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	)	DOCKET NO.10-067-U
RATES AND TARIFFS	)	

Direct Testimony

of

Sheri D. Richard, CPA

on behalf of

Oklahoma Gas and Electric Company

September 28, 2010

QUALIFICATIONS, EXPERIENCE AND PURPOSE

Q. **Please state your name, by whom are you employed and business address.**

A. My name is Sheri D. Richard. 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 am the Director of Revenue Requirements.

Q. **Would you please summarize your education and professional background?**

A. I earned a Bachelor of Science degree in accounting from Northwestern Oklahoma State University in 1992, and in 1994 I became a Certified Public Accountant, licensed to practice in Oklahoma. I also have a Masters of Business Administration from the University of Phoenix. Prior to joining OG&E, I was employed for 7 years by UICI, a state regulated insurance company. I have been employed at OG&E for over 10 years working in Financial and Regulatory Accounting, managing the Costing and Pricing department and now as Director over the cost of service and regulatory accounting departments. While at OG&E, I have participated in, coordinated and/or served as the case manager over the preparation of the Minimum Filing Requirements for the current base rate filing in Arkansas as well as in Arkansas Docket No. 08-103-U, and Arkansas Docket No. 06-070-U.

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

A. Yes. I filed testimony in Docket No. 07-075-TF.

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

A. The purpose of my testimony is to sponsor the *pro forma* adjustments to rate base and expense, as listed in Charts 1 and 2 below, as well as the overall revenue requirement and rate increase calculation. In addition, I will sponsor a proposed recovery mechanism for storm damage expenses.

Chart 1 – *Pro Forma* adjustments to Rate Base

***Pro Forma* Adjustment**	**Rate Base Description**
WP B 2-1	Holding Company Assets
WP B 2-2	2009 CWIP transferred to Plant in Service
WP B 2-3	2010 CWIP transferred to Plant in Service
WP B 2-5	Accumulated Depreciation Adjustment to reflect Arkansas Depreciation rates
WP B 2-7	Competitive Payments
WP B 2-8	Accumulated Depreciation 2010
WP B 2-9	Adjust out CWIP not to be completed in 2010, reimbursable or contributions in Aid of Construction (CIAC)
WP B 2-10	Removal of Accumulated Depreciation OU Wind Farm
WP B -6	Removal of Non-Utility Property
WP B -7	Adjustment for Plant Held for Future Use
WP B -10	Acquisition Adjustment

Chart 2 – Operating Expense *Pro Forma* Adjustments

***Pro Forma* Adjustment**	**Income Statement Description**
WP C 2-13	Advertising
WP C 2-14	Insurance
WP C 2-15	Holding Co. O&M reclassification
WP C 2-16, WP C 2-17, WP C 2-21, WP C 2-25, WP C 2-27, WP C 2-42 and WP C 2-44	Payroll YE 2009, YE 2010, Additional Positions and progressions, McClain & Redbud Payroll, and payroll tax
WP C 2-18	Regulatory Expense
WP C 2-19	Bad Debt Expense
WP C 2-23	Vegetation Mgmt. Expense
WP C 2-24 and WP C 2-36	Demand Program and Energy Efficiency cost removal
WP C 2-26	Depreciation and Amortization Expense
WP C 2-31	Regulatory Asset Amortization removal
WP C 2-32	Postage Expense
WP C 2-35	Acquisition Adjustment Amortization
WP C 2-38	Entertainment, Gifts and other
WP C 2-46	Fleet Fuel

Other Company witnesses will address the following *pro forma* adjustments: John Wendling explains the basis for the Power Supply O&M and OU Spirit Wind Farm O&M adjustments and Donald Rowlett addresses adjustments related to Pension and Benefits, Tax, SPP, certain Transmission Plant and O&M, the Energy Cost Recovery Rider ("ECR") and Working Capital.

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

A. My direct testimony is organized into the following sections:

Section I: Commission Rules and Procedures
Section II: General Rate Change
Section III: *Pro Forma* Adjustments
Section IV: Storm Damage Rider
Section V: Conclusion

SECTION I: COMMISSION RULES AND PROCEDURES

Q. **Please describe the system of accounting utilized in maintaining the Company's books and records.**

A. OG&E maintains its financial and accounting records in conformance with the "Uniform System of Accounts for Public Utilities and Licensees", CFR Title 18, Part 101, required by the Federal Energy Regulatory Commission ("FERC") and adopted by the Commission. Financial statements are prepared in accordance with generally accepted accounting principles and audited annually by an independent public accounting firm to assure these principles are applied on a consistent basis and in keeping with the prescribed system of accounts. In addition, the Oklahoma Corporation Commission ("OCC"), APSC, FERC, the Internal Revenue Service and other governmental and regulatory agencies perform periodic audits to assure compliance with their respective requirements.

