BEFORE THE
CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF OKLAHOMA GAS AND ELECTRIC COMPANY FOR APPROVAL OF A GENERAL CHANGE IN RATES AND TARIFFS	))))	CAUSE NO. PUD 200800398

Direct Testimony

of

Bryan J. Scott

on behalf of

Oklahoma Gas and Electric Company

February 27, 2009

QUALIFICATIONS, EXPERIENCE AND PURPOSE

Q. **Would you please state your name, business address and job responsibilities.**

A. My name is Bryan Scott. My business address is 321 North Harvey, Oklahoma City, Oklahoma 73102. In March 2008, I joined OG&E as a Pricing Strategist with the Rates and Costing team. I am currently the Manager of Pricing and am responsible for rate design and pricing strategy.

Q. **On whose behalf are you submitting this direct testimony?**

A. I am submitting this Direct Testimony on behalf of Oklahoma Gas and Electric Company ("OG&E" or the "Company").

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

A. I graduated from the University of Tulsa with a Bachelor of Science degree in Economics. I began working at Public Service Company of Oklahoma (PSO) in 1979 where I held various positions in its Rates Department. In 1994, I joined the Central and South West (CSW) Rates Department as Manager of Pricing and Costing. (CSW was the holding company over PSO.) In 1995, I became responsible for new pricing programs as Senior Project Manager for Pricing Development for CSW. In 2000, I became the Manager of Texas Retail Pricing for AEP in preparation for the deregulated market in Texas (AEP assumed control of CSW in 2000.) In 2002, I left AEP to become a consultant with B&B Consulting International and then UtiliPoint International. I joined OG&E in March, 2008. I have been involved with pricing, costing, rate administration and regulatory issues for over 29 years.

Q. **Have you previously filed testimony before the Oklahoma Corporation Commission (the "Commission" or "OCC")?**

A. Yes. I have previously filed testimony on behalf of Public Service Company of Oklahoma (PSO) in several proceedings. I have submitted testimony and testified in various hearings and proceedings before the Arkansas Public Service Commission, the

Louisiana Public Service Commission, and the Public Utility Commission of Texas. I have also submitted testimony to the Federal Energy Regulatory Commission.

PURPOSE OF TESTIMONY

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

A. The purpose of my testimony is to sponsor pro forma revenue adjustments (Schedule H-2 Rev), sponsor the proposed revenue allocation (Exhibit BJS-1), sponsor the proposed tariffs (Schedule N), and proof of revenue (Schedule M), introduce new tariffs for customers, and propose changes to the existing retail rates. The new tariffs provide customers in the SmartPower pilot area (Norman, OK) that have necessary metering installed the opportunity to respond to new time-differentiated prices. The proposed changes to the existing retail rates are based upon the revenue allocation which is derived from the equalized rates of return (ROR) revenue requirements for each class from OG&E's Cost of Service study filed concurrently in this proceeding. I also sponsor changes to Terms and Conditions of Service (T&C). A complete set of the proposed tariff changes is presented as the "red-line" tariffs in Schedule N.

PRO FORMA ADJUSTMENTS

Q. **Please describe the pro forma adjustments shown on Section H, Schedule H-2 Rev?**

A. I sponsor the following list of pro forma revenue adjustments:

- Adjustment #1 Removal of Unbilled Revenue and Fuel Adjustment Lag;
- Adjustment SC Re-Establish Special Contracts;
- Adjustment #2 Removal of Demand Program rider revenue;
- Adjustment #3 Removal of Annual Public Utility Assessment Fee revenue;
- Adjustment #4 Annualization of Redbud rider revenue;
- Adjustment #5 Removal of book Fuel Cost Adjustment rider revenue;
- Adjustment #6 Removal of Storm Cost Recovery rider revenue;
- Adjustment RTP Removal of Incremental DAP rider sales and revenue;
- Adjustment #7 Weather Normalization of sales and revenue;
- Adjustment #8 Year End Customer Normalization;
- Adjustment #9 True-up of Fuel Cost Adjustment rider revenue;

- Adjustment #10 Revenue Synchronization Adjustment for Weather Normalization, Military Base Tariff Credit, and Cogeneration Credit Rider; and
- Adjustment #11 Non-Oklahoma jurisdiction adjustments (not at issue).

Q. **Please describe each of these adjustments and their purpose.**

A. These adjustments are necessary to accurately compute costs for customer groups, and thereby, produce fair and reasonable rates. The adjustments also normalize test-year revenue and sales data and therefore provide a stable basis for rate design. For OG&E, the monthly "RevSle" report represents the "book" data for revenue, kWh sales, customer counts, and is the starting point for most of the adjustments listed below.

Adjustment #1 is comprised of two amounts: the first is the removal of unbilled revenue. a decrease of $5,225,361; the second is the removal of over or under-recovery of fuel expense, decreasing revenue by $125,388,821. The total of these amounts is a revenue decrease of $130,614,182.

Adjustment SC, the Special Contract Rate Adjustment removes Special Contract B and C's customer count, revenues, and kWh sales from certain rate classes in the RevSle and establishes them as separate classes for COS study purposes. In addition, it removes Special Contract A from its special contract and places its customer count, revenue, and kWh sales into the Large Power and Light TOU service level 2 rate categories, at the applicable tariff rates resulting in a revenue increase of $3,510,745.

Adjustment #2, the Demand Program Rider (DPR) adjustment is comprised of two amounts: the first is the decrease of revenue received from the DPR of $1,274,736, the second adds the lost revenue, from deemed savings, in the amount of $11,218 and the corresponding kWh of 135,837. For the test year, this resulted in a revenue decrease of $1,263,518 and a kWh increase of 135,837. There is also a corresponding adjustment to remove DPR related expenses (see Schedule H-2, Adjustment 19). These revenues and expenses are not a part of base rates, and the mechanism for recovering these expenses (which includes a "true-up" computation) is not properly a part of the COS study used to establish base rates.

Adjustment #3 removes the Annual Public Utility Assessment Fee rider revenue collected from the Oklahoma retail customers. For the test year, this resulted in a revenue decrease of $1,215,917.

Adjustment #4 is for Redbud Acquisition Recovery Rider (RARR) annualization. The RARR recovers the cost of the approved Redbud plant addition, and certain related expenses, and was approved September 2008. This adjustment decreases test year revenues by the collected amount of $1,008,571 and then increases the test year revenues by the annual revenue amount of $75,366,039. For the test year, this resulted in a revenue adjustment of $74,357,468.

Adjustment #5 is for removal of billed Fuel Cost Adjustment (FCA) revenue. This adjustment decreases the test year revenues by $59,844,314. It should be noted that after the weather and year-end customer normalization adjustments are completed, FCA revenues are added back and are included for COS study and proof of revenues purposes.

Adjustment #6 is for Storm Cost Recovery Rider (SCRR) removal. The SCRR recovers the cost of certain storm related expenses and the associated regulatory asset; the rider also includes a true-up mechanism. Base rate design changes are made exclusive of the SCRR revenues. This adjustment reduces the test year revenues by $851,596.

Adjustment RTP is for the removal of incremental revenue and kWh associated with the Day-Ahead Pricing tariff. Base rate design changes are made exclusive of incremental revenue and energy. For the test year, this resulted in a net revenue increase of $1,554,310 and a net kWh decrease of 7,298,862.

Adjustment #7 adjusts test year revenues to reflect 30-year normal weather, ending in the test year. Weather adjustments are necessary since the effects of weather on electricity usage can cause significant annual revenue swings and cause test year revenues to differ from the expected revenue outcome of an average year. This adjustment decreases Oklahoma jurisdictional revenue by $19,584,435 and decreases kWh by 240,048,786.

