

**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

Howard Motley

on behalf of

Oklahoma Gas and Electric Company

September 28, 2010

Howard Motley
Direct Testimony

1 Q. **Please state your name, by whom you are employed, business address and the**
2 **position you hold.**

3 A. My name is Howard Motley. I am Vice President, Regulatory Affairs of Oklahoma Gas
4 and Electric Company (“OG&E” or “Company”). My business address is 321 N.
5 Harvey, Oklahoma City, Oklahoma 73102.
6

7 Q. **Briefly summarize your education and professional qualifications.**

8 A. I am a graduate of Oklahoma City University, where I received a Bachelor of Science
9 degree in Business. My career in public utility regulation has spanned 36 years beginning
10 April 15, 1974 when I accepted an auditing position with the Oklahoma Corporation
11 Commission (“OCC”). As an auditor for the OCC, I performed over 30 audits of public
12 utilities. On August 1, 1979, I was appointed Director of the Public Utility Division and
13 served for over 10 years in that position until January 1990. During the next 11 years, I
14 provided professional consulting services in the area of public utility regulation. I began
15 my employment with OG&E in August 2001 as Manager, Rate Strategies and then
16 promoted to Director, Regulatory Affairs and Strategy. On November 15, 2006, I was
17 appointed Vice President, Regulatory Affairs by the OGE Energy Corp. Board of
18 Directors.
19

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

21 A. Yes.
22

23 Q. **Please quantify the rate increase amount requested in OG&E’s application.**

24 A. OG&E is requesting the Commission to authorize a \$17.7 million increase or
25 approximately a 10.5 percent increase in overall revenue. If the Customer Education and
26 Demand Response rider is authorized, the residential customer impact for education costs
27 will be 34 cents per month or a 0.4% increase.

1 Q. **How do OG&E’s Arkansas retail average rates compare to other electric utilities**
 2 **across the nation?**

3 A. Based on the most recent Edison Electric Institute (“EEI”) report¹, in 2009 OG&E’s
 4 Arkansas retail average rates were the 5th lowest in the nation. OG&E’s Arkansas rates
 5 are lower than 167 of the 171 electric utilities surveyed in the study. If the requested 10.5
 6 percent increase was added to OG&E’s rates in the study, our Arkansas rates would still
 7 be lower than 159 of the electric utilities.

8
 9 Q. **Please identify the OG&E witnesses and purposes of their testimony.**

10 A. Chart 1 lists OG&E’s witnesses and a brief description of the purpose of each testimony.

11 **Chart 1**

OG&E Witness List		
Member	Title	Purpose of Testimony
Howard Motley	Vice President Regulatory Affairs	Relief Requested, 2020 Goal, Riders Supporting the New Utility Business Model, Electric Rate Comparisons (<i>Nation, Region and State</i>) and Customer Satisfaction
Sheri D. Richard	Director Revenue Requirements	Rate Increase Calculation, Rate Base/O&M Expense Pro Forma Adjustments and Storm Damage Recovery Rider
Donald R. Rowlett	Director Regulatory Policy and Compliance	Accounting & Tax Adjustments, Pension & OPEB Regulatory Asset, SPP Cost Recovery Rider, Working Capital, and ECR Rider Modifications
Adam Bigknife	Pricing Analyst	Pro Forma Revenue and kWh Adjustments (<i>Including Economic Recovery Adjustment</i>), Terms & Conditions of Service Changes and Tariff Format Change Benefit
John Wendling	Managing Director Generation Planning/Control	Power Supply O&M Expense Pro Forma Adjustment and the Mechanical Integrity Plan (“MIP”)
Keith Erickson	Director Utility Customer Operations	Customer Service and Bad Debt Success
John J. Spanos	Vice President, Gannett Fleming	Proposed Depreciation Rates and Supporting Study
Donald A. Murry, Ph.D.	Vice President and Economist with C. H. Guernsey & Company	Return on Equity and Capital Structure
Greg A. Veitch	Manager Cost of Service	Cost of Service Model and Allocation Factors
Bryan Scott	Director Pricing and Load Research	Overall Rate Design Principles & Intent, and Customer Education and Demand Response Rider
Gregory Tillman	Manager Pricing	Rate Design, Optional Pricing Plans, Customer Impact and Proof of Revenues

¹ Edison Electric Institute, Typical Bills and Average Rates Report 2010 Winter Edition – Supplement, “Rankings, January 1, 2010”.

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

2 A. The purpose of my testimony is to outline the relief requested in this docket and explain
3 why OG&E is seeking a rate increase at this time. My testimony will also provide an
4 overview of OG&E's goal to reach the year 2020 without adding fossil-fueled electric
5 generation. My testimony then compares the Company's electric rates to the nation,
6 region and the State of Arkansas and discusses customer satisfaction. Finally, I will
7 address cost recovery riders and the importance of these riders in achieving the
8 Company's 2020 Goal and new utility business model.
9

10 Q. **How is your Direct Testimony organized?**

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

12 Section I: Relief Requested

13 Section II: 2020 Goal and New Utility Business Model

14 Section III: Riders Supporting the New Utility Business Model

15 Section IV: Rate Comparisons and Customer Satisfaction

16 Section V: Conclusion
17

18 SECTION I: RELIEF REQUESTED

19 Q. **Please outline the specific relief requested by OG&E in its application.**

20 A. OG&E requests the Commission to issue an order that authorizes the following.

- 21 • An increase to base rates of \$17,723,253
- 22 • A new Pensions and OPEB² regulatory asset
- 23 • A new Southwest Power Pool Cost Recovery Rider
- 24 • Extension and modification of the existing Storm Damage Recovery Rider
- 25 • A new Customer Education and Demand Response Rider
- 26 • Modifications to the Energy Cost Recovery Rider
- 27 • New depreciation rates
28

29 Q. **Why is OG&E seeking a rate increase at this time?**

² Pension and Other Post Employment Benefits ("OPEB").

1 A. A significant reason is that two large capital projects have been completed and placed in
2 service since the test year in our last rate case³. The OU Spirit renewable wind energy
3 facility (“OU Spirit”) became commercial in December 2009 and the Windspeed
4 transmission line was energized in April 2010. The total capital investment for both
5 projects is approximately \$475 million.

6
7 **Q. Generally describe the other major contributors to the \$17.7 million proposed rate**
8 **increase.**

9 A. In addition to the two large capital projects, the Company has also invested additional
10 capital in its utility infrastructure. Considering all the capital investment since the last rate
11 case and the depreciation offset, the Company’s net plant in service has increased \$549.3
12 million. During this time, OG&E has also experienced increases in O&M expense. The
13 primary increase in O&M expense is to extend the service life and reliability of the
14 Company’s generation fleet. In 2010, OG&E plans to spend \$14.7 million more on fleet
15 maintenance than in the 2009 test year.

16
17 SECTION II: 2020 GOAL AND NEW UTILITY BUSINESS MODEL

18 **Q. Please provide an overview of OG&E’s 2020 Goal.**

19 A. The *2020 Goal* represents a radical departure from the electric industry business model
20 that served customers well since at least the 1930’s. That simple strategy was to add
21 customers and products to grow the peak load and then build gas or coal fueled power
22 plants to serve that load. In 2007, OG&E announced its goal to reach the year 2020
23 without adding fossil-fueled electric generation (“*2020 Goal*”). The *2020 Goal* includes
24 demand management, energy efficiency programs and smart grid technology, all of
25 which are designed to reduce the peak demand. In 2009, the Company kicked off the
26 Positive Energy TOGETHER® campaign that encourages customers to use less power
27 but a key goal is to shift energy away from the time of day when everyone uses the most
28 electricity. Shaving the peak is crucial to advancing the *2020 Goal* of avoiding additional
29 fossil-fueled electric generation.