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

A. The Company's exhibits were based on the financial results of the test year ending December 31, 2009 and the *pro forma* test year ending December 31, 2010.

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

A. OG&E is requesting a general rate change pursuant to the Commission Rules of Practice and Procedure, Section 9 and Appendices I and IA. The accounting exhibits, schedules, workpapers, testimony, testimony exhibits, testimony workpapers and other evidence that support the general rate change are included with the Application filed in this docket.

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

A. Yes. Pursuant to Ark. Code Ann. § 23-4-401 (1987), a utility is required to provide notice to the Commission of its intent to file an application for a general rate change. On June 1, 2010, OG&E filed its *Notice of Application for a General Change or Modification in Rates, Charges and Tariffs* for its Arkansas jurisdiction customers. On August, 19, 2010 OG&E requested a waiver of the filing schedule and a one-time extension of 30 days. On August 20, 2010 OG&E received authorization to extend the filing to September 30, 2010.

SECTION II: GENERAL RATE CHANGE

Q. **What is the amount of the requested general rate change?**

A. The Company is requesting that the Commission approve a $17,723,253 base rate increase.

Q. **How was OG&E's requested general rate change determined?**

A. The calculation of the Company's requested $17,723,253 general rate increase is summarized in Chart 3.

Chart 3

Line No.	Reference Schedule	General Rate Change Calculation[1]	
1	G-1	Total Rate Base	$ 443,875,276
2	D-1	Required Rate of Return	6.61%
3		Required Operating Income	29,340,156
4	G-1	Adjusted Operating Income	(18,605,394)
5		Operating Income Deficiency	10,734,762
6		Federal and State Income Tax	6,988,491
7	A-1	Revenue Deficiency	**$ 17,723,253**

[1] Application, Volume I, Schedule A-1.

Q. **Please identify and explain the components that are used to determine the $443,875,276 rate base value in Chart 3, line 1.**

A. Schedule B-1, of the Company's application, displays the total company per book rate base and the total amount of *pro forma* rate base adjustments. Schedule B-1 shows that the Company has invested over $4.7 billion to serve its customers. The resulting Arkansas jurisdiction rate base of $443,875,276 is shown in Schedule G-1[2]. The components of the $4,749,367,812, which includes the Arkansas jurisdictional portion, are identified under the "Description" column of Schedule B-1. The supporting schedules, identified at the bottom of Schedule B-1, provide the name of detailed supporting documents of the total company investment for each component in Column 3, adjusted test year. The second column reflects accumulated *pro forma* adjustments to rate base. Further support for the pro forma adjustments is shown in Schedule B-2 which itemizes each *pro forma* adjustment by function and Schedule B-2 Summary which itemizes each *pro forma* adjustment in total. The total company *pro forma* values are then allocated to determine the Arkansas jurisdiction rate base of $443,875,276 shown in Schedule G-1. OG&E witness Greg Veitch sponsors the Arkansas jurisdiction allocation factors shown on Schedule G-4[3].

Q. **What adjustments are proposed to the total company per book rate base?**

A. Workpapers B 2-1 thru B 2-10, Schedule B-4, Schedule B-6, Schedule B-7 and Schedule B-10 identify the *pro forma* adjustments required to establish the appropriate rate base value for ratemaking purposes. These schedules and workpapers also contain descriptions and amounts for these *pro forma* adjustments and identify the supporting schedules.

Q. **What is OG&E's requested rate of return in this docket?**

A. OG&E is requesting a 6.61% rate of return as depicted on line 2 of Chart 3. The cost of capital is identified in Schedule D-1 and sponsored by Company witness Dr. Donald Murry.

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[2] Application, Volume II, Schedule G-1.
[3] Application, Volume II, Schedule G-4.

Q. **Briefly explain the components of the 6.61% rate of return.**

A. As shown in Schedule D-1, OG&E's capital structure is composed of long-term debt of 34.42%, common equity of 38.93% and other debt and equity components of 26.65%. Considering the cost of each component, the resulting rate of return is 6.61%.

Q. **Please explain the relationship between lines 3 and 4 in Chart 3 above.**

A. When the 6.61% rate of return is applied to the Company's Arkansas jurisdictional investment to provide electric service, the result is a return requirement of $29,340,156 (line 3). OG&E's *pro forma* operating income is $18,605,394 (line 4). The $10,734,762 difference (line 5) is the Company's return deficiency. When federal and state income taxes are added to the return deficiency, the result is a $17,723,253 rate increase (line 7).

