

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

IN THE MATTER OF THE APPLICATION OF  
OKLAHOMA GAS AND ELECTRIC  
COMPANY FOR AN ORDER OF THE  
COMMISSION AUTHORIZING APPLICANT  
TO MODIFY ITS RATES, CHARGES, AND  
TARIFFS FOR RETAIL ELECTRIC SERVICE  
IN OKLAHOMA

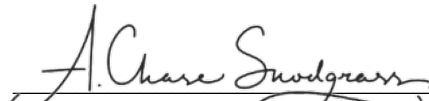
PUD 2023-000087

**REBUTTAL TESTIMONY OF FRANK J. BELING**  
**ON BEHALF OF**  
**GENTNER F. DRUMMOND, OKLAHOMA ATTORNEY GENERAL**

Gentner F. Drummond, the Attorney General of Oklahoma, on behalf of the utility customers of this State, hereby submits the Rebuttal Testimony of Frank J. Beling in the proceeding referenced above. The Attorney General urges close consideration of the testimony.

Respectfully submitted,

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Rebuttal Testimony of Frank J. Beling

**CERTIFICATE OF SERVICE**

On this 17th day of May 2024, a true and correct copy of the *Rebuttal Testimony of Frank J. Beling on Behalf of Gentner F. Drummond, Oklahoma Attorney General* was sent via electronic mail to the following interested parties:

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**REBUTTAL TESTIMONY**

OF

**FRANK J. BELING**

ON BEHALF OF

**GENTNER F. DRUMMOND,**

**OKLAHOMA ATTORNEY GENERAL**

**May 17, 2024**

**I. Introduction**

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**Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Frank J. Beling, and my business address is 5555 North Grand Boulevard, Oklahoma City, Oklahoma 73112.

**Q. BY WHOM ARE YOU EMPLOYED, WHAT IS YOUR POSITION, AND WHAT ARE YOUR GENERAL AREAS OF RESPONSIBILITY?**

A. I am employed by Guernsey Engineers, Architects, and Consultants in its Analytical Solutions Group, and my current title is Senior Vice President. My primary areas of responsibility involve rate analysis, power supply planning, and risk management.

**Q. PLEASE BRIEFLY SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.**

A. I have a Bachelor of Science degree in Mechanical Engineering and a Master of Science degree in Mechanical Engineering. Please refer to Exhibit FJB-1 for a summary of my experience.

**Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE STATE OR FEDERAL REGULATORY COMMISSIONS?**

A. Yes. I have previously appeared before the Oklahoma Corporation Commission. My credentials were accepted at that time.

**Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

A. I am appearing on behalf of the Oklahoma Attorney General.

1   **Q.    WHAT IS THE PURPOSE OF THE TESTIMONY YOU ARE PRESENTING IN**  
2    **THIS PROCEEDING?**

3    A.    The purpose of my testimony is to respond to positions brought forth by Walmart Inc.  
4    (“Walmart”) witness Eric S. Austin, Oklahoma Industrial Energy Consumers (“OIEC”)  
5    witness Larry Blank, and CMC Steel Oklahoma (“CMC Steel”) witness Justin Bieber.  
6    Specifically, my testimony will address the Company-proposed allocation for owned wind  
7    resources and explain the following in response to these witnesses:

- 8           •    There is an important distinction between fixed costs and demand-related costs  
9           that should be considered when discussing cost allocation.
- 10          •    Cost of Service Analysis and rate design play an important role in achieving a  
11          fair recovery of cost between customer classes and should not be circumvented;  
12          the results of these analyses should not be pre-supposed.
- 13          •    The primary purpose of the owned wind resources is to provide an energy  
14          benefit to customers.
- 15          •    In the Southwest Power Pool Integrated Market, individual Company resources  
16          operate mostly independently, and therefore it is not necessary to only discuss  
17          the resources as a wholistic portfolio.



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1 **Q. PLEASE DESCRIBE WALMART WITNESS ERIC S. AUSTIN'S RESPONSIVE**  
2 **TESTIMONY RELATED TO THE ALLOCATION OF OWNED WIND**  
3 **RESOURCES.**

4 A. Walmart witness Austin begins by defining "Production Capacity Costs" as the "fixed costs  
5 of a utility's generation assets."<sup>1</sup> Witness Austin continued to discuss how Production  
6 Capacity is sized to meet system peak demands<sup>2</sup> and further concluded that Production  
7 Capacity Cost should be recovered based on the utility peak demand.<sup>3</sup>

8 **Q. DO YOU AGREE WITH WALMART WITNESS AUSTIN'S ARGUMENTS**  
9 **AGAINST AN ENERGY-FOCUSED ALLOCATION OF OWNED WIND**  
10 **RESOURCES?**

11 A. No. In Mr. Austin's arguments, which I summarized above, I identified three areas where  
12 I believe Mr. Austin's arguments are flawed:

- 13 1. Confusing fixed vs demand-related costs;
- 14 2. Failing to consider the purpose of Cost of Service and rate design process; and
- 15 3. Mischaracterizing the purpose of wind resources.