³ Docket No. 08-103-U filed on August 29, 2008 (Test Year: 12 months ending December 31, 2007).

1 Q. **What other components are included in the 2020 Goal?**

2 A. In addition to shaving peak load, the *2020 Goal* focuses on adding renewable wind
3 energy, building new transmission for wind, extending the life of our existing generation,
4 giving up wholesale business and preparing for future environmental costs.

6 Q. **Have you developed a chart that illustrates the 2020 Goal?**

7 A. Yes. Chart 2 demonstrates the components of the *2020 Goal*. This illustration has also
8 been provided as Exhibit HM-1 of my testimony.



10
11 Q. **How does the first component on Chart 2 “Power Delivery” add value to the 2020**
12 **Goal?**

13 A. As mentioned previously, one of the reasons for the requested rate increase is the
14 inclusion of the cost for the Windspeed transmission line in rate base. OG&E has been

1 achieving the integration of renewable wind energy by strategically expanding its
2 transmission system. The primary location for wind farms is in western Oklahoma and
3 the panhandle. Just a few years ago, the existing transmission infrastructure would not
4 support meaningful wind development. In May 2008, OG&E filed an application at the
5 OCC requesting pre-approval to construct a transmission line, named Windspeed, from
6 Woodward to Oklahoma City. In September 2008, the OCC issued an order pre-
7 approving the construction of Windspeed and a recovery rider. Windspeed was
8 completed and energized in April 2010 which opened the corridor to the panhandle to
9 access Oklahoma's vast wind resources.

10
11 **Q. Please discuss the second component of Chart 2 "Wholesale Exit Strategy".**

12 A. OG&E is in the process of systematically terminating its existing wholesale contracts.
13 Terminating the Company's wholesale contracts helps achieve the *2020 Goal* by
14 providing 325 MW of capacity to our retail customers without building new generation.
15 Since early 2009, OG&E has been proactively working with each wholesale customer.
16 OG&E provided termination notices as required under existing contracts and is on track
17 to making the 325 MW available to our customers when it is needed.

18
19 **Q. Is OG&E currently discussing the possibility of a new contract with one of the
20 wholesale customers?**

21 A. Yes. Arkansas Valley Electric Cooperative Corporation ("AVEC") is a significant
22 portion of the total wholesale load and the last remaining key wholesale customer. The
23 Company is currently discussing a possible new contract with AVEC that would allow
24 them time to find a replacement supplier as well as optimize the timing of the capacity
25 transfer to the retail jurisdiction.

26
27 **Q. Please discuss the third component of Chart 2 "DSM Programs".**

28 A. OG&E has been focusing on demand response and energy efficiency to achieve
29 reductions in both demand and our customers' overall energy costs. OG&E has
30 undertaken efforts to expand its traditional demand response programs (*e.g.*, load
31 curtailment programs) and has recently received approval to expand its energy efficiency

1 programs in both retail jurisdictions. OG&E's goal is to reduce its capacity needs by 500
2 MW (*at a minimum*) by 2020 through technology enhanced demand reduction and energy
3 efficiency programs. A large part of these capacity needs reductions (375 MW) are
4 expected to be accomplished through customers' voluntary participation in new Smart
5 Grid-enabled price response programs. Smart Grid technology is discussed later in my
6 testimony.

7
8 **Q. How does the fourth component of Chart 2 "Power Supply" support the success of**
9 **the 2020 Goal?**

10 A. The Power Supply component has three elements that contribute to the success of the
11 *2020 Goal*: (1) acquiring a new power plant, (2) adding renewable wind energy and (3)
12 extending the life of the fossil-fueled generation fleet. First, adding the Redbud power
13 plant to our generation fleet in 2004 provided the Company with capacity for continuing
14 customer growth and time to work on the *2020 Goal*. At the time of purchase, Redbud
15 was acquired at a price 24% lower than constructing a new combined cycle plant.

16
17 **Q. Please explain the renewable wind energy element.**

18 A. In 2007, the Company publicly stated the aspiration to have 750 MW of renewable wind
19 energy. OG&E wanted to integrate wind into its operations in a large part to reduce risk
20 to our customers associated with renewable portfolio standards, natural gas price
21 volatility and CO₂ emission related costs. In April 2006, the OCC pre-approved the
22 construction of the Centennial 120 MW wind farm and a recovery rider. In 2009, OG&E
23 filed applications at the OCC requesting pre-approval and a recovery rider for the OU
24 Spirit 101 MW wind farm and Wind Energy Purchase Agreements 278 MW and received
25 OCC approval. In 2010, OG&E filed an application requesting pre-approval to construct
26 the Crossroads 227 MW wind farm and received OCC pre-approval and recovery rider in
27 July 2010. As illustrated in Chart 2, by the end of 2011, OG&E will have added 726 MW
28 of renewable wind energy into its operations. Considering the 50 MW wind energy

1 purchase agreement⁴ executed in 2003, the Company has achieved its aspiration of 750
2 MW of renewable wind energy integrated into its system.

3
4 **Q. Please explain the plan to extend the life of OG&E’s fossil-fueled generation fleet.**

5 A. The Company is currently analyzing and developing a Mechanical Integrity Plan (“MIP”)
6 to maintain and extend the life of the Company’s fossil-fueled generation fleet. The MIP
7 will not be finalized until November 2010 and will then be provided in this docket.

8
9 **Q. Please explain the customer benefit calculations for the renewable wind energy
10 projects and contracts depicted on Chart 2.**

11 A. Chart 2 reflects the Net Present Value (“NPV”) customers are expected to experience
12 from each wind project and the WEPA contracts. The NPV for the 726 MW described in
13 Chart 2 is estimated at \$1.2 billion. What this means to Arkansas customers is a NPV
14 benefit of \$120.2 million over the life of these wind projects and wind energy contracts.
15 Exhibit HM-2 provides a detailed summary of the NPV calculations.

16
17 **Q. Was there a reporting requirement in Commission Order No. 6 in OG&E’s last rate
18 case regarding the Centennial wind farm?**

19 A. Yes. The Commission order⁵ requires the Company to report annually the fuel savings
20 associated with the Centennial wind farm. On March 31, 2010, OG&E filed a letter with
21 the Secretary of the Commission regarding Centennial fuel savings. The Centennial wind
22 farm has a total company NPV of \$189.2 million over the remaining life of the project.
23 The expected Arkansas customer benefit is \$19.3 million.

24
25 **Q. When did OG&E begin evaluating the fifth component of Chart 2 “Smart Grid”
26 technology?**

27 A. In 2007, OG&E began evaluating intelligent digital meters and advanced metering
28 infrastructure. After a successful demonstration of Smart Grid technology in northwest
29 Oklahoma City during 2008, OG&E decided to expand Smart Grid by deploying the

⁴ FPL Energy Sooner Wind, LLC.

⁵ APSC Order No. 6, Docket No. 08-103-U, page 10, Other Issues: E.

1 technology in the Norman, Oklahoma service area. The OCC pre-approved the Norman
2 deployment and cost recovery in OG&E's last rate case⁶.

3
4 **Q. Why did OG&E request authorization from the OCC to move forward with full
5 deployment in Oklahoma before the Norman phase was completed?**

6 A. In 2009, the U. S. Congress passed the American Recovery and Reinvestment Act, which
7 contained approximately \$3.4 billion in stimulus grant funding for Smart Grid
8 investments. The Company met the August 2009 deadline for applications, requesting
9 \$130 million in stimulus grant funding. In October of 2009, the Department of Energy
10 ("DOE") notified the Company that it had been selected for negotiations for grant
11 funding. On December 29, 2009, OG&E officially received the award of \$130 million in
12 federal grant funds subject to the finalization of all administrative and contractual
13 requirements. OG&E was the only Investor-Owned Electric Utility in Oklahoma and
14 Arkansas that received a DOE grant. The restrictions contained in the grant award include
15 a three year window in which OG&E can receive reimbursement of Smart Grid costs.
16 This three year window extends through December 31, 2012.

