I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

A. My name is Leigh Anne Strahler. I am currently Vice President – Regulatory & Finance for AEP Texas Inc. (AEP Texas or Company). My business address is 539 N. Carancahua, Corpus Christi, Texas 78478.

Q. WOULD YOU PLEASE REVIEW YOUR EDUCATIONAL AND BUSINESS BACKGROUND?

A. I received a Bachelor of Arts degree with a major in economics from Bethany College, Bethany, West Virginia, in May 1995 and a Master’s in Business Administration from The Ohio State University, Columbus, Ohio, in 2004. I am a certified Project Management Professional. My early experience, before joining American Electric Power Company, Inc. (AEP), focused on accounting, finance and process-related roles within two large corporations.

In 2006, AEP hired me as a Senior Cost Control Analyst working with AEP Generation’s Major Projects organization. In 2009, I was promoted to Business Operations Manager focusing on strategic planning, financial reporting, project management and special projects. In 2013, I moved to the AEP Operations and Performance Transformation team as a Project Manager and focused on implementing continuous improvement methodologies in Information Technology and Distribution. In 2015, I was promoted to Director, Business Operations Support, at AEP Appalachian Power Company where I was responsible for review, reporting and analysis of operating company financial results, short-term and long-term financial plans and prioritization of capital and operations and maintenance expenditures. In 2018, I
moved to AEP Texas and into my current role of Vice President of Regulatory &
Finance.

Q. WHAT ARE YOUR RESPONSIBILITIES IN YOUR CURRENT POSITION?

A. As Vice President, Regulatory & Finance, I am responsible for the Company’s financial
and regulatory plans and coordinating and executing those plans in conjunction with
the relevant AEP centralized business units. I facilitate the prioritization of operations
and maintenance (O&M) and capital expenditures, and am responsible for the recovery
of those costs through the regulatory process. I also am responsible for establishing
and maintaining metrics in support of financial reporting and developing short- and
long-term financial plans for the Company. My current position gives me responsibility
over Texas Regulatory Services, Business Operations Support and Continuous
Improvement groups for AEP Texas. I supervise a staff of 21 employees.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY?

A. Yes. I previously filed testimony before the Public Utility Commission of Texas in
Docket No. 49402, Joint Report and Application of Oncor Electric Delivery Company
and AEP Texas Inc. for Approval of Transfer of Facilities, Transfer of Rights Under
and Amendment of Certificates of Convenience and Necessity, and for Other
Approvals.
II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. My testimony has several purposes. Specifically, my testimony:

- provides a summary of AEP Texas’ rate filing;
- introduces AEP Texas’ proposals to 1) expand and recover the costs of the catastrophe reserve currently in place for the Central division and 2) eliminate the AMS surcharge and roll AMS expenditures into base rates;
- describes AEP Texas’ Regulatory & Finance organization and the services it provides in support of the delivery of safe and reliable electricity to AEP Texas’ customers;
- describes American Electric Power Service Corporation’s (AEPSC) Regulatory Services organization and the services it provides to AEP Texas, including a demonstration that the affiliate charges billed to AEP Texas for its services are reasonable and necessary;
- describes AEPSC’s Legal Services organization and the services provided to AEP Texas, including a demonstration that the affiliate charges billed to AEP Texas for its services are reasonable and necessary;
- describes the AEPSC Environmental Services organization’s provision of services to support AEP Texas’ transmission and distribution planning and operations, including a demonstration that the charges are reasonable and necessary; and
- supports AEP Texas’ requested recovery of rate case expenses.

Q. WHAT SCHEDULES IN THE RATE FILING PACKAGE DO YOU SPONSOR OR CO-SPONSOR?

A. I co-sponsor Schedule II-E-4.5, Rate Case Expenses.

III. DESCRIPTION OF AEP TEXAS’ RATE FILING

Q. WHAT IS THE TEST YEAR UPON WHICH AEP TEXAS’ RATE FILING IS BASED?

A. AEP Texas’ rate filing is based on a test year ending December 31, 2018. AEP Texas has made certain post-test year adjustments that are further discussed by AEP Texas witness Randall W. Hamlett.
Q. WHAT ARE THE GENERAL COMMISSION RATE SETTING STANDARDS UPON WHICH AEP TEXAS RELIED IN PREPARING THIS FILING?
A. AEP Texas has adhered to the rate setting standards set out in Chapter 36 of PURA and the Commission’s “Cost of Service” rule, 16 Tex. Admin. Code § 25.231 (TAC), which requires that rates be set based on historical test year costs, adjusted for known and measurable changes. Rates established consistent with AEP Texas’ request should allow the Company the opportunity to recover a reasonable return on its used and useful invested capital, in excess of its reasonable and necessary operating expenses, consistent with the requirements of PURA § 36.051. Various AEP Texas witnesses address the requirements of PURA and the Commission’s Substantive Rules as those requirements apply to the costs they sponsor.

Q. HAS AEP TEXAS PROVIDED ALL THE SCHEDULES AND WORKPAPERS TO COMPLY WITH THE COMMISSION’S REQUIREMENTS FOR TRANSMISSION AND DISTRIBUTION (T&D) BASE RATE PROCEEDINGS?
A. Yes. AEP Texas has made its filing consistent with the Commission’s rate filing package (RFP) and the requirements of 16 TAC § 22.243. AEP Texas has also pre-filed its supporting direct testimony, consistent with 16 TAC § 22.225(a)(6).

Q. DID AEP TEXAS INFORM THE OWNERS OF THE SOUTH TEXAS PROJECT ELECTRIC GENERATING STATION OF ITS INTENT TO FILE THIS RATE PROCEEDING?
A. Yes. The Company’s former ownership share of the South Texas Project Electric Generating Station (STP) Units 1 and 2 is now owned by NRG South Texas LP (NRG) and the San Antonio City Public Service Board (CPS Energy). Under 16 TAC
§25.303(g)(4), the owners may elect to request a change in the decommissioning funding level during the Company’s rate case. AEP Texas must give the owners:

...at least 90 days’ notice of an anticipated rate application for its general rates to allow the Transferee Company to prepare a funding analysis to be filed jointly with the Collecting Utility’s application.

AEP Texas mailed and emailed notice to the owners of its former share of STP on January 28, 2019, more than 90 days prior to the filing of this case.

Q. DO EITHER OF THE OWNERS INTEND TO ELECT TO REQUEST A CHANGE IN THE DECOMMISSIONING FUNDING LEVEL?

A. Both owners have indicated that they are not electing to request a change in the decommissioning funding level at this time. The owners recently sought changes to the funding levels in Docket Nos. 48447 and 48556, which AEP Texas implemented through Docket No. 49163.

Q. PLEASE SUMMARIZE THE COMMISSION RULINGS REQUESTED BY AEP TEXAS IN THIS FILING.

A. AEP Texas is requesting the Commission to:

- Approve AEP Texas’ revenue requirement
- Approve AEP Texas’ capital additions since its previous rate reviews
- Approve the cost allocation methodology
- Approve combined rates and discretionary charges for AEP Texas
- Approve the capital structure and Return on Equity (ROE) for AEP Texas
- Reset baselines for distribution and transmission
- Remove energy efficiency costs from base rates and recover through the AEP Texas Energy Efficiency Cost Recovery Factors (EECRFs)
- Approve AEP Texas’ proposed transmission, distribution and general plant depreciation rates
• Approve recovery of all transmission expenses through the Transmission Cost Recovery Factor (TCRF)
• Approve the reconciliation of the cost expended and investments made in the deployment of AEP Texas’ Advanced Metering System (AMS) through December 31, 2018
• Authorize deferral of rate case expenses incurred for this case and find reasonable the unrecovered legal and consultant rate case expenses associated with prior dockets
• Approve AEP Texas’ proposed funding and scope of coverage for its catastrophe reserve account
• Approve AEP Texas’ proposed Income Tax Refund Rider associated with the Tax Cuts and Jobs Act of 2017

IV. PROPOSALS FOR REGULATORY PROGRAMS

A. Catastrophe Reserve

Q. DOES AEP TEXAS HAVE A COMMISSION-APPROVED CATASTROPHE RESERVE?
A. As approved in Docket No. 33309, AEP Texas Central Division has a Commission-approved catastrophe reserve, which allows it to collect $1.3 million for ten years, with authority to continue the collection until the catastrophe reserve reaches $13 million.

Q. FOR WHAT PURPOSES CAN THE CATASTROPHE RESERVE BE USED?
A. AEP Texas Central Division’s incremental Transmission and Distribution operation and maintenance costs can be charged against the catastrophe reserve if the total incremental O&M costs for a storm exceeds $500,000 (capital related costs are capitalized and recovered through Transmission Cost of Service (TCOS), Distribution Cost Recovery Factor (DCRF) or base rate proceedings).
Q. IS AEP TEXAS REQUESTING ANY CHANGES TO THE CATASTROPHE RESERVE?

A. Yes. AEP Texas requests that the Commission approve an expansion of the current catastrophe reserve to include the AEP Texas North Division in addition to the Central Division territory for a total reserve of $13.3M. Applying the catastrophe reserve across the entire AEP Texas territory is consistent with AEP Texas’ request to merge the rates for the two divisions of AEP Texas, as explained by AEP Texas witnesses Judith E. Talavera and Jennifer L. Jackson. In addition, AEP Texas witnesses Gregory S. Wilson and Randall W. Hamlett provide a complete explanation of the requested expansion of the catastrophe reserve.

B. Advanced Metering System

Q. WHAT REQUEST IS AEP TEXAS MAKING RELATED TO ITS AMS SYSTEM IN THIS CASE?

A. As further addressed by AEP Texas witnesses Hamlett, Jeff S. Stracener, Heather M. Whitney, and Gregory A. Filipkowski, AEP Texas is requesting to (1) implement new base rates reflecting its ongoing costs to provide AMS and (2) reconcile AMS costs with AMS surcharge revenues under 16 TAC § 25.130. At the conclusion of this proceeding, with the implementation of new base rates, AEP Texas proposes to eliminate the AMS surcharge and roll AMS capital expenditures and AMS operations and maintenance costs into base rates.
V. AEP TEXAS REGULATORY & FINANCE

Q. WHAT GROUPS ARE INCLUDED WITHIN AEP TEXAS REGULATORY & FINANCE?

A. AEP Texas Regulatory & Finance includes the following groups: 1) Texas Regulatory Services; 2) Business Operations Support; and 3) Continuous Improvement. As Vice President of Regulatory & Finance, I am responsible for the oversight of these groups and serve as a member of the AEP Texas leadership team. The AEP Texas Regulatory & Finance organization is shown in EXHIBIT LAS-1.

Q. DO THE COSTS OF AEP TEXAS REGULATORY & FINANCE INCLUDE ANY AFFILIATE CHARGES FROM AEPS?

A. No.

A. Regulatory Services

Q. PLEASE DESCRIBE THE STAFFING OF THE AEP TEXAS REGULATORY SERVICES GROUP.

A. The Texas Regulatory Services group has 11 employees, located in Austin, Texas and the Company’s office in Corpus Christi, Texas. In addition, the group is supplemented by contract employees, as needed. The Regulatory Services team is led by a director of regulatory services, located in Austin.

Q. PLEASE DESCRIBE THE SERVICES PROVIDED BY THE AEP TEXAS REGULATORY SERVICES GROUP.

A. The Texas Regulatory Services group serves as the primary point of contact with the Commission on regulatory issues. Specifically, the group is responsible for the following activities:
• Preparing and filing rate change filings such as the DCRF, Interim TCOS, TCRF, and Transition Charges;
• Maintaining regulatory relations with the Commission and participating in regulatory proceedings;
• Coordinating the Company's engagement in Commission rulemaking and other projects;
• Administering tariffs, including ensuring compliance with Commission-approved tariffs and coordinating the implementation of rate changes;
• Preparing and filing numerous Commission required reports including outage and monthly transmission construction reports;
• Investigating and resolving formal and informal customer complaints;
• Preparing and submitting applications for amendments to the Certificates of Convenience and Necessity (CCNs);
• Coordinating with neighboring or dual-certified electric cooperatives and municipally-owned utilities on regulatory-related issues;
• Maintaining the AEP Texas regulatory library and submitting filings to the Commission;
• Participating with internal and external stakeholders on Electric Reliability Council of Texas (ERCOT) and Texas Reliability Entity (TRE)-related issues;
• Acting as a liaison with the State Operations Center during major outages, such as hurricanes; and
• Supporting legislative monitoring and analysis.

Q. WHY IS IT IMPORTANT FOR AEP TEXAS TO PLAY AN ACTIVE ROLE IN REGULATORY MATTERS?

A. As a regulated transmission and distribution utility, AEP Texas is subject to a host of state and federal regulatory requirements. The services provided by the AEP Texas Regulatory Services organization during the test year were necessary to ensure that the Company: 1) responded in a timely and effective manner to reporting obligations imposed by applicable regulatory laws, rules and policies; 2) made its position known in connection with the adoption of rules and regulatory policies affecting its T&D service; 3) properly implemented the orders of state and federal regulators and properly
administered its approved tariffs; and 4) effectively participated in regulatory proceedings in which it was required to participate or in which its interests were affected.

B. Business Operations Support

Q. PLEASE DESCRIBE THE STAFFING AND SERVICES OF THE AEP TEXAS BUSINESS OPERATIONS SUPPORT GROUP.

A. The Business Operations Support group is composed of a director and two employees, located in Corpus Christi, Texas. This group is responsible for the review, reporting and analysis of AEP Texas' financial results, and coordination of short and long term financial plans. This includes assisting in the prioritization of capital expenditures and operations and maintenance expenses. The Business Operations team interfaces with various groups that impact AEP Texas' financial results, both within AEP Texas and American Electric Power Service Corporation (AEPSC), a wholly owned subsidiary of AEP that provides utility support services, at cost, for all operating units within the AEP system. Key tasks performed are preparing monthly performance reports, providing input into long range financial planning, assisting in routing and approval processes for capital spend, ensuring that policies and procedures for expenditures are followed, reviewing AEPSC services and billings; and developing capital and O&M budgets. Other responsibilities include supporting regulatory activities and performing ad hoc analysis as requested.

C. Continuous Improvement

Q. PLEASE DESCRIBE THE STAFFING OF THE AEP TEXAS CONTINUOUS IMPROVEMENT GROUP.
A. The group is composed of seven employees and is led by a continuous improvement manager. The group’s members are located across the AEP service area, with employees located in Corpus Christi, Abilene, San Angelo, Laredo and Pharr.

Q. PLEASE DESCRIBE THE SERVICES OF THE AEP TEXAS CONTINUOUS IMPROVEMENT GROUP.

A. The Continuous Improvement group is responsible for 1) establishing and sustaining a Continuous Improvement culture throughout AEP Texas and 2) implementing and driving process improvements. The group conducts problem solving and process improvement events across the AEP Texas organization, while training employees throughout the organization on improvement skill sets. Sustaining a continuous improvement culture provides opportunities for employees to identify new processes, projects or tools that will enable operational efficiencies for AEP Texas customers.

VI. AFFILIATE EXPENSES

Q. WHAT CLASSES OF AFFILIATE EXPENSES DO YOU SUPPORT?

A. I support three classes of affiliate expenses: Regulatory Services, Legal Services, and Environmental Services.

A. Description of AEPSC Regulatory Services

Q. DID AEP TEXAS RECEIVE AFFILIATE REGULATORY SERVICES DURING THE TEST YEAR?

A. Yes.

Q PLEASE DESCRIBE THE AEPSC REGULATORY SERVICES ORGANIZATION.
A. During the test year, the AEPSC Regulatory Services organization was led by a Vice President (VP) who reported directly to the Executive Vice President of External Affairs. The AEPSC Regulatory Services organization provided support services related to case management, pricing and analysis, state and federal regulatory strategy, Regional Transmission Organizations (RTO), NERC compliance, and regulatory issue management. These AEPSC employees were located in Dallas and Austin, Texas; Tulsa, Oklahoma; and Columbus, Ohio.

Q. PLEASE DESCRIBE THE CASE MANAGEMENT SERVICES PROVIDED TO AEP TEXAS.

A. AEPSC regulatory case management services include coordination and management of major state and federal regulatory filings, under the direction of the AEP Texas regulatory director. These employees facilitate overall development and management of filings to state and federal regulatory agencies, collaborating with groups across the AEP system, including testimony development and coordination of the discovery process in regulatory proceedings. Five employees located in Austin, Texas, Dallas, Texas, and Tulsa, Oklahoma focus their case management efforts on the AEP’s West operating companies’ cases.

Q. PLEASE DESCRIBE THE PRICING AND ANALYSIS SERVICES PROVIDED TO AEP TEXAS.

A. The pricing and analysis group assists in the development of state regulatory filings, working closely with case managers and state regulatory directors. The group performs jurisdictional cost studies, class cost-of-service studies, rate design analysis and provides supporting testimony.
Q. PLEASE DESCRIBE THE STATE AND FEDERAL REGULATORY SERVICES PROVIDED TO AEP TEXAS.

A. AEPSC Regulatory Services researches and recommends regulatory strategies to AEP’s operating companies and business units, monitors emerging regulatory issues inside and outside of AEP’s footprint and participates in the development of regulatory policies. In addition to state regulatory matters, AEPSC Regulatory Services provides regulatory support to the operating companies and business units that interface with FERC for wholesale rates, operating agreements and open access transmission tariffs.

Q. PLEASE DESCRIBE THE RTO SERVICES PROVIDED TO AEP TEXAS.

A. The RTO group monitors and engages in activities of the regional transmission organizations (RTO) in which AEP operates, including ERCOT. In addition to the overall support provided by the West RTO group, one employee is located in Austin, Texas, and is dedicated to engaging in ERCOT activities. The RTO group facilitates analysis of issues in ERCOT and the other RTOs and coordinates the development of company-wide positions on those issues affecting AEP.

Q. PLEASE DESCRIBE THE NERC COMPLIANCE SERVICES PROVIDED TO AEP TEXAS.

A. The Enterprise NERC Compliance group provides centralized leadership and oversight of AEP’s compliance with applicable NERC Reliability and Critical Infrastructure Protection (CIP) standards. The group serves as the primary compliance contact; tracks and reports compliance deliverables; coordinates potential violation disposition; manages AEP’s NERC registration process; coordinates NERC and Regional Entity audits; coordinates design of mitigation plans; and manages the system-wide review,
comments, and balloting on NERC and regional proposals for new and revised NERC standards.

