ORDER

In this Order, the Arkansas Public Service Commission ("Commission") approves Oklahoma Gas and Electric Company’s ("OG&E") Application for a temporary surcharge to recover the cost of a renewable wind generation facility. The Commission also rules that OG&E’s purchase power agreements in this Application are also prudent and are energy agreements.

On August 16, 2010, OG&E filed an Application for an expedited order approving the recovery of costs associated with the development and construction of a new 101.2 MW wind generation facility located near Woodward, Oklahoma ("OU Spirit") through a temporary surcharge; for an order finding OU Spirit is prudent and in the public interest; for a finding that OG&E is authorized to begin deferring the Arkansas jurisdictional portion of the OU Spirit costs as a regulatory asset beginning September 1, 2010; and for a declaratory order finding the entering into of two wind energy purchase power agreements ("WEPAs") is prudent and in the public interest and the WEPAs are recoverable through the Company’s Energy Cost Recovery Rider ("ECR"). Also filed on
August 16, 2010 is the OG&E-sponsored testimony of Donald E. Rowlett and Jesse B. Langston supporting its Application. On September 2, 2010, the proposed changes in the ECR tariff were suspended by Order No. 2 in this Docket. On November 3, 2010, the Commission determined a procedural schedule in consultation with all Parties. On November 18, 2010, the Attorney General ("AG") filed a letter in this Docket stating that the AG had no objection to OG&E's proposal as filed in the Application and would not file testimony unless changes were made to the proposal. On November 19, 2010, the General Staff of the Commission ("Staff") filed the testimony of J. Richard Hornby of Synapse Energy Economics, Inc. and Ms. Regina Butler, Senior Rate Case Analyst, on behalf of Staff addressing issues raised by OG&E in this Docket. On December 8, 2010, OG&E filed a Motion for Order on the Record, requesting that its Application be granted and stating that OG&E would file no further testimony in this Docket. On December 9, 2010, Staff filed a response supporting OG&E's Motion for Order on the Record, stating that OG&E specifically accepts and recommends each of Staff's recommendations.

In the Motion for Order filed on December 8, 2010, OG&E requested that the Commission include the following four specific findings:

- That the approximate $2.1 million in costs associated with the OU Spirit Wind Farm are prudent and in the public interest and should be approved. The recovery of costs for OU Spirit from September 1, 2010 through June 30, 2011 shall be recovered through the Energy cost Recovery Rider ("ECR") and the annual ECR factor shall be filed by March 15 and shall reflect the estimated revenue requirement for the OU Spirit Wind Farm, excluding carrying charges.

- That the revenues from the sale of Renewable Energy Credits ("RECs") generated by the OU Spirit Wind Farm from the time of plant operation in December 2009 to current shall be credited through the ECR.

- That the allocator used to determine the Arkansas jurisdictional portion of the costs for OU Spirit Wind Farm for the period of September 2010
through June 2011 and associated REC revenues from the time the plant commenced operation in December 2009 shall be based on the 11.0149% energy allocator as presented in this application.

- That the cost for the wind Purchase Power Agreements ("PPA") for Keenan and Taloga wind farms will be recovered through ECR. In addition, any delay in payments made to OG&E from the construction of these wind farms and revenues from REC sales associated with the generation from these PPAs will be credited through the ECR based on the ECR Energy Cost Allocation Factor for the month in which the payments or revenues are received.

(Docket No. 10-073-U, Motion for Order at 3-4).

On behalf of Staff, Mr. J. Richard Hornby reviewed the Application, Testimony and Exhibits filed by OG&E in this Docket. The purpose of Mr. Hornby's review was to determine if the OU Spirit and the WEPAs were in the public interest. In his testimony filed on November 18, 2010, Mr. Hornby stated that “[m]y review of the Company’s proposals is that the acquisition of this wind energy is in the public interest. First, the wind energy is being acquired at a competitive cost. Second, the acquisition of this wind energy appears consistent with the objective of providing service at reasonable rates.” (Docket No. 10-073-U, Hornby Direct at 5). Mr. Hornby recommends “that the Commission find that the Company’s acquisition of OU Spirit and its WEPAs with Taloga and Keenan are in the public interest.” (Id. at 5). Mr. Hornby also addresses, in part, the reasonableness of costs associated with the construction of the Windspeed transmission line which is associated with both the OU Spirit and the WEPAs. Mr. Hornby's testimony states that OG&E is not attempting to recover any costs associated with the Windspeed line in this Docket and that those issues are being addressed in a more appropriate proceeding, OG&E’s pending General Rate case, Docket No. 10-067-U. Mr. Hornby states with regard to the Windspeed line, “I am advised by counsel that
the general rate case is the appropriate proceeding in which to address the reasonableness of those costs.” *(Id. at 22).*