17
18 **Q. Will OG&E file a Smart Grid application in Arkansas?**

19 A. Yes. The Company plans to file a Smart Grid application by the end of this year.
20

21 **Q. Did OG&E file an application in the Oklahoma jurisdiction?**

22 A. Yes. In order to take advantage of the DOE grant, OG&E needed pre-approval from the
23 Oklahoma Corporation Commission ("OCC") to move forward with the implementation
24 of Smart Grid technology. The reasons the Company filed in the Oklahoma jurisdiction
25 first were: (1) approximately 85% of the Company's business is in Oklahoma and (2)
26 without pre-approval to invest and recover the capital investment and O&M expense (*not*
27 *offset by the DOE grant*), OG&E could not assume the risk and move forward with Smart
28 Grid. On March 15, 2010, OG&E filed an application with the OCC requesting pre-
29 approval and authorization to deploy Smart Grid Technology system-wide in Oklahoma.

⁶ OCC Cause No. PUD No. 200800398, Order No. 569281 issued July 24, 2009.

1 On July 1, 2010, the OCC issued an order pre-approving the Company’s application and
2 a 4-year recovery rider.

3
4 **Q: Please discuss the sixth and final component of Chart 2 “Environmental.**

5 **A:** Environmental policy and related state and federal mandates will impact OG&E’s ability
6 to meet the *2020 Goal*. As state and federal environmental mandates are handed down,
7 the Company is committed to aggressively pursue options that meet legal requirements at
8 the lowest cost to our customers. For example, the Regional Haze Rule referenced on
9 Chart 2 is a federal mandate by the Environmental Protection Agency (“EPA”) to reduce
10 man-made visibility impairment at federally protected parks and wilderness area across
11 the country. If scrubbers are installed to meet the requirements of the rule, OG&E
12 estimates that would require a \$1.2 billion capital investment and \$70 million annually in
13 O&M expenses. This equates to a \$270 million annual revenue requirement raising
14 residential customer bills by \$13 per month. OG&E negotiated an alternative Regional
15 Haze State Implementation Plan (“SIP”) with the Oklahoma Department of
16 Environmental Quality (“ODEQ”) which the Company believes meets the requirements
17 of the rule over time but avoids the requirement to install expensive SO₂ scrubbers at the
18 Company’s coal burning generation plants. If OG&E’s plan is agreed to by the EPA, the
19 impact on our residential customers is about \$1.11 per month.

20
21 **SECTION III: RIDERS SUPPORTING THE NEW UTILITY BUSINESS MODEL**

22 **Q. How do riders and pre-approvals support the 2020 Goal and the Company’s new
23 utility business model?**

24 **A.** The Company’s ability to implement the new utility business model is dependent upon a
25 regulatory process that includes preapprovals, recovery riders and regulatory assets. As
26 summarized in Chart 3, there are four general methods that a regulatory Commission can
27 employ to allow a utility to recover its costs.

1

Chart 3

Recovery Mechanisms	Summary of Costs	Oversight Process With Hearing
Base Rates	Operating costs, depreciation, debt interest, income taxes and operating income.	Rate Case
Fuel Clause (ECR)	Fluctuation (<i>up or down</i>) of fuel costs and purchased energy.	Monthly Reports and Annual Review
Recovery Riders	Special projects or extraordinary expense.	Reports and True-Ups
Regulatory Assets	Special projects or extraordinary expense.	Rate Case

2

3 **Q. Please explain the base rates recovery method.**

4 A. The rate case process that establishes base rates has supported the historical electric
5 industry business model and served electric customers well in the past. Base rates are
6 established in rate cases, like this proceeding, to reset the price charged our customers,
7 based on more current costs. In this proceeding OG&E is requesting the Commission to
8 increase base rates based on 2009 costs with consideration of known and measurable
9 changes through December 31, 2010. New base rates will not be approved and effective
10 until the summer of 2011. This timing lapse is generally referred to as regulatory lag.

11

12 **Q. Please discuss the fuel clause recovery mechanism in the Arkansas jurisdiction.**

13 A. Some form of fuel cost recovery has been in use since at least the 1970's. The Energy
14 Cost Recovery rider ("ECR") is a Commission-authorized rider that recovers the cost of
15 natural gas, coal, and other fuel burned in OG&E's generation fleet and energy purchased
16 from others. These costs are passed directly on to our customers without a markup or
17 profit for the Company. Recently, company-owned wind generated kilowatt hours have
18 been included in the ECR at zero cost, which lowers the average fuel cost charged to our
19 customers. The revenue requirement for the company-owned wind generation facility is
20 not being recovered through the ECR. This is another form of regulatory lag.

21

22 **Q. Under what circumstances do regulatory Commissions use riders other than fuel
23 cost recovery?**

24 A. Riders are generally employed to recover costs related to special projects, like a wind
25 farm or extraordinary costs such as storm restoration expense. Over the last several years,

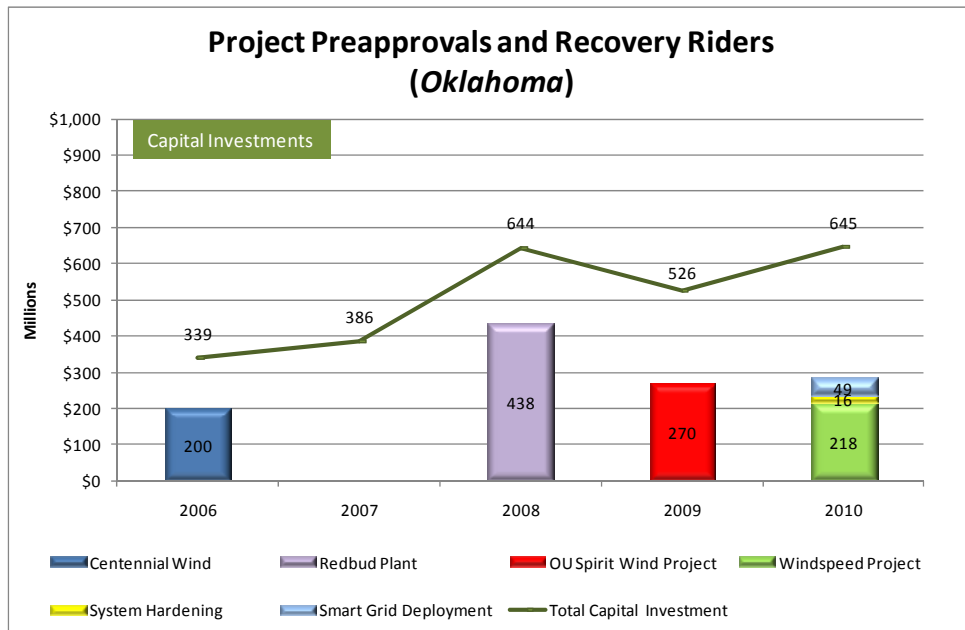
1 OG&E has been authorized multiple riders in the Oklahoma jurisdiction that allowed the
 2 Company to move forward with special projects that would not have been undertaken
 3 without pre-approval and immediate rate relief synchronized with the project's
 4 completion date.

5 Beginning in 2006, the Company moved forward with the Centennial wind farm, Redbud
 6 Power Plant, OU Spirit wind farm and Windspeed transmission line because the OCC
 7 issued orders that pre-approved the projects and provided a rider for cost recovery. The
 8 OCC more recently approved two WEPA Contracts, the construction of Crossroads Wind
 9 Facility and the deployment of Smart Grid Technology in the Oklahoma jurisdiction. All
 10 of these riders are important contributors and imperative to the success of the *2020 Goal*.