Q. WERE AEPSC REGULATORY SERVICES NECESSARY TO SUPPORT THE PROVISION OF RELIABLE UTILITY SERVICE?

A. Yes, they were. As a regulated utility, AEP Texas is subject to a host of state and federal regulatory requirements. The services provided to AEP Texas during the test year by the AEPSC Regulatory Services Department were a necessary complement to the AEP Texas Regulatory team’s efforts to ensure that AEP Texas complied with applicable regulatory laws, rules and policies.

Q. IS THERE ANY DUPLICATION OF SERVICES PROVIDED BY AEPSC REGULATORY SERVICES AND THE AEP TEXAS REGULATORY SERVICES DEPARTMENT TO AEP TEXAS.

A. No, there is not. Regulatory services are provided to AEP Texas through the complementary efforts of AEPSC’s centralized Regulatory Services and the AEP Texas Regulatory Services departments. No other service company or operating company department provides such services.

B. Reasonableness of AEPSC Regulatory Services Costs Charged to AEP Texas

Q. WHAT ARE THE TOTAL TEST YEAR CHARGES TO AEP TEXAS FOR THE REGULATORY SERVICES CLASS OF AFFILIATE COSTS?

A. During the adjusted test year, $1,858,373 of affiliate charges for AEPSC Regulatory Services were billed to AEP Texas. As shown in Table 1 below, approximately 77 percent of these Regulatory Services costs allocated to AEP Texas are directly related
to labor and fringe benefits for the employees in the group. The reasonableness of the compensation and benefits paid to the Regulatory Services staff is supported by the testimony of Company witnesses Andrew R. Carlin and Curt D. Cooper. AEP Texas witness Brian J. Frantz addresses the allocation of these costs as part of his testimony.

Table 1

<table>
<thead>
<tr>
<th>Labor</th>
<th>Outside Services</th>
<th>Other</th>
<th>Grand Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amount</td>
<td>$1,423,929</td>
<td>$372,744</td>
<td>$61,700</td>
</tr>
<tr>
<td>% of Total</td>
<td>77%</td>
<td>20%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Q. WHAT APPROACH DOES YOUR TESTIMONY TAKE TO DEMONSTRATE THE REASONABLENESS OF AEPSC’S CHARGES TO AEP TEXAS FOR REGULATORY SERVICES?

A. My testimony utilizes a combination of indicators to demonstrate the reasonableness of AEPSC’s charges to AEP Texas: cost trends, budget performance, staffing trends and outsourcing.

1. Cost Trends

Q. PLEASE DISCUSS THE TRENDS IN AEPSC REGULATORY SERVICES CHARGES TO AEP TEXAS LEADING UP TO THE TEST YEAR.

A. The following table depicts the trends in AEP Texas’ actual affiliate charges for AEPSC Regulatory Services for the calendar years 2015 to 2018.
### Table 2

**AEPSC Regulatory Services Charges to AEP Texas**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Adjusted Test Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1,704,779</td>
<td>$1,748,778</td>
<td>$1,372,982</td>
<td>$1,858,373</td>
</tr>
</tbody>
</table>

1. AEPSC charges to AEP Texas have been stable since 2015 with less charges to AEP Texas in 2017 for both labor and outside services. Variations in the charges from year to year can be associated with the levels and types of projects that are undertaken in any given year.

2. **Budget Performance**

Q. **PLEASE DESCRIBE HOW THE BUDGETING PROCESS IS USED BY AEPSC REGULATORY SERVICES TO MONITOR COSTS?**

A. AEPSC Regulatory Services employs standardized budgeting tools to ensure that costs are controlled within the individual sections of the department. AEPSC Regulatory Services has its own budget to which it must adhere. Budgets are set annually and compliance is monitored by the use of monthly variance reports.

Q. **HOW HAS THE AEPSC REGULATORY SERVICES ORGANIZATION PERFORMED IN COMPARISON TO ITS BUDGETS?**

A. Table 3 below compares AEPSC Regulatory Services’ total, actual expenditures to budget targets for which it is accountable, for calendar years 2015 to 2017, and the Test Year. These expenses are allocated to AEP’s operating companies, including AEP Texas, based on allocation formulas. These amounts reflect what centralized Regulatory Services budgeted and spent for the entire AEP System, not simply AEP Texas.
Table 3

AEPSC Regulatory Services

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Test Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACTUAL</td>
<td>$15,040,170</td>
<td>$15,044,058</td>
<td>$14,426,675</td>
<td>$17,082,708</td>
</tr>
<tr>
<td>BUDGET</td>
<td>$14,961,423</td>
<td>$15,238,684</td>
<td>$16,037,741</td>
<td>$18,358,596</td>
</tr>
<tr>
<td>VARIANCE</td>
<td>($78,747)</td>
<td>$194,626</td>
<td>$1,611,066</td>
<td>$1,275,889</td>
</tr>
</tbody>
</table>

Q. HOW DOES THIS COMPARISON OF BUDGETED VERSUS ACTUAL AEPSC REGULATORY SERVICES COSTS DEMONSTRATE THAT THESE COSTS ARE REASONABLE?

A. As described above, AEPSC Regulatory Services’ actual costs were below the department’s control budget from 2016 through 2018, demonstrating its ability to manage costs and budgets through a variety of budget and cost control mechanisms. The AEPSC Regulatory Services budget variances provide support for the fact that the department’s managers are effectively managing expenses and making reasonable and prudent decisions regarding staffing and major spending initiatives.

3. Staffing Trends

Q. WHAT HAS BEEN THE TREND IN STAFFING LEVELS FOR THE AEPSC REGULATORY SERVICES ORGANIZATION?

A. As shown in Table 4, the AEPSC Regulatory Services organization’s staffing level increased slightly to 95 positions in the Test Year, from 90 positions in 2015. The net gain in positions is attributable to continuous improvement efforts relating to NERC reliability compliance and program oversight and the resulting addition of five FTEs to address NERC compliance matters.
4. Outsourcing

Q. DOES AEPSC REGULATORY SERVICES USE OUTSOURCING AND/OR CONTRACT SERVICES?

A. Yes. Outsourcing and contract services are used as necessary to provide specialized services that AEPSC Regulatory Services is not staffed to provide and to supplement the services they provide. Outside services and contractors are used in lieu of hiring additional permanent staff or to perform specialized, overflow work activities when the demands for regulatory services exceeds the department’s ability to satisfy those needs with existing in-house resources.

Q: WHAT IS YOUR CONCLUSION REGARDING THE REASONABLENESS OF THE AEPSC REGULATORY COSTS?

Together, the cost trends of AEPSC charges to AEP Texas along with AEPSC staffing trends, budget performance and effective use of outsourcing show that the AEPSC Regulatory Services affiliate costs are reasonable and necessary.

C. Description of AEPSC Legal Services

Q. DOES AEPSC PROVIDE LEGAL SERVICES FOR AEP TEXAS?

A. Yes, the AEPSC Legal Services provides all internal legal services to AEP Texas. AEP Texas does not have employees providing legal services.
Q. **HOW IS AEPSC LEGAL SERVICES ORGANIZED?**

A. The department is led by an Executive Vice President, who is AEP’s General Counsel and Corporate Secretary. The attorneys in Legal Services are organized into practice groups.

Q. **CAN YOU PROVIDE A MORE DETAILED DESCRIPTION OF THE SERVICES PROVIDED BY THE VARIOUS PRACTICE GROUPS IN AEPSC LEGAL SERVICES?**

A. Yes. The following is an overview of the services provided by the practice groups:

- **Regulatory/Nuclear** – AEPSC’s regulatory lawyers handle all types of contested case proceedings, rulemakings and projects ongoing before the Commission, other state regulatory authorities and FERC. They also ensure that AEP Texas’ operations and activities are consistent with state and federal legal requirements and policies applicable to regulated utilities. This practice group also provides services related to AEP’s nuclear generation.

- **Real Estate** – Legal Service’s real estate attorneys are responsible for overseeing negotiations and documentation required in connection with a variety of real estate transactions entered into by AEP Texas, such as transmission and distribution easements, real estate leases and condemnation-related matters.

- **Litigation** – These attorneys initiate and defend various types of lawsuits involving AEP Texas, such as personal injury claims, disputes with contractors, right of way disputes, injuries resulting from contact with energized facilities and employment-related arbitrations and litigation.

- **Environmental, Safety & Health** – The attorneys in this group are responsible for the provision of legal services to AEP Texas related to environmental, safety and health issues. They help ensure that AEP Texas remains in compliance with applicable federal and state environmental, safety and health laws.

- **Finance and Compliance** – Legal Service’s finance and compliance attorneys handle virtually all corporate financings, oversee the preparation of Securities and Exchange Commission reports required by federal law and regulations, such as Forms 10-K, 10-Q and 8-K, and ensure that AEP Texas’ financial activities are in compliance with its corporate charter, by-laws and state corporate laws.

- **Tax and Corporate Services** – These Legal Services attorneys advise AEP Texas and the other AEP Operating Companies on all aspects of state, local and federal taxation. They also do pension-related Employee Retirement Income Security Act
and compliance work, and handle legal matters related to the drafting and administration of employee health, welfare and benefit plans.

- **Transactions, Commercial Operations and Logistics** — AEPSC’s transactional lawyers draft, negotiate and interpret many different types of contracts that AEP Texas must enter into in the ordinary course of its business, including software licenses, vendor contracts, and purchase and sale agreements related to facilities. Energy, commercial operations and fuel matters also are handled by this group.

- **Energy** — The attorneys in this group are responsible for providing legal services to AEP Energy.

**Q. ARE THERE ANY OTHER WORK GROUPS THAT REPORT TO AEPSC LEGAL SERVICES THAT RENDER SERVICES THAT ARE NOT CHARACTERIZED AS LEGAL PRACTICE SERVICES?**

**A.** Yes. During the test year, the Ethics and Compliance program and the Operations and Performance Transformation (OPT) teams were housed within Legal Services. The Ethics and Compliance program promotes ethical behavior and ensure compliance with all laws and regulations that affect AEP’s business activities. The OPT group has overall responsibility for enabling continuous improvement principles, practices, tools and behaviors through education, coaching/consulting, capturing best practices, and facilitating workshops throughout the AEP system.

**Q. IS THERE ANY DUPLICATION OF SERVICES PROVIDED TO AEP TEXAS BY LEGAL SERVICES?**

**A.** No. No other department in AEPSC provides legal services to AEP Texas; thus, there is no duplication of these services within AEPSC and AEP Texas.

**Q. WHO ARE THE CLIENTS OF THE VARIOUS PRACTICE GROUPS IN LEGAL SERVICES?**
A. Legal Services provides services to all companies in the AEP System. The use of practice groups allows AEPSC to centralize expertise in areas of legal services critical to the support of various utility activities. At the same time, because all of the practice groups are integrated in a single department, each practice group is able to provide support to the activities of another group as the needs of a particular legal matter may dictate. For example, while the Finance and Compliance group would be in charge of doing the due diligence work and document preparation for an AEP Texas bond financing, that practice group could turn to the Regulatory group if the need arose for guidance regarding the state and federal regulatory requirements pertaining to the proposed transaction.

Q. DOES AEPSC LEGAL SERVICES DEDICATE STAFF TO AEP TEXAS?
A. No, it does not.

Q. WHERE ARE AEPSC LEGAL SERVICES PERSONNEL LOCATED?
A. Most of the Legal Services staff are based in the AEP headquarters in Columbus, Ohio, while some are located regionally, such as in AEP’s Austin, Dallas and Oklahoma City offices. Certain legal services require a degree of localized expertise to interact face-to-face with the parties, officials and decision makers involved in a particular lawsuit, real estate transaction, or other legal matter. AEPSC’s regulatory attorneys in Texas are a good example of how AEP utilizes regionally-located counsel. Texas regulatory matters require daily interaction between the Company’s counsel, various staff members of the Commission, and other parties involved in numerous contested case proceedings, rulemakings, workshops and other projects that directly affect AEP Texas.
AEPSC has five attorneys located in Austin, Texas, three of whom are regulatory attorneys with extensive backgrounds in Texas utility law and regulation. They provide some of the legal support necessary for AEP Texas’ interests to be properly represented in these proceedings. These attorneys, however, perform work for all of AEP’s Operating Companies to gain the efficiencies and economies of scale associated with the provision of centralized legal services.

Q. ARE LEGAL SERVICES PROVIDED TO AEP TEXAS THROUGH OUTSIDE COUNSEL AS WELL AS AEPSC LEGAL SERVICES EMPLOYEES?

A. Yes. AEP Texas utilizes the services of outside counsel to keep up with the legal work as needed to support a regulated company as large and complex as AEP Texas. Moreover, AEP Texas and AEPSC believe that use of outside counsel, when warranted by the volume of work or when the nature of work requires expertise not otherwise available internally, maintains the quality of the Company’s legal services. If AEP Texas had to staff a legal department sufficient to cover the entire range of legal services it requires, it would lead to over-staffing and under-utilization of staff.

Q. WHAT IS THE APPROACH USED BY THE LEGAL SERVICES TO DETERMINE WHETHER TO RETAIN OUTSIDE COUNSEL?

A. AEP prefers to use in-house counsel whenever possible. In-house employees are generally less expensive than external counsel. A number of factors are weighed on a case-by-case basis in the decision to retain outside counsel for any particular legal matter. For example, outside counsel may be retained when internal workload is such that the legal services cannot be provided by service company attorneys alone, or when counsel with specialized expertise is not otherwise available internally. The legal
staffing for this rate case is a good example of AEP’s approach to using outside counsel. This case is too large to be handled only by in-house counsel, given the limited number of available in-house counsel possessing the necessary experience and expertise. Accordingly, AEP Texas has staffed the case with both internal and outside counsel working cooperatively to ensure that all legal services necessary to support AEP Texas’ interests are covered without undue overlap.

Q. HOW DO AEPSC AND AEP TEXAS GO ABOUT SELECTING OUTSIDE COUNSEL?

A. AEPSC and AEP Texas select outside counsel who possess the requisite experience and demonstrated expertise in the areas of legal services required by AEP Texas, and who have a substantial base of knowledge concerning the Company’s organization and business operations. For the most part, these attorneys have gained their experience and demonstrated their expertise through prior relationships with AEP Texas and with AEP, during which time they have demonstrated the ability to deliver high-quality legal services in a timely fashion. The legal department employs a number of policies to ensure an appropriate level of control over outside counsel’s activities, fees and expenses, such as utilizing standardized billing procedures and reviewing each invoice from outside counsel to ensure the charges and scope of work are consistent with AEP’s policies and requirements.

Q. WERE THE SERVICES PROVIDED DURING THE TEST YEAR BY AEPSC LEGAL SERVICES NECESSARY IN ORDER FOR AEP TEXAS TO PROVIDE RELIABLE UTILITY SERVICE?
A. Yes. Like any large company, AEP Texas’ business activities are governed by a host of legal requirements and generate a number of legal issues. Some of these are the product of statute, some are the product of government agency rules and regulations, some of them are the product of lawsuits, and some are the product of AEP Texas’ need to protect its legal interests when it does business with investors, financial institutions, service providers, vendors, and other contracting parties. The services provided to AEP Texas by Legal Services during the test year were necessary to ensure that the Company operated its utility business consistent with applicable legislative and regulatory requirements, and that its legal interests were protected as it transacted business or engaged in litigation with third parties.

D. Reasonableness of AEPSC Legal Services Costs Charged to AEP Texas

Q. WHAT ARE THE AEPSC ADJUSTED TEST YEAR CHARGES TO AEP TEXAS BY AEPSC LEGAL SERVICES?

A. The total amount of adjusted test year billings to AEP Texas from AEPSC for Legal Services is $2,001,175. Approximately 89 percent of the AEPSC Legal Services costs allocated to AEP Texas are directly related to labor and fringe benefits of the group’s employees. The reasonableness of the compensation and benefits paid for AEPSC Legal Services is supported by the testimony of Company witnesses Carlin and Cooper, respectively. AEP Texas witness Frantz addresses the allocation of these costs as part of his testimony.
Q. WHAT APPROACH DOES YOUR TESTIMONY TAKE TO DEMONSTRATE THE REASONABLENESS OF AEPSC’S CHARGES TO AEP TEXAS FOR LEGAL SERVICES?

A. I used a variety of forms of proof. These include: Legal Services budgeting processes and budget performance; trends in actual costs incurred by Legal Services as a whole, and in costs billed to AEP Texas; Staffing trends; benchmarking information; and initiatives employed by Legal Services to control its costs. Viewed in combination, this information supports the conclusion that Legal Services charges to AEP Texas for legal services are reasonable and necessary.

1. Budget Performance

Q. WHAT PROCESSES DOES THE AEPSC LEGAL SERVICES ORGANIZATION USE TO ENSURE COST EFFECTIVE PROVISION OF SERVICES?

A. Budget targets for the upcoming year are based on prior-year budget inputs plus or minus any items that are identified and approved for inclusion or omission. Labor expense is budgeted by hours. Materials, supplies, outside services, and other expenses are budgeted based on prior activity and any anticipated changes. Once the budget is established, ongoing actual expenditures are compared to budget targets. Budget variances are analyzed monthly and anticipated costs and activities are reviewed to address variances.

Q. HOW HAS AEPSC LEGAL SERVICES PERFORMED IN COMPARISON TO ITS BUDGETS?

A. The table below compares the AEPSC Legal Services’ allocated actual expenditures to budget targets for which it is accountable, for calendar years 2015 to 2017, and the Test
These expenses are directly assigned or allocated to AEP's operating companies, including AEP Texas, based on allocation formulas as described in the testimony of Brian Frantz.

The AEPSC Legal Services costs for outside services vary depending on the number and nature of the legal issues confronting AEP at a given time, the workloads and consequent availability of internal counsel to handle these issues, and the expertise needed for a particular issue. The number and nature of legal issues that may arise and the consequent costs to address them often are not predictable and not entirely within AEP's control. The figures indicate that AEPSC Legal Services has generally been able to spend less than its budgeted amounts, keeping the AEPSC Legal Services overall actual expenses relatively flat since 2015.

| Table 5 |
|---|---|---|---|---|
| **AEPSC Legal Services Budget vs. Actual** | 2015 | 2016 | 2017 | 2018 Test Year |
| **ACTUAL** | $20,033,382 | $22,717,654 | $21,052,557 | $21,968,443 |
| **BUDGET VARIANCE (Over)/Under** | $20,838,358 | $20,206,731 | $24,249,432 | $23,650,490 |
| | $804,976 | $(2,510,923) | $3,196,875 | $1,682,047 |

Q. **HOW DOES THIS COMPARISON OF BUDGETED VERSUS ACTUAL AEPSC LEGAL SERVICES COSTS DEMONSTRATE THAT THESE COSTS ARE REASONABLE?**

A. AEPSC Legal Services actual costs have been under budget in recent years, with the exception of 2016 when additional outside services were required to address legal matters. The AEPSC Legal Services budget variances provide support that the
department's managers are effectively managing expenses and making reasonable and prudent decisions, balancing appropriate staffing levels and the use of outside services to perform necessary legal work.