16 **Q. PLEASE DESCRIBE WALMART WITNESS AUSTIN'S CONFLATION OF**  
17 **FIXED COSTS WITH DEMAND-RELATED COSTS.**

18 A. In his responsive testimony, Walmart witness Austin confused the idea of a fixed vs  
19 variable costs with the idea of demand-related vs energy-related cost. Mr. Austin identifies

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<sup>1</sup> Responsive Testimony and Exhibits of Eric S. Austin on behalf of Walmart Inc. on Cost-of-Service and Rate-Design Issues 8:5-6 (May 3, 2024) [hereinafter "Austin Responsive"].

<sup>2</sup> Austin Responsive 8:19-21.

<sup>3</sup> Austin Responsive 9: 7-9.



1 the fixed costs of a generation asset, but he fails to make the distinction between a *fixed*  
2 cost and a *demand-related* cost.

3 Mr. Austin then seems to imply that all fixed costs are demand-related and all variable  
4 costs are energy-related. However, this is not correct. Fixed costs can be either demand-  
5 related or energy-related and variable costs can also be either demand-related or energy-  
6 related. By confusing the idea of fixed vs variable with the idea of demand-related vs  
7 energy-related, Mr. Austin also set the stage for the second flaw in his argument.

8 **Q. PLEASE DESCRIBE HOW WALMART WITNESS AUSTIN HAS FAILED TO**  
9 **CONSIDER THE PURPOSE OF A COST OF SERVICE STUDY AND RATE**  
10 **DESIGN.**

11 A. The second flaw in Walmart witness Austin's reasoning was to use a circular argument to  
12 arrive at the conclusion that the cost of owned wind resources should be recovered through  
13 demand. While I agree with Mr. Austin's identification of the costs of owned wind  
14 resources being primarily fixed costs, by automatically assuming that these fixed costs are  
15 demand-related, Mr. Austin failed to consider the purpose of a Cost of Service Study  
16 ("COSS") and of rate design.

17 In a COSS, each cost—including those that are fixed costs—is assessed to determine to  
18 which Service Function the cost is related (production demand, production energy,  
19 transmission, etc.). During this process, some fixed costs may be identified as being  
20 demand-related, energy-related, or related to other Service Functions.

21 Once the COSS costs are assigned to the Service Functions, the rate design process  
22 determines how to allocate and recover those costs that the COSS identified as being

1 demand-related, which could be allocated/recovered through demand, through energy, or  
2 through another mechanism.

3 Mr. Austin circumvents this entire process, both the COSS process and the rate design  
4 process, when he jumps from identifying a cost as being a fixed cost straight to the  
5 conclusion that the cost must be allocated/recovered through demand.

6 **Q. DO YOU AGREE WITH MR. AUSTIN'S CHARACTERIZATION OF THE**  
7 **PURPOSE OF OWNED WIND RESOURCES?**

8 A. I do not. A third flaw in Mr. Austin's argument was to implicitly equate the primary  
9 purpose of owned wind resources to be meeting a production capacity need for the  
10 Company. Mr. Austin describes how the combined resources of a utility must meet the  
11 system's peak demand for power. I agree with Mr. Austin that a primary benefit of a  
12 capacity resource is to meet a utility's capacity planning requirement.

13 However, by including the owned wind resources in this generalized argument, Mr. Austin  
14 failed to recognize that the primary benefit of wind resources is not a capacity benefit.

15 While the owned wind resources do provide a small level of capacity value, the primary  
16 benefit of the owned wind resources is an energy benefit, as I described in detail in my  
17 responsive testimony.

1 **Q. PLEASE DESCRIBE OIEC WITNESS LARRY BLANK'S RESPONSIVE**  
2 **TESTIMONY RELATED TO THE ALLOCATION OF OWNED WIND**  
3 **RESOURCES.**

4 A. OIEC witness Blank describes how the fixed costs of generating resources have  
5 traditionally been allocated (AED method)<sup>4</sup> and characterizes the AED as including both  
6 a demand and an energy component.<sup>5</sup> Mr. Blank indicates that owned wind resources could  
7 be considered to meet baseload or peaking needs and argues that the 4CP AED approach  
8 is a good method for these resources.<sup>6</sup> Mr. Blank finally asserts that there should be no  
9 connection between fuel cost savings and fixed cost allocation.<sup>7</sup>

10 **Q. DO YOU AGREE WITH OIEC WITNESS BLANK'S ARGUMENTS AGAINST**  
11 **THE ENERGY-FOCUSED ALLOCATION OF OWNED WIND RESOURCES?**

12 A. I do not. There are several key areas where we disagree and where I believe Mr. Blank has  
13 flaws in his arguments. I summarize these flaws here and will describe in further detail  
14 below:

- 15 1. Mischaracterizing fixed costs as demand/capacity costs;
- 16 2. Confusing on-peak generation with serving planning capacity requirements;
- 17 and
- 18 3. Not recognizing the relationship between demand costs and energy benefits.