11
 12 **Q. Have the riders in the Oklahoma jurisdiction eliminated regulatory lag?**

13 **A.** No. The projects funded by riders in Oklahoma are only a portion of the Company's
 14 annual capital investment. Even with riders, "business as usual" investments in utility
 15 plant and operating cost increases still result in regulatory lag. Chart 4 compares the
 16 investment for the projects funded by riders (*with the exception of Crossroads wind*) to
 17 the capital investment in each year 2006-2010. As illustrated, OG&E's annual capital
 18 investments exceeded the special project investment.

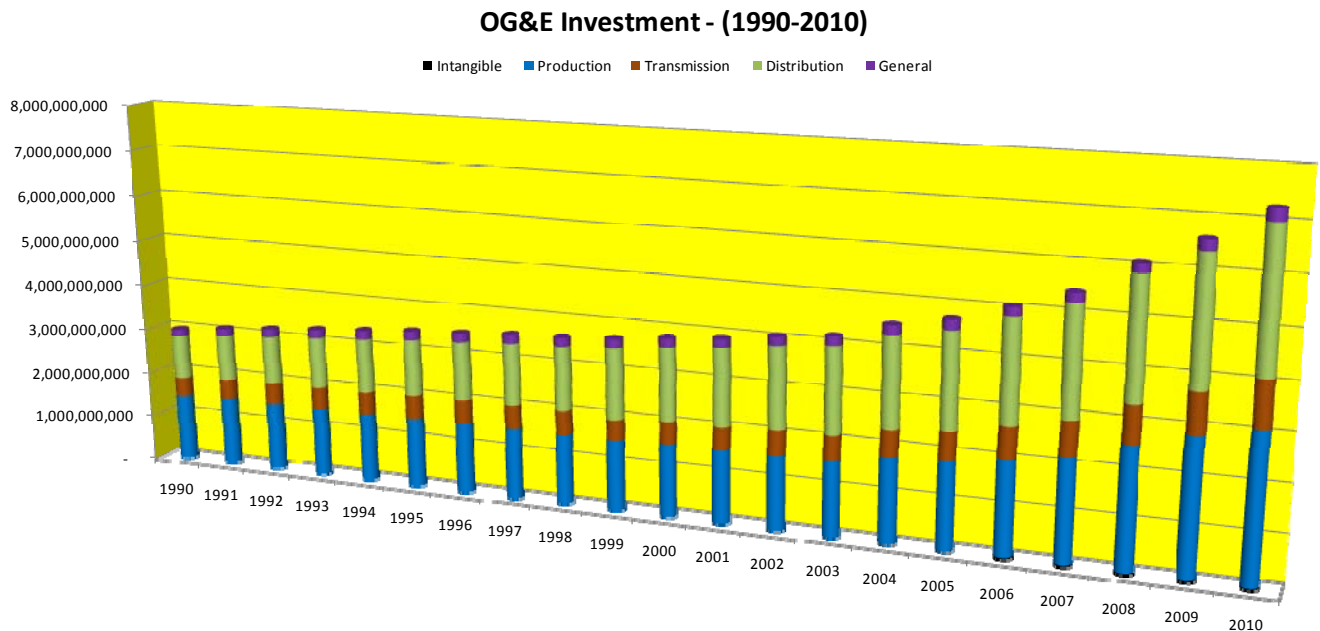
19 **Chart 4**



1 Q. **Has OG&E’s “business as usual’ regulatory lag increased in recent years?**

2 A. Yes. As demonstrated by Chart 5, OG&E’s regulatory lag is greater today than during the
3 period 1990-2003. In 1990, OG&E had a \$3.1 billion gross plant investment which
4 stayed relatively flat until 2003 when the investment reached \$4.2 billion. The
5 Company’s gross plant in service is projected to be \$7.3 billion by the end of 2010.
6 Although riders are extremely important in allowing OG&E to fund special projects, the
7 riders do not address ‘business as usual’ regulatory lag.

8 **Chart 5**



9

10 SECTION IV: RATE COMPARISONS AND CUSTOMER SATISFACTION

11 Q. **How do OG&E’S Arkansas electric rates over the period 2001-2009 compare with**
12 **other electric rates in the nation, region and the State of Arkansas?**

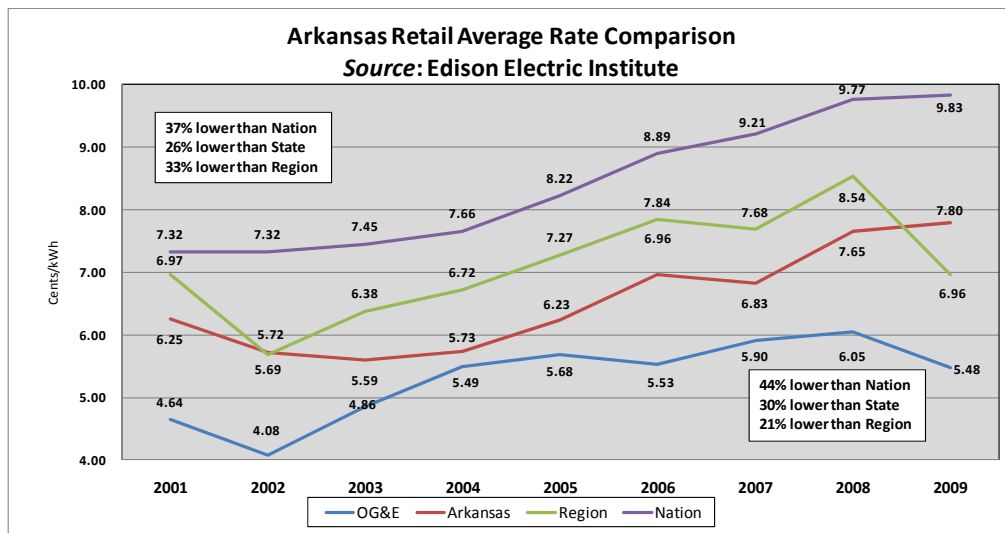
13 A. Based on an Edison Electric Institute reports⁷, Exhibit HM-3 illustrates the comparison of
14 OG&E’s retail average electric rates and our residential, commercial and industrial
15 average rates to those of the nation, region, and Arkansas for the period 2001-2009.
16 OG&E’s electric rates have been continuously lower for the entire period.

⁷ Edison Electric Institute, Typical Bills and Average Rates Reports for the years 2002 through 2010.

1 Q. Please summarize how OG&E's Arkansas retail average rate compares to the
 2 average for the nation, region and the State of Arkansas?

3 A. OG&E's retail average rate⁸ has been substantially lower than the nation, region and
 4 Arkansas average since 2001, with the exception of the period 2003-2005 when OG&E
 5 was only slightly lower than the state average. OG&E's retail average rate has ranged
 6 from 37% (2001) to 44% (2009) below the nation average. In 2009, OG&E was 30%
 7 lower than the Arkansas state average. Chart 6 illustrates the EEI comparison of OG&E's
 8 retail average rates to the nation, region and Arkansas over the period 2001-2009.

