

A. OG&E submitted a price range of $680/kW to $740/kW in the first round.

Q. How was this range determined?

A. The Company elected to submit its bid in the form of a range that would allow us to adjust our final bid as we learned more through the due diligence process and our ongoing resource planning analyses. We utilized several sources of information in establishing our initial bid range. The data points included an internal analysis calculated by OG&E based on information provided by Kelson ($675/kW), a valuation performed by ICF on behalf of Kelson ($688/kW), a portfolio valuation analysis prepared by OG&E's resource planning group ($723/kW-$848/kW, including risk); a comparable sales analysis provided by UBS ($799/kW in the most recent period), and an internal OG&E estimated new build construction cost based on Burns & McDonnell estimates ($904/kW).

Q. Please describe the due diligence effort conducted by OG&E?

A. After our initial bid was accepted, OG&E formed an extensive due diligence team that produced a report detailing its findings. The team examined several areas including, but not limited to organizational structure, material contracts, credit agreements, fuel supply, electric transmission, operations and maintenance, insurance, tax, regulatory, information technology, real estate, environmental and human resources issues.

Q. Did the Company also review potential new transmission costs?

A. Yes. There are two potential sources of new transmission costs throughout the bid process. First, additional transmission investments may be required to allow the owners to receive 100% of their pro-rata output of the plant. The actual investment, if any, will be determined by the SPP as part of their review of the partners' requests for transmission service. The SPP will also determine the allocation of these costs to the partners based on its transmission analysis. Second, additional transmission costs may result from the FERC Section 203 filing. OG&E expects that its share of any transmission investment required by the SPP will not be a significant factor in the transaction.

Q. **How did OG&E arrive at the final price that it was willing to pay for Redbud?**

A. OG&E based its decision on the results of due diligence, our assessment of the fair market value of the plant, OG&E's internal resource planning analyses and comparable market sales. Based on the above factors and advice from our advisor, UBS, the owners elected to remain at the low end of our initial indicative bid range, at $852 million or $693/kW, subject to a working capital adjustment. Before executing the transaction agreements, CEA completed a market valuation that provided an independent confirmation of the reasonableness of the final price offered to acquire Redbud.

III. CUSTOMER BENEFITS

1. *Excellent Plant and Relatively New*

Q. **Why is Redbud an excellent plant to own and operate?**

A. During its less than four-year operating life, Redbud has been primarily serving the mid-merit and peak load requirements of its contract customers, including OG&E. More importantly, our due diligence revealed that Redbud has not experienced any operating or maintenance issues that were not correctly addressed and that periodic maintenance has been performed in accordance with "prudent operator practices" as recommended by Redbud's equipment suppliers and manufacturers. Therefore, we are acquiring a plant that we have every reason to expect to perform well and serve our customers reliably throughout its remaining life. In addition, the recent McClain acquisition has significantly improved our operational knowledge of GE 7FA technology, and has provided valuable experience operating this technology.

2. *Ideal Location*

Q. **Why is Redbud's location ideal?**

A. Redbud is located near OG&E's Oklahoma City load center. Because the developers of Redbud have already paid for the transmission facilities necessary to interconnect with the SPP and deliver capacity to their customers, OG&E will have minimal investment in additional transmission facilities to serve our load requirements. In the event OG&E acquired an existing asset outside of its service area or executed a PPA or constructed a new asset, OG&E customers would likely pay more for associated new transmission investments than any increase in transmission costs associated with the Redbud acquisition. As evidenced by our 2007 short-term capacity RFP, it is either physically impossible or costly for many potential sellers to deliver capacity to OG&E without additional transmission investment.

3. *Improves Reliability and Meets Capacity Needs*

Q. **How does Redbud improve OG&E's reliability?**

A. The addition of a relatively new plant to an aging portfolio improves the reliability of supply. Due to its "1x1x1" configuration, OG&E will be able to operate the plant as four units and continue to provide power when a one or more of the turbine are shut down. The fact that Redbud is located within OG&E's service area and proximate to our largest load center also contributes to an increase in the reliability of supply as it provides some protection against transmission outages in other parts of SPP and in neighboring regions.