Q. **Please identify the sections of the Application that are used to establish the $18,605,394 *pro forma* operating income found on Line 4 of Chart 3.**

A. Section G supports the $18,605,394 Arkansas jurisdiction *pro forma* operating income. Schedule C-1 displays the total company per book revenue and expenses and *pro forma* adjustments. The resulting Arkansas jurisdiction operating income can be found in Schedule G-1[4].

Q. **What is the Arkansas jurisdiction total revenue requirement based on the *pro forma* test year results?**

A. A summary of the total requested revenue requirement is found on Schedule A-1. OG&E's Arkansas jurisdiction total revenue requirement is $100,380,582 as reflected on line 11. The Company's proposed terms and conditions of services will produce $591,489 of Other Operating Revenue (line 12). The remaining rate schedule revenue requirement of $99,789,093 represents the revenue required to fund interest payments on debt, a fair return to OG&E shareowners and pay for operating expenses.

[4] Application, Volume II, Schedule G-1.

SECTION III: *PRO FORMA* ADJUSTMENTS

Q. **Why are *pro forma* adjustments to a test year necessary?**

A. In order to design rates to reflect revenue, expense and investment levels the utility expects to experience prospectively, the Company makes adjustments to the Test Year books. As allowed per Arkansas Code Ann. §23-4-406, as amended, the Company has utilized a historical test year with *pro forma* adjustments, on an annualized basis, reflecting reasonably known and measurable changes for the subsequent twelve month period. In that process, test year results are adjusted for (i) costs not expected to re-occur (ii) unusual events or levels of expense, (iii) costs that did not occur but are or will be a normal expense going forward, or (iv) cost adjustments that are determined by the Company or past Commission order not to be the customer's responsibility. In this specific proceeding, *pro forma* adjustments result in a *pro forma* test year that recognizes the revenue, expense and investment levels the Company will experience after new rates are implemented sometime in calendar year 2011.

Q. **What is the importance of the *pro forma* adjustments in this proceeding?**

A. The Company's proposed *pro forma* adjustments are critical to establish fair, just and reasonable rates on a prospective basis and will provide (i) a fair return on the December 31, 2010 Company investment and (ii) the O&M expense level necessary to cover daily operating costs, cost to attract, train and retain employees and costs to conduct maintenance on our facilities.

Q. **Please explain the general categories of *pro forma* adjustments proposed by the Company.**

A. *Pro forma* adjustments fall into one of the following three categories:

(1) *Normalization adjustments* are usually made to revenues and expenses to offset unusual levels of operations recorded during the test year. For example, extreme weather conditions can create abnormal levels of revenues and expenses. Additionally, abnormal levels of operations may occur due to delayed or accelerated projects during a test year. Whether the revenues and expenses are

above or below a normal level, a *pro forma* adjustment is required to project a normal level of operations for the establishment of prospective rates;

(2) *Annualization adjustments* recognize that some expense during the Test Year was not reflective of a full years cost. One example of this type of adjustment is C 2-20 the amortization of pension, other post-employment benefits (OPEB) and medical expense. During the test year, only 7 months of amortization was recorded for pension settlement expense allocated to Arkansas. One component of adjustment WP C 2-20 annualizes this pension settlement expense in order to reflect an annual level of expense expected to occur in future years; or

(3) *Out of Period pro forma adjustments* consider reasonably known and measurable changes that occur within twelve (12) months of the test year ending December 31, 2009. In this proceeding, two good examples are *Pro Forma* Adjustment WP B 2-3 to rate base and *Pro Forma* Adjustment WP C 2-25 to operating income. *Pro Forma* Adjustment WP B 2-3 recognizes construction expenditures for projects that will be serving customers by December 31, 2010, which is within twelve months of the test year. *Pro Forma* Adjustment WP C 2-25 recognizes additional employees that have been or will be hired and progression increases as well as attrition during the period January 1 through December 31, 2010. These *pro forma* adjustments outside the test year are essential in establishing fair, just and reasonable rates.

RATE BASE *PRO FORMA* ADJUSTMENTS

Plant in Service for the Period January-December 2010

Q. **Please explain Schedule B-1.**

A. Schedule B-1 contains the overall summary of rate base including gross plant, accumulated depreciation, construction work in progress, plant held for future use and other rate base. These categories are identified under the “Description” column. Column 1 displays the test year balances as of December 31, 2009. Column 2 reflects accumulated *pro forma* adjustments to each category and Column 3 reflects the pro forma test year balance.