9 **Chart 6**



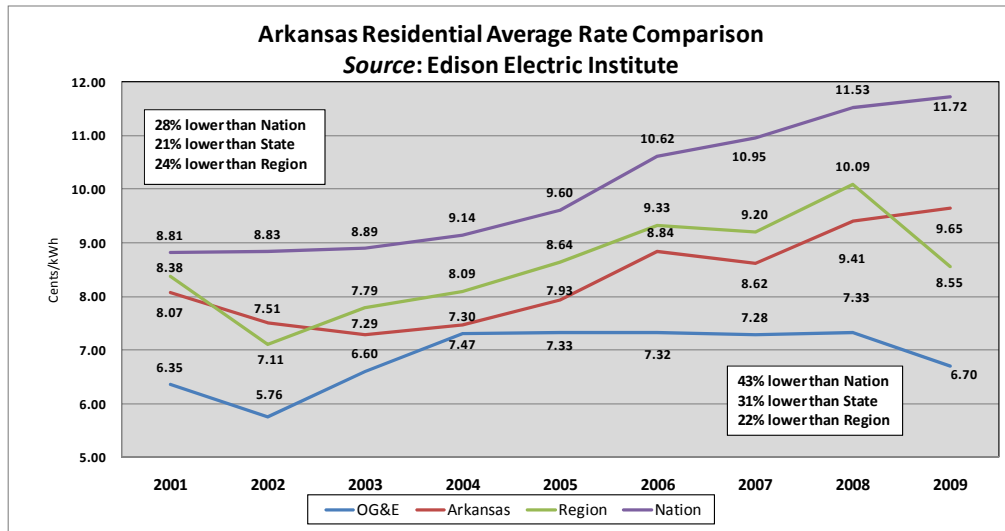
10
 11 Q. How do OG&E's residential customer electric rates compare?
 12 A. In 2009, OG&E's residential customers paid 43% less for electricity than the nation and
 13 22% less than the region. Additionally, OG&E's residential average rate was 31% lower
 14 than the Arkansas average. Chart 7 provides the 2001-2009 comparison for residential
 15 customer rates.

16
 17
 18
 19
 20

⁸ Average rate based on all customer classes.

1

Chart 7



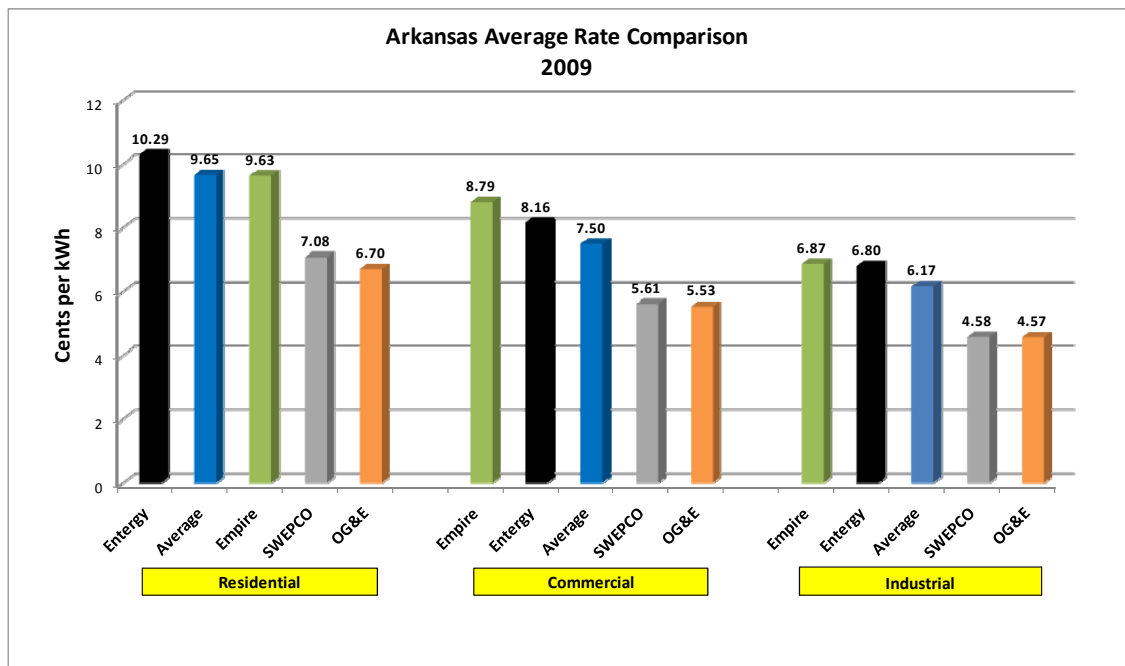
2

3 Q. Have you developed a chart that illustrates an electric rate comparison for the State
4 of Arkansas for residential, commercial and industrial customers for 2009?

5 A. Yes. Chart 8 is based on the same information included in the EEI report and previous
6 charts. As depicted in Chart 8, OG&E’s Arkansas customers are paying considerably less
7 for electricity than most electric customers in Arkansas.

8

Chart 8



9

1 Q. **Has OG&E recently been recognized as a leader in customer satisfaction by J. D.**
2 **Power and Associates⁹?**

3 A. Yes. A recent J. D. Power and Associates' survey ranked OG&E the second highest in
4 overall residential customer satisfaction in the Southern United States. Exhibit HM-4
5 contains the electric utilities included in the satisfaction study and the final results.

6

7 Q. **Please summarize the survey.**

8 A. The survey asked residential electric customers about their satisfaction with power
9 quality and reliability; price; billing and payment; corporate citizenship; communications;
10 and customer service.

11

12 Q. **Has OG&E received this recognition in the past?**

13 A. Yes. This is the fifth year in a row OG&E has ranked among the top six of the South
14 Region's largest electric utilities, including No. 1 rankings in 2003 and 2007.

15

16 Q. **Has OG&E also been recognized for excellence in storm restoration?**

17 A. Yes. The Edison Electric Institute has recognized OG&E with the highest national
18 distinction for disaster recovery 7 times since the year 2000. On four of those occasions,
19 the Company earned the Emergency Response Award for work on our own electric
20 system after catastrophic events such as the December 2007 ice storm. The other three
21 times, EEI recognized OG&E with the Emergency Assistance Award for helping other
22 utilities rebuild their systems after major storms such as Hurricane Katrina.

23

24

SECTION V: CONCLUSION

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

26 A. Yes. As I have discussed, OG&E is committed to a new utility business model and the
27 *2020 Goal*. As a company we will continue to focus on providing safe, reliable electricity
28 at a reasonable cost. However, we strongly believe the most effective way to achieve
29 those goals for our customers is a regulatory process that includes pre-approvals,

⁹ J. D. Power, headquartered in Westlake, California is a global marketing information services firm operating in key business sectors including market research, forecasting, consulting, training and customer satisfaction. The firm's quality and satisfaction measurements are based on responses from millions of consumers annually.

