Control Number: 49494

Item Number: 490

Addendum StartPage: 0
AEP TEXAS INC.'S PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW

For the Administrative Law Judges' (ALJs) convenience, the proposed findings of fact and conclusions of law include the headings in the briefing outline.

I. Findings of Fact

Procedural History

1. In Docket No. 46050, AEP Texas Central Company (TCC) and AEP Texas North Company (TNC) sought and received the approval of the Commission to merge into a single entity and change its name to AEP Texas Inc. (AEP Texas). The Commission’s Order approving the merger established the Central and North divisions within the merged utility, which continued to maintain separate rates, riders, and tariff manuals for the Central and North Division.

2. AEP Texas is a wholly-owned subsidiary of American Electric Power Company, Inc. (AEP), which is a holding company within the meaning of Public Utility Holding Company Act of 2005.

3. AEP Texas is an electric utility, a public utility, and a utility as those terms are defined in Public Utility Regulatory Act (PURA) §§ 11.004(1) and 31.002(6).

4. AEP Texas is connected to and serves more than one million electric consumers in the restructured Texas marketplace. As an energy delivery (wires) company, AEP Texas delivers electricity safely and reliably across its nearly 100,000 square mile service territory in south and west Texas.

5. On May 1, 2019, AEP Texas filed its Petition and Statement of Intent to 1) change its distribution service rates; 2) terminate the Advanced Metering System Cost Recovery Factor Rider (AMSCRF); 3) reset the baseline for the Distribution Cost Recovery Factor Rider (DCRF); 4) determine the revenue requirement for the Transmission Cost Recovery Factor Rider (TCRF) and move all transmission cost recovery to the TCRF; 5) move energy efficiency costs from base rates to Rider Energy Efficiency Cost Recovery Factor (EECRF); and 6) modify its tariffs and discontinue tariffs that are now outdated.

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1 Application of AEP Texas Central Company, AEP Texas North Company, and AEP Utilities, Inc. for Approval of Merger, Docket No. 46050, Final Order (December 12, 2016).
6. Related to its distribution cost of service, AEP Texas requests a rate increase of approximately $38.3 million (net of its proposed Income Tax Refund Rider) over its adjusted test year revenues, an increase of 4.2%.

7. Related to its transmission cost of service, AEP Texas requests a rate decrease of $3.16 million below its adjusted test year revenues, a decrease of 0.7%.

8. AEP Texas’ Petition is based on a test year ending December 31, 2018, adjusted for known and measurable changes.

9. In this case, AEP Texas proposed to consolidate rates and tariffs for AEP Texas’ Central and North Divisions.

10. To facilitate the transition to consolidated rates for the Central and North Divisions, the Commission required as part of its order approving the AEP Texas merger that AEP Texas file a proposal for setting AEP Texas-wide rates.

11. AEP Texas’ Petition affects all retail electric providers (REPs) serving end-use retail electric customers in the Company’s certificated service territory and all customers taking service under the Company’s wholesale transmission service tariff.

12. AEP Texas provided notice of its application by publication for four consecutive weeks in newspapers having general circulation in each county of AEP Texas’ service territory. Notice of its application was also provided to 1) each REP listed on the Commission’s website as of the date on which notice was sent; 2) all entities listed in the Commission’s transmission matrix identified in Docket No. 48929; 3) all parties who intervened in Docket Nos. 33309 and 33310, the most recent base rate cases for AEP Texas; and 4) all parties to the settlement agreement entered in Docket No. 36928. Additionally AEP Texas timely served notice of its Statement of Intent on all municipalities with original jurisdiction over the Company’s rates and services.

13. The following intervening parties participated in this docket: Cities Served by AEP Texas (Cities); Office of Public Utility Counsel (OPUC); Texas Industrial Energy Consumers (TIEC); South Texas Electric Cooperative, Inc. (STEC); Brownsville Public Utilities Board (BPUB); Golden Spread Electric Cooperative, Inc. (Golden Spread); Alliance for Retail Markets (ARM); Texas Cotton Ginners’ Association (TCGA); the Department of the Navy (DON) on behalf of the Federal Executive Agencies (FEA); Texas Energy Association for Marketers (TEAM); and Walmart, Inc. (Walmart).

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2 Commission Staff’s Petition to Set 2019 Wholesale Transmission Charges for the Electric Reliability Council of Texas, Docket No. 48929.

3 Application of AEP Texas Central Company for Authority to Change Rates, Docket No. 33309; Application of AEP Texas North Company for Authority to Change Rates, Docket No. 33310.