Adjustment #8 is the Year-End Customer adjustment. This adjustment reflects the end of test year customer count and includes revenues and billing units associated with these customers. For the Oklahoma jurisdiction, this adjustment reflects the year end customer

count of 773,944, increased revenues by $11,087,083 and increased kWh by 189,529,443.

Adjustment #9 is for Fuel Cost Adjustment true-up. This adjustment re-establishes FCA revenues to reflect the change in kWh from other adjustments and to reflect the expected FCA levels for 2009. This adjustment increases the test year revenues by $167,267,182.

Adjustment #10 synchronizes the proper revenue amounts that should be credited or collected as a result of applying the Weather Adjustment, Cogen Credit Rider, and Military Base Tariff Credit, to their respective kWh components. This adjustment results in a Weather Adjustment Revenue increase of $708,881, and completes the Weather Normalization adjustment. It also decreased revenue by $2,090,032 for the CCR, and decreased revenue $130,932 for the MBTC. For the test year, this resulted in a net revenue decrease of $1,512,083.

Adjustment #11 incorporates revenue adjustments for non-jurisdiction revenues. This adjustment does not change Oklahoma jurisdiction revenue; however, it does show the reduction to book revenues by $145,138,228 for other jurisdictions (FERC and APSC).

SECTION M and TARIFFS

Q. **Are you sponsoring Section M, and related workpapers and Section N?**

A. Yes, I am.

Q. **Please describe these schedules and their purpose.**

A. Schedule M and the related work papers document that the proposed price changes produce the revenue requirement and collect the revenue deficiency for each rate class. These schedules also provide some information documenting the impact of the changes in rates to customers. Schedule N, the Proposed Rate Schedules, reflects the requested rates. The work papers to Section N include a "red-line" set of tariffs that show the changes to the current tariffs and document the proposed pricing and tariff terms. The proposed changes to Terms and Conditions of Service are also identified in the "red-line" changes to tariffs.

CHANGES TO TERMS AND CONDITIONS OF SERVICE

Q. **Does OG&E propose changes to the methods in which customers apply for service or terminate service?**

A. Yes. In Section 202, Application For Electric Service and Section 211, Change Of Occupancy, OG&E proposes to add the option of the customer being able to notify the Company electronically of requests to connect or disconnect service.

Q. **Please describe the Company's proposal to offer customers the option of "paperless" billing?**

A. OG&E proposes changes to Section 209, Billing For Electric Service, where the Company may deliver a bill for service to an electronic address designated by the customer, at the customer's request.

Q. **Please describe changes required to accommodate prepaid electric service.**

A. Prepaid electric service offers customers in eligible service locations the ability to prepay for electric service and forego making a deposit. Customers are provided with a meter (and other technology) that will disconnect service if the prepaid amount drops to zero. Customers can re-activate electric service by adding funds to their account. The proposed addition, Section 220, also recognizes that these prepay customers are not required to pay a deposit. The customer's standard rate will apply and will be prorated to a daily basis as required. No reconnect or disconnect fees will apply.

Q. **Are there any proposed changes to Service Charges in support of remote connect/disconnect capabilities?**

A. Yes, there are. In Section 206, Method Of Supplying Electric Service, the following service charge changes have been made only for charges applicable in areas where remote connect/disconnect is operational and the premise has the enabling technology installed: discontinuance of the charge of $.50 for each rental unit under the Leave-on Agreement; discontinuance of the $7.00 Disconnect Charge under the Leave-on Agreement; clarification that the $25.00 Service Initiation Fee applies if the owner/agent requests a service initiation under the Leave-on Agreement. Because these fee changes

apply only where remote connect/disconnect services will be available, no revenue adjustment has been made.

Q. **Please describe other changes required to accommodate remote connect/disconnect service.**

A. Section 206 has been modified to permit remote connection of service and remote disconnection of service. Under the current Terms, OG&E is required to leave a "door-hanger" notice when disconnecting electric service. The proposed change allows OG&E to remotely disconnect service and not send an employee to leave a paper copy of the notice at the premise.

Q. **Are there any proposed changes to the Average Monthly Billing (AMB) Payment Plan?**

A. Yes, the Company has added the option of waiving the 12 month waiting period to become eligible for reinstatement if the customer has been removed from the AMB plan due to late payment.

Q. **What other changes have been made to the Terms & Conditions?**

A. We have added the Company's Deposit Plan in Section 208, Deposits as Security for Payment of Bills.

Q. **Are there any new additions to the Terms & Conditions?**

A. Yes, we have added the following: Request by Customers to Perform Work on Customer Owned Facilities; Facilities Rental Service and Agreement; Performance Guaranty Agreement.

Q. **Why has OG&E proposed to perform work on customer owned facilities?**

A. Currently, no provisions exist to perform work for customers on customer owned facilities. This would allow OG&E to perform emergency type work on facilities owned by the customer in the event the customer could not find a third party to do this work.

Q. **Why does OG&E need a facilities rental service agreement?**

A. Occasionally, a primary metered customer will request that OG&E rent them equipment due to a failure of their own equipment. This rental agreement will help facilitate that customer's request.

Q. **What is the purpose of a performance Guaranty agreement?**

A. The purpose of a performance Guaranty agreement is to ensure the Company recovers its investment for infrastructure additions and/or improvements when the customer's projected load does not materialize and it is unlikely that the facilities would be required by another customer within five years of the system expansion. This provision is added as Section 411.

Q. **Please describe the changes to Part IV-Standard Extension Policy of the T&C.**

A. Section 401 of the Standard Extension Policy now states that a basic philosophy of the Company is to provide the best possible service *and point of delivery of service* to the customer at the most reasonable investment. All applicable alternatives shall be given consideration when applying the extension policy.

Q. **Please describe the changes to the right-of-way provisions of the T&C.**

A. Section 402 of the T&C now has an added paragraph that states: *All customers requesting service from the utility shall comply with all easement guidelines as specified under this section. Failure to meet these guidelines shall, at the utility's sole discretion, relieve the utility of any obligation to provide electric service until such time that compliance is met.*

Q. **Are any other changes proposed to the fees contained in the Terms and Conditions?**

A. No other changes are proposed to the fees at this time.

Q. **What changes are proposed to the Qualifying Facilities Purchase Schedules (QF-1 and QF-2, the Net Metering tariff)?**

A. There are several changes proposed to these purchase schedules. Currently, under the provisions of the Net Metering purchase schedule (QF-2), residential customers with self generation capability are limited to 25 kW of generation and other customers under this

tariff are limited to 100 kW of generation. The proposed purchase schedule, renamed as the Net Energy Billing Option (NEBO), allows all customers under this schedule to have up to 300 kW of self generation capability and still qualify for net metering service.

The purchase prices contained in the QF-1 purchase schedule have also been updated to reflect the latest marginal cost projections. In addition, QF-1 and NEBO now require customers to receive electric service on a daily time differentiated tariff such as TOU or DAP, to accurately reflect the value of the generation provided by the customer's facilities.

CHANGES TO EXISTING RATES

Q. **Please describe the revenue deficiency for each class of customers.**

A. The Oklahoma jurisdictional total revenue deficiency is $110,325,000 and is reflected in the table below. This deficiency represents a 6.4 % increase in jurisdictional revenues. The Revenue Deficiency column, as shown below, is used to calculate the Percent Change, shown in the last column. The revenue and percentage increases for OG&E's rate classes of service are taken from the proposed revenue allocation, Exhibit BJS-1.