Q. **Please explain *Pro Forma* Adjustments to Plant in Service through 2010.**

A. As discussed earlier in my testimony, per Arkansas Code Ann. §23-4-406, as amended, out-of-period adjustments that are reasonably known and measurable within twelve months of the test year are permitted by the Commission. Therefore, the Company analyzed the (i) capital expenditure budget for 2010 and (ii) construction work in progress at December 31, 2009. A determination was then made as to which projects would be completed and serving customers by December 31, 2010. *Pro Forma* Adjustments WP B 2-2 and WP B 2-3 increase total company rate base by $251,587,601 and $299,622,526, respectively, to recognize these completed and "in-service" construction projects identified. Additionally, WP B 2-3 reflects a reduction to total company rate base for estimated 2010 retirements of $64,569,106 and WP B 2-7 reflects a reduction for Oklahoma Competitive payments of $5,998,303. Also, as discussed by Company witness Donald Rowlett, plant was reduced by $9,739,043 for certain transmission costs recovered from other Load Serving Entities ("LSEs") in the Southwest Power Pool ("SPP") (WP B 2-6). This results in a net addition to plant of $470,903,675. When these adjustments are combined with *Pro Forma* adjustment WP B 2-1 related to the Holding Company assets described next, the net change to plant in service for the year is $446,130,861.

Holding Company Asset Allocation

Q. **Please explain *Pro Forma* Adjustment B 2-1, Holding Company Asset Allocation.**

A. WP B 2-1 includes the Holding Company assets in the total company per book "utility plant" value as shown on line 1. A *pro forma* adjustment is proposed to reflect the Company's allocation of 24.32% of the Holding Company assets to non-utility activity. This allocation is consistent with the methodology agreed to in Docket No. 08-103-U and is supported by WP C 2-15-2.

OU Wind Farm Accumulated Depreciation

Q. **Please explain *Pro Forma* Adjustment Accumulated Depreciation OU Wind Farm (WP B 2-10).**

A. This *pro forma* reduces accumulated depreciation expense by $12,836,491 related to the OU Wind Farm. This is the amount of total company depreciation expense booked but not recovered from Arkansas ratepayers during test year 2009 and *pro forma* year 2010.

Q. **Why is it appropriate to exclude the accumulated depreciation expense associated with the OU Wind Farm?**

A. As stated in "Accounting for Public Utilities",[5] "…the purpose of depreciation is to make provision for recovery or charge of the original cost of the property by the end of its life." Another way to understand this lies in the accounting principal of matching costs with the revenues generated associated with the asset. The Company has not recovered or received revenue for its investment in the OU Wind Farm from the Arkansas jurisdiction since the plant went in service in late 2009. Therefore, the accumulated depreciation allocated to the Arkansas jurisdiction has been reduced assuming there will be no recovery of the asset from Arkansas customers through December 31, 2010. However, in Docket No. 10-073-U, the Company has requested a regulatory asset for OU Spirit effective September 1, 2010. If the regulatory asset is approved, this pro forma adjustment would need to be modified.

Q. **What affect does removing the accumulated depreciation expense related to the OU Wind Farm have on rate base?**

A. By removing the accumulated depreciation expense, the Arkansas jurisdiction rate base will increase to reflect the depreciation expense for 2009 and 2010 that was not recovered through electric rates. This will allow a return on the shareowner's investment that will never be recovered from Arkansas customers. This is a permanent difference and will be a carry forward adjustment in future rate cases.

Q. **Has the Company made another adjustment to Accumulated Depreciation that is similar?**

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[5] Accounting for Public Utilities, Chapter 6, Appendix A, "VI. The investors' and the Consumers' Interest in the Cost and Recovery of Capital", §6.14 (paragraph 1), page 48.

A. Yes. In WP B 2-5, the Company makes a *pro forma* adjustment of $107,728,075 to Accumulated Depreciation. This is necessary to correctly reflect the previous recovery of plant from Arkansas customers. The adjustment is made because from 1986 to 2006 Arkansas depreciation rates were higher than Oklahoma depreciation rates resulting in more recovery than was reflected in the Company's books. If the adjustment were not made, plant in service would be overstated when calculating base rates for Arkansas. This is essentially a converse adjustment to the accumulated depreciation pro forma adjustment for the OU wind farm as discussed earlier.

OPERATING EXPENSE *PRO FORMA* ADJUSTMENTS

Q. **Please explain Schedule C-1.**

A. Schedule C-1 contains the overall summary of revenues and expenses including depreciation and taxes. The revenue, operating expenses and income tax categories are identified under the "Description" column. Column 1 displays the total company financial results for the test year ended December 31, 2009. Column 2 reflects accumulated *pro forma* adjustments to the operating income statement.

Q. **What adjustments are proposed to the total company operating expense?**

A. OG&E is proposing a series of adjustments to the Company's operating expense. While each of these adjustments is explained below, Schedule C-2 separates each adjustment into functional amounts. Schedule C-2 Summary identifies each *pro forma* adjustment total required to establish a forward looking or *pro forma* income statement to measure prospective earnings under new rates.