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<sup>4</sup> Responsive Testimony of Larry Blank Cost of Service and Rate Design Issues on behalf of Oklahoma Industrial Energy Consumers 9:21(May 3, 2024) [hereinafter "Blank Responsive"].

<sup>5</sup> Blank Responsive 10:7-20.

<sup>6</sup> Blank Responsive 11:5-11.

<sup>7</sup> Blank Responsive 11:21.

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1 **Q. DO YOU AGREE WITH OIEC WITNESS BLANK'S EQUATION OF FIXED**  
2 **COSTS WITH DEMAND-RELATED COSTS?**

3 A. No. OIEC witness Blank correctly notes that the costs of the owned wind resources are  
4 primarily fixed costs. However, Mr. Blank is misguided in his conclusion that therefore  
5 these costs are production capacity costs.<sup>8</sup> Mr. Blank further argues that “customer average  
6 and peak demand requirements remain the primary drivers of production capacity costs.”<sup>9</sup>  
7 Mr. Blank employed the same misguided logic as Walmart witness Austin by confusing  
8 the idea of fixed vs variable with the idea of demand/capacity vs energy.

9 The costs of the owned wind resources are, indeed, primarily fixed costs. However, a fixed  
10 cost is not necessarily a demand-related cost and the classification of the cost between  
11 demand and energy is the purpose of the Cost of Service Study and the rate design.

12 **Q. MR. BLANK DESCRIBES A RELATIONSHIP BETWEEN ON-PEAK**  
13 **GENERATION AND MEETING CAPACITY PLANNING OBLIGATIONS. DO**  
14 **YOU AGREE WITH MR. BLANK'S CONCLUSION?**

15 A. I do not. Mr. Blank indicates that “[w]ind power is intermittent and, therefore, supports  
16 peak demand at times[.]”<sup>10</sup> However, Mr. Blank does not correctly characterize how the  
17 Company's owned wind resources contribute to the Company's obligation to plan to meet  
18 its peak demand plus planning reserves.

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<sup>8</sup> Blank Responsive 5:11–12.

<sup>9</sup> Blank Responsive 5:12–13.

<sup>10</sup> Blank Responsive 11:7–8.

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1 While it is true that owned wind resources sometimes generate in the same hours in which  
2 the Company system peaks occur, this alignment of generation and peak has no bearing on  
3 how the resources meet peak needs according to SPP rules and requirements.

4 In any given year, whether the owned wind resources generate at 100 percent capability or  
5 at 0 percent capability at the time of the Company system peak, there is no impact on the  
6 level of planning capacity credit that the Company receives for the owned wind resources  
7 from SPP. The planning capacity the Company receives from SPP is based on the ELCC  
8 methodology and not on the actual generation of Company owned wind resources at the  
9 time of its peaks.

10 It is for this very reason that the ELCC is critical to understanding that the owned wind  
11 resources provide very little planning capacity value to the Company, regardless of how  
12 they happen to generate in any given hour of any given year.

13 **Q. DO YOU AGREE WITH MR. BLANK'S CONCLUSION ABOUT THE**  
14 **RELATIONSHIP BETWEEN FUEL COST SAVINGS AND FIXED COST**  
15 **RECOVERY?**

16 A. No, I believe Mr. Blank reached the wrong conclusion. OIEC witness Blank refers to  
17 Company witness Maxey's description of fuel cost savings<sup>11</sup> but does not agree with Ms.  
18 Maxey's conclusion that this should influence the allocation of fixed costs.<sup>12</sup> Mr. Blank  
19 indicates that even if the benefits of the owned wind resources are returned through energy

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<sup>11</sup> Blank Responsive 11:14.

<sup>12</sup> Blank Responsive 11:16.

1 and the costs of the owned wind resources are assigned through demand, that the two are  
2 not connected and one should not affect the other.<sup>13</sup>

3 However, I believe Mr. Blank may have failed to recognize that a significant misalignment  
4 between costs and benefits of the owned wind resources would significantly shift costs  
5 between customer classes with different load factors. In essence, one customer class could  
6 be burdened with a higher share of the owned wind resource fixed costs while another  
7 customer class could reap a higher share of the benefits and rewards of the owned wind  
8 resources through a reduction in energy rates.

9 This misalignment would shift cost between customer classes, and the best way to reduce  
10 the risk of this cost shift is to achieve a better alignment between costs and benefits. Since  
11 the benefits are energy benefits, the costs should therefore be allocated using an energy-  
12 focused approach like the one proposed by the Company.