14. On May 2, 2019, the Commission referred this case to the State Office of Administrative Hearings (SOAH).

15. On May 24, 2019, the Commission issued its Preliminary Order identifying the issues to be addressed in this proceeding.

16. AEP Texas timely filed, with the Commission, petitions for review of rate ordinances of the municipalities and counties exercising original jurisdiction within its service territory. All such appeals were consolidated for determination in this proceeding.

17. In its Application AEP Texas requested that consideration of rate case expenses incurred in this proceeding be severed into a new docket that would commence after a final order is issued in this docket. AEP Texas also requested that the method for recovering rate case expenses in eight prior dockets be address in the new, severed docket, but the reasonableness of those expenses be addressed in this docket. SOAH granted AEP Texas' motion on May 21, 2019 in SOAH Order No. 2. These rate case expense issues will be considered in SOAH Docket No. 473-19-4817, PUC Docket No. 49556, Review of Rate Case Expenses Incurred by AEP Texas and Municipalities in Docket No. 49494.


19. The parties submitted initial post-hearing briefs on September 5, 2019, and reply briefs on September 13, 2019. Proposed findings of fact and conclusions of law were filed on September 13, 2019.

Consolidation of Rates/Divisions

20. In its application, AEP Texas proposed consolidating the rates and tariffs of its Central and North Divisions, which is consistent with the existing organizational and operational structure of the AEP Texas.

21. The Commission’s order in Docket No. 46050 approving the AEP Texas merger required AEP Texas to file a proposal for rate consolidation along with an underlying study four months prior to filing a case proposing consolidated rates.

22. AEP Texas complied with this order by filing its System-Wide Rate Study in Docket No. 46050 on December 21, 2018.5

23. AEP Texas’ rate-consolidation proposal is consistent with the Commission’s historical preference and the norm for TDU’s in ERCOT.

5 Docket No. 46050, AEP Texas System-Wide Rate Study (Dec. 21, 2018).
24. Rate consolidation is achievable because the Central and North Divisions have the same customer classes, rate classifications, and types of billing determinants for recovery of functionalized costs.

25. Rate consolidation will have only a modest impact on customer’s rates. No unreasonable or unreasonably discriminatory rates will result for any class.

26. AEP Texas’ rate consolidation proposal is reasonable and should be adopted.

**Rate Base**

**A. Transmission and Distribution Capital Investment**

27. AEP Texas spans 97,000 square miles or roughly 36 percent of Texas. From the north near the Texas Panhandle and the Oklahoma border, AEP Texas’ service territory extends more than 700 miles to reach its southern tip, South Padre Island, Texas. In addition, the service territory covers more than 600 miles from Corpus Christi on the Gulf Coast to Presidio in far west Texas. AEP Texas has the largest amount of coastal exposure, 240 miles, of any utility in the state. Customer density as well as customer growth varies significantly across the AEP Texas service territory.

28. The AEP transmission system is an expansive system spanning AEP’s 11-state service territory located in the footprints of the Electric Reliability Council of Texas (ERCOT) independent system operator, the Southwest Power Pool (SPP) regional transmission organization (RTO), and the PJM RTO. AEP’s transmission system encompasses facilities operating at voltages from 23 kilovolt (kV) to 765 kV, and consists of approximately 38,000 miles of circuitry. Of this total, approximately 8,000 miles operate at Extra High Voltage – 345 kV, 500 kV or 765 kV.

29. The AEP Texas transmission system delivers power and energy from generators throughout ERCOT and from asynchronous interconnections with other North American Electric Reliability Council (NERC) regions and the Comisión Federal de Electricidad (CFE), the national utility of Mexico, to the loads served by the Company’s distribution system.

30. The AEP Texas transmission system also delivers power at wholesale to loads served by other utilities, co-operatives, and municipalities that provide distribution electric service in ERCOT within the AEP Texas transmission service area.

31. There are approximately 8,400 circuit miles of transmission lines in the AEP Texas system, stretching from Matagorda County in southeast Texas to Presidio County in west Texas, and north from the Texas border with Oklahoma at the Red River south to the Texas border with Mexico at the Rio Grande River. The voltage levels of the AEP Texas transmission facilities range from 69 kV to 345 kV. AEP Texas owns and the AEP Transmission organization operates and maintains 200 transmission stations.

32. AEP Texas provides wires services to slightly over 1 million homes, businesses, and industries located in nearly 375 communities in all or parts of 92 counties in the south and
west Texas regions. AEP Texas’ distribution system includes approximately 43,000 miles of overhead and underground primary and secondary line types.

