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OPEN MEETING COVER SHEET

MEETING DATE: September 27, 2018

DATE DELIVERED: September 20, 2018

AGENDA ITEM NO.: 13

CAPTION: Project No. 48158—*Year-End 2017 Electric Utility Earnings Reports Pursuant to 16 TAC § 25.73*
Darryl Tietjen

ACTION REQUESTED: Discussion and Possible Action

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Public Utility Commission of Texas

Memorandum

To: Chairman DeAnn T. Walker
Commissioner Arthur C. D'Andrea
Commissioner Shelly Botkin

From: Darryl Tietjen, Rate Regulation
Anna Givens, Rate Regulation
Ruth Stark, Rate Regulation
Mark Filarowicz, Rate Regulation

Re: Open Meeting, September 27, 2018—Agenda Item #13
Project No. 48158—*Year-End 2017 Electric Utility Earnings Reports Pursuant to 16 TAC § 25.73*

Date: September 20, 2018

Introduction

This memorandum summarizes the results of Staff's review of the year-end 2017 PUC Earnings Reports filed pursuant to 16 Texas Administrative Code (TAC) § 25.73. This year, for the state's 14 investor-owned electric utility (IOU) companies, Staff performed a general review of the filed earnings reports. As explained in the remainder of this memo, Staff did not identify any of the IOU companies as warranting a more detailed analysis at the present time.

In addition to reviewing the reports filed by the 14 regulated IOUs,[1] Staff reviewed the earnings reports filed by the state's electric cooperatives, municipalities, and river authorities (non-IOUs) that provide wholesale transmission service. Although these entities have original jurisdiction in their service territories and set their own *retail* rates, the Commission exercises regulatory authority over their wholesale transmission rates. Currently, a total of 38 electric cooperatives, municipalities, and river authorities file transmission-service earnings reports with the PUC.

Summary of Staff's Findings and Recommendations

For the reasons discussed below, Staff is not—*at this time*—making any recommendations that the Commission require the filing of applications for comprehensive rate proceedings by any of the 14 IOUs or the 38 non-IOU transmission providers. With regard to the IOUs, many of the companies have recently received Commission rate orders or have rate proceedings pending, and because the provisions of new 16 Texas Administrative Code (TAC) § 25.247 (the IOU

[1] For purposes of this memo, Staff is considering separately the reported results of AEP Texas Central Company (TCC) and AEP Texas North Company (TNC). Effective December 31, 2016, TCC and TNC were merged into their parent company, now called AEP Texas. The Commission approved the merger in Docket No. 46050, *Application of AEP Texas Central Company, AEP Texas North Company, and AEP Utilities, Inc. for Approval of Merger*. The Commission ordered AEP Texas to "maintain separate TCC and TNC divisions, which will continue to charge separate rates and riders, and maintain separate tariffs, unless and until such time as the Commission may consider and approve consolidated rates and tariffs."

scheduling rule) require a number of the other IOUs to file applications next year for comprehensive rate proceedings, Staff does not believe that additional (or separate) Commission action is necessary.[2] With regard to the non-IOUs, although Staff is not presently making any recommendations for Commission action, Staff may at a later point in time engage in additional review and evaluation of the earnings-report information for certain of those entities, depending upon what specific scheduling and filing requirements the Commission ultimately adopts later this year in Project No. 48377, *Rulemaking Proceeding to Amend 16 TAC § 25.247 to Establish a Filing Schedule for Non-Investor-Owned Transmission Service Providers Operating Within ERCOT.*

Discussion—IOUs' Reported Rates of Return on Equity

The following table lists the overall returns on equity (ROEs) reported by the electric IOUs regulated by the Commission. For some utilities, this is followed by additional discussion, as noted.

TDUs	Overall ROE (Weather-adj.)	Comments
AEP Texas Central	8.53%	See additional discussion below
AEP Texas North	10.48%	
AEP Texas (combined)	8.96%	
CenterPoint Energy Houston Electric	9.21%	See additional discussion below
Texas-New Mexico Power	9.41%	Docket No. 48401 pending
Oncor Electric Delivery	9.48%	Recent order (10/13/17) in Docket No. 46957
Transmission-Only Companies		
Cross Texas Transmission	10.01%	See additional discussion below
Electric Transmission Texas (ETT)	10.34%	
Lone Star Transmission	9.58%	
Wind Energy Transmission Tx (WETT)	12.43%	See additional discussion below
Sharyland Utilities	11.33%	See additional discussion below
Vertically Integrated IOUs	**Tx-Juris ROE**	
Entergy Texas	5.58%	Docket No. 48371 pending
Southwestern Public Service	Has not yet filed earnings report; Docket No. 47527 pending	
Southwestern Electric Power	7.19%	Recent order (3/19/18) in Docket No. 46449
El Paso Electric	7.61%	Recent order (12/18/17) in Docket No. 46831

[2] With regard to separate rate-related actions, Staff notes that in January 2018, the Commission opened Project No. 47945 (*Proceeding to Investigate and Address the Effects of Tax Cuts and Jobs Act of 2017 on the Rates of Texas Investor-Owned Utility Companies*) to address the effects of federal legislation amending federal tax law. As a consequence of that project, for most electric IOUs, the Commission has already issued rate orders reflecting the new law's reduction in the federal income tax rate; for other companies with pending rate proceedings, the Commission's orders in those proceedings will take into account the reduced level of income tax expense. For additional details, please see the Commission Staff's August 28, 2018 filing in Project No. 47945 at: http://interchange.puc.texas.gov/Documents/47945_49_991890.PDF.