Q. **How does Redbud meet OG&E's capacity needs?**

A. OG&E has a need for capacity beginning in 2010 after the expiration of the current Redbud PPA. Our estimate of the need to exactly meet SPP's minimum capacity requirement is 424 MW in 2010 and grows by approximately 100 MW per year, assuming that OG&E does not retire any of its aging plants. As described in OG&E's 2006 IRP submittal to the OCC, the Company's intent was to rely on PPAs as a bridge strategy until a coal plant (i.e. Red Rock) was placed in service. The Redbud acquisition will satisfy OG&E's capacity needs through approximately 2012, at which time our resource planning analysis indicates that we will need to add more capacity. These short-term capacity needs will be served by natural gas-fired capacity whether OG&E continues a PPA-based strategy, builds a combination of CC and CT plants, or acquires an asset.

4. *Lowest Reasonable Cost*

Q. **Please explain why OG&E believes that it has acquired Redbud at the lowest reasonable cost.**

A. Our resource planning analyses indicate that Redbud is part of the optimal resource plan when considering both cost and risk factors. The price also reflects a significant discount off of the cost of a new CC plant. The Redbud transaction price of $852 million ($693/kw) was approximately 24% less than the cost of new construction at the time with estimates for combined cycle plants exceeding $900/kw. However, current estimates exceed $1000/kW.

The price paid is fair from other perspectives as well. It is supported by extensive due diligence and third-party valuations. CEA's independent valuation of Redbud concluded that the price was slightly below the low range of Redbud's value as a merchant plant.

OG&E further believes that the price compares favorably to what could materialize if the Company were to continue to rely on PPAs to meet this portion of its requirements over the next several years. OG&E's resource planning analysis that compares a PPA-based strategy to the Redbud acquisition indicates that the Redbud and PPA-based strategy are virtually identical, before consideration of any debt imputation. Redbud is also advantaged due to the fact that it is already built and has known costs as compared to the PPA strategy that is subject to potentially adverse swings in market conditions.

Q. **Is OG&E's purchase price of $852 million (or $692.7/kW) well within the reasonable range of value for the plant?**

A. Yes. First, pursuant to a present value analysis a reasonable range of value for Redbud was between $941.9 million (or $765.80/kW) to $812.6 million (or $660.70/kW) with a base deterministic valuation of $875.6 million (or $711.90/kW). Second, at the time, new build cost per kW was $953 in 2009 dollars. However, current estimates exceed $1000/kW. Third, after considering the impact of depreciation and an adjustment to reflect the fact that Redbud is five years old, the effective cost to construct was only reduced to $817/kW, or slightly over $1billion. Lastly, an examination of other recent transactions for gas fired generating plants reflected that 2007 combined cycle transactions ranged from $297/kW to $880/kW with a mean of $491/kW.

5. *Provides Protection Against the Risks of Tightening SPP Market Conditions, New Carbon Regulations and Increasing Natural Gas Prices*

Q. **How does the Redbud acquisition provide protection against tightening market conditions?**

A. The acquisition of Redbud serves as protection against the potential that prices will be higher than we have projected in our analyses as a result of a number of factors that could drive capacity costs higher. Those factors include tightening regional market conditions, higher new construction costs that influence market prices, and the installation of equipment to meet stricter emissions requirements. Should these factors contribute to capacity prices rising at a more accelerated pace, then OG&E will have locked in a better price for Redbud, deferred the need for the next portfolio addition (including potentially a higher priced asset or PPA acquisition), and avoided paying higher PPA prices over the interim period.

Q. **How does an additional 627 MW of natural gas-fired capacity provide protection against future CO_2 regulations?**

A. Natural gas emits CO_2 but at a much lower rate than coal-fired plants. While DSM and wind provide a greater protection against CO_2 prices being higher than expected after new regulations are passed, natural gas-fired capacity serves this same objective when compared to coal-fired capacity.