2. Cost Trends

Q. PLEASE DISCUSS THE TRENDS IN AEPSC LEGAL SERVICES CHARGES TO AEP TEXAS LEADING UP TO THE TEST YEAR.

A. Table 6 depicts the trends in AEP Texas' actual affiliate charge for AEPSC Legal Services for the calendar years 2015 – 2018. The Legal Services charges to AEP Texas have remained stable over this time period and reflects the organization's continuing efforts to control costs.

Table 6

<table>
<thead>
<tr>
<th>AEPSC Legal Services Charges to AEP Texas</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018 Adjusted Test Year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$1,925,517</td>
<td>$1,803,268</td>
<td>$1,717,093</td>
<td>$2,001,175</td>
</tr>
</tbody>
</table>

3. Staffing Trends

Q. PLEASE DISCUSS STAFFING CHANGES WITHIN THE AEPSC LEGAL SERVICES ORGANIZATION.

A. As shown in the table below, the Legal Services staff increased by eight employees in the Test Year over the 2015 staffing level. These increases were primarily due to the addition of in house legal personnel to handle more legal matters in house in a cost effective manner and reflect the workload performed by in-house counsel over each of these years.
Table 7

<table>
<thead>
<tr>
<th>AEPSC Legal Services FTEs</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018 Test Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTEs</td>
<td>102</td>
<td>106</td>
<td>107</td>
<td>110</td>
</tr>
</tbody>
</table>

4. Benchmarking

Q. HOW DOES THE HOURLY RATE FOR AEP IN-HOUSE COUNSEL COMPARE TO THE HOURLY RATES OF OUTSIDE LAW FIRMS?

A. Company witness Baryenbruch determined the AEPSC in house attorney cost per hour to be $161 in 2018, which is less than the average hourly rate for outside counsel.

5. Process Improvements and Cost Savings Initiatives

Q. WHAT COST SAVINGS INITIATIVES AND/OR PROCESS IMPROVEMENTS DOES AEP LEGAL SERVICES ENGAGE IN TO CONTROL COSTS AND IMPROVE SERVICE?

A. I have already mentioned the Legal Service’s efforts to control outside counsel costs. Legal Services reviews all outside legal bills and approves the reasonableness of the charges. In addition, Legal Services has an automated billing system in place to streamline and monitor the outside billing process. The billing system includes automated processes for enforcing billing guidelines as invoices come in and includes automated provisions to identify potential billing issues, such duplicative billings. Legal Services also uses the Sky Analytics database to ensure that it is paying appropriate rates for outside legal services.
E. Description of AEPSC Environmental Services

Q. HOW DOES AEP TEXAS RECEIVE ENVIRONMENTAL SERVICES?

A. The AEPSC Environmental Services group provides environmental services to AEP Texas. Although this group reports organizationally to AEP's Generation organization, the AEPSC Environmental Services group provides services to Distribution and Transmission organizations as well.

Q. PLEASE DESCRIBE THE AEPSC ENVIRONMENTAL SERVICES DEPARTMENT AND THE SERVICES IT PROVIDES TO AEP TEXAS?

A. The Environmental Services Department is led by a Senior Vice President who oversees four functional groups, including two that provide services to AEP Texas. These two groups, Water & Ecological Resource Services and Land Environment & Remediation Services, provide day-to-day environmental permitting for transmission projects and environmental compliance support for transmission and distribution facilities. These services are provided mainly to Distribution, Workplace Services, and Transmission functions for AEP Texas.

Q. WERE THE SERVICES PROVIDED DURING THE TEST YEAR BY THE ENVIRONMENTAL SERVICES DEPARTMENT NECESSARY IN ORDER FOR AEP TEXAS TO PROVIDE RELIABLE UTILITY SERVICE?

A. Yes. The services are necessary to undertake and complete environmental compliance requirements under various federal and state regulatory programs. The services also include training on those environmental requirements, as well as analytical laboratory services related to environmental samples (e.g., for oil spill remediation) as well as operational samples (e.g., testing of physical and chemical properties of insulating oil.
for operational purposes). No other department in AEPSC or AEP Texas provides environmental services to AEP Texas so there is no duplication of services.

F. Reasonableness of AEPSC Environmental Services

Costs Charged to AEP Texas

Q. WHAT ARE THE AEPSC TEST YEAR CHARGES TO AEP TEXAS FOR THE ENVIRONMENTAL SERVICES CLASS OF AFFILIATE COSTS?

A. The total amount of adjusted test year billings to AEP Texas from AEPSC for environmental services is $497,993. Approximately 78 percent of the AEPSC Environmental Services costs allocated to AEP Texas are directly related to labor and fringe benefits of the group’s employees. The reasonableness of the compensation and benefits paid for AEPSC Environmental Services is supported by the testimony of Company witnesses Carlin and Cooper, respectively. AEP Texas witness Frantz addresses the allocation of these costs as part of his testimony. The remaining 22 percent of the charges to AEP Texas were for outside services and other materials and supplies.

Table 8

<table>
<thead>
<tr>
<th>Components of Environmental Services Class by Cost Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labor</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>Amount</td>
</tr>
<tr>
<td>% of Total</td>
</tr>
</tbody>
</table>

Q. WHAT APPROACH DOES YOUR TESTIMONY TAKE TO DEMONSTRATE THE REASONABLENESS OF AEPSC’S CHARGES TO AEP TEXAS FOR ENVIRONMENTAL SERVICES?
1. Cost Trends

Q. PLEASE DISCUSS THE TRENDS IN AEPSC ENVIRONMENTAL SERVICES CHARGES TO AEP TEXAS.

A. The Table 9 depicts the trends in AEP Texas' actual affiliate charges for AEPSC Environmental Services for the calendar years 2015 to 2017, and the Adjusted Test Year costs for which AEP Texas is seeking recovery. AEPSC Environmental Services charges to AEP Texas have remained stable from 2015 through the Test Year.

Table 9

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>Adjusted Test Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>AEPSC Environmental Services Charges to AEP Texas</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>$451,764</td>
<td>$469,076</td>
<td>$500,845</td>
<td>$497,993</td>
</tr>
</tbody>
</table>

2. Budget Performance

Q. WHAT PROCESSES DOES THE AEPSC ENVIRONMENTAL AFFAIRS ORGANIZATION USE TO ENSURE COST EFFECTIVE PROVISION OF SERVICES?

A. AEPSC Environmental Services employs standardized budgeting tools to ensure that costs are controlled within the individual sections of the department. AEPSC Environmental Services has its own budget to which it must adhere. Budgets are set annually and compliance is monitored by the use of monthly variance reports.

Q. HOW HAS THE AEPSC ENVIRONMENTAL SERVICES ORGANIZATION PERFORMED IN COMPARISON TO ITS BUDGETS?
Table 10 below compares AEPSC Environmental Services’ total, actual expenditures to budget targets for which it is accountable, for calendar years 2015 to 2018. These expenses are allocated to AEP’s operating companies, including AEP Texas, based on allocation formulas. These amounts reflect what centralized Environmental Services budgeted and spent for the entire AEP System, not simply AEP Texas.

Table 10

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018 Test Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACTUAL</td>
<td>12,870,949</td>
<td>13,612,999</td>
<td>13,878,008</td>
<td>13,631,871</td>
</tr>
<tr>
<td>BUDGET</td>
<td>12,752,612</td>
<td>13,055,232</td>
<td>13,477,239</td>
<td>13,482,247</td>
</tr>
<tr>
<td>VARIANCE (Over)/Under</td>
<td>(118,337)</td>
<td>(557,767)</td>
<td>(400,769)</td>
<td>(149,623)</td>
</tr>
</tbody>
</table>

Q. HOW DOES THIS COMPARISON OF BUDGETED VERSUS ACTUAL AEPSC ENVIRONMENTAL SERVICES COSTS DEMONSTRATE THAT THESE COSTS ARE REASONABLE?

A. AEPSC Environmental Services’ had slight variances during this time period, due mainly to increased expenses of outside services. AEPSC Environmental Services’ budget variances provide support for the conclusion that the department’s managers are effectively managing expenses and making reasonable and prudent decisions regarding major spending initiatives.

3. Staffing Trends

Q. PLEASE DISCUSS STAFFING CHANGES WITHIN THE AEPSC ENVIRONMENTAL SERVICES ORGANIZATION.

A. As shown in Table 11, the AEPSC Environmental Services organization has added nine FTEs since 2015. Most of the new FTEs are in the Water & Ecological Resource
Services group, and were necessary to address ongoing environmental compliance requirements.

Table 11

**AEPSC Environmental Services FTEs**

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018 Test Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>FTEs</td>
<td>103</td>
<td>107</td>
<td>109</td>
<td>112</td>
</tr>
</tbody>
</table>

Q. WHAT IS YOUR CONCLUSION REGARDING THE REASONABLENESS OF THE AEPSC ENVIRONMENTAL SERVICES COSTS?
A. Together the cost and staffing trends along with and budget performance, viewed in light of the array of essential services provided by centralized Environmental Services, show that these affiliate costs are reasonable and necessary.

VII. RATE CASE EXPENSES

A. Rate Case Expenses Associated with this Proceeding

Q. WHAT PROCESS DOES AEP TEXAS PROPOSE FOR REVIEW AND RECOVERY OF RATE CASE EXPENSES ASSOCIATED WITH THIS PROCEEDING?
A. AEP Texas proposes that the review of the reasonableness of the rate case expenses incurred in connection with this proceeding and the determination of the mechanism for their recovery be severed to a separate proceeding to be convened at the conclusion of this case. Rate case expenses incurred in this proceeding by the Company and cities should be updated at that time to allow review of actual rate case expenses already incurred. This approach is consistent with procedures followed in recent rate cases. In
that separate severed proceeding, AEP Texas will also request approval of the recovery
mechanism for the rate case expenses associated with prior dockets that I address in
Section VII(B) below.

Q. HAS AEP TEXAS PREPARED AN ESTIMATE OF THE COST OF PREPARING
AND LITIGATING THIS RATE CASE FILING?
A. Yes. I estimate that the cost for processing this case is approximately $6.335 million.
Schedule II-E-4.5 is a schedule detailing the estimated expenses for preparing and
litigating this proceeding. Only costs of outside consultants, legal counsel and
incremental expenses such as publication of notice, printing, travel, temporary
employees and miscellaneous expenses is included in the estimate. No separate payroll
costs are being requested for AEPSC or AEP Texas personnel who have prepared and
support the filing.

Q. PLEASE DESCRIBE THE PROCESS EMPLOYED TO PREPARE THIS
APPLICATION.
A. AEP Texas and the AEPSC centralized Case Management group are responsible for
coordinating the preparation and litigation of the rate case filings for AEP Texas. Many
departments throughout AEPSC and AEP Texas participated in the preparation of this
rate case, including regulatory accounting, pricing and costing, distribution,
transmission, construction management, customer services and other departments. In
addition, the AEP Legal Department, in conjunction with AEP Texas and the Case
Management group, is responsible for coordinating the activities of outside consultants
and legal counsel.
Q. PLEASE DESCRIBE THE COSTS AEP TEXAS IS SEEKING TO RECOVER RELATED TO THIS APPLICATION.

A. AEP Texas is seeking recovery of four categories of costs: outside consultants, outside legal counsel, cities’ expenses and miscellaneous expenses. Internal employee time associated with legal and regulatory requirements is not included in the rate case expenses.

Q. PLEASE DESCRIBE THE OUTSIDE CONSULTING EXPENSES.

A. Outside consultants were employed to develop and/or support various requests in this filing including return on equity, cash working capital, catastrophe reserve, capital structure, AMS and affiliate costs.

Robert B. Hevert and his firm, Scott Madden, is filing testimony supporting the recommended return on equity for AEP Texas.

Jay Joyce of Expergy, prepared a lead-lag study to determine the appropriate amount of cash working capital to be included in cost of service.

Greg Wilson of Lewis & Ellis, is providing testimony supporting AEP Texas’ proposed catastrophe reserve treatment.

Steve Fetter, of Regulation Unfettered, is providing testimony regarding capital structure and factoring.

Pat Baryenbruch, of Baryenbruch & Company, LLC, conducted a comprehensive review of AEPSC’s affiliate services and prepared testimony regarding AEPSC’s affiliate services, budgeting processes, use of allocation factors, cost trends, and benchmarking of AEPSC costs.

Brent Heidebrecht, of Financo, provided modeling support for the AMS reconciliation.

AEP Texas negotiated rates with each of the outside consultants discussed above based upon the scope of the requested engagement and customary fees paid to consultants with the required level of experience in their respective disciplines.
Estimated expenses of outside consultants were developed through discussions with
the consultants on the scope of the engagement and based upon expenses incurred in
prior rate cases.

Q. PLEASE DESCRIBE THE EXPENSES FOR OUTSIDE LEGAL COUNSEL.
A. AEP Texas has employed outside legal counsel from Duggins Wren Mann & Romero,
LLP, as regulatory counsel for AEP Texas, along with in-house counsel. This outside
firm has worked with AEP Texas previously and has extensive experience in Texas
regulatory matters. Fees have been negotiated based upon the scope of the engagement
and the customary fees for regulatory attorneys.

Q. PLEASE DESCRIBE THE CITIES’ EXPENSES.
A. PURA § 33.023 requires AEP Texas to reimburse cities in its service territory for their
reasonable and necessary expenses of participating in proceedings for the review of
rates. The PUC will determine what costs are reasonable and necessary expenses for
future recovery.

Q. PLEASE DESCRIBE THE MISCELLANEOUS EXPENSES.
A. Miscellaneous expenses incurred by AEP Texas include expenses for printing,
temporary employees, travel, lodging and other miscellaneous items. Printing
expenses include costs of printing the rate filing package, testimony, discovery and
costs of copying other documents associated with the filing. Printing costs have been
estimated based upon the expected volume of the rate filing package and costs of
responding to discovery in prior cases. Temporary employees may be utilized to assist
in printing and assembling the rate filing package and other documents, word
processing and other support activities. Travel and lodging expenses include expenses
of employees incurred in traveling from their work locations to locations required to
prepare and participate in the filing. In addition to the travel required to prepare the
filing, AEPSC and AEP Texas personnel will incur expenses to participate in the
hearings in Austin. Miscellaneous expenses also include other expenses of preparing
and litigating the filing.

B. Rate Case Expenses Associated with Prior Dockets

Q. WHAT IS AEP TEXAS SEEKING IN THIS PROCEEDING RELATING TO RATE
CASE EXPENSES ASSOCIATED WITH PRIOR PROCEEDINGS?

A. AEP Texas is seeking a reasonableness finding in this proceeding for rate case expenses
incurred in prior dockets that have yet to be recovered. Those dockets and associated
expenses for which AEP Texas seeks recovery are as follows:

- Docket No. 28840, Application of AEP Texas Central Company for Authority
to Change Rates,
- Docket No. 33309, Application of AEP Texas Central Company for Authority
to Change Rates,
- Docket No. 33310, Application of AEP Texas North Company for Authority to
Change Rates
- Docket No. 34301, Proceeding to Consider Rate Case Expenses Severed from
Docket No. 33310 (Application of AEP Texas North Company for Authority to
Change Rates) and Docket No. 33309 (Application of AEP Texas Central
Company for Authority to Change Rates)
- Docket No. 40261, Application of AEP Texas Central Company and AEP Texas
North Company for Approval of Advanced Metering System Reconciliation
Pursuant to PUC Subst. R. §25.130(k)(6)
- Docket No. 47015, Application of AEP Texas, Inc. to Amend Its Distribution
Cost Recovery Factors
- Docket No. 48222, Application of AEP Texas Inc. to Amend Its Distribution
Cost Recovery Factors
- Docket No. 48577, Application of AEP Texas Inc. for Determination of System
Restoration Costs
The rate case expenses associated with these dockets total $1,000,027.12 through February 2019. However, as shown on EXHIBIT LAS-2, AEP Texas is proposing to offset this amount by the #302,051 over-recovered by AEP Texas for Docket No. 34301. Therefore, AEP Texas seeks a finding that the $1,000,027.12 was reasonable, but will only seek recovery of $697,975.99 in the severed docket.

Q. PLEASE DESCRIBE THE COSTS AEP TEXAS IS SEEKING TO RECOVER IN CONNECTION WITH THESE PRIOR PROCEEDINGS.

A. AEP Texas is seeking recovery of three categories of costs: outside legal counsel, cities’ expenses, and miscellaneous expenses and has not included internal employee time associated with legal and regulatory requirements in the requested rate case expenses.

Q. PLEASE EXPLAIN EXHIBIT LAS-2

A. EXHIBIT LAS-2 reflects the rate case expenses AEP Texas seeks to recover in connection with each of the prior dockets described above. EXHIBIT LAS-2 also contains a summary of the items that make up AEP Texas’ rate case expenses for each prior docket. The summary includes a description of: 1) the particular services provided by each law firm; and 2) a description of miscellaneous expenses including printing, delivery, travel and lodging, temporary services and other expenses.

Q. DO THE LEGAL INVOICES CONTAIN SUFFICIENT INFORMATION TO IDENTIFY THE AMOUNT OF EXPENSES ASSOCIATED WITH THE ISSUES INVOLVED IN EACH CASE?

A. Yes. Information that details and itemizes expenses by issue, proceeding stage, and litigation activity is provided in the invoices.
Q. WHAT PROCESS DOES AEP TEXAS PROPOSE FOR REVIEW OF RATE CASE EXPENSES ASSOCIATED WITH THESE PRIOR PROCEEDINGS?

A. AEP Texas proposes the review of the reasonableness of rate case expenses incurred in connection with these prior proceedings in this docket; however, AEP Texas is not requesting approval of the mechanism for their recovery in this docket. To recover these prior expenses, AEP Texas will request recovery through the mechanism requested in the severed docket that is opened to address the recovery of expenses associated with this case.