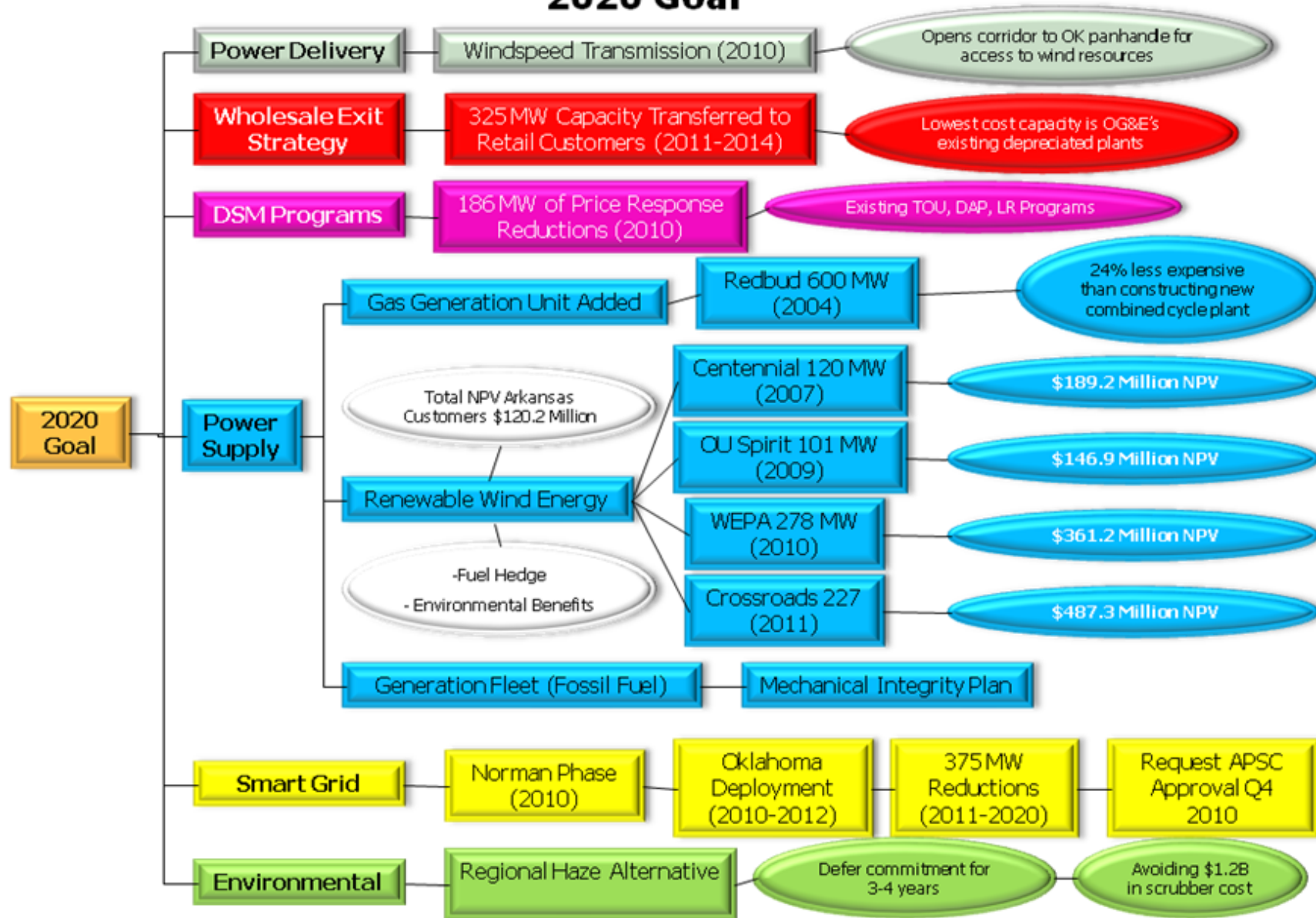
1 recovery riders and regulatory assets consistent with the approach utilized in Oklahoma.
2 The Company has invested in wind farms and executed competitive bid wind energy
3 contracts for the benefit of our customers. This renewable wind energy reduces overall
4 costs, it provides customers a hedge from high gas prices in the future, it is reasonably
5 priced wind as compared to the price if an RPS is passed and it could be invaluable
6 facing the unknown future environmental policy. The wind projects are constructed and
7 priced in today dollars not the escalated price that will occur under an RPS or stringent
8 environmental policy. The Company also secured a \$130 million DOE grant to fund
9 Smart Grid Technology and developed an alternative “regional haze” plan that could save
10 our customers millions. We are also giving up the wholesale business that will allow 325
11 MW of capacity, at a depreciated value, to be transferred to the retail jurisdiction which is
12 worth millions to our retail customers.

13 OG&E’s electric rates have been considerably lower than the nation, region and State of
14 Arkansas over the period 2001-2009. The new utility business model is fundamental to
15 continue the Company’s record of reliable service at low rates as we all move toward the
16 year 2020.

17
18 Q. **Does this conclude your testimony?**

19 A. Yes.

2020 Goal



2020 Goal Projects (Arkansas)

Revenue Requirement, Offsets & Benefits and Residential Customer Impact

Centennial Wind, Total Company NPV \$189.2 million, AR Jurisdiction NPV \$19.3 million

	2011	2012	2013	2014	2015	2020
AR Jurisdiction						
				(\$ Millions)		
1 Revenue Requirement	1.39	1.25	1.18	1.04	0.97	2.54
2 Customer Benefits						
3 Fuel Savings	2.49	2.49	2.38	2.22	2.14	3.76
4 O&M Savings	0.04	0.09	0.08	0.07	0.08	0.07
5 CO2 Savings	0.00	0.22	0.28	0.32	0.40	0.55
6 REC Credits	0.07	0.07	0.07	0.07	0.07	0.07
7 Total Customer Benefits	2.60	2.86	2.81	2.68	2.68	4.44
8 Net Recovery from Customers	-1.21	-1.61	-1.63	-1.64	-1.71	-1.90
9 Monthly Residential Customer Impact (\$/mo)	(\$0.47)	(\$0.62)	(\$0.62)	(\$0.61)	(\$0.63)	(\$0.65)

OU Spirit Wind, Total Company NPV \$146.9 million, AR Jurisdiction NPV \$15.9 million

	2011	2012	2013	2014	2015	2020
AR Jurisdiction						
				(\$ Millions)		
10 Revenue Requirement	2.68	2.51	2.40	2.18	2.08	3.42
11 Customer Benefits						
12 Fuel Savings	2.05	1.94	1.03	2.48	2.56	4.58
13 O&M Savings	0.08	0.08	0.09	0.10	0.10	0.07
14 CO2 Savings	0.00	0.23	0.26	0.32	0.40	0.60
15 REC Credits	0.23	0.32	0.36	0.38	0.39	0.49
16 Total Customer Benefits	2.36	2.58	1.74	3.28	3.46	5.73
17 Net Recovery from Customers	0.31	-0.08	0.66	-1.10	-1.38	-2.31
18 Monthly Residential Customer Impact (\$/mo)	\$0.12	(\$0.03)	\$0.25	(\$0.41)	(\$0.51)	(\$0.79)

Keenan and Taloga PPAs, Total Company NPV \$361.2 million, AR Jurisdiction NPV \$34.8 million

	2011	2012	2013	2014	2015	2020
AR Jurisdiction						
				(\$ Millions)		
19 Purchased Power Cost	5.23	5.28	5.31	5.35	5.40	5.65
20 Customer Benefits						
21 Fuel Savings	4.80	5.02	6.38	5.62	6.43	8.78
22 O&M Savings	0.19	0.18	0.16	0.20	0.23	0.21
23 CO2 Savings	0.00	0.65	0.84	0.95	1.09	1.43
24 REC Credits	0.17	0.18	0.17	0.17	0.17	0.18
25 Total Customer Benefits	5.17	6.04	7.55	6.94	7.93	10.60
26 Net Recovery from Customers	0.05	-0.76	-2.24	-1.59	-2.53	-4.95
27 Monthly Residential Customer Impact (\$/mo)	\$0.02	(\$0.29)	(\$0.85)	(\$0.59)	(\$0.93)	(\$1.69)

Crossroads, Total Company NPV \$487.3 million, AR Jurisdiction NPV \$50.2 million

