

BEFORE THE CORPORATION COMMISSION OF THE STATE OF OKLAHOMA

APPLICATION OF MARK ARGENBRIGHT,)
DIRECTOR OF THE PUBLIC UTILITY DIVISION,)
OKLAHOMA CORPORATION COMMISSION,)
FOR A PUBLIC HEARING TO REVIEW AND)
MONITOR APPLICATION OF THE FUEL)
ADJUSTMENT CLAUSE OF **OKLAHOMA GAS**) CASE NO. PUD 2023-000055
AND ELECTRIC COMPANY FOR THE)
CALENDAR YEAR 2022)
AND,)
FOR A PRUDENCE REVIEW OF THE ELECTRIC)
GENERATION, PURCHASED POWER AND FUEL)
PROCUREMENT PROCESSES AND COSTS OF)
OKLAHOMA GAS AND ELECTRIC COMPANY)
FOR THE CALENDAR YEAR 2022, AND FOR)
APPROVAL OF **OKLAHOMA GAS AND ELECTRIC**)
COMPANY'S FINANCIAL HEDGING PROGRAM)

Direct Testimony

of

Peggy R. Millspaugh

on behalf of

Oklahoma Gas and Electric Company

August 29, 2023

Peggy R. Millspaugh
Direct Testimony

1 Q. **Please state your name and business address .**

2 A. My name is Peggy R. Millspaugh. My business address is 321 North Harvey, Oklahoma
3 City, Oklahoma 73102.

4
5 Q. **By whom are you employed and in what capacity?**

6 A. I am employed by Oklahoma Gas and Electric Company (“OG&E” or “Company”) as a
7 Senior Regulatory Accountant.

8
9 Q. **Please state your educational qualifications and employment history.**

10 A. I earned a Master of Business Administration in Leadership from Oklahoma City
11 University in July 2022, and a Bachelor of Business Administration in Accounting from
12 Northeastern State University in 2011. I joined OG&E in July of 2016 as a Revenue and
13 Fuels Accountant. In March of 2018 I moved to Regulatory as a Senior Regulatory
14 Accountant, and in June 2023 I became a Lead Regulatory Coordinator. During my time
15 at OG&E, I have been involved with rate case filings and monthly rider processing in both
16 Oklahoma and Arkansas jurisdictions. I have prepared various schedules on
17 redeterminations and reporting for rider billing factors processed by OG&E. Prior to
18 joining OG&E, I was employed by Eucalyptus Real Estate as a Property Accountant in
19 2016. I was responsible for booking journal entries, balance sheet reconciliations,
20 preparation and review of financial statements and variance analyses. From 2014-2015, I
21 was employed by Chesapeake Energy as an Accountant II. I was responsible for booking
22 accounting entries, preparing complex balance sheet reconciliations, preparation, and
23 variance analyses of Financial Statements for the monthly board review. From 2011-2014,
24 I was employed by Hertz Corporation as a Fleet Accountant. I was responsible for the
25 integration of accounts during the Dollar Thrifty Automotive group acquisition. I was also
26 responsible for monthly accounting entries, variance analyses, balance sheet
27 reconciliations, monthly amortization and depreciation on fleet assets, and cost analysis.

1 Q. **Have you testified previously before the Oklahoma Corporation Commission on**
2 **behalf of OG&E?**

3 A. Yes. I have filed testimony in Case Nos. PUD 201900035, PUD 202000069, PUD
4 202100118, and PUD 202200057.

5
6 Q. **What is the purpose of your testimony?**

7 A. The purpose of my testimony is to sponsor OG&E's Fuel Adjustment Clause ("FAC")
8 calculations that support the amount of fuel and purchased power recovered for the audit
9 year 2022. The audit in this cause reviews calendar year 2022, for the months of January
10 through December 2022. I describe what costs are included in the FAC, how those costs
11 are allocated, and any changes made to the FAC factor during the audit period.

12

13 Q. **Please define the audit period.**

14 A. The MFR Package includes the fuel cost and accounting schedules for the twelve-month
15 period ending December 2022, which corresponds with the FAC audit for calendar year
16 2022 and consists of the customer billing months of January-December 2022.

17

18 Q. **Please summarize the FAC expenses for 2022.**

19 A. Total Company fuel costs for the period January through December 2022 were
20 \$1,409,844,164. Please see Direct Exhibit PRM-1 for a detailed summary of annual FAC
21 costs. The total amount on Direct Exhibit PRM-1 is reflected in the total company FAC
22 costs included in OG&E MFR Schedule A-2.

23

24

I. FAC CALCULATION

25 Q. **Please describe the fuel costs that are included in the FAC.**

26 A. Fuel costs are accounted for in Federal Energy Regulatory Commission ("FERC") accounts
27 501, 506, 547, 548, 555, and 557. Costs during the audit period primarily include the cost
28 to generate electricity using fossil fuel, the cost of purchased power, Southwest Power Pool
29 ("SPP") Integrated Marketplace ("IM") sales that represent the credits from selling OG&E
30 generation and purchased power, and SPP IM Purchases made to serve OG&E customers.