Q. WHY DOES AEP TEXAS PROPOSE THAT THE FEES ASSOCIATED WITH THESE PRIOR CASES BE REVIEWED IN THE CURRENT PROCEEDING?

A. The litigation in these cases has concluded. Therefore, review of these fees incurred are well-timed for review in this proceeding.

Q. WHAT WAS YOUR RESPONSIBILITY RELATED TO THE ABOVE DOCKETS?

A. Although some of the dockets occurred before I assumed my current role as Vice President, Regulatory & Finance of AEP Texas, I was directly involved in the other two dockets (Docket Nos. 48222 and 48557). As Vice President, Regulatory & Finance, my team is responsible for the preparation, filing, and litigation of all regulatory cases such as these dockets. In supervising the teams prosecuting these proceedings, I was in frequent contact with the persons primarily responsible for reviewing the reasonableness and necessity of the invoices submitted to AEP Texas in association with these proceedings. Due to this responsibility, I have gained familiarity with the prevailing hourly rates associated with individuals and the firms that provide consulting and legal services in connection with utility general rate cases, distribution.
cost recovery factor proceedings, and other regulatory proceedings. I am also familiar
with the range of services provided by outside attorneys in connection with such cases,
and the amount of time and effort expended in performing such engagements. The
factual matters addressed in my testimony are based on my personal knowledge gained
from prior experience, my participation and management of recent AEP Texas
proceedings before the Commission, over 13 years of experience working for AEP in
various capacities, and from records maintained by AEP Texas in the ordinary course
of business, including the books and records that are addressed by AEP Texas witness
Hamlett.

Q. WHAT OTHER WITNESSES ARE SUBMITTING TESTIMONY IN SUPPORT OF
AEP TEXAS' APPLICATION TO RECOVER RATE CASE EXPENSES?

A. As noted above, AEP Texas witness Hamlett also provides testimony related to AEP
Texas' requested recovery of rate case expenses. Specifically, in his direct testimony,
Mr. Hamlett explains: that the source of the expenses are the Company's books and
records and that the rate case expenses AEP Texas seeks to recover represent
incremental expense that, absent the regulatory proceedings, would not have been
incurred by AEP Texas; confirms that AEP Texas is not currently recovering these
expenses via base rates or any other recovery mechanism; explains that the
documentation provided by AEP Texas is consistent with past rate case expense
proceedings and employee expense account support follows Internal Revenue Service
guidelines; and discusses adjustments that were made to the actually incurred expenses
to be consistent with prevailing PUC guidelines for recovery of rate case expenses.
Q. WHAT PROCEDURE DOES AEP TEXAS EMPLOY TO ENSURE THE REASONABLENESS OF RATE CASE EXPENSES?

A. EXHIBIT LAS-3 provides a detailed description of the practices and procedures employed by AEP Texas to control and manage rate case expenses and to ensure that the requested rate case expenses are reasonable and necessary.

Q. WHAT WAS AEP TEXAS' APPROACH TO OUTSIDE CONSULTANT AND LEGAL STAFFING FOR THE DOCKETS ADDRESSED IN YOUR TESTIMONY?

A. AEP Texas staffed these prior cases listed above with a reasonable number of outside lawyers consistent with the procedures outlined earlier in my testimony with regard to the use of external counsel. AEP Texas is a sizeable and complex business, and the amount of information, analysis, and attorney support required in the prior proceedings listed above reflects this fact. The number of outside attorneys AEP Texas used, and the amount of work they performed (as documented in monthly invoices) was reasonable and justified given the nature of these cases, each of which are described above.

Considering the scope and complexity of the matters involved, the time and labor required, the value of property at stake, the number and complexity of the legal, procedural and evidentiary issues, and the scope of responsibilities assumed by the outside attorneys, the amount of rate case expenses incurred by AEP Texas is reasonable and necessary. AEP Texas manages the work of its outside counsel so as to avoid duplication of effort, through the oversight of the case manager and the in-house counsel assigned to the case.
Q. PLEASE DESCRIBE THE PROCESS THAT AEP TEXAS USES TO SELECT OUTSIDE LEGAL COUNSEL.

A. AEP Texas selects its outside attorneys primarily based on their specialized expertise in the area of their particular engagement, the quality of their prior work, and their experience with and knowledge of the AEP Texas' operations and/or regulatory matters. AEP Texas is aware of the range of hourly rates for consultants and attorneys in the field of utility regulation because it contracts with such professionals on a routine basis. AEP Texas applies this knowledge in determining the reasonableness of the hourly rates and charges for services in its regulatory proceedings. Based on my experience, the hourly rates charged by these professionals are reasonable, and compared with those of other firms and individuals providing similar services. Further, the hourly rates charged by these professionals are their normal rates.

Q. DESCRIBE HOW INVOICES AND OTHER DOCUMENTATION AREA REVIEWED PRIOR TO APPROVAL AND PAYMENT.

A. AEP Texas and/or AEPSC personnel have scrutinized all invoices of outside lawyers to ensure that: a) invoice terms are consistent with the terms of the engagement; b) adequate documentation has been provided for time expended for travel and miscellaneous expenses; and c) invoices are accurate and include no duplicate billing. The invoices supporting the rate case expenses sought in connection with the prior dockets listed above are in good order and the amounts requested are supported by appropriate descriptions of the work performed. The hourly fees paid are reasonable and consistent with contract, prevailing standards, and the hours bill by such lawyers.
are reasonable for the activities that needed to be performed in connection with these
dockets.

Q. HOW WERE BILLINGS AND EMPLOYEE EXPENSES HANDLED IN THIS
REQUEST?

A. For purposes of this request, billings were adjusted as necessary to ensure that the items
requested were consistent with prevailing PUC guidelines for recovery of rate case
expenses, as discussed further in Mr. Hamlett’s testimony. Additionally, AEPSC
personnel have scrutinized all the employee expense reports of AEP Texas and AEPSC
personnel who have charged reimbursable employee expenses to these dockets, and
have adjusted accordingly.

Q. WHAT DO YOU CONCLUDE REGARDING THE RATE CASE EXPENSES
REQUESTED BY THE COMPANY IN CONNECTION WITH PRIOR
PROCEEDINGS?

A. The supporting rate case expense detail and information provided in EXHIBIT LAS-2
and supporting workpapers comes from the books and records maintained by AEPSC
for AEP Texas and are true and correct as supported by Mr. Hamlett. The adjustments
and explanatory notes contained within such information, the summary of the requested
updated rate case expenses, and the description of practices and procedures contained
in EXHIBIT LAS-3 and discussed above are accurate and fair representations of the
matters addressed, based on my supervision of those responsible for reviewing the
requested rate case expenses. For all the reasons discussed above and in the direct
testimony of Mr. Hamlett and based on the voluminous supporting detail and
information provided, the rate case expenses incurred by AEP Texas for these dockets
have been reasonably and necessarily incurred. Retention of each of the professionals whose fees and expenses are reflected in those rate case expenses was necessary in order for the Company to properly and fully present its case and to meet Commission requirements for cases of that nature. The amounts billed by outside professionals, out-of-pocket costs incurred by AEPSC personnel, and other miscellaneous expenses are proper and reasonable in amount.

VIII. CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.
AEP TEXAS REGULATORY & FINANCE ORGANIZATION

- Regulatory & Finance
  - Regulatory Services
  - Business Operations Support
  - Continuous Improvement
# AEP TEXAS INC
## SUMMARY OF RATE CASE EXPENSES
### PUC DOCKET NOS. 33309, 33310, 34301, 40261, 47015, 48222 and 48577

<table>
<thead>
<tr>
<th>AEP Texas</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PUC Docket No. 33309/33310/34301</strong></td>
<td></td>
</tr>
<tr>
<td>Legal Expenses - Central</td>
<td>211,749.86</td>
</tr>
<tr>
<td>Legal Expenses - North</td>
<td>1,827.20</td>
</tr>
<tr>
<td><strong>Total Requested Company Expenses Docket No. 33309/33310/34301</strong></td>
<td><strong>$ 213,577.06</strong></td>
</tr>
<tr>
<td><strong>PUC Docket No. 40261</strong></td>
<td></td>
</tr>
<tr>
<td>Legal Expenses</td>
<td>82,047.58</td>
</tr>
<tr>
<td>Employee Expenses</td>
<td>55.48</td>
</tr>
<tr>
<td><strong>Total Company Expenses Docket No. 40261</strong></td>
<td><strong>$ 82,103.06</strong></td>
</tr>
<tr>
<td><strong>PUC Docket No. 47015</strong></td>
<td></td>
</tr>
<tr>
<td>Other Expenses</td>
<td>4,314.05</td>
</tr>
<tr>
<td>Employee Expenses</td>
<td>4,005.91</td>
</tr>
<tr>
<td><strong>Total Company Expenses Docket No. 47015</strong></td>
<td><strong>$ 8,319.96</strong></td>
</tr>
<tr>
<td><strong>PUC Docket No. 48222</strong></td>
<td></td>
</tr>
<tr>
<td>Other Expenses</td>
<td>372.25</td>
</tr>
<tr>
<td>Employee Expenses</td>
<td>23,414.13</td>
</tr>
<tr>
<td><strong>Total Company Expenses Docket No. 48222</strong></td>
<td><strong>$ 23,786.38</strong></td>
</tr>
<tr>
<td><strong>PUC Docket No. 48577</strong></td>
<td></td>
</tr>
<tr>
<td>Consultant Expenses</td>
<td>2,400.00</td>
</tr>
<tr>
<td>Legal Expenses</td>
<td>366,397.52</td>
</tr>
<tr>
<td>Other Expenses</td>
<td>26,383.77</td>
</tr>
<tr>
<td>Employee Expenses</td>
<td>3,994.81</td>
</tr>
<tr>
<td><strong>Total Company Expenses Docket No. 48577</strong></td>
<td><strong>$ 399,176.10</strong></td>
</tr>
</tbody>
</table>

**Total Company Expenses Docket Nos. 33309, 33310, 34301, 40261, 47015, 48222 and 48577** | $ 726,962.56 |

Less: Over-Recovery on 34301 Rate Case Amortization- Allocable to Cities | (143,175.95) |

**Total Company Expenses to be collected for Docket Nos. 33309, 33310, 34301, 40261, 47015, 48222 and 48577** | $ 583,786.61
## AEP TEXAS INC
### SUMMARY OF RATE CASE EXPENSES
**PUC DOCKET NOS. 33309, 33310, 34301, 40261, 47015, 48222 and 48577**

<table>
<thead>
<tr>
<th>Municipal Expenses Reimbursed by AEP Texas</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PUC Docket No. 33309/33310/34301</strong></td>
<td></td>
</tr>
<tr>
<td>City of Abilene</td>
<td>1,094.64</td>
</tr>
<tr>
<td>City of McAllen</td>
<td>234,968.20</td>
</tr>
<tr>
<td><strong>Total Expenses Requested for Reimbursement Associated with Docket Nos. 33309/33310/34301</strong></td>
<td>$236,062.84</td>
</tr>
<tr>
<td><strong>PUC Docket No. 47015</strong></td>
<td></td>
</tr>
<tr>
<td>City of McAllen</td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenses Reimbursed Docket No. 48222</strong></td>
<td>$12,680.27</td>
</tr>
<tr>
<td><strong>Financo</strong></td>
<td></td>
</tr>
<tr>
<td>City of McAllen</td>
<td></td>
</tr>
<tr>
<td><strong>Total Expenses Reimbursed Docket No. 48222</strong></td>
<td>$24,321.45</td>
</tr>
</tbody>
</table>

**Municipal Expenses Reimbursed by AEP Texas Inc**

| City of Abilene | 1,094.64 |
| City of McAllen | 271,969.92 |

**Total Municipal Expenses Reimbursed for Docket Nos. 33309, 33310, 34301, 40261, 48222 and 48577** $273,064.58

**Less: Over-Recovery on 34301 Rate Case Amortization - Allocable to Legal**

(158,875.18)

**Total Municipal Expenses to be collected for Docket Nos. 33309, 33310, 34301, 40261, 48222 and 48577** $114,189.38

**Total AEP Texas Inc and Municipal Expense Docket Nos. 33309, 33310,34301,40261,48222, and 48577** $1,000,027.12

**Total AEP Texas Expenses for Dockets Nos. 33309, 33310, 34301, 40261, 47015, 48222 and 48577** (302,051.13)

**Total AEP Texas Inc and Municipal Expense Docket Nos. 33309,33310,34301,40261,48222, and 48577 net of Over-Recovery** $697,975.99
## AEP TEXAS INC
### SUMMARY OF RATE CASE EXPENSES

PUC DOCKET NOS. 33309, 33310, 34301, 40261, 47015, 48222 and 48577

<table>
<thead>
<tr>
<th>Description of Service Provided</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PUC Docket No. 33309/33310/34301</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Legal Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Bracewell &amp; Giuliani attorneys provided counsel to AEP Texas in Docket Nos. 33309 and 33310 These costs were required to carry out the activities required to prosecute this case. These activities are described in detail in the voluminous invoices provided in the work papers to this Exhibit. As shown in the invoices, the activities were not duplicative or excessive and provided substantial value to the Company. The billing rates to AEP Texas for the attorneys at Bracewell &amp; Giuliani ranged between $120/hour to $325/hour. Paralegal services were charged to AEP Texas at a rate of $80/hour to $90/hour. Bracewell &amp; Giuliani was also reimbursed for expenses related to copying and courier charges. The billing rates charged by Bracewell &amp; Giuliani to AEP Texas were the firm's normal hourly billing rates, were comparable to the rates charged by other attorneys for similar services to other Texas utilities, and were the normal hourly rates or were lower than the normal hourly billing rates charged by the firm for services to non-regulated entities.</td>
<td>147,341.08</td>
</tr>
<tr>
<td>Clark Thomas &amp; Winters attorneys provided counsel to AEP Texas in Docket Nos. 33309, 33310, and 34301. These costs were required to carry out the activities required to prosecute this case. These activities are described in detail in the voluminous invoices provided in the work papers to this Exhibit. As shown in the invoices, the activities were not duplicative or excessive and provided substantial value to the Company. The billing rates to AEP Texas for the attorneys at Clark Thomas &amp; Winters ranged between $125/hour to $340/hour. Paralegal services were charged to AEP Texas at a rate of $90/hour. Clark Thomas &amp; Winters was also reimbursed for expenses related to copying and courier charges. The billing rates charged by Clark Thomas &amp; Winters to AEP Texas were the firm's normal hourly billing rates, were comparable to the rates charged by other attorneys for similar services to other Texas utilities, and were the normal hourly rates or were lower than the normal hourly billing rates charged by the firm for services to non-regulated entities.</td>
<td>66,235.98</td>
</tr>
<tr>
<td><strong>Total Legal</strong></td>
<td>213,577.06</td>
</tr>
<tr>
<td><strong>Over-Recovery on 34301 Rate Case Amortization</strong></td>
<td>(143,175.95)</td>
</tr>
<tr>
<td><strong>Total Expenses Associated with Dockets 33309, 33310 and 34301</strong></td>
<td>70,401.11</td>
</tr>
<tr>
<td><strong>PUC Docket No. 40261</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Legal Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Bracewell &amp; Giuliani attorneys provided counsel to AEP Texas in Docket No. 40261. These costs were required to carry out the activities required to prosecute this case. These activities are described in detail in the voluminous invoices provided in the work papers to this Exhibit. As shown in the invoices, the activities were not duplicative or excessive and provided substantial value to the Company. The billing rates to AEP Texas for the attorneys at Bracewell &amp; Giuliani ranged between $150/hour to $320/hour. Paralegal services were charged to AEP Texas at a rate of $90/hour. Bracewell &amp; Giuliani was also reimbursed for expenses related to copying and courier charges. The billing rates charged by Bracewell &amp; Giuliani to AEP Texas were the firm's normal hourly billing rates, were comparable to the rates charged by other attorneys for similar services to other Texas utilities, and were the normal hourly rates or were lower than the normal hourly billing rates charged by the firm for services to non-regulated utilities.</td>
<td>82,047.58</td>
</tr>
<tr>
<td><strong>Total Legal</strong></td>
<td>82,047.58</td>
</tr>
<tr>
<td><strong>Employee Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Non payroll employee expenses related to Docket No. 47015 including air fare, car rentals, taxi, hotels, meals, supplies and miscellaneous expenses.</td>
<td>55.48</td>
</tr>
<tr>
<td><strong>Total Expenses Associated with Docket 40261</strong></td>
<td>82,103.06</td>
</tr>
</tbody>
</table>
### AEP TEXAS INC
#### SUMMARY OF RATE CASE EXPENSES
PUC DOCKET NOS. 33309, 33310, 34301, 40261, 47015, 48222 and 48577

<table>
<thead>
<tr>
<th>Description of Service Provided</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>PUC Docket No. 47015</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Other Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>FedEx</td>
<td>$4,314.05</td>
</tr>
<tr>
<td><strong>Employee Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Non payroll employee expenses related to Docket No. 47015 including air fare, car rentals, taxi, hotels, meals, supplies and miscellaneous expenses</td>
<td>$4,005.91</td>
</tr>
<tr>
<td><strong>Total Other</strong></td>
<td>$8,319.96</td>
</tr>
<tr>
<td><strong>PUC Docket No. 48222</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Other Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Robert Half</td>
<td>$322.09</td>
</tr>
<tr>
<td>US Postal Service</td>
<td>$50.16</td>
</tr>
<tr>
<td><strong>Total Other</strong></td>
<td>$372.25</td>
</tr>
<tr>
<td><strong>Employee Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Non payroll employee expenses related to Docket No. 48222 including air fare, car rentals, taxi, hotels, meals, supplies and miscellaneous expenses</td>
<td>$23,414.13</td>
</tr>
<tr>
<td><strong>Total Expenses Associated with Docket 44701</strong></td>
<td>$23,786.38</td>
</tr>
<tr>
<td><strong>PUC Docket No. 48577</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Legal Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Duggins, Wren, Mann &amp; Romero, LLP</td>
<td>$366,397.52</td>
</tr>
<tr>
<td><strong>Total Legal</strong></td>
<td>$366,397.52</td>
</tr>
</tbody>
</table>
### AEP TEXAS INC

**SUMMARY OF RATE CASE EXPENSES**

**PUC DOCKET NOS. 33309, 33310, 34301, 40261, 47015, 48222 and 48577**

<table>
<thead>
<tr>
<th>Description of Service Provided</th>
<th>Total Expenses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consultant Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Fmanco</td>
<td>$ 2,400.00</td>
</tr>
<tr>
<td><strong>Total Consultant</strong></td>
<td>$ 2,400.00</td>
</tr>
<tr>
<td><strong>Other Expenses</strong></td>
<td></td>
</tr>
<tr>
<td>Robert Half</td>
<td>Furnished temporary clerical personnel to AEP's Austin regulatory services office to assist with the preparation of the rate filing package and responding to discovery. AEP's Austin regulatory services office does not have sufficient full time clerical personnel to handle the requirements associated with preparation of a major rate case filing and the extensive discovery generated by such a case.</td>
</tr>
<tr>
<td>Texas Press Service, Inc</td>
<td>Handles the newspaper notice required by PUC Procedural Rule §22.51</td>
</tr>
<tr>
<td>US Postal Service</td>
<td>Cost of postage necessary to mail documents and other materials to parties in connection with the case</td>
</tr>
<tr>
<td><strong>Total Other</strong></td>
<td>$ 26,383.77</td>
</tr>
<tr>
<td><strong>Employee Expenses</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non payroll employee expenses related to Docket No 45691 including meals, supplies and miscellaneous expenses</td>
</tr>
<tr>
<td><strong>Total Expenses Associated with Docket 48577</strong></td>
<td>$399,176.10</td>
</tr>
<tr>
<td><strong>Total AEP Texas Expenses for Dockets Nos. 33309, 33310, 34301, 40261, 47015, 48222 and 48577</strong></td>
<td>$583,786.61</td>
</tr>
</tbody>
</table>
AEP TEXAS INC. PRACTICES AND PROCEDURES
TO ENSURE THE REASONABLENESS AND NECESSITY
OF AEP TEXAS RATE CASE EXPENSES

1. Procedures to Ensure that the Expenses Charged to the Rate Case Do Not Pertain to
Other Costs Included in the Cost of Service or Should Have Been Assigned to Other
Functions

The invoices for outside professionals and other rate case expenses are segregated into
work orders designated exclusively for expenses associated with Docket Nos. 33309,
33310, 40261, 47015, 48222, and 48577, and the current case. This segregation ensures: that
none of these expenses are included in any other cost of service amounts included in the rate
filing package; that none of the expenses should have been assigned to other functions; and that
none of the rate case expenses have been recovered through reimbursement for other expenses.