Holding Company Reclassification

Q. **Please explain *Pro Forma* Adjustment WP C 2-15, Holding Company Reclassification.**

A. This *pro forma* adjustment is a reclassification and adjustment that relates to Holding Company expenses. These Holding Company expenses charged to the utility are recorded as O&M expense on the utility's books. This adjustment reclassifies $10,847,420 of costs from O&M expense to the appropriate categories in order to properly allocate costs to jurisdiction and class and does not result in an increase or decrease to the Company's overall expense. Therefore, *pro forma* adjustment WP C 2-15 reclassifies these O&M expenses to depreciation and taxes other than income taxes (Property Taxes and Payroll Taxes). Detail for this reclassification adjustment is found in WP C 2-15.

Payroll

Q. **What types of pay are included in payroll?**

A. Payroll includes regular labor, overtime labor, sick leave, short-term incentive pay ("Teamshare"), and vacation pay.

Q. **Why are all aspects of compensation (regular labor, overtime labor, sick leave, incentive pay, and vacation pay) important?**

A. The Company's entire compensation package is designed to attract and retain key talent at a competitive price. OG&E offers total compensation packages that are consistent with the market value for similar jobs in similar industries. Each of the components of the compensation package (including vacation time, sick leave and incentive pay) are important in determining whether the total package meets the market value for the particular job.

Q. **What is the difference between regular labor and incentive pay?**

A. Regular labor is base pay that is guaranteed or not at risk which a member receives for performing their job. Incentive pay is not guaranteed and is at risk of forfeiture each year depending on whether or not certain Company and Business Unit targets or goals are met.

Q. **Why is incentive pay not guaranteed by the Company?**

A. The Company utilizes incentive pay to stay competitive while managing costs. OG&E believes paying for performance incentivizes employees to achieve goals that provide a benefit to customers and the Company. For example, a Company employee may receive incentive pay if the Company or Business Unit satisfies key metrics for workplace accidents or O&M costs. As a result of the goals associated with incentive pay, Company employees are invested in the performance of the Company. The Company believes members should be rewarded for superior performance and in meeting stretch goals.

Q. **Is the Company's total compensation based on market value**?

A. Yes.

Q. **Would the Company's total compensation pay reflect market value without the incentive pay?**

A. No. To establish the market value for jobs, the Company's compensation department reviews jobs that are comparable in the marketplace based upon defined duties and responsibilities. OG&E uses independently verifiable annual compensation surveys published by professional associations and consulting firms for this purpose. Compensation surveys indicate market value based on total pay. If the incentive pay is not included in the total pay, the compensation would fall below market.

Q. **What has been the Commission's treatment of incentive pay in the past?**

A. The Commission has disallowed components of incentive pay that was viewed as only beneficial to the shareholder or disallowed part of components of incentive pay viewed as beneficial to customer and shareholder. Disallowing components of incentive results in below market value payroll in setting base rates.

Q. **What is the benefit to customers of separating base pay from incentive pay?**

A. OG&E must maintain total compensation levels to attract and retain employees. Without incentive pay, OG&E would be required to increase its total base pay costs to remain competitive. This poses a number of challenges. First, this would not align with the Company's overall performance because it does not include a component that incentivizes employees to meet certain goals. Second, this may unnecessarily lead to higher costs to customers for higher salary levels in base rates. By building incentive pay into compensation levels, OG&E ensures that employee pay will only be increased if the Company performs at levels that create benefits for customers (*i.e.*, lower O&M spending, increased safety, better customer service, etc).

Q. **Has the staff of the OCC recommended approval or inclusion of incentive pay?**

A. In Cause No. PUD 200800398, staff witness Trent Alan Campbell reviewed the total compensation levels for OG&E employees and found it was reasonable to include the Teamshare portion of the pay for all employees. Campbell's testimony states, "The plan rewards employees for meeting operating goals, energy efficiency, and accountability throughout the Company. Teamshare is also used as a motivator to attract and retain quality employees. If this portion of payroll was paid in full through base salary, base salaries would still be found reasonable at current total compensation levels."

Q. **Did the OCC adopt the staff's recommendation to include incentive pay or Teamshare in base rates?**

A. In Order No. 569281, the Commission adopted a Joint Stipulation and Settlement Agreement by and among all the parties of record. The order adopted a total revenue requirement increase of $48.3 million which was in excess of the staff's original recommendation of $35.7 million that included 100% of Teamshare.