33. Between July 1, 2006 and December 31, 2018, AEP Texas invested $2,923,499,532 in transmission capital additions.

34. Between July 1, 2006 and December 31, 2018, AEP Texas invested $3,021,880,357 in distribution capital additions.

35. AEP Texas T&D capital investment has been driven primarily by customer growth in AEP Texas’ service territory and aging T&D infrastructure.

36. The Company’s transmission capital projects placed in service during this period range from upgrading existing circuits to installation of new substations and the associated transmission lines needed to maintain reliable service.

37. The distribution capital investment is largely attributable to the boom in the oil and gas industry associated with shale-related exploration and production. In addition, distribution investment has risen in non-traditional growth areas, resulting in additional capital investment (new substations, substation upgrades, distribution lines) necessary to provide adequate infrastructure improvement.

38. AEP Texas employs rigorous budgeting, outsourcing, planning, contracting, materials acquisition, and cost review processes to ensure that the costs associated with its T&D capital projects are reasonable.

39. AEP Texas develops estimates of costs associated with T&D capital projects for internal planning and approval purposes.

40. AEP Texas’ initial estimates used for internal planning and approval are based on preliminary engineering information and, generally, would have no more than 15% of the project deliverables complete. Typically, these initial estimates would not include an analysis of cost risks associated with:

- Site subsurface conditions (geotechnical boring reports, terrestrial laser scanning);
- Permitting/Siting/Environmental Issues;
- Constructability (design progress, reviews with construction team);
- Line Route (Lidar or topography surveys, route studies, public outreach); and
- Land or Right of Way (ROW) acquisition.
41. Although it is reasonable to develop initial estimates of project costs as it encourages prudent planning of projects, it is not reasonable to base a capital disallowance only upon cost variances between the initial estimate and final capital project costs.

42. Under federal law, AEP Texas is required to modify its distribution assets and incur the associated capital costs when necessary to provide non-discriminatory access to any pole, duct, conduit, or right-of-way owned or controlled by the Company to cable and telecommunications carriers, subject to certain limited exceptions.\(^6\)

43. The evidence shows that the Company’s existing procedures for determining and collecting the costs of accommodating third party access to its distribution assets are prudent because they fall within the range of options that a reasonable utility manager would exercise or choose in the same or similar circumstances.

44. AEP Texas incurs capital costs associated with repairing third-party damage to Company distribution facilities. Such damages occur when existing facilities are broken, damaged, repositioned, removed or rendered inoperable by a customer, contractor, or other outside entity.

45. AEP Texas takes reasonable measures to seek reimbursement for third-party damage to its facilities. It is not possible, however, to recover the costs of all such damages from the responsible parties.

46. Repairing damage caused by third parties is integral to the Company’s provision of distribution service to all customers. When interruptions occur, whatever their cause, the Company is required by law to re-establish service.

47. Repairs of third-party damage at issue in this case and their associated costs were necessary to provide safe reliable service to end-use distribution customers.

48. AEP Texas’ total capital investment in transmission and substation facilities of $2,923,499,532 incurred between July 1, 2006 and December 31, 2018, is used and useful in providing service to the public and reasonable and necessary.

49. AEP Texas’ total capital investment of $3,021,880,357 million in distribution plant additions, including investments from July 1, 2006 and December 31, 2018, is used and useful in providing service to the public and is reasonable and necessary.

**B. Capitalized Vegetation Management**

50. Under the Company rights of way (ROW) capitalization policy, costs of the first clearing of land and ROW and initial removal of trees are capitalized.

51. Subsequent costs to trim trees and clear brush within the original ROW are expensed to O&M.

52. The 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 which were not cleared when the line was built. 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.

53. Consistent with the FERC Uniform System of Accounts, the cost of original clearing and/or widening (i.e., clearing trees) is to be capitalized and depreciated whereas costs to maintain an existing right-of-way by trimming trees and clearing brush are to be expensed in the period incurred.

54. AEP Texas’ accounting policy was in effect and followed by the Company in the previous test year used to set AEP Texas’ existing base rates. Since then, AEP Texas has followed this policy without objection from the FERC or independent auditor.

55. The evidence presented in this case supports the capitalization policy of AEP Texas.

   Alternatively

56. In Docket No. 46449, the Commission found that the accounting policy for capitalization of forestry costs of AEP affiliate SWEPCO is inconsistent with the instructions to the Uniform System of Accounts.