2. Cost Control and Management Process for the Costs of Outside Professionals

AEP Texas Inc. ("AEP Texas") and American Electric Power Service Company, Inc.
("AEPSC") (collectively "Company") control the costs of outside professionals through several
procedures and practices. The Company's normal process involves careful scrutiny of all charges
and a detailed review of invoices prior to authorization of payment. The Company's employees
responsible for overseeing the review of such invoices are familiar with the terms of each
outside professional's engagement and are also involved in the day-to-day rate case activities
giving rise to the expenses under review. The responsible employees are actively involved
in the case planning, staffing, and performance of the related case activities. This intimate
knowledge of the terms of the consultant’s engagement (including billing rates), and of the
activities to which the invoices relate, allows the responsible employees and the Company to
ensure the reasonableness and necessity of the services performed and the associated charges.
By being involved at this level, the Company is able to control rate case expenses and ensure
the effectiveness of the services provided to the Company, and the reasonableness of the
invoiced amounts.
The Company’s process to ensure reasonableness and necessity of outside professionals’ costs involves:

a) establishment of a budget for the services to be performed as part of engagement on the matter;

b) review by the responsible employee familiar with the terms of the outside professional’s engagement to determine that the invoice terms and amounts are in agreement with the terms of the engagement and that contract limits have not been exceeded;

c) detailed review of the invoices and supporting documentation;

d) verification of the mathematical accuracy of each invoice;

e) verification of the mathematical accuracy of the charges in each invoice;

f) review of the individual charges and rates for reasonableness, based on the responsible employee’s day-to-day familiarity with the activities performed in the proceeding, to ensure that the charges are directly related to the rate case and should not be charged elsewhere;

g) review of the invoice to ensure that no double-billing of charges occurs; and

h) before processing payments to an outside professional, AEPSC Accounts Payable ensures that invoices are approved by an authorized person who has invoice approval authority.

3. Selection of Outside Legal Counsel

The Company is staffed to handle certain amount of ongoing legal matters, but does not have sufficient internal legal resources to cover the incremental workload associated with cases such as Docket Nos. 33309, 33310, 34301, 40261, and 48577, and this proceeding. Furthermore, given the importance, breadth, and complexity of the legal regulatory issues in these cases, supplementing internal legal personnel with qualified outside counsel is not only necessary, but also helps to enhance the quality and effectiveness of the case effort.

The Company’s selection of outside legal counsel is based primarily on the Company’s assessment of the counsel’s expertise, knowledge of the Company, and familiarity with Texas regulation. Knowledge of the Company’s prior major regulatory and rate case history is necessary for outside counsel to be able to provide efficient and effective representation within the extremely demanding context of a cases before the Commission. In selecting outside legal counsel, the Company considers the prior work experience with the outside counsel, the prior work product of the counsel, and the counsel’s familiarity with and ability to work closely and effectively with the key members of the Company’s regulatory team. This prior experience
reinforces the Company’s confidence that the outside counsel has the experience and expertise to effectively and efficiently prosecute the case on the Company’s behalf.

Given the magnitude of the effort and the complexity of the issues, the Company selected Duggins Wren Mann and Romero, LLP ("DWMR") to assist it with the efforts in this docket and Docket Nos. 33309, 33310, and 34301, currently a partner at DWMR, was a partner with the firm of Clark, Thomas and Winters, a Professional Corporation (CTW) at the time of the earlier proceeding. The selection of CTW reflected the same types of considerations discussed immediately above. For similar reasons, the Company retained Bracewell & Giuliani LLP (B&G), whose attorneys had extensive experience in representing the Company in complex cases before the Commission, as outside counsel in Docket No. 33309 and 40261.

DWMR, CTW, and B&G have or had a proven track record of working efficiently and effectively with key Company personnel. The Company’s experience demonstrates that these firms’ competencies complement the competencies of Company employees and enhance the legal representation in these complex and important cases.

4. Other Vendors' Expenses

Vendors, other than outside professionals, provided services for Docket Nos. 40261, 47015, 48222, and 48577, and this proceeding, including, among other things: printing and delivery services; supplies, such as paper; binders, printer toner; temporary clerical employees; parking; after-hours air conditioning; meals; hearing transcripts; customer notice, and newspaper notice publication. These services and goods are provided at the respective vendor’s customary charges, which reflect the prevailing market prices for such services. The responsible Company employees determine that the services and goods acquired are necessary and ensure that the amounts invoiced are in accordance with the vendor’s schedule of charges, are mathematically correct, and reflect the amount of the services and goods determined to be necessary.

Because it has a tax certificate, the Company does not pay state or local sales or use taxes to third-party vendors, such as those who provide reproduction services, etc. However, the Company is ultimately responsible for the applicable use taxes on certain items acquired from third-party vendors, and items acquired to support the aforementioned dockets. Thus,
AEPSC Accounts Payable adds the appropriate use tax amounts as a separate addition to the amounts charged to the rate case for the third-party items subject to use taxes.

5. **Reimbursable Employee Expenses**

No Company employees’ salaries, wages, employee benefits, or other payroll-related items are included in the requested rate case expenses. The requested rate case expenses do include, however, amounts directly attributable to the rate case for out-of-pocket employee expenses incurred by Company employees for travel, lodging, parking, meals, etc. The requested rate case expense also include amounts to reimburse Company employees for miscellaneous supplies, for which they either charged their corporate credit card or paid cash. The employees charge these expenses to the work orders designated exclusively for the aforementioned dockets, classifying the expenses or applicable portion incurred for the respective cases. This ensures that charges that do not pertain to those cases are not charged to them. Each employee’s supervisor reviews the employee’s reimbursable expenses to ensure that they are reasonable and necessary and have been properly classified to the correct work orders and approves the charges.

With respect to eligible expenses reimbursed to an employee on his/her corporate credit card or for cash payment, a monthly employee expense report is produced which provides the detail with respect to each charge reimbursed to the employee. This detail includes:

a) a description of the charge, *i.e.*, airfare, hotel, meal, etc.;

b) the amount of the charge, including as applicable, a breakdown of the elements of the charge, such as daily room rate, hotel tax, etc.;

c) the identification of the entity providing the service or good;

d) the work order to which the charge applies and;

e) in the case of meals, the number of persons and their names.

The employee expense report contains individual entries for each item charged, and where a breakdown of specific items, such as hotel charges, is provided, the entry is expanded with the caption "Folio Item" to provide sub-information for the expense. The Company’s policy, which is consistent with the Internal Revenue Service’s requirements, requires: (a) an expense report for all travel and lodging expenses, and (b) individual receipts for expenditures in excess of $25.
6. **No Luxury Items are Included in Requested Rate Case Expenses**

   It is the Company's policy that no first class airfare, private aircraft, alcohol, or other luxury items are included in the requested rate case expenses. The employee expense reports and receipts provided by outside professionals are scrutinized to remove these items from the requested rate case expenses. To the extent any meal charges are in excess of $25/person, the amount in excess of $25/person has been excluded.

7. **Exceptions Noted**

   Exceptions noted on review of the requested rate case expenses are identified on a summary schedule at the beginning of each tabbed section of AEP Texas' filing or on the accompanying invoices and other documentation supporting a particular vendor's or Company employee's expenses. The excepted amounts have been excluded from the amount of the requested rate case expenses.
PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF
AEP TEXAS INC.
FOR AUTHORITY TO CHANGE RATES

DIRECT TESTIMONY OF
RANDALL W. HAMLETT
FOR
AEP TEXAS INC.

MAY 2019
**TESTIMONY INDEX**

<table>
<thead>
<tr>
<th>SECTION</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
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<td>I. INTRODUCTION</td>
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<tr>
<td>II. PURPOSE OF TESTIMONY</td>
<td>4</td>
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<tr>
<td>III. COMPLIANCE WITH PURA SECTIONS 36.051 THROUGH 36.065</td>
<td>6</td>
</tr>
<tr>
<td>A. Overall Revenues</td>
<td>6</td>
</tr>
<tr>
<td>B. Reasonable Return</td>
<td>7</td>
</tr>
<tr>
<td>C. Components of Invested Capital</td>
<td>7</td>
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<tr>
<td>D. Construction Work in Progress</td>
<td>7</td>
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<td>E. Separations and Allocations</td>
<td>7</td>
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<tr>
<td>F. Depreciation, Amortization and Depletion</td>
<td>8</td>
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<td>G. Net Income</td>
<td>8</td>
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<td>8</td>
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<tr>
<td>I. Income Taxes</td>
<td>9</td>
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<td>J. Legislative Advocacy Expenses</td>
<td>9</td>
</tr>
<tr>
<td>K. Contributions and Donations</td>
<td>10</td>
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<tr>
<td>L. Rate Case Expenses</td>
<td>10</td>
</tr>
<tr>
<td>M. Disallowed Payments for Costs of Facilities Not Selling Power in the State of Texas</td>
<td>11</td>
</tr>
<tr>
<td>N. Costs of Processing Refunds or Credits</td>
<td>12</td>
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<tr>
<td>O. Profit or Loss from the Sale or Lease of Merchandise</td>
<td>12</td>
</tr>
<tr>
<td>P. Self-Insurance</td>
<td>12</td>
</tr>
<tr>
<td>Q. Pension and Other Postemployment Benefits</td>
<td>14</td>
</tr>
<tr>
<td>IV. COST OF SERVICE</td>
<td>16</td>
</tr>
<tr>
<td>A. A Schedules (Cost of Service Summary)</td>
<td>16</td>
</tr>
<tr>
<td>B. B Schedules (Rate Base)</td>
<td>18</td>
</tr>
<tr>
<td>C. C Schedules (Capitalization and Cost of Capital)</td>
<td>24</td>
</tr>
<tr>
<td>D. D Schedules (O&amp;M and A&amp;G Expenses)</td>
<td>24</td>
</tr>
<tr>
<td>E. E-Schedules (Depreciation and Amortization)</td>
<td>41</td>
</tr>
<tr>
<td>F. Transmission Schedules</td>
<td>49</td>
</tr>
<tr>
<td>V. FUNCTIONALIZATION</td>
<td>49</td>
</tr>
<tr>
<td>A. Rate Base</td>
<td>50</td>
</tr>
<tr>
<td>B. O&amp;M and A&amp;G Expenses</td>
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<td>VI. INCOME TAX REFUND RIDER</td>
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<td>EXHIBIT</td>
<td>DESCRIPTION</td>
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<td>EXHIBIT RWH-1</td>
<td>List of Schedules Sponsored or Co-Sponsored</td>
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<td>EXHIBIT RWH-4</td>
<td>Income Tax Refund Rider Values</td>
</tr>
</tbody>
</table>
I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND OCCUPATION.
A. My name is Randall W. Hamlett, and my business address is 212 E. 6th Street, Tulsa, Oklahoma 74119-1295. I am the Director of Regulatory Accounting Services for American Electric Power Service Corporation (AEPSC), a subsidiary of American Electric Power Company, Inc. (AEP).

Q. PLEASE PROVIDE A SUMMARY OF YOUR EDUCATIONAL BACKGROUND.
A. I received a Bachelor of Science in Business Administration, Accounting Major, in 1983 from Central Missouri State University. In addition, I received a Master of Business Administration degree in May 1993 from Louisiana State University in Shreveport. In May 1986, I passed the Certified Public Accountant (CPA) Examination. I am a member of the American Institute of CPAs and the Oklahoma Society of CPAs.

Q. PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE.
A. I was employed by the Missouri Public Service Commission (MPSC) as a Regulatory Auditor from September 1983 until October 1986. At the MPSC, I assisted with audits and examinations of the books and records of public utilities with regard to proposed rate increases and compliance with MPSC orders.

In October 1986, I joined Southwestern Electric Power Company (SWEPCO) as an accountant in the Regulatory Accounting Department. In September 1989, I was promoted to Regulatory Accounting Coordinator. In February 1991, I was promoted to Supervisor of Cost Analysis. In September 1993, I transferred to the Rate Department as Supervisor of Costing. In April 1994, I transferred to Central and South West
Services, Inc. (CSWS) as a Senior Rate Analyst. I was promoted to the position of Regulatory Accounting Consultant with CSWS in March 1995. In February 2001, I was promoted to the position of Manager of Regulated Accounting Support for AEPSC. In July 2002, my position title changed to Manager of Regulatory Accounting Services. In February 2005, I was promoted to my current position.

As the Director of Regulatory Accounting Services, I am responsible for providing the accounting support for all regulatory filings filed before the various regulatory commissions exercising jurisdiction over the western portion of AEP, including AEP Texas Inc. (AEP Texas or Company); Public Service Company of Oklahoma (PSO); Electric Transmission Texas (ETT) and SWEPCO. In addition, I am responsible for the presentation of written and oral testimony before these commissions.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY?

A. Yes, I have filed testimony before the MPSC, the Arkansas Public Service Commission, the Oklahoma Corporation Commission, the Louisiana Public Service Commission and the Public Utility Commission of Texas (PUC or Commission). Before the PUC, I have filed testimony in the following: TCC Docket Nos. 14237, 14965/15900, 22352, 24195, 27035, 27282, 28840, 31056, 32475, 32758, 33309, 34410, 35437, 35627, 36732, 38026, 39722, 39931, 41879, 42571, 44033 and 45787; TNC Docket Nos. 22354, 24335, 26000, 29703, 31461, 33310, 35436, 36733, 38027, 41879, 42629, 44032 and 45788; SWEPCO Docket Nos. 12855, 14819, 17310, 17460, 21264, 22353, 22744, 23230, 24063, 24449, 27861, 28045, 29694, 30398, 32006, 35625, 36324, 36785, 36966, 37162, 39708, 40443, 42089, 42370, 42448, 42527,
Q. ON WHOSE BEHALF ARE YOU PROVIDING THIS TESTIMONY?

A. I am providing this testimony on behalf of AEP Texas Inc. Effective December 31, 2016, AEP Texas Central Company (TCC) and AEP Texas North Company (TNC) were merged and renamed AEP Texas. The merger was approved by the Public Utility Commission of Texas (Commission) 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.” Consistent with the Commission’s order, during the test year, AEP Texas maintained two divisions within AEP Texas: AEP Texas — Central Division (formerly TCC) and AEP Texas — North Division (formerly TNC). This filing proposes to consolidate rates for the two divisions of AEP Texas. AEP Texas is a wholly owned subsidiary of American Electric Power Company (AEP). AEP Texas is headquartered in Corpus Christi, Texas.

1 Docket No. 46050, Application of AEP Texas Central Company, AEP Texas North Company, and AEP Utilities, Inc. for Approval of Merger, Final Order at Ordering Paragraph No. 2 (Dec. 12, 2016).
II. PURPOSE OF TESTIMONY

Q. WHAT ARE YOUR RESPONSIBILITIES ASSOCIATED WITH THIS FILING?

A. My responsibilities are to present the transmission and distribution (T&D) revenue requirements for AEP Texas and for the separate Central and North divisions. Specifically, I present each division's cost of service, rate base and related adjustments, as well as the combined cost of service and rate base. My presentation will cover the transmission and distribution functions. The allocation of costs between the respective entities’ Texas retail and wholesale jurisdictions is addressed by AEP Texas witness John Aaron.

Q. HAVE YOU PREPARED ANY EXHIBITS IN CONNECTION WITH YOUR TESTIMONY?

A. Yes, the exhibits I have prepared in connection with my testimony are listed in the index to my testimony.

Q. DO YOU SPONSOR OR CO-SPONSOR ANY SCHEDULES IN THE RATE FILING PACKAGE (RFP)?

A. Yes, I sponsor or co-sponsor various RFP schedules filed in this proceeding. EXHIBIT RWH-1 provides a listing of the RFP schedules I sponsor or co-sponsor. Unless otherwise noted on the exhibit, the schedules were prepared by me or under my direct supervision and control. Various RFP schedules require a Texas retail allocation factor. The Texas retail allocation factors on the RFP schedules were provided by Mr. Aaron.

Q. ON WHAT BASIS WERE THE RFP SCHEDULES WHICH YOU JUST MENTIONED PREPARED?
A. They were prepared from the separate divisional books and records of AEP Texas and are based on a test year ending December 31, 2018.