Q. **Please explain *Pro Forma* Adjustment WP C 2-16 and WP C 2-17, Payroll and Related Taxes.**

A. *Pro Forma* Adjustments WP C 2-16 and WP C 2-17 increase operating expenses in the amount of $5,396,221 and $383,671, respectively. These *pro forma* adjustments are designed to reflect existing employee compensation at year end 2009, as well as partial year employees. First, payroll items were annualized based on the employees and wage levels during the last two-week pay period of the test year to determine the test year payroll expense. Since this did not capture salaries and wages paid to individuals that were not employed all year, an adjusting entry was made which recognizes partial year employees as well as accounting accruals. Finally, to arrive at an estimated 2010 payroll cost, the Company annualized its first pay period which included the year-end 2009 wage/salary increase as adjusted according to the above methodology. The resulting difference between test year and projected 2010 payroll represents the *pro forma* adjustment necessary to reflect the expected payroll and associated costs to be in effect for the year 2010.

Q. **Please explain *Pro Forma* Adjustment WP C 2-42 and WP C 2-44, McClain and Redbud Plant Payroll and Payroll Tax.**

A. *Pro Forma* Adjustment WP C 2-42 and WP C 2-44 increase operating expense in the amount of $105,776 and $108,498, respectively. Because the McClain and Redbud plants are jointly owned facilities, the payroll expense for the employees at those plants was deducted from WP C 2-16. Workpapers C 2-42 and C 2-44 reflect *pro forma* adjustments for payroll expenses at the McClain and Redbud generating facilities. These adjustments reflect the same methodology used for Adjustments WP C 2-16 & WP C 2-17 above, but also include a third component which adjusts payroll and payroll tax for the amount billed to OG&E's joint owners in those facilities.

Q. **Please explain *Pro Forma* Adjustment C 2-25 Payroll Expense and Related Taxes for 2010 New Positions and Progressions.**

A. *Pro Forma* Adjustment C 2-25 increases operating expenses in the amount of $9,144,542 for payroll expense and $650,177 for payroll tax. This *pro forma* adjustment is similar to the adjustments made for existing employees discussed earlier in my testimony, but it is for new positions to be filled and for any additional position progressions that occur after the test year.

Q. **What is a Position Progression?**

A. The Company has positions that are identified as part of a job family and provide opportunities for members to progress within the job family based upon established criteria and the needs of the business. For example, the Accountant job family includes associate, staff and senior levels of accountants. Through experience and performance an employee may progress to a higher level and receive a pay increase during the year.

Q. **What action do you recommend the Commission make**?

A. The Company recommends the Commission approve OG&E's total compensation pay, including 100% of the incentive pay.

Gifts and Entertainment Expense

Q. Please explain the *Pro Forma* Adjustment WP C 2-38, Entertainment, Gifts, and Other.

A. *Pro Forma* Adjustment WP C 2-38 adjusts test year expense by reducing O&M for gifts and entertainment. Specifically, *Pro Forma* Adjustment WP C 2-38 has the effect of decreasing actual test year O&M expense.

Energy Efficiency Expense

Q. Please explain the *Pro Forma* Adjustment WP C 2-24, Oklahoma DPR Expense and WP C 2-36 EECR Expense.

A. *Pro Forma* Adjustments C 2-24 and C 2-36 adjust test year expense by reducing O&M for Oklahoma and Arkansas demand side management program and energy efficiency expenses recovered through riders. In Arkansas, the related expenses are recovered through the Energy Efficiency Cost Recovery ("EECR") rider; and in Oklahoma, the related expenses are recovered through the Demand Program Rider ("DPR") rider.

Regulatory Expense

Q. Based on *Pro Forma* Adjustment WP C 2-18, what is the Company requesting for Regulatory Expense?

A. The Company is requesting a total Regulatory Expense of $1,057,103 for the Arkansas jurisdiction. The amount has two components. The first component is the test year Arkansas jurisdiction expense of $460,903. The second component is a *pro forma* adjustment for the estimated rate case expense in this proceeding of $596,200. After the last rate case, the Company amortized the rate case expense over two years. However, a two year amortization is not appropriate because the Company plans to file another base rate application in 2011.

Bad Debt Expense

Q. Please explain *Pro Forma* Adjustment WP C 2-19, Bad Debt Expense.

A. As illustrated in Schedule C 2-19, the total company test year "per book" amount for bad debt expense is $3,019,409. The five year average of uncollectible rates in the Arkansas jurisdiction is 0.33% as shown in Schedule C-4 of the Company's application. By applying this rate to the Arkansas jurisdiction *pro forma* operational revenues net of fuel, the expected bad debt expense level is $278,340. The total company per books amount must be reduced by $2,741,069 to reflect the *pro forma* Arkansas jurisdiction level net of fuel. Witness Donald Rowlett explains the recovery proposed for the fuel portion of bad debt.