1 Q. **How are costs classified in the monthly FAC reports?**

2 A. Costs are classified in the monthly FAC reports as Joint Fixed Generation Costs, Joint
3 Variable Generation Costs, IM Purchases, IM Sales, Fixed Purchased Power, Variable
4 Purchased Power, and Oklahoma Jurisdictional Only Costs.

5
6 Q. **What is the purpose of classifying FAC costs in this manner?**

7 A. Costs are classified in these categories to apply certain jurisdictional allocators to specific
8 costs, for the purpose of accurately allocating costs to the appropriate jurisdictions
9 (Oklahoma and Arkansas). For example, Joint Fixed Generation Costs, which includes
10 transportation and storage costs are allocated between Oklahoma and Arkansas using a
11 demand allocator. Joint Variable Generation Costs, which represent all other generation
12 costs, are allocated using an energy-based allocator. Oklahoma Jurisdictional Only Costs
13 are directly assigned to Oklahoma customers.

14
15 Coal Fired Generation

16 Q. **What were the total Company expenses for coal during the audit period?**

17 A. Coal expense was \$147,463,776. As shown on Direct Exhibit PRM-1, coal costs consist
18 primarily of coal purchases, transportation charges, and railcar payments. In addition, the
19 cost for start-up fuel oil used was \$6,907,969.

20
21 Q. **How is the cost of coal accounted for on OG&E's books and reflected in the FAC?**

22 A. After coal is purchased, it is initially recorded as an asset and reflected on the Company's
23 balance sheet as Fuel Stock (FERC Account No. 151), or inventory. As the coal is
24 consumed to generate electricity, the value of the coal consumed is charged to fuel expense
25 (FERC Account No. 501) and is recorded on the Company's books. This fuel expense is
26 accounted for using the weighted average cost of the coal pile, and is recovered from
27 customers via the FAC.

1 Q. **How does OG&E accurately account for coal inventory levels?**

2 A. The Company uses weighing equipment during production to measure the quantity of coal
3 consumed. To verify the accuracy of the equipment the company conducts an annual
4 physical inventory of the coal piles. OG&E's internal audit department verifies the annual
5 physical coal pile survey results conducted by a third party for the Company's Power
6 Supply operations. Any adjustment made to coal inventory is reflected in coal fuel expense
7 and accounted for in the FAC.

8

9

Natural Gas Generation

10 Q. **What were the total Company expenses for natural gas during the audit period?**

11 A. Natural gas expense was \$597,097,453. As shown on Direct Exhibit PRM-1, natural gas
12 costs consist of purchases from producers, gas withdrawn from storage, and transportation
13 charges.

14

15 Q. **How is the cost of natural gas accounted for on OG&E's books and reflected in the
16 FAC?**

17 A. Fuel expense is booked using estimates of the cost of natural gas delivered to our generation
18 plants and consumed to generate electricity. This estimate is true-up to actual delivered
19 cost the following month when the accounting department receives the actual invoice. This
20 monthly true-up is generally minimal but ensures that only the actual cost of natural gas
21 purchased on behalf of customers is used in the FAC.

22

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Purchased Power

24 Q. **What were the total Company expenses for purchased power during the audit period?**

25 A. Purchased power expense, not including SPP market purchases and sales, was
26 \$58,402,957. As shown in Direct Exhibit PRM-1, this amount consisted of wind and
27 energy purchases.

SPP IM Activity

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- Q. What were the total Company purchases from and sales to the SPP IM?**
- A. The sales to the SPP IM were \$1,015,910,607, while expenses from purchases were \$1,628,405,675, resulting in a net expense of \$612,495,068.
- Q. Why are SPP IM Purchases and Sales not reflected as “Purchased Power” in Direct Exhibit PRM-1?**
- A. SPP IM Purchases, SPP IM Sales, and Generation Cost are all different types of costs and revenues in the SPP IM. OG&E sells its generation and contracted purchased power into the SPP IM. Those sales are reflected as SPP IM Sales on Direct Exhibit PRM-1, while the actual cost to generate the electricity sold into the market are reflected as Generation/Purchased Power Cost. The electricity needed to provide utility service to OG&E customers is purchased from the market and is reflected as SPP IM Purchases on Direct Exhibit PRM-1.

Adjustments to the FAC

- Q. Please explain the adjustments to total fuel cost passed to customers.**
- A. As shown in Direct Exhibit PRM-1, total Company adjustments to the FAC amounted to a decrease of \$12,523,059. This amount includes credits for the Green Power Wind Rider, renewable energy credit (“REC”) sales, SPP Billing Revenues, Solar Revenues, Coal Tax credits, Price Response credits, and OSU Wind transaction fee credits. These credits are netted against charges related to the performance and subscription payments associated with the Load Reduction Rider, and the air quality control systems (“AQCS”) consumables. AQCS costs are environmental related expenses associated with emission controls equipment on OG&E power plants.