Q. ARE THE BOOKS, ACCOUNTS AND RECORDS OF AEP TEXAS MAINTAINED IN A MANNER PRESCRIBED BY THE COMMISSION?

A. Yes, they are kept in compliance with the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts as prescribed in the Substantive Rules of this Commission. In addition, the books, accounts and records are maintained for the Central and North Division and within each division there are separate transmission and distribution ledgers.

Q. PLEASE SUMMARIZE THE BASE RATE REVENUES, COST OF SERVICE, RATE BASE, AND RETURN AMOUNTS THAT AEP TEXAS REQUESTS THE COMMISSION TO APPROVE IN THIS PROCEEDING.

A. The following table summarizes the relief sought by AEP Texas:

<table>
<thead>
<tr>
<th>Description</th>
<th>Transmission</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Rate Base</td>
<td>$2,635,086,901</td>
<td>$2,433,984,790</td>
</tr>
<tr>
<td>Cost of Capital</td>
<td>7.0767%</td>
<td>7.0767%</td>
</tr>
<tr>
<td>Return on Rate Base</td>
<td>$186,477,195</td>
<td>$172,245,802</td>
</tr>
<tr>
<td>Operation &amp; Maintenance (O&amp;M)</td>
<td>67,024,337</td>
<td>175,180,900</td>
</tr>
<tr>
<td>Depreciation &amp; Amortization</td>
<td>93,376,396</td>
<td>171,643,208</td>
</tr>
<tr>
<td>Income Taxes</td>
<td>31,504,840</td>
<td>19,990,550</td>
</tr>
<tr>
<td>Taxes other Than Income</td>
<td>47,195,345</td>
<td>105,589,824</td>
</tr>
<tr>
<td>Total Cost of Service</td>
<td>$425,578,113</td>
<td>$644,650,285</td>
</tr>
<tr>
<td>Miscellaneous Revenues</td>
<td>($5,364,744)</td>
<td>($25,494,840)</td>
</tr>
<tr>
<td>Base Rate Revenue Requirement</td>
<td>$420,213,369</td>
<td>$619,155,445</td>
</tr>
<tr>
<td>Test Year Adjusted Base Rate Revenues</td>
<td>423,372,871</td>
<td>591,402,607</td>
</tr>
<tr>
<td>Requested Base Rate Increase</td>
<td>($3,159,502)</td>
<td>$27,752,838</td>
</tr>
<tr>
<td>Rider Resets (Includes Distribution Income Tax Refund Rider)</td>
<td>0</td>
<td>10,581,644</td>
</tr>
<tr>
<td>Net Change to Revenues</td>
<td>($3,159,502)</td>
<td>$38,334,482</td>
</tr>
</tbody>
</table>

Note: Operation and maintenance expenses and test year adjusted base rate revenues for distribution exclude TCOS billings which is being rolled into the Transmission Cost Recovery Rider (TCRF). The same is true for all energy efficiency costs that are being rolled into the Energy Efficiency Cost Recovery Factor (EECRF).
Q. WHAT IS THE NET CHANGE TO BASE RATE REVENUES FOR EACH SEPARATE DIVISION OF AEP TEXAS?

A. The net change to revenues for the divisions is provided in the following table:

<table>
<thead>
<tr>
<th>Description</th>
<th>Transmission</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Central Division</td>
<td>($5,733,168)</td>
<td>$40,021,001</td>
</tr>
<tr>
<td>North Division</td>
<td>2,573,666</td>
<td>(1,686,518)</td>
</tr>
<tr>
<td>Total</td>
<td>($3,159,502)</td>
<td>$38,334,483</td>
</tr>
</tbody>
</table>

III. COMPLIANCE WITH PURA SECTIONS 36.051 THROUGH 36.065

Q. HAS AEP TEXAS COMPLIED WITH THE REQUIREMENTS OF PURA SUBCHAPTER B COMPUTATION OF RATES - SECTIONS 36.051 THROUGH 36.065?

A. Yes, it has. AEP Texas has complied with PURA Sections 36.051 through 36.065. The following portions of my testimony discuss the items specifically addressed in these sections.

A. Overall Revenues

Q. IF THE COMMISSION APPROVES AEP TEXAS’ FILED RATES, WILL IT PERMIT THE COMPANY A REASONABLE OPPORTUNITY TO EARN A REASONABLE RETURN ON THE COMPANY’S INVESTED CAPITAL IN EXCESS OF THE COMPANY’S REASONABLE AND NECESSARY OPERATING EXPENSES AS REQUIRED IN PURA SECTION 36.051?

A. Yes, it will. Each Company witness in this proceeding supports a part of this filing which if approved would result in rates that will allow the Company a reasonable opportunity to earn a reasonable return.
B. Reasonable Return

Q. IN DEVELOPING THE COMPANY’S RECOMMENDED RETURN, DID AEP TEXAS CONSIDER THE REQUIREMENTS OF PURA SECTION 36.052?

A. Yes, it did. Company witnesses Steve M. Fetter and Renee Hawkins sponsor the Company’s overall cost of capital and capital structure, while Company witness Robert Hevert discusses and supports AEP Texas’ requested return on common equity. In addition, various AEP Texas witnesses discuss the factors listed in this section.

C. Components of Invested Capital

Q. ARE THE COMPANY’S COMPONENTS OF INVESTED CAPITAL BASED ON THE ORIGINAL COST LESS DEPRECIATION OF PROPERTY USED BY AND USEFUL TO AEP TEXAS IN PROVIDING SERVICE, AS REQUIRED BY PURA SECTION 36.053?

A. Yes, they are.

D. Construction Work in Progress

Q. HAS AEP TEXAS INCLUDED ANY CONSTRUCTION WORK IN PROGRESS (CWIP) IN ITS RATE BASE UNDER PURA SECTION 36.054?

A. No, it has not.

E. Separations and Allocations

Q. HAVE THE COSTS OF FACILITIES, REVENUES, EXPENSES, TAXES AND RESERVES BEEN SEPARATED AND ALLOCATED PROPERLY AS REQUIRED BY PURA SECTION 36.055?

A. Yes, they have. I will address the separation and allocation of costs later in my testimony.
F. Depreciation, Amortization and Depletion

Q. DOES AEP TEXAS’ FILING INCLUDE PROPER DEPRECIATION, AMORTIZATION AND DEPLETION RATES AS DEFINED IN PURA SECTION 36.056?

A. Yes, it does. The depreciation rates utilized in this proceeding are supported by Company witness Jason A. Cash and discussed in his testimony.

G. Net Income

Q. DID AEP TEXAS PROPERLY CALCULATE REVENUES AND EXPENSES AS DEFINED IN PURA SECTION 36.057?

A. Yes, it did.

H. Transactions with Affiliates

Q. DOES AEP TEXAS MAKE PAYMENTS TO AFFILIATES WHICH ARE INCLUDED IN COST OF SERVICE IN THIS FILING?

A. Yes, AEP Texas makes payments to its affiliates for expenses they incurred that benefit its operations and which are billed to AEP Texas and are included in its cost of service. Other Company witnesses who discuss and support the various classes of affiliate costs of AEP Texas are listed below:

<table>
<thead>
<tr>
<th>Witness</th>
<th>Class of Affiliate Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patrick L. Baryenbruch</td>
<td>Outside Review</td>
</tr>
<tr>
<td>Thomas M. Coad</td>
<td>Distribution</td>
</tr>
<tr>
<td>Joel Murphy</td>
<td>Customer Service</td>
</tr>
<tr>
<td>Daniel R. Boezio</td>
<td>Transmission</td>
</tr>
<tr>
<td>Curt D. Cooper</td>
<td>Benefits</td>
</tr>
<tr>
<td>Gilbert Hughes</td>
<td>External Affairs, Corporate Communications &amp; Charitable Contributions</td>
</tr>
</tbody>
</table>
The testimony of these witnesses demonstrates that these costs meet the requirements of PURA Section 36.058.

I. Income Taxes

Q. HAS AEP TEXAS COMPUTED ITS FEDERAL INCOME TAXES IN ACCORDANCE WITH PURA SECTIONS 36.059 AND 36.060?

A. Yes, it has. The testimony of Company witness Michael Kelly contains a complete discussion of the method and manner by which federal income taxes have been calculated. That testimony demonstrates that AEP Texas has computed the federal income tax expense included in its cost of service in accordance with the provisions of PURA Sections 36.059 and 36.060.

J. Legislative Advocacy Expenses

Q. PURA SECTIONS 36.061 AND 36.062 PROVIDE THAT LEGISLATIVE ADVOCACY EXPENSES ARE NOT TO BE INCLUDED IN COST OF SERVICE FOR RATEMAKING PURPOSES. ARE AEP TEXAS’ LEGISLATIVE ADVOCACY EXPENSES REFLECTED IN THE RATES PROPOSED IN THIS FILING?

A. No, they are not. All expenditures on AEP Texas’ books, including those billed to it by AEPSC, made for the purpose of advocating a position to the public with respect to
referenda, legislation, or ordinances, or for the purpose of advocating its position on
such items before public officials, are excluded from cost of service. The excluded
expenses include the costs of lobbyists, as well as the portion of the dues to Edison
Electric Institute (EEI) that are used for legislative advocacy purposes. Legislative
monitoring expenditures, which were not removed from AEP Texas’ filing, are
addressed in the testimony of Company witness Hughes.

AEP Texas records these expenses in non-operating expense accounts in
accordance with the FERC Uniform System of Accounts. Additional information
about AEPSC-related legislative advocacy expenses removed from AEP Texas’ cost of
service can be found in the direct testimony of Mr. Frantz.

K. Contributions and Donations

Q. HAS AEP TEXAS INCLUDED ANY CONTRIBUTIONS AND DONATIONS
EXPENSES IN ITS PROPOSED COST OF SERVICE AS PERMITTED BY PURA
SECTION 36.061?

A. Yes, it has, as permitted by PURA Section 36.061. Additional information about
contributions and donations may be found in the direct testimony of witness Hughes.

L. Rate Case Expenses

Q. HAS AEP TEXAS INCLUDED ANY RATE CASE EXPENSES IN THIS FILING
AS PERMITTED BY PURA SECTION 36.061?

A. AEP Texas has provided an estimate of out of pocket rate case expenses for this case.
AEP Texas is proposing, consistent with past Commission practice, that a separate
proceeding be initiated after the completion of this rate case, in which the
reasonableness of and recovery mechanism for Cities’ and AEP Texas’ incremental
rate case expenses for this case be reviewed. AEP Texas witness Strahler discusses the
Company's estimate of rate case expenses in her testimony.

During the test year, AEP Texas incurred rate case expenses associated with the
last DCRF filing, Docket No. 48222, and with the application for determination of
system restoration costs in Docket No. 48577, as detailed on RFP Schedule II-E-4.5.
The incremental costs have been removed from cost of service to be included in a future
recovery mechanism.

In addition, AEP Texas is proposing various rate case expenses be reviewed in
this case as discussed by AEP Texas witness Strahler. The Company is requesting
recovery of the expenses incurred for Docket Nos. 40261 (2012 AMS Reconciliation),
47015 (TY2016 DCRF), 48222 (TY2017 DCRF), 48577 (Determination of System
Restoration Costs), and trailing costs from Docket Nos. 28840, 33309, 33310, and
34301.

Q. HOW IS AEP TEXAS ACCOUNTING FOR THE EXPENSES IT IS INCURRING
FOR THIS PROCEEDING?

A. AEP Texas is deferring the incremental expenses it is incurring for this proceeding.
The deferred expenses will be requested in a separate rate case expense docket
following this proceeding, consistent with past Commission practice as discussed
earlier.

M. Disallowed Payments for Costs of Facilities Not Selling Power in the State of Texas

Q. HAS AEP TEXAS INCLUDED IN ITS COST OF SERVICE ANY PAYMENTS
MADE TO COVER COSTS OF AN ACCIDENT, EQUIPMENT FAILURE, OR
NEGligENCE AT A UTILITY FACILITY OWNED BY A PERSON OR
GOVERNMENTAL BODY NOT SELLING POWER INSIDE THE STATE OF TEXAS AS DESCRIBED IN PURA SECTION 36.062?

A. No, it has not.

N. Costs of Processing Refunds or Credits

Q. HAS AEP TEXAS INCLUDED IN ITS COST OF SERVICE ANY COST OF PROCESSING A REFUND OR CREDIT UNDER SECTION 36.062 OF PURA?

A. No, it has not.

O. Profit or Loss from the Sale or Lease of Merchandise

Q. DOES AEP TEXAS' FILING INCLUDE ANY PROFIT OR LOSS FROM THE SALE OR LEASE OF MERCHANDISE AS DESCRIBED IN PURA SECTION 36.063?

A. No, it does not.

P. Self-Insurance

Q. DOES AEP TEXAS SELF INSURE ANY PART OF THE UTILITY'S EXPOSURE TO POTENTIAL CATASTROPHIC PROPERTY LOSS THROUGH A RESERVE ACCOUNT FOR SELF-INSURANCE AS PROVIDED FOR IN PURA SECTION 36.064?

A. Yes, it does. AEP Texas' Central Division has a catastrophic property loss reserve account to self-insure against any losses that may result from a catastrophic event, such as a hurricane or other event that cannot be reasonably anticipated, striking AEP Texas' service territory. At the end of the test year, AEP Texas had a negative reserve or regulatory asset amount of $152.4 million which is comprised $1.5 million for transmission and $150.9 million for distribution. The end of test year amounts,
however, do not account for Public Utility Commission of Texas (PUC or Commission) Docket Nos. 48577 and 49308.

In PUC Docket No. 48577, the Commission authorized recovery of carrying costs on Hurricane Harvey storm restoration costs, as prescribed by PURA 36.402(b). The amount provided in that case for transmission, for the period ending through December 2018, was $2,995,779. This amount has been added to the test year-end self-insurance reserve for transmission. AEP Texas did not previously record any carrying costs (transmission or distribution), as the final order in Docket No. 48577 was not issued until 2019. In PUC Docket No. 49308, AEP Texas has proposed to securitize $164.6 million of distribution principal reserve costs, which results in their removal from the self-insurance reserve. Accounting for these two updates, the transmission catastrophe reserve is a positive $4.5 million while the distribution catastrophe reserve is a negative $13.7 million. As directed by PURA 36.064, the reserve for transmission is an increase to AEP Texas’ rate base and the distribution reserve decreases AEP Texas’ rate base.

In Docket No. 33309, the PUC authorized AEP Texas’ Central division (TCC) to fund its catastrophic property loss reserve at $1,300,000 annually until the reserve reaches a maximum approved level of $13 million. In this proceeding, AEP Texas is requesting to change the approved level, change the annual contribution to the fund, and include the North division in the reserve. Specifically, the Company proposes an AEP Texas target reserve of $13,300,000 and an annual accrual of $4,270,000. Details and support for the increase may be found in the direct testimony of Company witness Wilson.
Q. DOES AEP TEXAS' CATASTROPHIC PROPERTY LOSS RESERVE BALANCE INCLUDE RECENT STORM EVENTS NOT ADDRESSED IN DOCKET NO. 48577?

A. Yes, it does. AEP Texas charged $1.3 million to the reserve for a tropical storm in 2018.

Q. Pension and Other Postemployment Benefits

Q. HAS THE COMPANY INCLUDED PENSION AND OTHER POSTEMPLOYMENT BENEFITS IN COMPLIANCE WITH PURA § 36.065?

A. Yes, it has. The amount requested by the Company for pension and other postemployment benefits (including postretirement benefits and postemployment benefits) was determined by actuarial or other similar studies in accordance with generally accepted accounting principles. The applicable accounting pronouncements that establish generally accepted accounting principles for these costs during the test year are as follows:

- For postretirement benefit cost - FASB ASC 715-60 Compensation — Retirement Benefits Defined Benefit Plans — Other Postretirement; and
- For postemployment benefit cost - FASB ASC 712-10 Compensation — Nonretirement Postemployment Benefits.

These accounting pronouncements mandate that the accounting for a company's pension, postretirement benefit, and postemployment benefit costs must be based on accrual accounting, rather than on a cash basis. Accordingly, PURA § 36.065 specifies that pension, postretirement benefit, and postemployment benefit costs to be included for
ratemaking purposes must be based on accrual accounting in accordance with the
applicable FASB Statement, instead of being determined on a cash basis.

Q. DOES THE PURA § 36.065 REQUIREMENT TO FOLLOW GENERALLY
ACCEPTED ACCOUNTING PRINCIPLES ALSO AFFECT THE PREPAID
PENSION ASSET TO BE INCLUDED IN RATE BASE?

A. Yes. An additional cash investment in the pension trust fund is recorded as a prepaid
pension asset in accordance with generally accepted accounting principles under
ASC 715-30. The prepaid pension asset is the cumulative additional pension cash
contributions beyond the amount of pension cost. Accordingly, an additional cash
investment recorded as a prepaid pension asset should be included in rate base under
PURA § 36.065.

Q. HAS THIS COMMISSION ISSUED A FINAL RATE ORDER WITH REGARD TO
THE APPLICATION OF PURA § 36.065?

A. Yes. The Commission’s final order for TCC in Docket No. 33309 approved the inclusion
for ratemaking purposes of TCC’s pension cost, postretirement benefit cost, and
postemployment benefit cost as determined by actuarial studies in accordance with
generally accepted accounting principles ASC 715-30, ASC 715-60, and ASC 712-10,
respectively. The order also recognized that additional pension contributions that were
recorded as a prepaid pension asset in accordance with generally accepted accounting
principles under ASC 715-30 are appropriate cash investments to be considered for rate
treatment. This decision included in cost of service the actuarially determined amounts
and also included the portion of the pension prepaid asset that pension costs that are not
anticipated to be capitalized is included in rate base. This decision further permitted
TCC to accrue Allowance for Funds Used During Construction (AFUDC) on the portion capitalized to CWIP.

Q. HAS AEP TEXAS ESTABLISHED ONE OR MORE RESERVE ACCOUNTS FOR PENSION OR OTHER POSTEMPLOYMENT BENEFITS?
A. No, although PURA section 36.065 grants the utility discretion to create such accounts, AEP Texas has not done so.