Vegetation Management

Q. **Please explain *Pro Forma* Adjustment WP C 2-23, Vegetation Management.**

A. *Pro Forma* Adjustment WP C 2-23 represents an annual increase of $263,915. This increase in vegetation management costs reflects the Company's expected expenditure level for 2010 and the foreseeable future.

Q. **What is the process for identifying and assigning Vegetation Management costs to the Arkansas Jurisdiction?**

A. The Company established a process to track distribution related vegetation management costs by jurisdiction. Through the use of orders and other accounting codes, that process of tracking vegetation management costs by jurisdiction and by function was implemented. As required by Commission Order No. 6 in Docket No. 08-103-U, OG&E continues to track distribution related vegetation management costs by jurisdiction. The Company now has over 2 full years of specific information related to vegetation management costs. Therefore, the test year distribution vegetation management costs were directly assigned to Arkansas and the remaining test year vegetation management amounts were functionalized, allocated and then assigned to the Arkansas jurisdiction.

Q. **What level of expenditures for vegetation management in Arkansas was incurred in 2008 & 2009?**

A. In 2008 and 2009, OG&E's Arkansas vegetation management contract labor expenditures were $1,405,995 and $1,408,952 respectively.

Q. What level of vegetation management did the Commission approve in the last rate case?

A. The settlement approved by the Commission included $1,531,211 of contract labor for vegetation management.

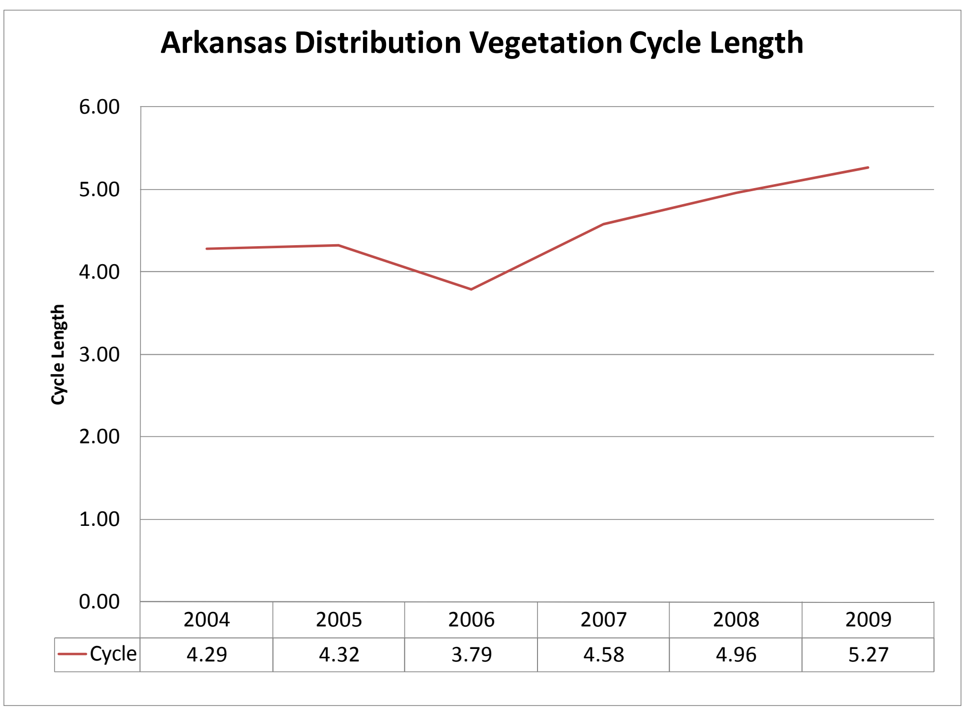
Q. What does OG&E plan to spend in Arkansas for vegetation management in 2010?

A. OG&E's Arkansas vegetation management contract labor targeted spend for 2010 is $1,672,867.

Q. Please provide the status regarding OG&E's efforts to achieve a four-year trim cycle.

A. As depicted in Chart 4, a four-year trim cycle continues to be difficult to achieve. In fact, the Company experienced an increase in the trim cycle in 2009.

Chart 4



Q. What has contributed to the increase in the Arkansas trim cycle?

A. The cost of engaging contractors to undertake the needed vegetation management work to attain the four-year cycle has risen. In addition, the longer cycle time takes longer to trim and more expense is incurred.

Depreciation Expense

Q. **Did the Company retain a Consultant to conduct a Depreciation Study?**

A. Yes. The Company retained Gannett Fleming to prepare a Depreciation Study utilizing data as of December 31, 2009. Company witness John Spanos of Gannett Fleming sponsors the depreciation study and resulting depreciation rates.