Customer Group (Rate Class)	*Revenue Deficiency*	*Percent Change*
Residential	$56,350,000	7.7 %
General Service	$1,403,000	0.9 %
Oil/Gas Producers	($417,000)	(3.1 %)
Public Schools (Non Demand)	$0	0 %
Public Schools (Demand)	$0	0 %
Power & Light	$17,800,000	6.4 %
Power & Light TOU	$7,860,000	4.3 %
Large Power & Light TOU	$25,296,000	8.4 %
Municipal Pumping	$473,000	5.5 %
Municipal Lighting	$0	0 %
Outdoor Security Lighting	$1,560,000	10.0 %
Total State Jurisdiction	**$110,325,000**	**6.4 %**

Table 1. Summary of the Revenue Deficiency

Q. **Please describe the Company's goal for rate design?**

A. The Company proposes that customer class rates of return be moved toward equalized levels so that all customer classes return their allocated share of costs. The allocation of the revenue deficiency reflected in the table above, represents a step toward that goal. Exhibit BJS-1 depicts the rates of return that result from the proposed revenue increase allocation. The proposed rate design will move towards pricing that supports efficiency and peak reductions. "Special rates" will now be based on time-differentiated pricing and will link to efficiency.

Residential Rate Design

Q. **In general, please describe the changes to the tariffs available to residential customers.**

A. I propose changes to the peak season prices and the customer charge in the residential tariff to recover the revenue deficiency. The table below shows the proposed prices and the current prices. I also propose the addition of a Variable Peak Pricing tariff for residential customers (described later in testimony), increase the LIHEAP rider discount, and offer a senior citizen's discount within the R-TOU tariff. No changes are proposed to the Guaranteed Flat Bill program.

RS Monthly Prices	*Proposed*	*Current*
Monthly Customer Charge	$13.00	$6.50
Summer Season	June-Sept	June-Sept
0-1,400 kWh	8.4¢ per kWh	8.55¢ per kWh
Over 1,400 kWh	11.1¢ per kWh	8.68¢ per kWh
Shoulder Season	May, Oct	May, Oct
0-600 kWh	8.4¢ per kWh	8.52¢ per kWh
Over 600 kWh	8.4¢ per kWh	6.12¢ per kWh
Winter Season	Nov-Apr	Nov-Apr
0-600 kWh	8.4¢ per kWh	8.52¢ per kWh
Over 600 kWh	4.7¢ per kWh	4.77¢ per kWh

Table 2. Comparison of Residential Prices

Q. **What is the allocated revenue deficiency of the Residential class (RS)?**

A. The RS revenue deficiency, shown in Table 1, is $56,350,000 or a 7.7% increase. I propose changes to the residential price in three specific areas: the customer charge will be increased, the summer season kWh price for the tail block will be increased, and the initial kWh block price for all seasons will be decreased slightly. The shoulder season prices were equalized by removing the declining block structure.

Q. **What is the impact of these changes to residential customers?**

A. The impact of these changes is shown in the table[1] below.

Customer Sub-Group	Number of Customers	Annual kWh per Customer	$ per Customer per Month Change	Annual % Change
Lower Income (LIHEAP)	15,653	14,375	$1.54	1.5%
Peak Users	18,059	7,786	$7.84	11.9%
Off Peak Users	62,641	16,627	$5.99	5.4%
Larger Users	1,308	83,773	$64.96	12.4%
Zero Users	3,064	0	$6.50	100.0%
RS-1	**430,182**	**14,035**	$8.43	8.1%

Table 3. Residential Customer Sub-Group Impacts

Q. **How did you determine the impact of these changes to customers?**

A. I determined the impact by computing the bills for all customers with 12 months of data under the current prices and then the proposed prices, and then computing the change in billing. Specifically, to determine the impact to customers, OG&E first extracted the customer data for the test year from the billing system for all residential customers. Next, I excluded customers without a complete year of data. The result was a database of approximately 430,000 RS-1 customers.[2] The final step was to identify sub-groups of customers to ascertain the impact of price changes to them.

The first sub-group is customers who received a LIHEAP payment (lower income customers). The next sub-groups were comprised of customers who predominantly use

[1] Note that the sub-groups are not mutually exclusive or contain only a subset of customers, so they cannot be added together to equate to Total Residential.

[2] Note that this database was used solely for the purpose of evaluating the impact of price changes to customers. The proposed rate design and proof of revenue were developed using all customer data and all pro forma adjustments as is shown in Schedule H-2 Rev.

electricity during the peak (summer) season and then customers who predominantly use electricity during the off peak (winter) season. The next sub-groups were larger users and zero users. Larger users were customers who use more than 60,000 kWh annually. Zero users are customers who have electric service connected, but used absolutely no energy for the entire year. The last group is the total for RS-1 customers.

Q. **Please discuss the impact of the proposed changes to customers who received assistance from the federal LIHEAP program?**

A. These lower income customers receive, on average, an increase of 1.5% or $1.54 per month, while the RS-1 residential customers receive an increase of 8.1% or $8.43 per month. The proposed price changes do not unduly impact OG&E's lower income customers. The lower income customers' average annual usage is 14,375 kWh, while the residential customers' average annual usage is 14,035 kWh. OG&E's lower income customers use slightly larger amounts of energy than the average OG&E residential customer. OG&E's residential customer data refutes the conventional assumption that lower income customers are also lower usage customers.

Q. **How do the proposed changes affect customers identified as peak users?**

A. Customers identified as peak users receive, on average, an increase of 11.9% or $7.84 per month. These customers predominantly use energy during the higher cost and higher load months. The current peak season price differential of 0.13¢ per kWh between the initial block and the tail block appears to offer a minimal price signal to reflect the increasing cost of capacity. The proposed peak season price changes will encourage residential customers to consider conservation initiatives and time-differentiated pricing such as that proposed by OG&E in this docket. In this docket, OG&E proposes to adjust its peak season pricing to more appropriately reflect the cost of peak season consumption.

Q. **How do the proposed changes affect customers identified as larger users?**

A. Customers identified as larger users receive, on average, an increase of 12.4% or $64.94 per month. These customers use an average of 83,773 kWh annually or 596% of the typical residential customer annual usage.

Residential Rate Design Detail

Q. **What changes does OG&E propose to the customer charge?**

A. OG&E proposes to increase the customer charge for RS customers from $6.50 per month to $13.00 per month. The monthly cost per customer from the "customer" classification cost of service study for RS is $21.76. The COS study indicates a meaningful increase to the residential customer charge is required. The Commission recently authorized a $14.95 customer charge for Public Service Company of Oklahoma. Accordingly, I propose that the price be increased to $13.00 per month as a step towards a cost based customer charge.

Q. **Does OG&E propose any changes to the kWh block structures for the RS tariff?**

A. OG&E proposes to eliminate the 0-600 kWh step in the Shoulder season. All Shoulder season kWh will be priced at 8.4¢ per kWh. No other block changes are proposed.

Q. **What other changes does the Company propose to the energy prices?**

A. OG&E proposes a decrease of $0.0015 per kWh to the initial block price for the peak season (usage billed during the months of June through September) and proposes an increase of $0.0242 per kWh for all usage above 1,400 kWh. Inverted block pricing indicates to customers that during certain times of the year, electricity does cost more, and that additional usage during those periods increases the need to add generating capacity. OG&E proposes a minor decrease, $0.0012 per kWh, to the initial block price for the off peak season (November through April) and a decrease of $0.0007 per kWh to the price for additional usage. These adjustments somewhat offset the increased customer charge.

Q. **What changes does OG&E propose to the LIHEAP rider?**

A. OG&E proposes to increase the discount for residential customers who qualify for the LIHEAP rider. Currently customers receive a waiver of the customer charge during the summer season, receive a discount of .67¢ per kWh for winter tail step usage and no discount during the shoulder season. OG&E proposes to replace that discount structure with one that provides for a fixed $10 per month reduction to the customer charge for all months. The change results in an increase to their discount from approximately $50 per

year to $120 per year. The LIHEAP rider has been renamed as the Low Income Assistance Program (LIAP) rider to avoid confusion with the federal assistance program named LIHEAP.