13 **Q. PLEASE DESCRIBE CMC STEEL WITNESS JUSTIN BIEBER'S RESPONSIVE**  
14 **TESTIMONY RELATED TO THE ALLOCATION OF OWNED WIND**  
15 **RESOURCES.**

16 A. Mr. Bieber summarized how the AED allocation method is calculated<sup>14</sup> and indicated a  
17 concern about using the Company-proposed energy-focused allocator for owned wind  
18 resources.<sup>15</sup> Mr. Bieber indicates that the generation from wind resources will displace  
19 generation from other thermal resources and therefore the Company resources should only  
20 be evaluated as a combined portfolio.<sup>16</sup>

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<sup>13</sup> Blank Responsive 11:21.

<sup>14</sup> Responsive Testimony and Exhibits of Justin Bieber on Behalf of CMC Steel Oklahoma 15:17–20 (May 3, 2024) [hereinafter “Bieber Responsive”].

<sup>15</sup> Bieber Responsive 16:10-16

<sup>16</sup> Bieber Responsive 19:2–6.

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1 **Q. DO YOU AGREE WITH CMC STEEL WITNESS JUSTIN BIEBER'S**  
2 **EXPLANATION ABOUT COMPANY RESOURCE PORTFOLIO**  
3 **INTERACTIONS?**

4 A. No. Mr. Bieber incorrectly characterized how Company resources are dispatched in the  
5 Southwest Power Pool Integrated Marketplace ("SPP IM"). Mr. Bieber indicates that  
6 Company resources dispatch to follow Company load,<sup>17</sup> which is not correct based on how  
7 the SPP IM operates.

8 **Q. PLEASE PROVIDE A HIGH-LEVEL SUMMARY OF HOW COMPANY**  
9 **RESOURCES ARE DISPATCHED IN THE SPP IM.**

10 A. In the SPP IM, the SPP optimizes the total resources of the SPP system to serve the total  
11 load of the SPP system at the lowest cost. SPP considers bids and offers from load-serving  
12 entities and from generator operators to optimize the system commitment and dispatch.  
13 Through this process it simultaneously sets a series of market prices, Locational Marginal  
14 Price ("LMP"), at different locations. The dispatch of any individual dispatchable  
15 participating generator is generally based on the market conditions (LMP) at that  
16 generator's location and not based on the load of its owner.

17 Therefore, based on actual SPP operations, Company resources do not directly serve  
18 Company load and the changes/additions of wind generation identified by Mr. Bieber  
19 would not impact the generation of other Company resources in the way he describes.

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<sup>17</sup> Bieber Responsive 19:1, 19:4.

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1 As a result, Company resources operate largely independently of each other and of  
2 Company load, meaning that there is no requirement to evaluate the resources as a wholistic  
3 portfolio.

4 **Q. WHY IS IT IMPORTANT TO UNDERSTAND THE DISTINCTION OF HOW**  
5 **RESOURCES OPERATE IN THE SPP IM?**

6 A. Understanding how Company resources operate in the SPP IM is important because it is  
7 different from how traditional utilities have operated in the past and affects the need for  
8 resources, how resources operate, and how resources affect Company costs and ratepayer  
9 costs.

10 Whereas in the past, before organized markets, resources operated in a holistic portfolio to  
11 follow Company load and serve the needs of consumers, this is no longer the case in the  
12 SPP IM. As a result, individual resources impact Company operations in a different manner  
13 than in the past. Several witnesses, including Mr. Bieber, proposed the idea that because  
14 Company resources operate as a portfolio it is not appropriate to evaluate their individual  
15 operations, impacts, or benefits. However, this argument is based on the old, pre-market  
16 operation and is no longer applicable.

17 To understand how each resource impacts the Company and its costs, it is reasonable to  
18 identify differences between different classes of resources based on key differences in their  
19 cost structure, operation, and capacity accreditation.

20 It is therefore reasonable to recognize that the owned wind resources are significantly  
21 different from other traditional thermal resources in their cost structure, operation, and  
22 manner in which they provide benefits to customers.





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1 to do so to understand true cost causation that informs our Cost of Service and ratemaking  
2 decisions.

3 **Q. DO YOU HAVE ANY ADDITIONAL COMMENTS?**

4 A. Yes. My testimony is limited to the express statements contained within. My testimony  
5 does not address every potential issue; therefore, my recommendations should not be  
6 construed as the only recommendations or requests that I may support in the record. Other  
7 recommended courses of action may be presented in the record of which I may support. In  
8 addition, the fact that I do not express an opinion on a particular issue should not be  
9 interpreted as agreement with or support for the Company's position on that issue.

10 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

11 A. Yes it does.