Q. **Is the Company requesting approval of the proposed rates in this docket?**

A. Yes.

Q. **Compared to the current rates, would the proposed rates increase or decrease depreciation expense?**

A. The current rates, if approved, would lower the overall depreciation expense without consideration of the pro forma plant adjustments. However, the depreciation expense *pro forma* adjustment reflects a higher total depreciation expense as a result of the increase in *pro forma* year-end plant-in-service and the reclassifications contained in WP C 2-15.

Q. **Please summarize the *pro forma* adjustments to depreciation expense.**

A. The utility "per book" depreciation expense for the test year was $170,511,018. When Holding Company test year depreciation expense of $8,228,317 is included, this results in a total depreciation expense of $178,739,335. The Company has proposed an adjustment made up of three components as reflected in Chart 5 that increases the book depreciation expense to $202,617,627. The first component is a $24,248,842 *pro forma* increase to "utility" depreciation expense based on the December 31, 2010 depreciable plant in service. The second component of $1,987,536 represents the adjustment to depreciation expense for Holding Company related assets. These two *pro forma* components increase depreciation expense by $26,236,378 as shown in WP C 2-26. The third component is to reduce test year depreciation expense by $2,358,086 for the amortization of an Oklahoma jurisdiction regulatory asset related to the McClain Power Plant. The result is a *pro forma* increase to test year expense of $23,878,292.

Chart 5

DEPRECIATION EXPENSE *Pro Forma Adjustment Summary*		
Adjustment	**Description**	**Amount**
WP C 2-26	Depreciation Exp. per book 12/31/2009	$170,511,018
WP C 2-15	Holding Company Reclassification	8,228,317
	Total Depreciation Expense 12/31/2009	$178,739,335
WP C 2-31	OK Regulatory Asset Amortization	(2,358,086)
WP C 2-26	Utility Proposed Depreciation Increase	24,248,842
WP C 2-26	Holding Company Proposed Depreciation Increase	1,987,536
	Total *Pro Forma* Adjustment	**$202,617,627**

Removal of Regulatory Asset

Q. **Please explain *Pro Forma* Adjustment WP C 2-31, Removal of Regulatory Asset Amortization.**

A. *Pro Forma* Adjustment WP C 2-31 removes $9,296,192 of amortization expense, not already adjusted for in other *pro formas*, from the test year cost of service for Regulatory Assets in Oklahoma and Arkansas. The amortization expense for the assets are not recoverable either because they are Oklahoma jurisdiction only regulatory assets or because the Arkansas regulatory asset is expected to be fully amortized by the time new rates go into effect in the Arkansas jurisdiction.

SECTION V: STORM DAMAGE RIDER

Q. **Please discuss storm costs assigned to Arkansas in this cause.**

A. Since 2007, the Company developed and implemented new processes and procedures to capture and directly assign distribution system storm-related costs by jurisdiction similar to the process for capturing vegetation management cost. During 2008, the Company experienced $1,370,826 in storm costs attributable to Arkansas and, in 2009, the Company experienced $1,027,267 of storm costs attributable to Arkansas. Although most of the costs were distribution related, a small portion of these costs were transmission or generation and allocated to the Arkansas jurisdiction. The Company direct assigned its actual 2009 costs of $1,027,267 to Arkansas in the Company's cost of service study to be included in base rates.

Q. **Does the Company currently have a storm damage rider?**

A. Yes. A storm damage rider was approved in the Company's last base rate proceeding, Docket No. 08-103-U Order No. 6.

Q. **Is the Company requesting to extend and modify the current rider?**

A. Yes. Storm costs are volatile and not within the control of the Company. Therefore, the Company proposes to extend the current storm rider and to include a tracker component to protect customers from overpaying, through base rates, while also providing the Company actual recovery of storm costs if base rates are set to low.

Q. **Please explain the proposed rider?**

A. The storm rider would operate as a balancing mechanism between storm expense in base rates and actual storm expense incurred. Each year the Company would compare actual storm expense assigned to Arkansas and the storm expense included in base rates. Any under/over collection would be recorded as a regulatory asset or liability. The adjustment for the storm level would then be returned to or collected from customers through the rider.

SECTION VI: CONCLUSION

Q. **Do you have any final comments?**

A. OG&E has prepared its application with a test year ending of December 31, 2009 and *pro forma* adjustments for reasonably known and measurable changes as of December 31, 2010 to reflect an expected level of expense going forward and respectfully requests that the Commission approve of the requested rate increase.

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

A. Yes.

ATTESTATION

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

Shi D. Richard

9-25-2010

Date