Q. **What changes does OG&E propose to the Residential Time of Use (RTOU) tariff?**

A. OG&E proposes to increase the customer charge for RTOU customers from $6.50 per month to $13.00 per month, following the change to the standard residential rate. However, OG&E proposes to eliminate the separate TOU meter charge of $6 per month that applies during the peak season. OG&E also proposes to reduce the peak period by 1 hour. Currently the peak period is defined as June through September, Monday through Friday, 1:00 pm to 7:00 pm. The proposed peak period is defined as June through September, Monday through Friday, 2:00 pm to 7:00 pm. By eliminating the TOU meter charge and reducing the peak period, OG&E is working to reduce the barriers that discourage customers from taking advantage of time differentiated pricing. The Company believes these are reasonable steps towards that goal.

Q. **How will the time period change be implemented?**

A. Each existing TOU meter will need to be reprogrammed with the new peak period definition. This will take some time, but OG&E commits to having the change completed before the 2010 peak season. OG&E requests that the approval of the peak period definition change by the Commission should authorize the application of the current peak period definition for any remaining peak period that may be in effect during 2009 after the final rates are approved. Note that the "best bill" provision, discussed later in testimony, protects customers from any adverse effects while the Company is re-programming the meters.

Q. **What other changes does OG&E propose to the RTOU tariff?**

A. OG&E proposes to slightly modify the "best bill" provision. Currently the provision is a separate calculation for each month. The modification is to change the calculation to an annual basis and to provide the provision only for the initial year of subscription. The provision will not apply to a customer's account in subsequent years. All current subscribers will receive the "best bill" provision for one more year.

OG&E also proposes to provide within the RTOU tariff a senior citizen's discount, by reducing the RTOU customer charge by $5 per month for residential customers in cases where the account holder is age 65 or older.

Finally, OG&E proposes to change the amount of fuel cost embedded in the kWh prices. This change will be discussed in detail later in my testimony.

SMALL COMMERCIAL TARIFFS

General Service Rate Design

Q. **In general, please describe the proposed changes to the tariffs available to the General Service (GS) customers.**

A. OG&E proposes changes to the peak season prices and the customer charge in the tariff to recover the revenue deficiency assigned to this customer class. The table below shows the proposed prices and the current prices. The Company also proposes the addition of a Variable Peak Pricing (VPP) tariff available to GS customers (described later in testimony), as well as other smaller commercial customers.

GS Monthly Prices	*Proposed*	*Current*
Monthly Customer Charge	$30.00	$12.00
Peak Season	June-Oct	June-Oct
All kWh	9.85¢ per kWh	10.68¢ per kWh
Off Peak Season	Nov-May	Nov-May
0 to 1,000 kWh	9.1¢ per kWh	9.65¢ per kWh
Over 1,000 kWh	5.0¢ per kWh	5.81¢ per kWh

Table 4. Comparison of Current and Proposed General Service Prices

Q. **What is the revenue deficiency for the GS customer class?**

A. The revenue deficiency assigned to the GS class is $1,403,000 which is a 0.9% increase. OG&E proposes changes to the GS price in three specific areas: the customer charge will be increased, the peak season kWh price will be decreased 0.83¢ per kWh, and both kWh block prices for the off peak season will be decreased slightly. The customer charge was increased to more closely align with the COS study amount of $36.54 per month. The other changes were made to adjust to the remaining revenue requirement.

Q. **What is the impact of these changes to GS SL-5 customers?**

A. The average GS SL-5 customer uses 19,137 kWh annually and would receive a monthly bill increase of $4.18 or 2.5%.

Customer Sub-Group	Number of Customers	Annual kWh per Customer	$ per Customer per Month Change	Annual % Change
Zero Users	1,667	0	$18.00	150.0%
Larger Users	2,121	174,409	($114.10)	(8.5%)
Peak Users	7,290	13,567	$8.08	6.0%
Off Peak Users	7,701	8,215	$12.36	16.8%
Total GS SL5	**65,267**	**19,137**	$4.18	2.5%

Table 5. Residential Customer Sub-Group Impacts

Q. **What changes does OG&E propose to the GS TOU tariff?**

A. OG&E proposes similar changes to GSTOU as were proposed for the RTOU tariff. The customer charge was increased, the TOU meter charge was eliminated, the peak period definition was standardized, the embedded fuel expense was adjusted, and the "best bill" provision was modified.

Other Small Commercial Tariff Rate Design

Q. **What changes does OG&E propose to the Oil and Gas Producers (OGP) non-demand tariffs?**

A. OG&E proposes an overall revenue reduction for the OGP non-demand tariffs. The OGP Levelized tariff has been converted to a seasonal tariff and combined with the standard OGP tariff. The OGP Levelized tariff was a non-seasonal tariff with pricing the same for each month. The renewed emphasis on accurate price signals encourages the transition towards tariffs that support cost based pricing. Therefore, OGP Levelized was modified. The OGP ND TOU tariff was adjusted in the same manner as GSTOU.

Q. **What changes does OG&E propose to the Public Schools-Non Demand (PS-ND) tariffs?**

A. OG&E proposes no increase to the overall revenue level for these tariffs. However, prices were adjusted to better align with costs. The resulting proposed PS-ND tariff prices are

higher than the proposed GS tariff prices, so the proposed PS-ND tariff should be withdrawn. The PS-ND TOU and PS-ND TOU-C tariffs have been combined into a single TOU offering. The peak period definition has been standardized from 2pm-8pm and 3pm-7pm, respectively, to 3pm-7pm. To avoid increases for customers, the peak period price for the PS-ND TOU-C tariff was reduced to 30¢ per kWh, similar to the current PS-ND TOU peak period price. The revised PS-ND TOU tariff has other changes similar to GSTOU.

Q. **What changes are proposed to the Municipal Pumping (MP) class?**

A. The MP assigned revenue deficiency is $473,000 which results in an increase of 5.5%. OG&E proposes to increase the customer charge to $30.00 per month. The proposed summer kWh price is 7.2¢ per kWh and the proposed winter price is 5¢ per kWh. Prices were adjusted to better align with costs.

LARGE COMMERCIAL AND INDUSTRIAL TARIFFS

Large Power & Light Time of Use (LPL-TOU) Rate Design

Q. **Please describe the changes to the LPL tariffs.**

A. First, the Company proposes to withdraw the LPL Levelized tariff, as no customers are currently subscribed or have recently subscribed to this tariff. The LPL Levelized tariff is not consistent with OG&E's renewed focus on peak season pricing; therefore, it has been withdrawn.

Next, OG&E proposes to change the LPL-TOU structure from that of a demand-based TOU rate to an energy-based TOU rate, so that the peak period demand charge was eliminated.

OG&E proposes 2.6¢ per kWh embedded fuel for all off-peak energy prices and 8.0¢ per kWh for all peak period energy prices. Note that the composite price for all TOU embedded fuel costs is 2.9¢ per kWh, the same amount as is in all other tariffs. Therefore the same FCA factor can be used with all TOU usage and a separate FCA factor by time period is not required. This change is an initial step towards the request by OG&E's larger industrial customers for hourly fuel charges. Currently, hourly pricing incorporating hourly fuel costs is available through OG&E's DAP tariff. This change is

also discussed later in this testimony.

Next, the power factor will be increased from 80% to 90%. To provide affected customers the opportunity to correct their power factor, OG&E proposes to wait one year after final approval of the proposed tariffs before implementing this provision.

The next change is the integration of the existing interruptible and curtailable service tariffs (PACE, IR, and CR) into a single cohesive program, the proposed Load Reduction rider.

Finally, OG&E also proposes minor changes to the Day Ahead Pricing (DAP) tariff for these customers. DAP is sometimes referred to as real-time pricing or RTP.

Q. **What is the requested increase to the LPL-TOU class?**

A. The LPL-TOU requested increase is $25,296,000 or an 8.4% increase. The impact to customers is shown in the table below.