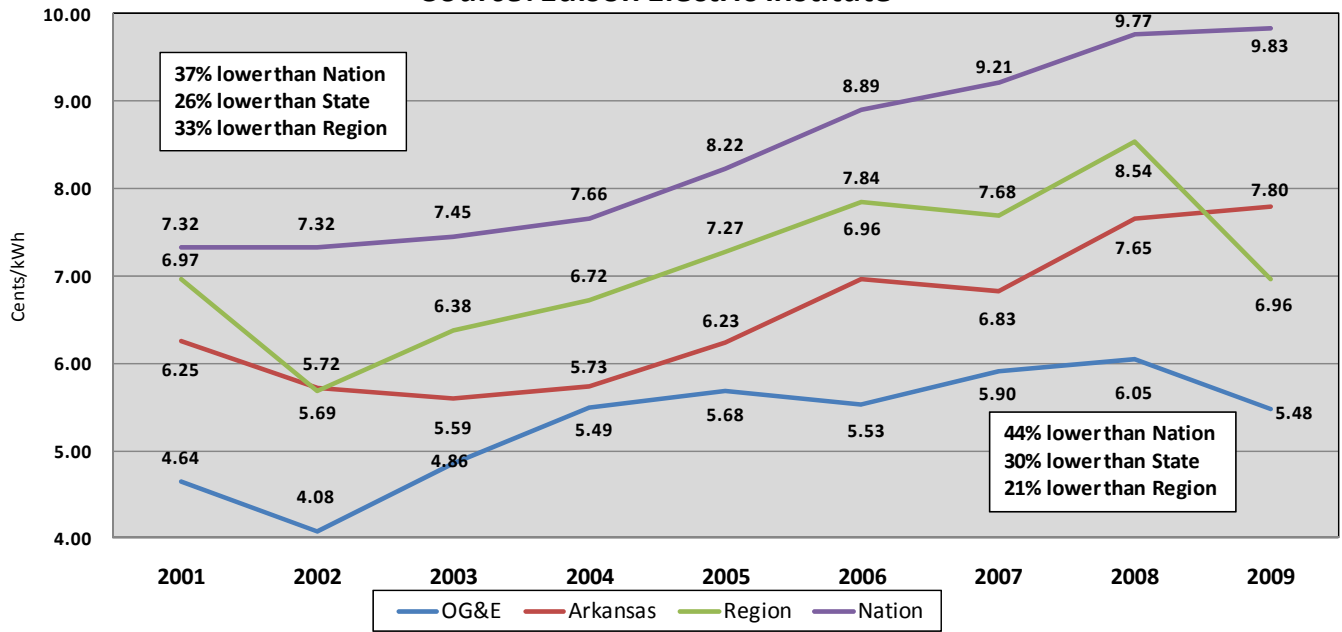
	2011	2012	2013	2014	2015	2020
AR Jurisdiction						
				(\$ Millions)		
28 Revenue Requirement		3.56	3.22	3.02	2.86	1.66
29 Customer Benefits						
30 Fuel Savings		3.65	3.86	4.54	4.32	7.16
31 O&M Savings		0.18	0.18	0.17	0.19	0.25
32 CO2 Savings		0.67	0.74	0.81	1.16	1.03
33 REC Credits		0.16	0.16	0.16	0.16	0.16
34 Total Customer Benefits		4.66	4.94	5.68	5.82	8.60
35 Net Recovery from Customers		-1.11	-1.72	-2.66	-2.96	-6.93
36 Monthly Residential Customer Impact (\$/mo)		(\$0.43)	(\$0.66)	(\$1.01)	(\$1.10)	(\$2.40)

2020 Goal Projects, Total Company NPV \$1,184.5 million, AR Jurisdiction NPV \$120.2 million

	2011	2012	2013	2014	2015	2020
AR Jurisdiction						
				(\$ Millions)		
37 Revenue Requirement	9.29	12.59	12.11	11.60	11.31	13.27
38 Total Customer Benefits	10.13	16.14	17.04	18.58	19.89	29.36
39 Net Recovery from Customers	-0.84	-3.55	-4.93	-6.99	-8.57	-16.09
40 Monthly Residential Customer Impact (\$/mo)	(\$0.33)	(\$1.37)	(\$1.88)	(\$2.62)	(\$3.17)	(\$5.53)