Q. **How does the Redbud acquisition protect OG&E against higher natural gas prices?**

A. Although Redbud is fueled by natural gas, it is much more efficient than OG&E's older gas plants and therefore helps moderate the impact of higher natural gas prices on our customers. Redbud also complements our planned expansion of wind energy and DSM programs which, in turn, moderates the effect of higher natural gas prices.

6. *Preferred to a PPA-Based Strategy*

Q. **How did OG&E evaluate the Redbud acquisition as compared to a PPA-strategy?**

A. OG&E performed an analysis that compares the price paid today for Redbud to a series of short-term PPAs with prices that increase every year to reflect the expected tightening of the market. OG&E's 2007 RFP for capacity in the 2008-2010 timeframe resulted in prices that exhibited this trend. This comparison essentially measures the tradeoff between a slightly higher price of Redbud in the first few years (necessary to complete the long-term transaction) against a stream of PPA prices that exceed the Redbud sales price when demand and supply are in balance. This analysis indicates that the Redbud and PPA-based strategy are virtually identical, before consideration of any debt imputation and capacity price risk.

7. *No Construction Cost Risk*

Q. **Does "iron-in-the-ground" have an advantage over new build generation?**

A. Yes, at least based on the present environment. New power plant construction costs have risen dramatically over the past two to three years. The landscape for building new power plants has shifted in a way that gives a preference to an acquisition of an operating asset. By acquiring Redbud, our customers will be shielded from risks associated with often unpredictable cost escalations, scheduling delays, and other uncertainties of new generation construction projects.

As an existing plant, OG&E will not have to develop new transmission facilities. The transmission review and approval process, siting, and development can take as long as or longer than constructing the plant. Acquisition of an existing asset also avoids the need for siting, permitting and other land-use development issues.

Q. **What factors are contributing to the rapid escalation in construction costs?**

A. Power plant construction cost escalation is being driven largely by global demands for raw materials (e.g., steel), fabricated equipment, and EPC services.

8. *Improves Generation Portfolio*

Q. **How did OG&E analyze Redbud's fit into its portfolio?**

A. OG&E performed an assessment of Redbud's fit into our existing portfolio as well as its fit into a potential future portfolio with additional wind generation. Natural gas plants that are able to ramp capacity contributions up and down are particularly valuable as a complement to wind energy which is subject to varying and difficult to predict operating conditions.

Q. **What benefits will accrue to OG&E's customers from adding a more efficient resource to the portfolio?**

A. OG&E dispatches its portfolio on a least cost basis. The addition of Redbud, a plant that is significantly more efficient than many of OG&E's existing natural-gas fired plants, will provide savings to customers. Redbud is comparable to the new build and PPA options on a cost basis and also with respect to natural gas price risk and carbon policy risk. However, it avoids the cost risk associated with new construction and the market risk associated with a PPA.

9. *Control of Redbud Provides Additional Benefits*

Q. **How does OG&E's control of Redbud provide value to customers?**

A. Ownership and control of Redbud's operations has another advantage over continuing as a contract purchaser under a PPA. As an owner and operator, OG&E will be able to dispatch the plant as part of its entire supply portfolio to maximize benefits. More specifically, OG&E will be able to dispatch this plant, along with its other plants and contracts, to improve the overall efficiency of the portfolio. As an owner of the plant, and unlike a PPA, OG&E's customers will continue to receive benefits if the plant continues to operate after it is fully depreciated.

IV. REQUESTED RELIEF IN THE OKLAHOMA JURISDICTION

Q. **What relief did OG&E request in the Oklahoma jurisdiction?**

A. On March 20, 2008, OG&E filed Cause No. PUD 200800086 with the OCC requesting preapproval to purchase Redbud. The application specifically requested the OCC to issue an order that includes the following findings: (i) OG&E's decision to purchase a 51% interest in Redbud is prudent; (ii) the generation facility is used and useful upon closing the transaction; (iii) authorization of a rider to recover Redbud's annual revenue requirement until OG&E's next rate case is completed and new rates implemented; and (iv) the full investment or purchase price, return on and amortization for transaction costs, operation and maintenance expenses, depreciation and ad valorem taxes related to Redbud shall be included in the Company's cost of service in its next rate case.