LPL-TOU SL2										
	0	0	0	0	0	0	0	0	0	1 $3,772,662 10.99%
	0	0	0	0	0	0	0	0	1 $812,689 9.04%	0
	0	0	0	0	0	0	0	0	1 $871,226 10.97%	0
	0	0	0	0	0	1 $251,422 6.07%	0	0	0	0
	0	0	0	0	0	0	0	0	0	1 $764,967 10.16%
	0	0	0	0	0	0	1 $347,437 7.64%	0	0	1 $507,191 8.01%
	0	0	1 $168,119 12.07%	0	0	0	1 $260,859 7.17%	0	1 $331,378 7.47%	1 $489,690 9.18%
	0	0	0	0	0	0	0	1 $331,454 8.92%	0	0
	0	0	0	0	0	1 $134,347 5.90%	2 $248,955 4.86%	0	0	2 $471,291 7.30%
	0	0	0	0	0	1 $52,220 4.10%	2 $145,750 3.91%	1 $114,141 5.63%	0	2 $392,614 7.27%
	0	0	0	0	0	0	5 $160,024 3.08%	3 $206,441 4.85%	2 $141,109 4.66%	0
	0	0	0	0	0	0	0	0	0	0

Table 6. LPL-TOU SL2 Customer Impacts

maximum demand) and load factor. Each segment shows the n

This table segments customers by size (maximum demand) and load factor. Each segment shows the number of customers within that segment, the revenue change and the percent change.

Q. **What other changes are proposed to the LPL-TOU tariff?**

A. The power factor requirement has been increased from 80% to 90%. This change has also been made to the PL and PL-TOU tariffs. The purpose of this change is to encourage customers to improve their power factor and reduce the demand on the system.

Q. **Why is power factor improvement important?**

A. Improvements to PF on the OG&E system will reduce energy losses on the system and lower customer's generation requirements (kVA). Energy losses result in costs to all customers. While energy losses cannot be totally eliminated, the closer the power factor relationship between real power (expressed in kW) and apparent power (expressed in kVA) is to 1.0 or 100%, the higher the efficiency of the system, the lower the energy losses, and the lower the demand on the system. The formula is generally expressed as follows:

$$Power\ Factor = kW \div kVA$$

where 100% or 1.0 is the ideal relationship.

Q. **What is the PF requirement in current tariffs?**

A. The current threshold for PF adjustment is 80%. The new tariff changes the PF requirement to 90%. Customers would need to maintain an average monthly PF of at least 90% or their billing demand will be increased.

Q. **Will all customers be required to meet the new PF threshold of 90%?**

A. No. Only customers that are on demand rates (LPL-TOU, PL, PL-TOU). OG&E will require kVAr metering (metering equipment necessary to measure PF) on all LPL-TOU, PL and PL-TOU customers with a maximum demand of 300 kW or more and will, at its discretion, install kVAr metering on any customer below that level when it believes the customer has loads such that the 90% PF threshold is not maintained.

Q. **When will the change in PF requirements become effective?**

A. The change will become effective one year after the rates are approved by this Commission. This delay will allow customers who currently do not maintain a 90% PF the time to install the equipment necessary to correct their PF to avoid additional billing.

Q. **Was the potential revenue that would result from the change in PF requirements included as part of the proposed revenues in Schedule M?**

A. No. The potential additional revenue was not included, since customers can make investments in equipment to correct their PF and OG&E would not receive any additional revenue. OG&E proposes this change in PF requirements to encourage customers to use electricity efficiently. If customers correct their PF, their billing demand will be reduced, the kVA demand on the OG&E system will be reduced, and all customers will benefit.

Power & Light (PL) Rate Design

Q. **What is the revenue deficiency of the PL class?**

A. The Power & Light assigned revenue deficiency is $17,800,000 or a 6.4% increase.

Q. **Please describe the changes to the PL tariffs.**

A. First, the Company proposes to withdraw the PL Levelized tariff, as no customers are currently subscribed or have recently subscribed to this tariff. The PL Levelized tariff is not consistent with OG&E's renewed focus on peak season pricing; therefore, it has been withdrawn.

Next, for the PL tariff, the Company proposes to change the energy prices to eliminate the declining block structure and to increase the demand charges to recover the revenue deficiency. For example, the PL SL5 energy charge increased from: 4.16¢ per kWh for the first 1,000,000 kWh and 3.84¢ per kWh for all additional kWh; to: 4.6¢ per kWh for all kWh. The customer charge for PL SL5 was increased from $73 per month to $75 per month; the customer charges for all other service levels were not changed.

OG&E also proposes to increase the power factor (PF) adjustment charge from 80% to 90%. The PF change will become effective one year after the rates are approved by this Commission. This delay will allow customers who currently do not maintain a 90% PF the time to install the equipment necessary to correct their PF to avoid additional billing.

Q. **What is the impact of these changes to PL SL5 customers?**

A. The impact of these changes to PL SL5 customers is shown in the table below. The table segments customers by size (maximum demand) and load factor. Each segment shows the number of customers within that segment, the revenue change and the percent change. Service Level 5 has the largest number of customers, kWh, and revenue of the PL rates.

PL-1 SL5										
	0	1 $7,469 9.08%	0	3 $63,078 8.89%	2 $34,866 7.05%	3 $82,726 7.28%	1 $23,059 6.26%	4 $164,505 6.24%	0	1 $30,687 5.28%
	0	0	1 $16,352 10.02%	1 $17,286 8.77%	1 $19,450 8.12%	0	4 $79,042 6.45%	0	0	0
	0	0	0	1 $16,932 10.11%	2 $31,449 7.98%	1 $18,726 6.33%	5 $95,430 6.30%	1 $18,881 6.02%	1 $21,573 5.91%	0
	0	1 $10,886 14.17%	2 $19,459 9.75%	0	1 $14,326 7.33%	2 $34,198 7.20%	6 $106,505 6.73%	3 $54,560 6.24%	2 $38,829 5.63%	0
	0	0	0	0	3 $38,768 7.53%	5 $73,324 7.16%	8 $117,921 6.39%	3 $44,734 5.95%	1 $14,575 5.53%	0
	0	0	0	4 $33,841 8.23%	5 $53,975 7.10%	8 $98,735 7.00%	8 $99,576 6.42%	7 $98,857 6.13%	1 $15,289 5.46%	0
	0	1 -$5,787 -31.66%	5 $45,199 10.78%	3 $21,299 8.52%	6 $57,631 7.73%	11 $109,928 7.10%	10 $109,013 6.32%	10 $118,941 5.98%	2 $25,729 5.74%	0
	0	1 $7,753 13.87%	4 $19,276 9.10%	9 $59,100 8.40%	12 $93,228 7.49%	23 $192,228 6.95%	16 $141,418 6.46%	18 $172,190 5.97%	4 $41,778 5.71%	2 $21,099 5.56%
	0	0	3 $15,318 10.54%	21 $122,679 9.06%	35 $204,364 7.65%	43 $272,903 6.96%	26 $176,126 6.43%	15 $103,865 5.92%	5 $39,354 5.73%	2 $16,218 5.30%
	0	0	4 $11,044 8.69%	48 $174,268 8.24%	88 $366,738 7.64%	122 $549,840 6.94%	58 $281,979 6.38%	26 $137,151 6.01%	4 $20,451 5.76%	3 $19,254 5.39%
	0	0	9 $15,199 9.34%	183 $398,321 8.29%	380 $914,103 7.54%	350 $910,145 6.88%	155 $440,898 6.45%	69 $203,204 6.04%	17 $49,948 5.60%	6 $19,071 5.37%
	0	4 $6 0.04%	59 $30,211 7.67%	1,578 $1,080,697 8.09%	2,314 $1,805,221 7.41%	1,490 $1,278,692 6.77%	734 $721,701 6.33%	200 $194,709 5.93%	44 $34,474 5.58%	29 $36,083 5.31%

Table 7. PL SL-5 Customer Impacts

Power & Light Time of Use (PL-TOU) Rate Design

Q. **What is the revenue deficiency of the PL-TOU class?**

A. The Power & Light TOU assigned revenue deficiency is $7,860,000 or 4.3%.

Q. **Please describe the changes to the PL-TOU tariffs.**

A. First, OG&E proposes to change the PL-TOU structure from that of a demand-based TOU rate to an energy-based TOU rate; the peak period demand charge was also eliminated. In addition, OG&E proposes 2.6¢ per kWh embedded fuel for all off-peak energy prices and 8.0¢ per kWh for all peak period energy prices. The customer charges are the same as proposed for the PL tariff. The TOU meter charge has also been

eliminated.