II. COST TO OKLAHOMA CUSTOMERS

- Q. Please explain how the Oklahoma retail jurisdictional costs were determined.**
- A. Total Company costs are allocated to Oklahoma retail customers by three different methods. The allocation for energy-related or variable costs, which comprises most of the

1 Oklahoma jurisdictional costs passed through the FAC, utilizes kWh sales. Such costs
2 would include variable generation costs, IM Purchases, and IM Sales. Other costs such as
3 gas transportation and purchased wind costs are allocated using an approved production
4 demand allocator. Finally, Oklahoma jurisdictional costs are directly assigned to
5 Oklahoma retail customers at 100%. In each of the three methods described above, the
6 Oklahoma retail jurisdictional costs were determined by multiplying the total Company
7 costs by the appropriate Oklahoma retail jurisdictional allocation factor.

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9 **III. OVER/UNDER COLLECTION OF FUEL COSTS**

10 **Q. Please discuss the calculation of the over/under recovery balance at the end of the**
11 **audit period.**

12 A. As shown in Direct Exhibit PRM-1, at the beginning of the audit period, OG&E had an
13 under-collection balance of \$141 million. Total recoverable Oklahoma jurisdictional fuel
14 cost during the audit period was \$1.249 billion. Oklahoma customers were actually billed
15 for \$916 million, resulting in an under-collection of \$474 million during the audit period.
16 Utilizing the True-up Adjustment (“TUA”) process, the Company nets the Under-collected
17 balance of \$141 million with the \$333 million under-collections resulting in an ending
18 under-recovered balance of \$474 million.

19
20 **Q. What is the True-up Adjustment?**

21 A. The TUA is the provision of the FAC that allows the Company to collect the actual cost of
22 fuel as identified in Direct Exhibit PRM-1. The FAC factor is currently based on
23 projections of fuel costs and kWh sales for 15 months, and as the actual fuel costs and kWh
24 sales differ each month, there will be an excess or deficiency of fuel expenses billed to
25 OG&E customers. This excess or deficiency of fuel costs billed is referred to as the
26 deferred fuel balance, or the Over/Under Recovery amount. The TUA charges or credits
27 this difference to customers when the FAC factor is updated, thus ensuring the collection
28 of actual costs.

1 Q. **Did OG&E's FAC factors change in 2022?**

2 A. Yes, OG&E implemented new FAC factors in March 2022 and October 2022. The October
3 2022 factors remained in effect through year-end.

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5

IV. CONCLUSION

6 Q. **Are the costs reflected in OG&E's FAC for the 2022 audit period mathematically
7 correct and in compliance with the tariff?**

8 A. Yes. In my opinion, after taking into consideration the adjustments stated on page 6 of this
9 testimony, OG&E's cost of fuel and purchased power was accurately calculated and
10 accurately reflected in the Company's 2022 FAC monthly filings.

11

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

13 A. Yes.

Direct Exhibit PRM-1

2022 Fuel Costs & Over/Under Recovery
For the 12 Months Ending December 2022

	<u>Total Company \$</u>	<u>MFR Ref.</u>
1 GENERATION/PURCHASED POWER COST		
2 <u>Coal</u>		
3 Coal Purchases	\$ 75,754,812	
4 Transportation Charges	\$ 62,539,984	
5 Railcar payments/maintenance	3,231,656	
6 Proceeds from Sale of Residuals	(670,734)	
7 Other Fuel Expense	6,608,058	
8 Net Coal Cost	<u>\$ 147,463,776</u>	A-2
9 <u>Natural Gas</u>		
10 Purchases from Producers	\$ 509,675,437	
11 Gas Withdrawn from Storage	33,241,803	
12 Transportation Charges	53,579,986	
13 Other Fuel Expense	600,227	
14 Net Gas Cost	<u>\$ 597,097,453</u>	A-2
15 <u>Fuel Oil</u>	\$ 6,907,969	A-2
16 <u>Purchased Power</u>		
17 Energy Purchases	\$ 386,251	
18 Purchased Wind	58,016,706	
19 Cogeneration Cost	-	
20 Net Purchased Power	<u>\$ 58,402,957</u>	A-2
21 Total Generation/Purchased Power	\$ 809,872,155	A-2
22 FUEL ADJUSTMENTS		
23 Fuel Revenues, Adjustments	\$ (12,523,059)	A-2
24 SPP INTEGRATED MARKET SALES		
25 Gross Sales	\$ (1,015,910,607)	
26 SPP INTEGRATED MARKET PURCHASES		
27 Gross Purchases	\$ 1,628,405,675	
28 Total Company Net Fuel Costs ¹	<u><u>1,409,844,164</u></u>	A-2

Over/Under Recovery

	<u>Oklahoma Jurisdictional Cost ¹</u>	<u>Ref.</u>
29 Dec. 2021 Over/(Under) Collection Beginning Balance	\$ (140,971,912)	MOU
30 <u>2022 Activity</u>		
31 Total YE 2022 Recoverable OK Juris. Fuel Cost	\$ 1,249,260,113	
32 Total YE 2022 Revenues collected ¹	<u>916,376,789</u>	
33 Total 2022 Under Collection	\$ (332,883,324)	MOU
34 Over/(Under) Ending Balance (Ln 32+36)	<u>\$ (473,855,236)</u>	MOU

Notes

¹ Includes amortization of prior period over/under recovery.