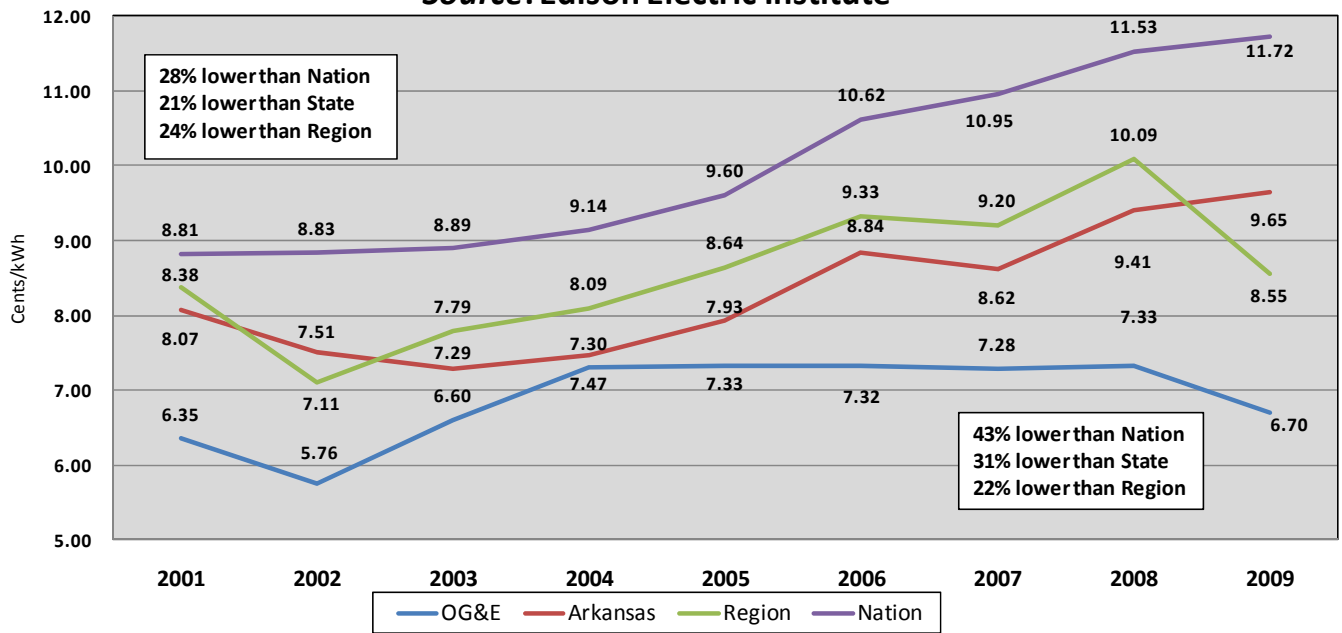
Arkansas Retail Average Rate Comparison

Source: Edison Electric Institute

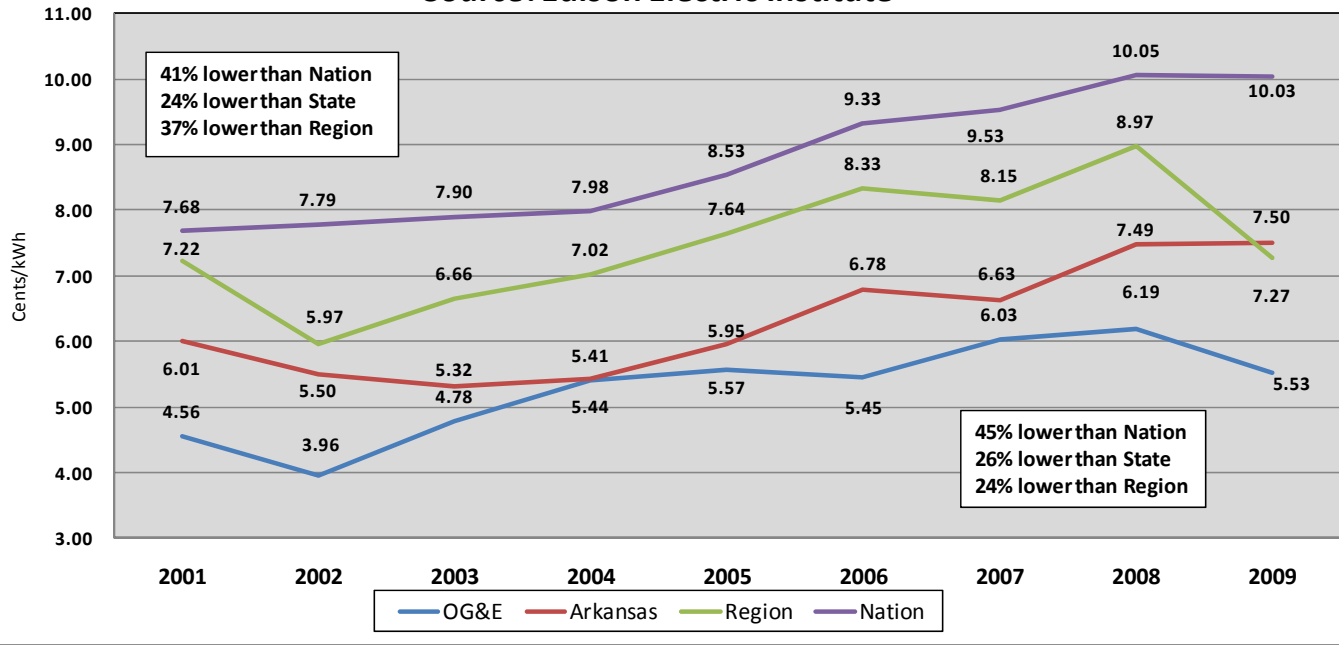


Arkansas Residential Average Rate Comparison

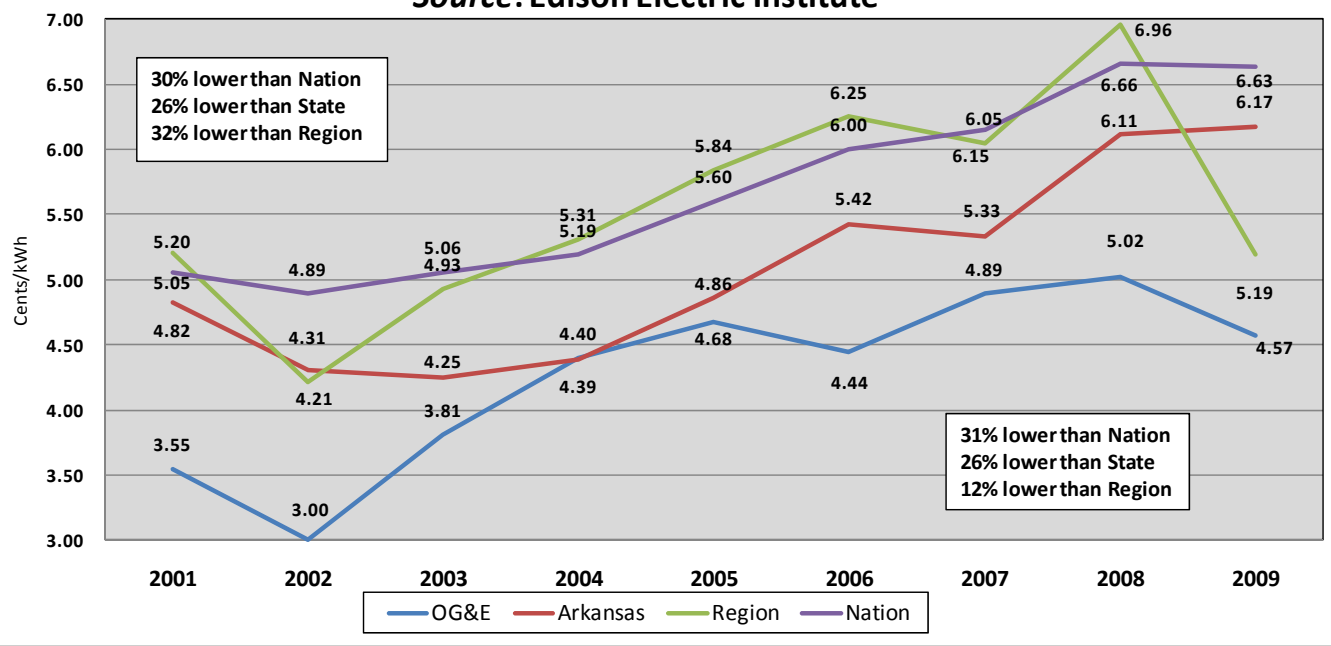
Source: Edison Electric Institute



Arkansas Commercial Average Rate Comparison
Source: Edison Electric Institute

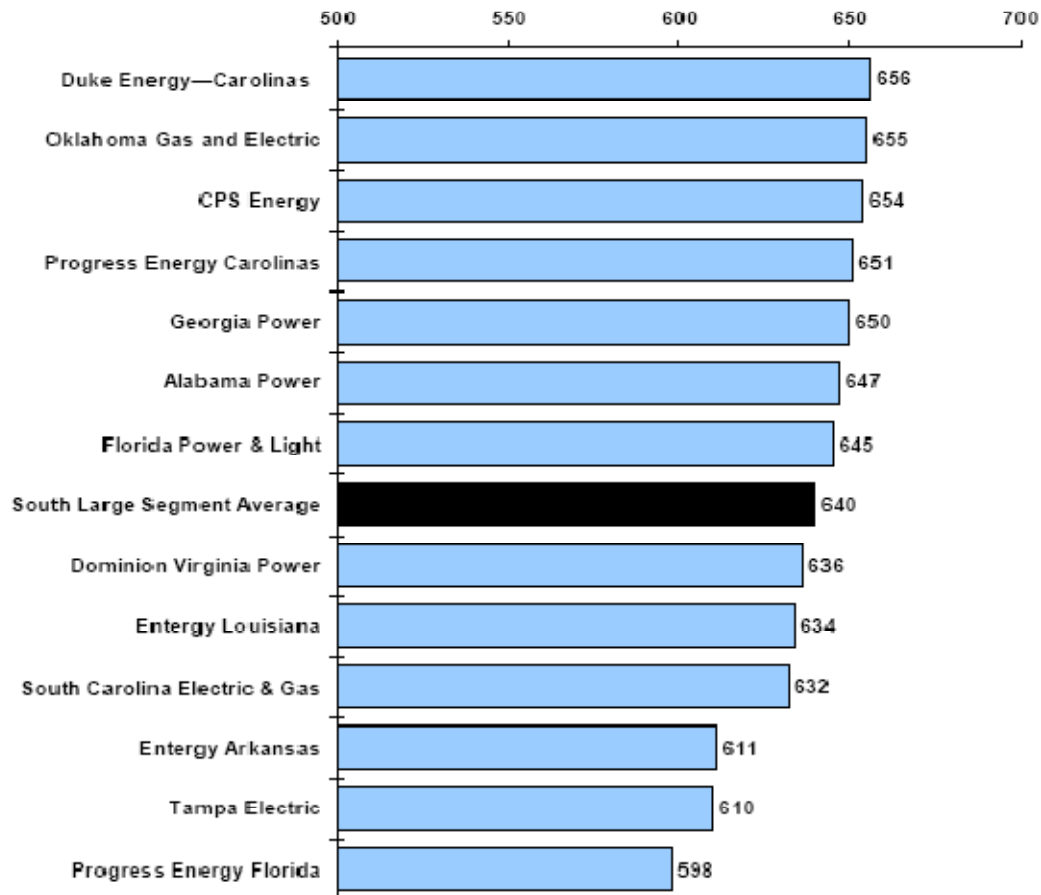


Arkansas Industrial Average Rate Comparison
Source: Edison Electric Institute



J.D. Power and Associates
2010 Electric Utility Residential Customer Satisfaction StudySM

Customer Satisfaction Index Ranking
South Region: Large Segment
(Based on a 1,000-point scale)



Source: J.D. Power and Associates 2010 Electric Utility Residential Customer Satisfaction StudySM

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ATTESTATION

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



SEPTEMBER 24, 2010

Date