Q. HAS AEP TEXAS FOLLOWED THE TCC DECISION IN THIS CASE?
A. Yes, it has.

IV. COST OF SERVICE

A. A Schedules (Cost of Service Summary)

Q. WHAT IS YOUR ROLE IN THIS FILING WITH REGARD TO THE RFP SCHEDULES YOU SPONSOR OR CO-SPONSOR?
A. My role is to support the per book amounts on the various RFP schedules that I sponsor or co-sponsor. In addition, I support or co-sponsor various pro-forma adjustments made to the per book amounts.

Q. PLEASE PROVIDE AN OVERVIEW OF HOW THE COST OF SERVICE SCHEDULES WERE PREPARED.
A. The schedules were prepared utilizing a historical test year ending December 31, 2018. The rate base schedules start with actual balances at December 31, 2018, with some being adjusted to reflect a 13-month average of actual balances for the period of December 2017 – December 2018. The expense schedules start with the actual expense amounts for the test year ending December 31, 2018. Appropriate adjustments to both
rate base and expense have been made for known and measurable changes, which I
discuss subsequently in my testimony. In addition, for AEP Texas’ North division,
generation amounts associated with certain items such as general plant have been
removed via the Non-Regulated or Non-Electric columns as applicable.

Q. VARIOUS RFP SCHEDULES REQUIRE THE PRESENTATION OF THREE
YEARS OF HISTORICAL FUNCTIONAL DATA. HAS THE COMPANY
PRESENTED THREE YEARS OF HISTORICAL DATA FOR THESE RFP
SCHEDULES?

A. Yes, it has.

Q. GIVEN THE COMMISSION’S REQUIREMENT THAT AEP TEXAS MAINTAIN
SEPARATE DIVISIONS, HOW ARE THE VARIOUS SCHEDULES BEING
PRESENTED?

A. The various schedules are presented on a divisional basis. From there, the critical
schedules being used to determine the revenue requirement are presented on a
combined basis. The combined schedules that I sponsor are I-A, I-A-1, II-B, II-B-1 –
II-B-13, II-C-1 – II-C-3, II-D-1, II-D-2, II-D-3, II-E-1, II-E-2 and II-E-3, II-E-3.5, II-
E-3.15 and II-E-5.

Q. BRIEFLY DESCRIBE SCHEDULE I-A.

A. Schedule I-A summarizes T&D delivery cost of service, inclusive of various pro-forma
adjustments made to the test year ended December 31, 2018 per book amounts. As
shown on the schedule, AEP Texas’ total revenue requirement for non-bypassable
delivery charges are $1,219,703,338.

A. Schedule I-A-1 summarizes cost of service by functional amounts. The functional categories are: 1) transmission, 2) distribution, 3) metering, and 4) customer service. All generation has been removed from these numbers.

The table below details the total adjusted cost of service for each of the four T&D RFP functions including the miscellaneous revenue reduction.

<table>
<thead>
<tr>
<th>Transmission</th>
<th>Distribution</th>
<th>Meters</th>
<th>Customer Service</th>
</tr>
</thead>
<tbody>
<tr>
<td>$420,213,369</td>
<td>$530,036,796</td>
<td>$69,837,202</td>
<td>$19,281,446</td>
</tr>
</tbody>
</table>

Note: Distribution excludes TCOS and energy efficiency billings.

Q. HAS AEP TEXAS PROVIDED TESTIMONY THAT THE EXPENSES REFLECTED ON SCHEDULE I-A-1 AND INCLUDED IN AEP TEXAS' COST OF SERVICE ARE REASONABLE AND NECESSARY?

A. Yes, it has. Each of the Company witnesses' testimony filed in this docket, as summarized in Company witness Judith Talavera’s direct testimony, demonstrates that the expenses included in cost of service are reasonable and necessary for AEP Texas to fulfill its utility obligations.

Q. WHAT IS SCHEDULE I-A-2?

A. Schedule I-A-2 provides information on the pro-forma adjustments made to the test year by AEP Texas.

B. B Schedules (Rate Base)

Q. PLEASE DESCRIBE SCHEDULE II-B.

A. Schedule II-B summarizes AEP Texas’ rate base. This schedule provides the unadjusted per book amounts, the adjustments, the adjusted requested amount and finally the functional amounts. The detail behind each line item is supported by
Schedules II-B-1 through II-B-12. Finally, this schedule includes the return on rate base utilizing the requested weighted average cost of capital. The weighted average cost of capital is from Schedule II-C-2.1.

Q. WERE ANY PRO-FORMA ADJUSTMENTS MADE TO RATE BASE?
A. Yes, there were. EXHIBIT RWH-2 provides a list of pro-forma adjustments including those made to rate base.

Q. PLEASE DESCRIBE SCHEDULE II-B-1.
A. Schedule II-B-1 provides AEP Texas' original cost of utility plant-in-service recorded in FERC Account Nos. 101 and 106 by individual plant account number for intangible, transmission, and distribution plant-in-service.

Q. WERE THERE ANY ADJUSTMENTS MADE TO PLANT-IN-SERVICE?
A. Yes, there were two pro-forma adjustments. The first reduces plant in service for the remaining outstanding pro-forma adjustments from the latest interim TCOS proceeding, Docket No. 49192. The second reduces plant in service for Hurricane Harvey plant that will be securitized in Docket No. 49308.

Q. PLEASE DESCRIBE SCHEDULES II-B-2 AND II-B-3.
A. Schedules II-B-2 and II-B-3 provide AEP Texas' original cost of utility plant-in-service recorded in FERC Account Nos. 101 and 106 by individual FERC plant account number for general plant-in-service. Schedule II-B-2 provides the balance of all FERC general plant accounts, except for communication equipment, which is FERC Plant Account No. 397. Schedule II-B-3 provides the balance in FERC Plant Account No. 397. The only adjustment on these schedules reduces plant in service for Hurricane Harvey distribution plant to be securitized and is applicable to Schedule II-B-3.
Q. HAS AEP TEXAS INCLUDED THE ADVANCED METER RELATED ASSETS IN RATE BASE IN THIS PROCEEDING?

A. Yes, it has. This is consistent with 16 Tex. Admin. Code (TAC) 25.130(k)(4). As discussed by AEP witness Jennifer Jackson the advanced meter surcharge rider will cease upon the implementation of new base rates in this case because the advanced meter costs will now be included in base rates. AEP Texas will file a final advanced meter reconciliation to cover the time period January 2019 through the final date the advanced meter surcharge rider is billed prior to the implementation of new base rates from this proceeding.

Q. PLEASE DESCRIBE SCHEDULE II-B-4.

A. Schedule II-B-4 provides AEP Texas' CWIP balances. AEP Texas' adjusted rate base does not include any CWIP.

Q. PLEASE DESCRIBE SCHEDULE II-B-5.

A. Schedule II-B-5 provides AEP Texas' accumulated depreciation and amortization by primary FERC plant account number. The accumulated amortization balance for FERC Plant Account No. 303, Miscellaneous Intangible Plant, is related to computer software.

Q. HAS AEP TEXAS INCLUDED ITS ASSET RETIREMENT OBLIGATION IN THE ACCUMULATED DEPRECIATION BALANCE?

A. Yes. AEP Texas has included the ARO balance accounted under SFAS 143 and Financial Accounting Standards Board Interpretation No. 47 "Accounting for Conditional Asset Retirement Obligations" (both now referred to as FASB ASC 410) in its accumulated depreciation balance as shown on Schedule II-B-5. This treatment
is consistent with that approved for TCC in Docket No. 33309 and AEP Texas affiliate SWEP CO in Docket Nos. 40443 and 46449.

Q. WERE THERE ANY ADJUSTMENTS TO ACCUMULATED DEPRECIATION ON SCHEDULE II-B-5?

A. Yes, there were three adjustments two of which relate to the adjustments made to plant in service discussed earlier. The first decreases accumulated depreciation associated with the outstanding TCOS plant in service and the second increases accumulated depreciation to recognize the cost of removal that will be securitized in PUC Docket No. 49308. The final adjustment includes in accumulated depreciation current retirement work in progress and allocates this balance to the various plant accounts.

Q. PLEASE DESCRIBE SCHEDULE II-B-6.

A. Schedule II-B-6 is for AEP Texas' plant held for future use. I have removed plant held for future use that will not be included in service in two years. Thus, the amount included represents plant held for future use that is anticipated to be in service in two years or by the end of 2020.

Q. PLEASE DESCRIBE SCHEDULE II-B-7.

A. Schedule II-B-7 provides AEP Texas' accumulated provision balances. At December 31, 2018, this schedule included AEP Texas' accumulated deferred income taxes, ARO obligations under SFAS 143 in FERC Account No. 230 and customer deposits. AEP Texas witness Kelly addresses accumulated deferred income taxes. As noted earlier, ARO inclusion follows previous decisions for TCC and SWEPCO.
Q. PLEASE DESCRIBE SCHEDULE II-B-8.

A. Schedule II-B-8 provides the balance of AEP Texas' materials and supplies at the end of the test year. The amounts on Schedule II-B-8 reflect a thirteen-month average of AEP Texas' materials and supplies balances for the test year.

Q. PLEASE DESCRIBE SCHEDULE II-B-9.

A. Schedule II-B-9 contains the calculation of AEP Texas' cash working capital allowance included in rate base. 16 TAC§ 25.231(c)(2)(B)(iii)(IV) and (V) require that a lead-lag study be performed to determine the reasonableness of a cash working capital allowance. In this proceeding four separate lead-lag studies were prepared as detailed by AEP Texas witness Mr. Jay Joyce. This allowed AEP Texas to apply the results of each study to each of AEP Texas' divisions and within each division, the separate transmission and distribution functions. This allowed for the determination of cash working capital for AEP Texas Central division transmission, AEP Texas Central division distribution, AEP Texas North division transmission and AEP Texas North division distribution.

Q. PLEASE EXPLAIN SCHEDULE II-B-10.

A. Schedule II-B-10 details the balance of AEP Texas' prepayments at December 31, 2018. The amounts on Schedule II-B-10 reflect the thirteen-month average balances of AEP Texas' prepayments.

Q. DOES THIS SCHEDULE INCLUDE ANY AMOUNTS RELATED TO PENSION OR POST RETIREMENT BENEFIT PREPAYMENTS?

A. Yes, it does. The “expense portion” of AEP Texas’ prepaid pensions is included in rate base; that is, the portion of the prepayment that relates to pension costs that are not
anticipated to be capitalized is included in rate base. The expense portion is based on
the test year actual payroll expense ratio for each division. This treatment is consistent
with the Final Orders in PUC Docket Nos. 33309, 40443 and 46449, in which the
Commission ruled that only the “expense portion” was properly included in rate base.

Also included is the “expense portion” of AEP Texas’ prepaid post-retirement
benefit in rate base. This treatment is consistent with PUC Docket No. 46449.

Q. PLEASE DESCRIBE SCHEDULE II-B-11.

A. Schedule II-B-11 provides AEP Texas’ other rate base items. The items on this
schedule include excess earnings, SFAS 109 Accounting for Income taxes, income tax
liability, and applicable investment tax credits. Mr. Kelly discusses and supports the
SFAS 109 income tax liability and investment tax credits, including any adjustments,
in his direct testimony. Other items reducing AEP Texas’ rate base are other deferred
credits, pole attachment deferred revenues, and refundable contributions in aid of
construction.

Q. PLEASE EXPLAIN SCHEDULE II-B-12.

A. Schedule II-B-12 provides AEP Texas’ regulatory assets. The regulatory assets include
debt reacquisition costs due to industry restructuring, catastrophe reserve (a credit for
the distribution function), meters replaced by advanced meters, Medicare Part D
subsidies and SFAS 109 income tax assets. Mr. Kelly discusses the SFAS 109 income
tax asset, including any adjustments in his direct testimony.

Q. DOES AEP TEXAS HAVE ANY GAIN OR LOSS ON THE SALE OF UTILITY
ASSETS THAT IT LISTS ON SCHEDULE II-B-13?

A. Yes, it has gains of $186 thousand.
Q. DOES AEP TEXAS HAVE A PENSION OR OTHER POST EMPLOYMENT
BENEFIT BALANCE TO REPORT ON SCHEDULE II-B-14?

A. No, it does not. As noted earlier, AEP Texas does not have a reserve account
established under PURA Section 36.065.

C. C Schedules (Capitalization and Cost of Capital)

Q. DO YOU CO-SPONSOR ANY C SCHEDULES?

A. Yes, I sponsor Schedule II-C-1 and II-C-3. II-C-1 provides the requested return on rate
base utilizing rate base from Schedule II-B and weighted average cost of capital for
Schedule II-C-2.1. II-C-3 provides data on internal and external audit reports. AEP
only tracks completed internal audits. All the other C schedules are sponsored by
Renee Hawkins.

D. D Schedules (O&M and A&G Expenses)

Q. PLEASE EXPLAIN SCHEDULE II-D-1.

A. Schedule II-D-1 provides AEP Texas' total operations and maintenance (O&M)
expense (not including administrative and general (A&G)) by FERC account number,
total adjustments, adjusted O&M expense and Texas retail jurisdictional functional
amounts.

Q. PLEASE DESCRIBE SCHEDULE II-D-1.1.

A. Schedule II-D-1.1 provides AEP Texas' O&M (non-A&G) by FERC account number
on a monthly basis for the test year.

Q. PLEASE DESCRIBE THE ATTACHMENT TO SCHEDULE II-D-1.

A. The attachment to Schedule II-D-1 provides a detailed listing of each pro-forma
adjustment made to O&M expense. EXHIBIT RWH-2 provides a summary and a brief
description of the various pro-forma adjustments proposed by the Company. Workpapers supporting each adjustment are provided and are under the tab WP/D. The pro-forma adjustments made to the book O&M expenses were made to normalize the test year O&M expense amounts. By normalizing the test year O&M expenses, an ongoing level of expenses is utilized to develop the rates charged to AEP Texas' customers in place of the historic level of expenses. Pro forma adjustments are made only done when known and measurable changes can be identified.

Q. PLEASE EXPLAIN ADJUSTMENT NO. 1 ON THE ATTACHMENT TO SCHEDULE II-D-1.

A. Adjustment No. 1 increases O&M expenses to reflect the annualized base payroll expense for AEP Texas at the test year end. Base payroll costs were updated using the actual employees on the payroll in the last pay period of December 2018 and their base payroll amounts at that time. As discussed by AEP witness Andrew R. Carlin, a salary increase of 3.5% was added to the December 2018 base payroll cost. The base payroll expense portion of this adjustment was determined by applying the test year actual base payroll expense/capital ratio to the annualized base payroll costs described above.

Q. HAVE YOU ADJUSTED AEP TEXAS' TRANSMISSION COST OF SERVICE (TCOS) TO REFLECT THE PROPER AMOUNT OF TCOS EXPENSE BILLED TO THE DISTRIBUTION FUNCTION OF AEP TEXAS ON THE ATTACHMENT TO SCHEDULE II-D-1?

A. Yes, I have. Adjustment No. 2 removes the TCOS expense for AEP Texas distribution. All TCOS expense will now be recovered through the Transmission Cost Recovery Factor (TCRF) as detailed in the testimony of AEP witness Ms. Jennifer Jackson.
Q. PLEASE EXPLAIN ADJUSTMENT NO. 3 ON THE ATTACHMENT TO SCHEDULE II-D-1.

A. Adjustment 3 reflects a small change to the test year AEPSC affiliate billings recorded by AEP Texas in cost of service. As discussed in the direct testimony of Mr. Frantz, this adjustment normalizes expenses to a year-end level, or includes expenses in or excludes expenses from AEP Texas’ cost of service. In addition, I re-classed certain amounts in this adjustment between accounts to properly align functional amounts to the proper functional account.

Q. PLEASE EXPLAIN ADJUSTMENTS 4 AND 5 TO INCENTIVE COMPENSATION.

A. Adjustment 4 decreases O&M expenses to reflect the requested level of incentive compensation expense for the test year annual incentive compensation plan while adjustment 5 decreases O&M expenses to reflect the requested level of test year long term incentive compensation expense. Additional information regarding the specific components of the requested incentive compensation is provided in Mr. Carlin’s direct testimony.

Q. PLEASE EXPLAIN AEP TEXAS ADJUSTMENT NO. 6 ON THE ATTACHMENT TO SCHEDULE II-D-1.

A. Adjustment No. 6 removes all energy efficiency expenditures. These expenses will be recovered through an energy efficiency cost recovery rider.

Q. PLEASE EXPLAIN ADJUSTMENT NOS. 7 AND 8 ON THE ATTACHMENT TO SCHEDULE II-D-1.

A. These adjustments re-class certain amounts between accounts to properly align functional amounts to the proper functional account.
Q. Why is the company proposing an adjustment to bad debt expense as shown in Adjustment No. 9 on the attachment to Schedule II-D-1?

A. The Company is proposing this adjustment to normalize bad debt expense to actual expenses.

Q. What is the purpose of Adjustment No. 10 on the attachment to Schedule II-D-1?

A. This adjustment removes all sales expenses recorded in Accounts 911 through 913 from cost of service in accordance with 16 TAC§ 25.231(b)(2)(F). AEP Texas is not allowed recovery of these expenses in determining its cost of service. Thus, the amount of sales expenses included in cost of service is zero.

Q. What is Adjustment No. 11 on Schedule II-D-1?

A. Adjustment No. 11 removes certain employee related expenses the Company is not requesting be included in cost of service.

Q. Please describe Adjustment No. 12 to Schedule II-D-1.

A. This adjustment increases distribution maintenance expense and is supported by AEP Texas witness Mr. Thomas Coad.

Q. Can you explain the company’s existing rights-of-way capitalization policy as it relates to Adjustment No. 13?

A. Under the Company’s rights of way capitalization policy, costs of the first clearing of land and rights of way, and likewise initial removal of trees, are capitalized. Subsequent costs to trim trees within the original ROW are expensed to O&M. Those activities that are capitalized include:
• Expanding a ROW — In a number of instances, there is no need to clear the entirety of a ROW during the initial construction of a line. Accordingly, when subsequent operational needs determine that the previously un-cleared portion of the ROW must be cleared, that subsequent activity is in fact the “initial” clearing of the ROW and appropriately capitalized under the Company’s accounting ROW capitalization policy.

• Removal of trees greater than 18 inches in diameter from previously cleared ROW — This accounting ROW capitalization policy is intended to account for clearing trees old enough to have existed when the line was originally constructed but were not cleared when the line was built. Had those trees been removed during the original construction, the costs would have been capitalized. Specifying an 18” diameter for use in determining capital or O&M is a method to distinguish between “original” trees old enough to have existed when the line was built and appropriately capitalize their clearing subsequent to the original construction.