Staff witness Regina L. Butler also filed testimony on November 19, 2010, supporting OG&E’s Application. Ms. Butler’s testimony contains Staff’s determinations regarding the proposed temporary surcharge and the appropriate recovery mechanism for the WEPAs. In her testimony, Ms. Butler recommends that the approximately $2.1 million in cost for OU Spirit from the period of September 2010 through June 2010 be recovered on an interim basis through OG&E’s ECR rather than a separate rider as allowed under Ark. Code Ann. § 23-18-701. Ms. Butler further states that recovery “through the ECR Rider will allow for ease of administration because the costs will be recovered under an existing mechanism. Ratepayer impact will also be mitigated by recovering the costs over the twelve-month period of the ECR Rider. Recovery of the interim revenue requirement through the ECR Rider will also result in a matching of ratepayer benefits with costs through the ECR Rider’s True-Up Adjustment. Additionally, any over-collection in the ECR Rider as of December 31, 2010, would offset the interim revenue requirement for the OU Spirit.” *(Docket No. 10-073-U, Direct Testimony Butler at 5-6).* Ms. Butler’s testimony also agrees with OG&E’s proposal to provide its Arkansas customers with their jurisdictional allocation of revenues from the sale of RECs associated with OU Spirit through the ECR from the time that OU Spirit was placed in service in December of 2009. Ms. Butler’s testimony states that “the Company has received gross revenues of $614,461 from the sale of RECs for the OU Spirit from the date the wind facility was placed in service through September 2010. Using the same energy allocation factor used to determine the Arkansas OU Spirit
revenue requirement, Arkansas ratepayers would receive revenues of approximately $68,000 from the sale of RECs through September 2010.” (Id. at 7).

Ms. Butler further testifies that OG&E’s decision to recover the costs of the Keenan and Taloga WEPAs through the ECR Rider is appropriate because the WEPAs are for the purchase of megawatt hours produced and delivered to the transmission grid. Since OG&E testifies that no capacity payments are included in these agreements and Mr. Hornby testifies that “OG&E’s strategic decision to acquire additional wind resources was based on its estimate of the projected benefits of those resources as a source of energy, not as a source of capacity” (Docket No. 10-073-U, Hornby Direct at 6), that it is reasonable to conclude that the WEPAs are energy purchases, and that the recovery of the costs associated with those WEPAs through the ECR Rider is reasonable. Ms. Butler also states that “the Arkansas jurisdictional share of revenues from the sale of RECs related to the Keenan and Taloga WEPAs should be credited to Arkansas ratepayers through the ECR Rider.” (Docket No. 10-073-U, Direct Testimony Butler at 8).

Ms. Butler further recommends that the cost allocator used to determine the Arkansas jurisdictional portion of the cost for the OU Spirit and the associated REC revenues from the OU Spirit be based on the OG&E energy allocator of approximately 11%. This allocator was approved in Order No. 6 of OG&E’s last rate case, Docket No. 08-103-U, and will remain in effect until OG&E’s next rate case, Docket No. 10-067-U, is completed and approved on or before June 30, 2011. Ms. Butler also concludes that Arkansas ratepayers are already receiving the benefits of the OU Spirit Wind Farm and the allocation of those benefits as proposed by OG&E is acceptable on an interim basis
until the conclusion of OG&E's rate case in Docket No. 10-067-U. Ms. Butler also made the following recommendations to the Commission:

1) the Company be allowed to recover the revenue requirement for the OU Spirit for the period of September 2010 through June 2010 by including the revenue requirement in its 2010 ECR Rider filing;

2) the Company be required to credit to Arkansas ratepayers through the ECR Rider the Arkansas retail share of revenues from the sale of RECs generated by the OU Spirit from the date the plant was placed in service;

3) the Company be allowed to recover the cost of the Keenan and Taloga WEPAs through the ECR Rider; and

4) the Company be required to credit revenues for the Arkansas jurisdictional share of RECs generated by the Keenan and Taloga WEPAs to Arkansas ratepayers through the ECR Rider.”

(Id. at 8-9).

Having reviewed the Application and testimony of OG&E’s witnesses Mr. Rowlett and Mr. Langston, and the testimony and recommendations of Staff witness Mr. Hornby and Ms. Butler, the Commission makes the following findings.

1. The acquisition and approximately $2.1 million dollars in costs associated with the OU Spirit are prudent and in the public interest, and the recovery of those costs from September 1, 2010 through June 30, 2011, should be recovered through the Energy Cost Recovery Rider, which shall be filed by March 15 and shall reflect the estimated revenue requirement for the OU Spirit Wind Farm, excluding the carrying charges.

2. The revenues from the sales of RECs generated by the OU Spirit from the time of plant operation from December 2009 to current shall be credited through the Energy Cost Recovery Rider.

3. The allocator used to determine the Arkansas jurisdictional portion of the costs for the OU Spirit from September 2010 through June 2011 and the associated REC
revenue from the time the plant commenced operations in December 2009 shall be based on the 11.0149% allocator as presented in the application.

4. The costs for the Wind Energy Purchase Power agreements for the Keenan and Taloga wind farms shall be recovered through the ECR. Any delay in payments made to OG&E from the construction of these wind farms and revenues from the REC sales associated with the generation of the WEPAs will also be credited through the Energy Cost Recovery Rider based on the Energy Cost Recovery Rider Energy Cost Allocation Factor for the month in which the payments or revenues are received.

Accordingly, the public hearing previously scheduled for February 10, 2011, in this Docket is hereby canceled.

BY ORDER OF THE COMMISSION.

This 19th day of January, 2011.

Colette D. Honorable, Chairman

Olan W. Reeves, Commissioner

I hereby certify that this order, issued by the Arkansas Public Service Commission, has been served on all parties of record on this date by the following method:

- U.S. mail with postage prepaid using the mailing address of each party as indicated in the official docket file, or
- Electronic mail using the email address of each party as indicated in the official docket file.