57. AEP Texas proposes an implementation of that finding that properly matches forestry costs and revenues.

58. 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.

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7 Application of Southwestern Electric Power Co. for Authority to Change Rates, Docket No. 46449.
59. 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 and AEP Texas will cease, on the effective date of these new rates, its capitalization of the disputed ROW clearing costs consistent with the Commission's finding in Docket No. 46449.

C. Prepaid Pension & OPEB Assets

60. A prepaid pension asset is created when the Company's cash contributions to the pension trust fund exceed pension expense.

61. AEP Texas' cash contributions to the pension trust fund have exceeded pension expense. AEP Texas has included the resulting prepaid pension asset in its rate base.

62. This rate treatment of the prepaid pension asset is consistent with PURA Section 36.065(a) and in accordance with Commission precedent.

63. The Commission has consistently included the prepaid pension asset in the rate base of the AEP-affiliated companies in Docket Nos. 33309, 40443, and 46449.

64. In Docket Nos. 40443 and 46449, the Commission indicated that the prepaid asset for Postretirement Benefits other than Pensions (OPEB) should be included in rate base, as well.

D. Accumulated Deferred Federal Income Tax (ADFIT)

65. If the Commission removes certain expenses from cost of service and, if those expenses have an associated ADFIT component, the ADFIT component should also be removed.

66. OPUC recommends removed of the pension and OPEB prepayments from rate base but fails to synchronize that adjustment to remove the related ADFIT, and thus overstates its rate base reduction.

67. To the extent that an item of expense or rate base is removed from cost of service, so should the associated ADFIT.

E. Capitalized Cross Arm and Capacitor Switch Replacements

68. AEP Texas properly capitalizes capacitor switches and cross arms. Both are assets that provide service over a number of years.

69. No Commission rule or statute prohibits a utility from implementing an accounting policy change between rate cases.

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F. Capitalized Annual Incentive Compensation

71. The evidence in this case establishes that the Company’s total compensation package, which includes incentive compensation, is market competitive and an appropriate element of AEP Texas’ reasonable and necessary operating costs incurred to provide service to customers.

72. PURA states that the Commission is to set rates that will allow the utility an opportunity to earn a reasonable return on its invested capital “in excess of the utility’s reasonable and necessary operating expenses.”

73. The direct testimony of AEP Texas witness Andrew Carlin in this proceeding establishes that the Company provides a total compensation package that is at the median of the total compensation packages provided for similar positions in the labor market from which the Company needs to attract and retain employees. In addition, Mr. Carlin’s testimony shows that the Company’s target level of incentive compensation is a necessary element to achieve market-competitive pay for employees.

74. There is good cause for the Commission to reconsider its policy because the Company has designed its total compensation package, including the incentive compensation portion, to be market-competitive and to attract and retain the employees necessary to provide customers with reliable service.

Alternatively

75. The Commission’s policy regarding the recovery of incentive compensation has evolved over time in both substance and application.

76. In the Company’s most recent base rate case, Docket No. 33309, the Commission disallowed from the Company’s labor expense those amounts of incentive compensation tied to meeting financial goals. However, the Commission made no adjustment to the Company’s invested capital associated with incentive compensation. Instead, the Commission disallowed only labor expense associated with incentive compensation awarded for meeting financial goals.

77. It was not until much later that the Commission changed its policy to disallow prudently invested capital to the extent any of that investment could be traced to incentive compensation triggered by meeting financial goals.

78. In Docket No. 39896, a base rate proceeding for Entergy Texas, Inc. (ETI), the Commission for the first time identified amounts of incentive compensation that had been capitalized.

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9 Application of Entergy Texas, Inc. for Authority to Change Rates, Reconcile Fuel Costs, and Obtain Deferred Accounting Treatment, Docket No. 39896.
(e.g., labor associated with capital projects, such as distribution and transmission lines and other utility assets) and removed from rate base $335,752.96 associated with incentive compensation earned by meeting financial goals. The date of the Order on Rehearing in Docket No. 39896 is November 2, 2012.

79. AEP Texas incentive compensation recorded as capital investment should be disallowed only back to November 2012.

80. Docket No. 43695\(^{10}\) was a base rate proceeding for Southwestern Public Service Company (SPS). In that proceeding, the Commission disallowed recovery of incentive compensation earned by meeting financial goals. However, in addition to this amount, the Commission disallowed a significant additional amount of SPS’s incentive compensation because SPS had an incentive compensation funding mechanism that included earnings per share. The Order on Rehearing in Docket No. 43695 was issued on February 23, 2016.