Next, the power factor will be increased from 80% to 90%. To provide affected customers the opportunity to correct their power factor, OG&E proposes to wait one year after final approval of the proposed tariffs before implementing this provision.

Q. **What is the impact of these changes to PL-TOU SL5 customers?**

A. As an example, the impact of these changes to PL-TOU SL5 customers is shown in the table below. The table segments customers by size and load factor. Each segment shows the number of customers within that segment, the revenue change and the percent change. Service Level 5 has the largest number of customers, kWh, and revenue of the PL-TOU rates.

PL-TOU										
	0	0	1 -$4,695 -3.28%	1 -$30,077 -13.73%	6 -$10,787 -0.46%	15 $200,184 2.97%	15 $356,869 4.25%	10 $291,015 4.68%	2 $45,875 4.00%	0
	0	0	0	0	0	1 $13,296 4.28%	1 -$9,627 -2.68%	1 $17,821 4.64%	0	0
	0	0	1 $13,996 11.56%	0	1 $12,224 5.61%	2 $1,504 0.26%	4 $42,288 3.39%	4 $67,076 4.60%	0	0
	0	0	1 -$7,079 -5.09%	0	0	2 $17,432 3.55%	4 $72,092 6.27%	4 $98,757 7.77%	0	0
	0	0	1 -$13,388 -12.80%	1 $2,303 2.06%	4 $24,743 3.56%	2 $11,895 2.88%	3 $43,481 5.96%	4 $32,590 2.70%	2 $8,455 1.25%	0
	0	1 -$4,648 -9.28%	4 -$38,973 -9.61%	1 -$7,419 -7.06%	6 $38,935 4.12%	8 $37,022 2.61%	3 $34,637 5.98%	3 $68,019 9.58%	2 $10,393 2.01%	0
	0	1 -$848 -3.06%	1 -$12,435 -17.62%	4 -$17,048 -3.80%	8 -$440 -0.04%	8 $25,626 1.91%	6 $26,290 2.48%	5 $42,168 4.05%	3 $29,384 4.35%	1 $10,651 3.93%
	0	0	4 -$16,650 -6.24%	6 -$17,885 -3.16%	10 $21,732 2.05%	14 $22,232 1.27%	5 $31,198 4.38%	12 $141,274 6.85%	1 $6,802 3.84%	0
	0	1 $2,287 16.74%	2 -$13,826 -13.68%	5 -$604 -0.18%	16 $25,758 1.96%	15 $44,127 3.10%	11 $44,196 3.52%	20 $242,426 9.18%	6 $55,225 6.05%	0
	0	0	0	17 $9,315 1.12%	29 $32,186 1.87%	19 $32,485 2.50%	12 $29,012 2.92%	11 $43,517 4.18%	6 $52,916 8.07%	0
	0	0	2 -$2,477 -5.03%	32 -$6,152 -0.64%	54 $48,622 2.44%	48 $48,189 2.51%	39 $58,898 3.18%	18 $32,975 3.43%	2 $4,598 3.65%	0
	0	0	0	77 $2,554 0.32%	89 $25,471 2.06%	83 $29,750 2.07%	68 $33,351 2.54%	21 $10,050 2.44%	2 $861 2.93%	2 $1,797 2.59%

Table 8. PL-TOU SL5 Customer Impacts

Other Demand Rates (PL-OGP, PS-D, PS-D-TOU, CAAR) Rate Design

Q. **What changes are proposed for the PS-D class?**

A. The Public Schools Demand class was assigned no increase in revenues, however, the prices in the tariffs were realigned to better reflect costs. The PS-D structure was changed to align with the PL tariff structure.

The PS-D-TOU and PS-D-TOUC were combined and the tariff structure was aligned with the PL-TOU tariff structure except that the peak period is defined as June-September, Monday-Friday, 3pm-7pm, instead of 2pm-7pm.

Q. **Please describe the changes to the PL-OGP tariff.**

A. The PL-OGP tariff was eliminated and the customers transferred to the PL rate.

Q. **Please describe the changes to the Chain Account Aggregation Rider (CAAR).**

A. The CAAR was eliminated. The basis for the CAAR discount was the difference between the initial kWh block price and the final kWh block price in the PL rate. The declining block structure of the PL rate has been eliminated to more closely reflect costs and peak period pricing, so the basis for the discount no longer exists.

Q. **Please describe the changes to the Maintenance Service (MS), Back-Up Service (BUS), and the companion Interruptible Standby (IS) tariffs.**

A. The MS and BUS prices were revised to align with the PL tariff. The IS curtailment hours were changed from 100 hours to 120 hours. No other changes were made. Currently, no customers are subscribed to any of these services.

LM and OSL Rate Design

Q. **Please discuss the proposed rate design for these classes.**

A. The assigned deficiency for the Outdoor Security Lighting (OSL) class is $1,560,000 which is an increase of 10%. No increase was assigned to the Municipal Lighting (LM) class. The individual light fixture and lighting pole prices were moved towards current installation costs in the OSL tariff. Likewise, the same strategy was used with LM prices. Prices for LM and OSL are shown in the proposed tariffs.

Rider Changes

Q. **Please describe the changes to the Redbud Acquisition Recovery Rider (RARR) and the Centennial Wind Energy Project (CWEP) rider.**

A. Each of these riders has been eliminated and the associated revenue requirements have been incorporated into base rates.

Q. **Please describe the changes to the Cogen Credit Rider (CCR).**

A. The current CCR amounts from the test year have been incorporated into base rates and the proposed rider prices reset to $0.00 per kWh and $0.00 per kW.

Q. **Please describe the changes to the Security Rider (SR).**

A. The current SR amounts from the test year have been incorporated into base rates and the proposed amount reset to $0.00 per kWh. At the time this testimony was prepared, a Cause[3] was pending before the Commission to authorize new amounts into the Security Rider recovery. Adjustments to the final approved SR rider will be required to account for any changes authorized by the Commission in that Cause.

Q. **Are any changes proposed to the Fuel Cost Adjustment (FCA) rider?**

A. The embedded fuel amount of 2.9¢ per kWh has been removed to reflect the TOU embedded fuel changes and the reference to the discontinued Week Ahead Pricing program has also been removed. No other changes are proposed.

Q. **Are any changes proposed to any of the remaining riders?**

A. No. No changes are proposed to the RTSA, MBTC, GPWR, REP, SCRR, DPR, EIC, APUAF, and OSSE riders.

NEW PROPOSED TARIFFS

Q. **Please describe the new tariffs proposed for customers.**

A. OG&E proposes to offer two Variable Peak Pricing (VPP) tariffs and a Load Reduction (LR) tariff. The proposed VPP tariffs will be offered to Residential, General Service, Public Schools Non-Demand, and Oil & Gas Producers Non-Demand customer classes.

[3] Cause No. PUD 200900009.

The LR tariff will be offered to customers with maximum peak period demands greater than 200 kW.