Q. **Please identify the parties to the Oklahoma case.**

A. Oklahoma Gas & Electric Company; the Oklahoma Corporation Commission; Oklahoma Office of the Attorney General; Redbud Energy, LP; OG&E Shareholders Association; AES Shady Point, LLC and the Oklahoma Industrial Energy Consumers are the parties of record.

Q. **Has a settlement been reached in Cause No. PUD 200800086?**

A. Yes. On July 30, 2008, a Joint Stipulation and Settlement Agreement ("Settlement Agreement") was executed. The Settlement Agreement is provided as Exhibit JBL-1 to my testimony.

Q. **Please summarize the Settlement Agreement reached by the parties.**

A. There are six areas of agreement that are addressed by the Settlement Agreement:

(1) Redbud Purchase: The parties agree that OG&E's acquisition of a 51% interest in Redbud at a cost which includes the sum of (a) $434,520,000, (b) the adjustment to the sale price, and (c) actual transaction costs is prudent and that a 51% ownership share of the facility is used and useful when OG&E begins operation of the plant. The parties further agree that if OG&E's share of the adjustment to the sale price exceeds 51% of $4,000,000, any party may challenge the prudence of that excess amount in OG&E's next rate case proceeding. The parties also agree that the costs of acquiring and operating the Redbud plant will be recoverable through a "Redbud Acquisition Recovery Rider" until such time as new base rates are implemented as a result of OG&E's next base rate proceeding.

(2) Potential FERC Transmission Costs: The acquisition of Redbud is contingent upon FERC approval. It is possible that FERC approval of the Redbud acquisition may include a requirement that OG&E construct or cause the construction of new transmission facilities. Although recovery of costs attributable to these investments will not occur until after the expenditures are made, the parties agree that

expenditures up to OG&E's estimate of $17 million are prudent. The parties also agree that should OG&E be required to expend more than $17 million and OG&E seeks to recover in a rate case costs that exceed this estimate, the parties have the right to challenge the prudence of an expenditure in excess of $17 million.

(3) Cost Allocation and Cost Recovery: The parties agree to a specific methodology that governs the recovery of costs through the "Redbud Acquisition Recovery Rider".

(4) Off-System Sales: The current Off-System Sales of Electricity rider ("OSSE"), splits the profits from certain off-system sales by flowing 80% of those profits to customers and 20% to OG&E. The parties agree that OG&E will flow through to customers 100% of Oklahoma's share of the net of credits and charges resulting from its participation in the SPP's Energy Imbalance Services market until the earlier of December 31, 2011 or the effective date of a subsequent Commission Order revising or rescinding this provision. Similarly, OG&E will flow through to customers 90% of the profits from other sales covered by the OSSE until the earlier of December 31, 2011 or the effective day of a Commission Order changing this arrangement.

(5) Integrated Resource Plan Update: OG&E agrees to file an interim, updated integrated resource plan (IRP) within 120 days of the issuance of a final Commission order in this proceeding.

(6) Competitive Procurement Rules: Within 60 days of the issuance of a final order approving the Settlement Agreement, OG&E will file a petition seeking initiation of an NOI process intended to resolve any conflict between the Commission's competitive procurement rules (Subchapter 34, Section 3(e)) and the rules governing pre-approval of costs (Subchapter 38, section 5). In particular, the Stipulating Parties agree to a support a position that, at a minimum, requires use of the waiver provisions of the competitive procurement rules when a utility seeks pre-approval of costs for a facility or long-term contract that was not the winning bidder in a competitive procurement process.

Q. **When is the Oklahoma settlement hearing scheduled?**
A. On September 19, 2008, a hearing is scheduled before an Administrative Law Judge for consideration of the Settlement Agreement.

Q. **Does this conclude your testimony?**
A. Yes.