81. AEP Texas invested capital associated with the incentive compensation funding mechanism should be disallowed only back to February 2016.

82. The retroactive application of the Commission’s evolving policy to investments made years before the development of those policies is improper and a violation of due process.

83. It would clearly be arbitrary or capricious for the Commission to enforce policies on AEP Texas that were not enforced on other utilities at the time.

84. Removal from invested capital of amounts associated with incentive compensation consistent with the dates the Commission adopted those changes in the application of its policy results in a reduction of $22,308,498.

G. Capitalized Long-Term Incentive Compensation

85. AEP Texas demonstrated that its Long-Term Incentive Compensation expenses for the test year are an element of reasonable and necessary operating costs. Therefore, no adjustment to AEP Texas’ rate base associated with Capitalized Long-Term Incentive Compensation is appropriate.

H. Capitalized Non-Qualified Pension Plan

86. AEP Texas demonstrated that its Supplemental Excess Retirement Plan (SERP) expenses for the test year are an element of reasonable and necessary operating costs. Therefore, no adjustment to AEP Texas’ rate base associated with Capitalized SERP is appropriate.

\(^{10}\) Application of Southwestern Public Service Co. for Authority to Change Rates. Docket No. 43695.
I. **Regulatory Assets and Liabilities**

*Self-Insurance Reserve*

87. AEP Texas' self-insurance plan for its Central Division was approved by the Commission in Docket No. 33309 with a target reserve of $13 million.

88. In this case, AEP Texas requests that the Commission approve an expansion of the current catastrophe reserve to include the AEP Texas North Division with a combined target reserve of $13.3 million.

89. AEP Texas' proposed annual self-insurance accrual is $4.27 million.

90. The accrual amounts proposed by AEP Texas were prepared in accordance with generally accepted actuarial procedures adjusted to reflect ratemaking for public utilities.

91. The Monte Carlo simulation used to calculate the amount of the accrual is a reasonable program for estimating loss experience over a long period of time.

92. The Handy-Whitman Index is a standard type of database used to measure cost changes for utility companies, and is a reasonable method for adjusting historic O&M costs to current dollar levels.

93. AEP Texas' proposed annual accrual of $4.27 million to the self-insurance reserve to account for annual expected O&M losses from storm damage in excess of $500,000 and to build towards a target reserve of $13.3 million is reasonable.

94. AEP Texas' self-insurance plan has been demonstrated by a qualified independent insurance consultant to be a lower cost alternative than obtaining insurance from a third-party provider and ratepayers will receive the benefits of the self-insurance plan and therefore AEP Texas' self-insurance plan is in the public interest.

95. Until otherwise ordered, AEP Texas will collect the $4.27 million annual self-insurance accrual and book such amounts to the reserve for the benefit of customers.

*Tax Cuts and Jobs Act*

96. The Company's predecessors completed their transition to competition over a decade ago.

97. At that time, two types of securitization bonds were issued: stranded cost securitization bonds (relating to stranded costs resulting from the sale of generation assets) and capacity auction true-up securitization bonds (relating to losses associated with the capacity auction true-up process and related issues).

98. At the time those bonds were issued, the Company reflected amounts of taxes that it would pay in the future as the bonds were paid off as accumulated deferred income taxes (ADIT) on its books of account.
99. The enactment of the Tax Cuts and Jobs Act in 2017 lowered the corporate income tax rate from 35% to 21% and caused certain amounts of the ADIT related to the Company’s outstanding securitization bonds to become “excess,” which means that they will not have to be paid back to the government in the future as the bonds are paid off.

100. None of the excess ADIT related to the securitization bonds were supplied by customers and none of it should now be reallocated to customers a decade after the bonds have been issued.

101. With regard to the ADIT related to the capacity auction true-up process, the Commission had previously determined that none of the ADIT associated with this type of securitization issuance had been supplied by customers.

102. ADIT supplied by ratepayers associated with the Company’s generation plants when they were in rate base that were sold in connection with the transition to competition was paid to the federal government and the ADIT was removed from the Company’s books of account when the plants were sold.

103. As a result, none of the ADIT that was booked by the Company when the stranded cost securitization bonds were issued was supplied by customers.

**Rate of Return**

**A. Return on Equity**

104. A return on equity (ROE) of 10.5 percent will allow AEP Texas a reasonable opportunity to earn a reasonable return on its invested capital.

105. The results of the discounted cash flow model, the capital asset pricing model, and the risk premium approach support an ROE of 10.5 percent.