Q. ARE YOU AWARE OF THE COMMISSION’S RULING IN DOCKET NO. 46449 REGARDING SWEPCO’S FORESTRY CAPITALIZATION POLICY?

A. Yes. The instructions to the FERC Uniform System of Accounts provide for the capitalization of the first clearing and grading of land and rights-of-way. In Docket No. 46449, the Commission found that SWEPCO’s ROW capitalization policy in respect to ROW widening and removal of 18 inch trees was inconsistent with those instructions. (Finding of Fact No. 113.) I note that AEP Texas has followed the same capitalization policy followed by SWEPCO without objection from the Commission, FERC, or independent auditor. In fact, this policy was in effect and followed by AEP Texas in the previous test year used to set AEP Texas’ existing base rates for which no objection was raised.

Q. DOES AEP TEXAS AGREE WITH THE COMMISSION’S FINDING IN DOCKET NO. 46449?
A. No. AEP Texas believes the policy as implemented and not objected to in its past rate cases is consistent with the FERC Uniform System of Accounts instructions.

Q. PLEASE EXPLAIN HOW AEP TEXAS HAS CALCULATED ITS RATE REQUEST ASSUMING THE COMMISSION’S DOCKET NO. 46449 FINDING CITED ABOVE IS IMPLEMENTED IN THIS CASE?

A. In developing its rate request in this case, AEP Texas has added to its Test Year O&M the amounts of ROW clearing costs that were capitalized during the Test Year assuming the Commission decides to apply the above cited finding to AEP Texas. By doing so, with the implementation of new rates in this case, AEP Texas’ base rates will be designed to recover such costs as O&M and not capital, as they have been since implementation of existing rates. If the rates approved in this docket are implemented consistent with this calculation, AEP Texas will cease its capitalization of these ROW clearing costs discussed above consistent with the Commission’s finding in Docket No. 46449.

Q. HOW WAS THE COMMISSION’S FINDING IN DOCKET NO. 46449 IMPLEMENTED IN THAT SWEPCO CASE?

A. As AEP Texas has proposed here, the Commission added to SWEPCO’s test year O&M costs those identified ROW clearing costs that had been capitalized during SWEPCO’s test year. Those costs were prudently incurred and were recoverable either as a capital or O&M cost. However, in addition, the Commission removed from rate base costs previously capitalized under SWEPCO’s forestry capitalization policy. The explanation offered in the Proposal for Decision was “SWEPCO clearly was on notice that other parties (including Staff) objected to its capitalization treatment.” That
alleged “notice” was based on concerns raised in previous SWEPCO DCRF and TCRF cases based on a Commission order issued in an Entergy Texas, Inc. case (Docket No. 45084, with a final order issued on February 25, 2016).

Q. IS IT PROPER TO DISALLOW RECOVERY OF PRUDENTLY INCURRED FORESTRY COSTS THAT WERE CAPITALIZED UNDER THE AEP TEXAS CAPITALIZATION POLICY IN THE FORM OF A REDUCTION TO AEP TEXAS’ RATE BASE?

A. No. Such a change in capitalization policy should be implemented on a prospective basis only. When the utility changes its capitalization policies on its books and records, it does so prospectively. A change in capitalization policy mandated by the Commission should operate no differently. When capitalization policies are changed prospectively, the utility is in a position to manage its operations and books and records accordingly. When a capitalization policy is enforced retroactively, the utility is given no notice or opportunity to manage its operations and books and records accordingly. Retroactive implementation would result in restating asset balances that were properly accounted for under the accounting policy that existed at the time the costs were prudently incurred. Thus, Commission-driven policy changes like this are implemented prospectively similar to the implementation of new depreciation rates. For a change in depreciation rates, the Company does not implement nor does the Commission order implementation of retroactive treatment and a restatement of previous accumulated depreciation and net plant asset balances. This prospective implementation results in a proper matching of revenues and expenses.
Q. WOULD YOU PLEASE DESCRIBE ADJUSTMENT NO. 14 ON SCHEDULE II-D-1?

A. Yes, this adjustment removes an amount reported on the dues schedule that the company is not requesting in this proceeding.

Q. PLEASE DESCRIBE SCHEDULE II-D-2.

A. Schedule II-D-2 provides AEP Texas' per book A&G expense by FERC account number, total adjustments, adjusted A&G expense, and Texas retail jurisdictional functional amounts.

Q. PLEASE EXPLAIN SCHEDULE II-D-2.1.

A. Schedule II-D-2.1 provides AEP Texas' A&G expenses by FERC account number on a monthly basis for the test year.

Q. PLEASE EXPLAIN THE ATTACHMENT TO SCHEDULE II-D-2.

A. The attachment to Schedule II-D-2 details each pro-forma adjustment to A&G expense. The pro-forma adjustments made to the book A&G expenses were made to normalize the test year amounts to appropriate ongoing levels. By normalizing the test year A&G expenses, an ongoing normal level of expenses is utilized to develop the rates charged to AEP Texas' customers.

Q. PLEASE EXPLAIN ADJUSTMENT NO. 1 ON THE ATTACHMENT TO SCHEDULE II-D-2.

A. Adjustment No. 1 reflects the annualized base payroll expense of AEP Texas for A&G expenses. The explanation of the payroll adjustment regarding O&M expense (Adj. No. 1) on the attachment to Schedule II-D-1 detailed earlier applies to this A&G
expense adjustment. This adjustment impacts both the transmission and distribution functions.

Q. WHAT IS THE PURPOSE OF ADJUSTMENT NO. 2 ON THE ATTACHMENT TO SCHEDULE II-D-2?

A. This adjustment is necessary to adjust certain affiliate costs billed to AEP Texas by AEPSC. The direct testimony and exhibits of Mr. Frantz contain a complete explanation of the affiliate costs being excluded from the Company’s requested cost of service.

Q. WHAT IS THE BASIS FOR ADJUSTING THE COST OF SERVICE IN ADJUSTMENT NOS. 3 AND 4 ON THE ATTACHMENT TO SCHEDULE II-D-2?

A. The basis of these adjustments is to reduce annual and long-term incentive costs for AEP Texas’ employees to the target level. Additional information regarding incentive pay is provided in the direct testimony of Mr. Carlin.

Q. WHAT IS ADJUSTMENT NO. 5 ON SCHEDULE II-D-2?

A. Adjustment No. 5 removes certain employee related expenses the Company is not requesting be included in cost of service.

Q. PLEASE DESCRIBE ADJUSTMENT NO. 6 IN THE ATTACHMENT TO SCHEDULE II-D-2.

A. This adjustment is necessary to reclassify expenses from FERC Account Nos. 430 and 431 – Other Interest Expense, to A&G expenses for inclusion in cost of service. These expenses are associated with letter of credit fees for the AEP System Money Pool. Letter of credit fees have previously and appropriately been allowed on a consistent basis in cost of service since they support the AEP System Money Pool and enable the
Money Pool to borrow and to meet the working capital needs of Money Pool members, which benefits the Company’s customers.

Q. PLEASE EXPLAIN THE ADJUSTMENT NO. 7 WHICH IS RELATED TO THE CATASTROPHIC PROPERTY LOSS RESERVE.

A. This adjustment is being made to increase the annual accrual for the catastrophic property loss reserve approved in Docket No. 33309 in accordance with the Company’s recommendation for AEP Texas’ self-insurance plan. Eligible losses for the reserve do not include items subject to capitalization and employee base payroll charges. In other words, the catastrophic property loss reserve is for only incremental expenses. On an annual basis, the Company is proposing to include in rates a value for catastrophic events and bring the self-insurance reserve to the target level recommended by the Company over time for the Central and North divisions. The Company does not propose any changes to how the Company charges storm costs to the catastrophe reserve.

Q. PLEASE EXPLAIN ADJUSTMENT NO. 8 ON THE ATTACHMENT TO SCHEDULE II-D-2.

A. Adjustment No. 8 on the attachment to Schedule II-D-2 adjusts pension expense to the ASC 715-30, GAAP amount utilizing 2019 actuarial data. As I explained previously, PURA § 36.065 requires pension expense to be based on actuarial or similar studies based on GAAP. In developing this adjustment, the 2019 actuarial amount was compared to the amount on AEP Texas’ books for the test year. This adjustment impacts both the transmission and distribution functions.
Q. IS THE ENTIRE ASC 715-30 AMOUNT FROM THE ACTUARIAL DATA INCLUDED IN AEP TEXAS’ REQUESTED A&G EXPENSES?

A. No it is not. Only the portion of the ASC 715-30 GAAP amount from the actuarial data that is not capitalized has been included in the Company’s requested A&G expenses. Because a portion of payroll is expensed and a portion is capitalized as a component of plant in service, an O&M payroll ratio was developed. The O&M payroll ratio was developed by taking the historical test year payroll charged to O&M expense and dividing it by total payroll. This ratio was applied to the actuarial ASC 715-30 GAAP amount to arrive at the expense portion which was included in cost of service. This is consistent with AEP Texas’ prior rate filings.

Q. DOES THE ANNUALIZATION ADJUSTMENT NO. 9 ON THE ATTACHMENT TO SCHEDULE II-D-2 FOR ASC 715-60 EMPLOYERS’ ACCOUNTING FOR POSTRETIREMENT BENEFITS OTHER THAN PENSIONS (OPEBS) REFLECT 2019 ACTUARIAL DATA?

A. Yes, the adjustment uses the independent actuarial data for 2019 to annualize the costs based on the most current data available to the Company. As I mentioned previously, PURA § 36.065 requires postretirement expense to be based on actuarial or similar studies based on GAAP. This adjustment affects both the transmission and distribution functions and includes only the expense portion of the OPEB costs.

Q. PLEASE DESCRIBE THE ASC 712-10 (EMPLOYERS’ ACCOUNTING FOR POSTEMPLOYMENT BENEFITS) ANNUALIZATION ADJUSTMENT SHOWN IN ADJUSTMENT NO. 10 ON THE ATTACHMENT TO SCHEDULE II-D-2.
A. The ASC 712-10 post-employment benefits are adjusted to reflect independent actuarial information for 2019 in order to annualize the costs based on the most current data available to the Company at test-year end. As I mentioned previously, PURA § 36.065 requires postemployment expense to be based on actuarial or similar studies based on GAAP. The Company has taken into consideration the portion of the ASC 712-10 amounts that is capitalized and has adjusted O&M by only the expense portion. This adjustment affects both the transmission and distribution functions.

Q. PLEASE EXPLAIN ADJUSTMENT NO. 11 ON THE ATTACHMENT TO SCHEDULE II-D-2.

A. This adjustment annualizes medical, group life, group long-term disability, and group dental insurance premiums utilizing 2019 data. This adjustment affects both transmission and distribution functions. The adjustment takes into account the portion of these expenses that is capitalized and adjusts the cost of service by the expense portion only.

Q. HAS THE COMPANY COMPLIED WITH PUC RULES IN INCLUDING VARIOUS CORPORATE MEMBERSHIP DUES IN COST OF SERVICE?

A. Yes it has. Adjustment No. 12 on the attachment to Schedule II-D-2 includes certain corporate membership dues in the Company’s requested cost of service. This is consistent with prior filings with the PUC and does not reflect any expenses that are disallowed under 16 TAC § 25.231(b)(2).

Q. DOES ADJUSTMENT NO. 12 ON THE ATTACHMENT TO SCHEDULE II-D-2 FOLLOW THE GUIDELINES FOR THE INCLUSION OF CONTRIBUTIONS AND DONATIONS IN COST OF SERVICE?
Yes, this adjustment complies with PURA Section 36.061 and 16 TAC § 25.231(b)(1)(E), which address contributions and donations. Schedule II-D-2.3 summarizes the requested contributions and donations and calculates the limits on the amount of these costs that can be included in cost of service. The Company’s request does not exceed the allowed limits permitted in the PUC rule. This adjustment affects both transmission and distribution functions. Company witness Hughes further addresses contributions and donations in his direct testimony.

Q. PLEASE EXPLAIN ADJUSTMENT NO. 13 ON SCHEDULE II-D-2.

A. This adjustment removes certain miscellaneous rate case expenses from AEP Texas’ cost of service the majority of which are being proposed to be recovered through a rate case expense surcharge rider.

Q. PLEASE DESCRIBE SCHEDULE II-D-2.2.

A. Schedule II-D-2.2 provides data concerning AEP Texas’ bad debt expense.

Q. IS THE COMPANY REQUESTING AN AMOUNT OF BAD DEBTS TO BE INCLUDED IN COST OF SERVICE IN THIS PROCEEDING?

A. Yes, it is. AEP Texas is requesting a small amount of bad debt expense be included in the Company’s cost of service.

Q. HAS AEP TEXAS CREATED A REGULATORY ASSET FOR BAD DEBTS THAT WOULD BE APPLICABLE FOR SCHEDULE II-D-2.2a?

A. No, it has not.

Q. PLEASE DESCRIBE SCHEDULE D-2.3.

A. Schedule D-2.3 presents a summary of advertising, contributions and donations, and organization memberships and dues expenses subject to the 0.3% of revenue limitation
contained in 16 TAC § 25.231(b)(1)(E). The schedule includes the FERC account charged, category of expense, schedule number that details the expense, and the test year amount.

Q. PLEASE DESCRIBE SCHEDULE II-D-2.4.

A. Schedule II-D-2.4 provides a summary of AEP Texas’ expenses for informational/instructional advertising, advertising to promote and retain usage, and general advertising. Information on this schedule details the advertising by FERC account number and by function. Any advertising associated with promoting or retaining usage has been removed from the Company’s requested cost of service in accordance with 16 TAC § 25.231(b).

Q. PLEASE DESCRIBE SCHEDULE II-D-2.4a.

A. Schedule II-D-2.4a provides detail about capitalized advertising costs. AEP Texas has not capitalized any advertising costs as defined in FERC Account Nos. 909, 913 and 930.1 since rates were last set. Therefore, the schedule is inapplicable.

Q. PLEASE DESCRIBE SCHEDULE II-D-2.5.

A. Schedule II-D-2.5 provides a summary of requested contributions and donation expenses and is co-sponsored by Mr. Hughes. The schedule categorizes these costs among educational, community service, and economic development. The schedule also includes the FERC account number and the applicable function.

Q. PLEASE DESCRIBE SCHEDULE II-D-2.6.

A. Schedule II-D-2.6 provides a summary of membership dues expense. The membership dues are broken into the following categories: industry organizations; business/economic organizations; and professional organizations. Any social,
recreational, religious, and political membership dues were excluded from the
Company’s requested cost of service.

Q. PLEASE DESCRIBE SCHEDULE II-D-2.6a.

A. Schedule II-D-2.6a provides a detailed listing of industry organization dues by
organization. Data included on the schedule are the FERC account numbers, and the
functional amounts.

Q. PLEASE DESCRIBE SCHEDULE II-D-2.6b.

A. Schedule II-D-2.6b provides a detailed listing of business/economic organization dues
by organization. Data included on the schedule are the FERC account numbers, and
the functional amounts.

Q. PLEASE DESCRIBE SCHEDULE II-D-2.6c.

A. Schedule II-D-2.6c provides a detailed listing of professional organization dues by
organization. Data included on the schedule are the FERC account numbers, and the
functional amounts.

Q. PLEASE DESCRIBE SCHEDULE II-D-2.7.

A. This schedule presents information on outside services during the test year that appear
in the FERC 900 series of accounts. The services are divided into various categories
with vendor detail being provided within each category. Additional information on the
schedule is the FERC account number, the purpose of each vendor’s service, an
indication as to whether the service is recurring or non-recurring, and the date the
service was last incurred. Any non-recurring outside services were removed from cost
of service to normalize the test year expenses.
Q. PLEASE DESCRIBE SCHEDULE II-D-2.8.

A. Schedule II-D-2.8 requires data on the Company’s factoring or sale of accounts receivable. Since AEP Texas does not factor or sell its accounts receivable, this schedule is not applicable.

Q. PLEASE DESCRIBE II-D-2.9.

A. Schedule II-D-2.9 provides rent and lease data for AEP Texas. Data on this schedule include the average monthly lease payment by function, the terms of each lease, the address of leased property and business purpose of the lease. Copies of the lease agreements will be available at the AEP Texas office in Austin Texas.

Q. PLEASE DESCRIBE SCHEDULE II-D-3.

A. Schedule II-D-3 provides the test year payroll expense by FERC primary account for each functional group.

Q. PLEASE DESCRIBE SCHEDULE II-D-3.1.

A. Schedule II-D-3.1 explains AEP Texas’ payroll practices.

Q. PLEASE DESCRIBE SCHEDULE II-D-3.2.

A. Schedule II-D-3.2 provides gross payroll information by function for each month of the test year and three prior years. The information is categorized by regular payroll, overtime payroll, contract labor, other payroll, and total payroll. Contract labor represents the amount AEP Texas paid contract workers for their services.

Q. PLEASE DESCRIBE SCHEDULE II-D-3.3.

A. Schedule II-D-3.3 provides gross regular payroll information by function for each month of the test year and three prior years. The schedule is categorized by union, non-
union, and total payroll. Since AEP Texas has only non-union employees, the union column is blank.

Q. PLEASE DESCRIBE II-D-3.4.

A. Schedule II-D-3.4 provides gross payroll information by function for each month of the test year and three prior years. The information is categorized by payroll expensed, payroll capitalized, other payroll, and total payroll.

Q. PLEASE DESCRIBE II-D-3.5.

A. Schedule II-D-3.5 provides an employee count for each month of the test year and for the three prior years. The information is categorized by full time employees, part time employees, temporary employees, and total employees. The number of vacant positions for each of the months in prior years cannot be accurately determined due to numerous organizational changes.

Q. PLEASE DESCRIBE SCHEDULE II-D-3.6.

A. Schedule II-D-3.6 reports all payments other than standard base pay or overtime pay by function made to employees for each month of the test year and three prior years.

Q. PLEASE DESCRIBE SCHEDULE II-D-3.7.

A. A detailed description of all employee benefits included in cost of service is provided on Schedule II-D-3.7. This schedule is sponsored by Curt Cooper. Additional supporting documentation for each requested employee benefit is also provided as required in the RFP filing instructions.

Q. PLEASE DESCRIBE SCHEDULE II-D-3.8.

A. AEP Texas' pension data is included in Schedule II-D-3.8. The schedule includes pension expense determined pursuant to ASC 715-30, actual pension contributions to