Additional Discussion: AEP Texas Central, AEP Texas North

AEP Texas Central and AEP Texas North, companies that last received Commission orders in comprehensive rate proceedings in 2008 and 2007, respectively, are the two electric IOUs in the state that have operated for the longest period of time since undergoing a full rate review. Per the filing requirements of the IOU scheduling rule, these two companies are scheduled to file, by May 1, 2019, an application for a comprehensive rate review (as indicated above in footnote 1, the companies will make the filing on a combined basis).

Additional Discussion: CenterPoint Energy Houston Electric

CenterPoint last received a Commission order in a comprehensive rate review in 2011. By agreement with affected stakeholders, CenterPoint will file an application for a comprehensive rate proceeding by April 30, 2019.

Additional Discussion: Cross Texas, Electric Transmission Texas, Lone Star Transmission

In its earnings-report memos filed in October 2015 and October 2016, Staff identified these three companies as having excess earnings and recommended that the Commission require each of the companies to file for a comprehensive rate review. The Commission agreed with Staff's recommendations, but prior to the filing of their applications, the three companies reached settlement agreements with affected stakeholders to reduce revenues by amounts generally consistent with Staff's estimated levels of excess revenues. Subsequently, in December 2016, the Commission approved for Lone Star Transmission an agreement to reduce its annual revenues by $6 million, and in early 2017 the Commission approved agreements to reduce the revenues of Cross Texas and ETT by $6.5 million and $46.2 million, respectively. Although Staff views the reported year-end 2017 ROEs of these three companies as worthy of continued scrutiny in future years, we recommend no action at this time because of the recent revenue reductions.

Additional Discussion: Wind Energy Transmission Texas

In last year's earnings-report memo, Staff identified WETT as having excess earnings on the basis of the company's reported 11.25% ROE in its year-end 2016 earnings report. As the table above indicates, WETT's most recent reported ROE is 12.43%. Staff views this level of ROE as unacceptably excessive and, absent mitigating circumstances, would ordinarily recommend that the Commission require WETT to file an application for a comprehensive rate proceeding. However, because the IOU scheduling rule requires WETT to make such a filing next year (by October 1, 2019), Staff does not at this time recommend any other specific Commission action for WETT.

Additional Discussion: Sharyland Utilities

In late 2017, Sharyland and Oncor entered into a transaction in which Sharyland swapped its transmission assets for a corresponding amount of Oncor's distribution assets. Because the 11.33% ROE that Sharyland reported in its year-end 2017 earnings reports reflects the inclusion of distribution-related revenue that Sharyland no longer receives, Staff does not have a clear view that the reported ROE is necessarily representative of Sharyland's future operations. Accordingly, at this time, Staff makes no recommendation with regard to Commission action pertaining to Sharyland.

Review of Earnings Reports filed by Non-IOU Entities

For the 38 non-IOU entities that file PUC earnings reports related to wholesale transmission service, Staff performed a general review of the filings to ensure their compliance with the report form's General Instructions relating to the appropriate file format and to ensure their reliance on the proper sources of certain information provided in the report. In the course of its review, Staff determined that the filings of a number of entities were deficient in one or more respects. Staff contacted these companies and informed them of the deficiencies as appropriate.

In late 2017, subsequent to the filing of Staff's earnings-report memo in October 2017, Staff continued its evaluation of certain companies' information included in the year-end *2016* earnings reports. Staff focused primarily on the following three non-IOU transmission service providers:

- City of College Station;
- San Miguel Electric Cooperative; and
- Texas Municipal Power Authority.

As Staff has done in recent years with IOU companies that it has identified as having excess earnings, Staff engaged in informal discovery—relating to information in the year-end 2016 earnings reports—with the three non-IOU entities listed above. Last month, after taking into account updated information as contained in the companies' year-end 2017 earnings reports, Staff initiated follow-up discussions with these companies as it deemed necessary.

At the present time, based on the information that these three entities provided in informal discovery and follow-up discussions, Staff does not recommend Commission action for any of the three companies. However, Staff will continue to closely monitor future earnings reports filed by these three companies and evaluate the need for future recommendations to the Commission. In particular, subsequent to the Commission's adoption of a rule (in Project No. 48377, as mentioned above) establishing a rate-proceeding filing schedule for the non-IOU entities, Staff will reevaluate the need for possible Commission action for these three companies in the context of that rule's specific provisions and the companies' individual circumstances.

Recap of Key Conclusions

With regard to the revenue and earnings levels of the reporting utility companies, Staff recommends no Commission action at this time. Staff emphasizes, however, that it has identified some companies that it believes warrant continued scrutiny in the future and, if necessary, Staff will bring to the Commission—possibly prior to next fall, the time of year in which Staff ordinarily files its earnings-report assessment—any follow-up recommendations it deems appropriate.

We are available to answer any questions you may have on these matters.