Q. **Why is OG&E seeking approval for these proposed programs?**

A. The proposed Variable Peak Pricing programs hold substantial promise for providing OG&E with additional price-responsive loads that could contribute to meeting its overall resource needs. Like TOU, these programs are designed to motivate subscribers to shift loads through time-differentiated prices. The VPP programs provide more targeted load reduction by sending prices that reflect expected system conditions on a daily basis.

The new Load Reduction rider integrates the current curtailment and interruptible programs. The new program is available to a larger group of customers, provides rewards that more closely match the costs incurred by OG&E system resources, and rewards customers for both the commitment and performance during events.

Variable Peak Pricing (RVPP and GSVPP)

Q. **What is Variable Peak Pricing?**

A. VPP is a form of Day-Ahead Pricing in which the prices for the off-peak period are fixed each day and the price for the on-peak period varies each day based on the day-ahead expected system conditions. Variable peak pricing is intended to combine the effectiveness of a day-ahead pricing program with the simplicity of a fixed TOU price schedule. VPP is a pilot offering being proposed to support OG&E's SmartPower pilot program. The SmartPower pilot will provide insight into the value of time-differentiated pricing programs. OG&E proposes two tariffs for VPP – a Residential VPP tariff applicable to residential customers and a General Service VPP tariff, applicable to General Service, Public Schools Non-Demand and Oil & Gas Producers Non-Demand customers.

Q. **What are the qualifications associated with the VPP?**

A. The customer must be included in the SmartPower pilot program. The total customer count on these programs will be limited by the availability of the equipment and OG&E's sample selection for the SmartPower pilot.

Q. **Please explain how the VPP tariffs were designed.**

A. The VPP is designed using the existing Residential and General Service TOU rates as the respective base rate for the VPP tariffs. The peak period price in the TOU rate is replaced with a variable price signal sent to participating customers. A single price will apply to the entire five-hour window each day. There are four defined price levels – Low, Standard, High and Critical – to simplify communications of price level. The prices assigned to each price level are based on the underlying Standard and TOU tariffs. Low prices equate to the Off-peak energy prices, Standard to the standard tariff summer season tail-block price and High prices reflect the peak period energy price. The price levels are shown in the following table.

Price Level	*R-VPP Price*	*GS-VPP Price*
Low	4.5¢ per kWh	5.0¢ per kWh
Standard	11.1¢ per kWh	10.0¢ per kWh
High	23.0¢ per kWh	30.0¢ per kWh
Critical	46.0¢ per kWh	60.0¢ per kWh

Table 9. VPP Prices for RS and GS Customers

Q. **How is the price level selected for the peak period?**

A. OG&E uses the Day Ahead Pricing calculated within the DAP tariff to set the prices each day. A simple average of the peak period hours (2pm-7pm) prices will be used to select the Price Level.

Average DAP Price Range	*VPP Price Level*
$DAP_{AVG} <= 8.5¢$	Low
$8.5¢ < DAP_{AVG} <= 19.5¢$	Standard
$19.5¢ < DAP_{AVG} <= 31.5¢$	High
$31.5¢ < DAP_{AVG}$	Critical

Table 10. Determination of VPP Price Levels

Q. **Are there other components of the VPP tariff?**

A. Yes, there is a price overcall provision and best bill provision. The price overcall provision acts as a system resource in conditions where OG&E requires a reduction in total system load. With no less than two hours notice, a price overcall can be issued to

raise the price level to the critical price. A price overcall may occur at any time during the year. The price overcall time period will not be less than two hours nor will it exceed 8 hours in length.

The "best bill" provision provides additional price security to customers choosing the VPP rate. After the initial year, a comparison of total charges under the VPP rate and original rate will be made and a credit will be issued to the customer for any amount paid that exceeds what would have been paid under the customer's previous rate. A customer may continue on the VPP rate for successive years, but will no longer be eligible for best bill treatment.

Q. **How do OG&E and its customers benefit from the VPP rates?**

A. Customers who respond to the prices by reducing usage will not only earn benefits for themselves, they also will generate benefits to be passed on to all customers. Time-differentiated pricing allows customers to lower their current electric bills and supports investment decisions in conservation and efficiency that will pay increasing dividends in the future through avoided capacity costs.

Q. **Will non-participating customers benefit from a VPP program?**

A. Yes. System load factor improvement benefits all utility customers because it allows a greater number of units (kWh) to bear the overall fixed costs of the system without adding new capacity. Customers on time-differentiated programs, such as TOU and VPP, tend to use more electricity in non-peak periods of usage which actually increase system load factor, but usage across the peak tends to decrease or remain constant. The increase in system load factor may actually lower base costs for all customers.

<u>Load Reduction Rider</u>

Q. **What changes does OG&E propose to its interruptible and curtailment programs?**

A. OG&E proposes to implement a Load Reduction Rider that will replace the current Curtailment Rider, Performance Award for Curtailment of Energy Rider and Interruptible Rider beginning in April, 2010.

Q. **What are the major features of the new Load Reduction Rider?**

A. The Load Reduction Program Rider is designed to reward customers through tiered credits. The credits are based on the customer-elected curtailment level and actual performance during curtailment events. Customers choose certain aspects of the program to their operations and curtailment capabilities. Customers will choose the amount of load they commit to curtail (Subscribed Curtailment Load), the required notification period (30-minutes or 4 hours) and a limit to the number of hours they will be required to curtail (120 hours or 240 hours) during the contract year. The subscription credit level will be based on the options selected by that customer. Performance credits will be earned by the customer based on their actual reduced load during a curtailment event. Additionally, customers who commit to reduce load will have an option not to curtail (to "buy through") during the curtailment period if specific circumstance prevent partial or full compliance with the selected options during the curtailment event. A customer performance factor will provide a premium to customers that continue for an additional year.

Q. **Who is eligible to participate in the Load Reduction Program?**

A. The program will be available to all OG&E customers with a peak period maximum demand of at least 200 kW. Since interval metering is required to administer the program, customer participation is subject to the availability or installation of the appropriate meter equipment at the customer site. Customers on the Back-up Service (BUS) tariff are not eligible for the Load Reduction Rider.

Q. **When will the new program be implemented?**

A. The Company proposes the program be implemented on January 1, 2010, for enrollment for the contract year beginning April 1, 2010.

Q. **Will the existing PACE, CR-1, and IR-1 riders be withdrawn?**

A. Yes. Since the new Load Reduction program consolidates the features of the existing Curtailment Rider, Interruptible Rider and PACE programs, OG&E proposes to eliminate these programs in conjunction with the beginning of the new program's contract year. The current CR-1, IR-1 and PACE Riders will remain in effect until the new program

begins on April 1, 2009. Specifically, the existing programs will be withdrawn on March 31, 2010.

Q. **How is the subscription credit determined?**

A. The subscription credit is a capacity reservation charge paid by OG&E to compensate the customer for the commitment to reduce a certain amount of load for the duration of a curtailment event. This credit is issued to the customer in each of the four summer months even if no curtailment events are called by OG&E. Each year, prior to the enrollment period, OG&E will file the subscription prices for the upcoming curtailment period. Subscription prices are intended to reflect a portion of the value of capacity. The remaining value of capacity is credited to the customer through the curtailment price of the performance credit. Subscription credits will be calculated by multiplying the customer's Subscribed Curtailment Load by the published subscription price, adjusted for customer selected option and system losses. Subscription credits are paid only during the four peak months (June through September).

Q. **What is the Subscribed Curtailment Load (SCL)?**

A. The SCL is the amount of load selected by the customer that the customer agrees to reduce during a curtailment event. The SCL can range from 0 kW up to the customer's historical peak period (2pm-7pm) maximum demand. If a customer selects a SCL of 0 kW, the customer will receive no subscription credits. However, the customer will be eligible to receive performance credits earned during a curtailment event.

Q. **Are there limits to the total amount of SCL that the Company will retain and pay credits for during the annual enrollment period?**

A. The Company reserves the right to limit the amount of subscribed curtailment load that is accepted during the enrollment period.

Q. **What other choices must a customer make and how do these options affect the subscription credits?**

A. Customers must choose a minimum notification of either 4 hours or 30 minutes. Additionally, the customer can choose to limit the total hours of required curtailment to

either 120 or 240 hours during the curtailment contract period. Depending on the selected options, the customer will be eligible to receive additional credits. Selection of a 30-minute price notification will provide a 10% premium. Selection of the 240 hour limit on curtailments option will add an additional 25% premium to the subscription credit.

Q. **How do customers earn performance credits**?

A. When OG&E issues a curtailment notice to reduce load during a specified time, customers will receive performance credits based on the actual curtailed load during the event and the curtailment price for the event. The curtailment price will be determined and communicated to the customers at the time of the curtailment alert. A minimum performance price will be filed with the subscription price to ensure that customers understand the minimum compensation they could receive for any load reduction. The actual curtailment price may be higher than the minimum if market conditions indicate the value exceeds the minimum price. The curtailment level is determined in the same manner as set forth in the current PACE rider which incorporates a five day average baseline compared to actual loads. Credits are calculated for each hour or portion of an hour for the curtailment event and the total credit for the event is the sum of the hourly credits.

Q. **What happens when a customer fails to reduce load by the subscribed amount?**

A. Customers must reduce load by the SCL in order to avoid the requirement to buy through the curtailment event. If a customer is unable to reduce load to the required level, they must purchase the difference between the SCL in each hour and the actual load in each hour. The price for buy-through is twice that of the curtailment price for the event. The buy-through provision will apply to the customer in all hours of the curtailment event. Customers who have an SCL of 0 kW are not affected by the buy-through provision of the curtailment event.

Q. **Will a customer be removed from the program if they fail to perform as agreed?**

A. Customers will not be removed from the program. However, if a customer consistently fails to reduce load during curtailment events, the Company may choose to disqualify the

customer for future enrollment or require a reduced SCL from the customer during a succeeding enrollment period.

DAP PROGRAM CHANGES

Q. **What changes are proposed to the Day Ahead Pricing Tariff (DAP)?**

A. OG&E proposes to change the method of calculation for hourly energy prices to improve the efficiency of the price signal based on system conditions. Currently, the marginal prices are adjusted based on the standard tariff prices for each service level. OG&E proposes to more closely align hourly prices with the marginal cost of production. This change will produce lower prices when no capacity constraints exist and higher prices when reserves are low, compared to the current formulation.

The administration charge is being reduced to reflect the cost of providing information system services for communication of prices and hourly data. The availability of the program has expanded to include other rate classes. The Company also proposes minor modifications in the tariff language to improve clarity of the tariff and set forth conditions for Customer Base Line (CBL) modifications.

Q. **What changes are proposed to the energy price calculation?**

A. I propose the calculation be changed from the current method of averaging the hourly price and standard tariff price to a method of applying a fixed value for Risk and Recovery Factor (RRF) of 0.5¢ to each hourly price. The resulting proposed calculation is as follows:

$$(MC_{hr} \times LAF) + RRF$$

Where MC_{hr} = Marginal Energy + Marginal Outage Costs

LAF = Loss Adjustment Factor

RRF = Risk and Recovery Factor = 0.5¢ per kWh

Q. **How will the proposed calculation affect hourly prices?**

A. The change will remove the artificial floor (caused by averaging with standard prices) and allow prices to be lower in the hours where no system constraints are present. On the other hand, the artificial ceiling will also be lifted allowing prices to be higher in the hours with relatively low system reserve margins.

Time-Differentiated Embedded Fuel

Q. **What is Time-Differentiated Embedded Fuel?**

A. Time-differentiated embedded fuel applies only to TOU rates and allows for the collection of fuel revenues to more closely match the time period in which the fuel is used. Marginal cost data shows the average fuel cost for the non-peak period to be approximately 3.31¢ per kWh; removing the fuel cost adjustment of approximately 0.7¢ per kWh results in an embedded fuel cost of 2.6¢ per kWh. The table below shows the calculation.

	Embedded Fuel Cost	kWh Sales	Fuel Revenue
Peak Period Hours	8.0¢	395,553,220	31,644,258
All Other Hours (Non-peak Period)	2.6¢	6,732,865,671	175,079,890
Total	2.9¢	7,128,418,891	206,724,148

Table 11. Embedded Fuel Calculation

RECOMMENDATIONS

Q. **Please summarize your recommendations.**

A. I recommend the Commission adopt the proposed tariff and T&C changes and the proposed pro forma adjustments.

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

A. Yes, it does.

Proposed Revenue Allocation

Customer Group	Current Revenue	Current Rate of Return	Current Relative RoR	Levelized Proposed Revenue	Levelized Proposed Increase	Levelized Proposed % Change	Levelized Proposed Rate of Return	*Proposed Allocation* *Proposed Revenue Increase*	Total Bill % Increase	Proposed Rate of Return	Proposed Relative RoR
RS	$ 733,174,393	6.2%	86%	$ 811,706,288	$ 78,531,895	10.7%	9.6%	$ 56,350,000	7.7%	8.7%	90.0%
GS	$ 163,646,971	11.0%	151%	$ 157,268,142	$ (6,378,829)	-3.9%	9.6%	$ 1,403,000	0.9%	11.3%	117.2%
OGP	$ 13,285,072	12.7%	175%	$ 12,380,071	$ (905,001)	-6.8%	9.6%	$ (417,000)	-3.1%	11.3%	117.2%
PS-ND	$ 20,233,353	9.9%	135%	$ 20,097,726	$ (135,627)	-0.7%	9.6%	$ -	0.0%	9.9%	102.3%
PS-D	$ 11,639,060	10.7%	147%	$ 11,324,847	$ (314,213)	-2.7%	9.6%	$ -	0.0%	10.7%	111.4%
PL	$ 277,089,506	5.4%	74%	$ 312,157,334	$ 35,067,828	12.7%	9.6%	$ 17,800,000	6.4%	7.5%	78.2%
PL-TOU	$ 182,140,945	20.1%	276%	$ 154,622,736	$ (27,518,209)	-15.1%	9.6%	$ 7,860,000	4.3%	23.0%	239.1%
LPL-TOU	$ 302,011,635	6.2%	86%	$ 319,003,683	$ 16,992,048	5.6%	9.6%	$ 25,296,000	8.4%	11.3%	117.3%
MP	$ 8,559,608	9.0%	123%	$ 8,696,850	$ 137,242	1.6%	9.6%	$ 473,000	5.5%	11.3%	117.2%
ML	$ 7,627,415	0.2%	3%	$ 13,538,171	$ 5,910,756	77.5%	9.6%	$ -	0.0%	0.2%	2.3%
OSL	$ 15,587,192	1.7%	24%	$ 24,524,617	$ 8,937,425	57.3%	9.6%	$ 1,560,000	10.0%	3.1%	32.3%
Total Retail	$ 1,734,995,150	7.3%	100%	$ 1,845,320,465	$ 110,325,315	6.4%	9.6%	$ 110,325,000	6.4%	9.6%	100.0%
Group Sub-Totals											
Total PS	31,872,413	10.1%	139%	$ 31,422,573	(449,840)	-1.4%	9.6%	-	0.0%	10.1%	105.2%
Total PL	459,230,451	8.9%	123%	$ 466,780,070	$ 7,549,619	1.6%	9.6%	$ *25,660,000*	5.6%	11.3%	117.3%
Total Lighting	23,214,607	1.2%	16%	$ 38,062,788	14,848,181	64.0%	9.6%	1,560,000	6.7%	2.1%	21.6%

Exhibit BJS-1