106. A 10.5 percent ROE is consistent with AEP Texas’ business and regulatory risk.

**B. Cost of Debt**

107. AEP Texas’ proposed 4.28% embedded cost of debt went unchallenged by the parties and is reasonable.

**C. Capital Structure / Overall Rate of Return**

108. The capital structure composed of 55% long term debt and 45% equity that the Company proposed reflects the actual managed capital structure of the Company and is reasonable in light of AEP Texas’ business and regulatory risks.

109. A capital structure composed of 55% long-term debt and 45% equity will help AEP Texas maintain its stable credit and attract capital from investors.
110. AEP Texas’ overall rate of return is as follows:

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D. Financial Integrity, Including “Ring Fencing”

111. AEP Texas and the operations and structure of its corporate consolidated group is less likely than others in Texas to raise the sorts of issues involving risks associated with high amounts of leverage or unregulated activity that would require the need for the additional financial protection measures described by Staff witness Mr. Daryl Tietjen in this case.

112. AEP Texas and its affiliates already adhere to the legal requirements governing affiliate relations and transactions.

113. Given the fact that AEP Texas and its consolidated group does not present any of the risk factors associated with high levels of leverage or unregulated activity, the existing affiliate rules that govern AEP Texas and its affiliates are sufficient to safeguard its customers, and there is no need to implement any additional financial protection measures in this case.

Operating and Maintenance Expenses

A. Transmission and Distribution O&M Expenses

Transmission O&M Expense

114. AEP Texas’ adjusted test year transmission O&M expenses, including its own costs plus AEPSC charges for transmission activities necessary to provide safe, reliable transmission services, were $46,878,002.

115. The adjusted test year transmission O&M costs reflect the costs required to perform transmission functions to safely and reliably provide transmission to customers through AEP Texas’ transmission system, including monitoring system performance, assessing transmission asset condition and health, identifying future needs, planning, engineering and designing system improvements, procuring materials and supplies, constructing and installing new facilities, and rehabilitating existing aging infrastructure facilities, and coordinating with ERCOT, NERC, neighboring transmission service providers, and customers.

116. The adjusted test year transmission O&M costs reflect the level of transmission-related programs that will be implemented going forward based on the existing and expected needs of the transmission system.

117. AEP Texas’ transmission O&M expenses are reasonable and necessary.
Distribution O&M Expense

118. AEP Texas’ adjusted test year distribution O&M expenses, including its own costs plus AEPSC charges for distribution activities necessary to provide safe, reliable distribution services, were $113,058,001.\footnote{AEP Texas’ test year O&M expenses have been adjusted to include: (1) $3,801,774 in test year capitalized forestry expenses; and (2) the additional $5 million in annual distribution vegetation management the Company has proposed to include in rates.}

119. The adjusted test year distribution O&M costs reflect the costs required to perform distribution functions—e.g., engineering, distribution line construction, operations and maintenance, meter testing and installation, distribution asset management program, vegetation management, and underground network construction and maintenance—necessary to provide safe and reliable distribution service in the Company’s service territory.

120. The adjusted test year distribution O&M costs reflect the level of distribution-related programs that will be implemented going forward based on the existing and expected needs of the distribution system.

121. AEP Texas’ distribution O&M expenses are reasonable and necessary.

Distribution Vegetation Management Expense

122. Vegetation management includes the costs of hazard tree removal, reactive tree trimming, and proactive tree trimming.

123. AEP Texas proposes a total annual distribution vegetation management spend of $16.2 million. This is an increase of $5 million over the $11.2 million in vegetation management expenses in the test year.

124. AEP Texas commits to spending the entirety of the increased amounts of $5 million for distribution O&M expense solely on vegetation management.

125. AEP Texas calculated the costs associated with its proposed $5 million increase in distribution vegetation management spend over test year levels using known values of the cost per mile to address vegetation management activities, provided a detailed breakdown by division of how the funding would be applied and identified estimated trees to be trimmed or removed, miles mowed, and growth regulator and herbicide to be applied.

126. AEP Texas demonstrated that its distribution vegetation management project activity costs are known and measurable.

127. The additional amount of distribution O&M expense in the amount of $5 million is reasonable and necessary to carry forward AEP Texas’ vegetation management program to
improve overall reliability on targeted circuits by expediting the replacement of aging infrastructure to facilitate the implementation of the Company's grid modernization plan.

128. AEP Texas' proposal to recover distribution vegetation management O&M base rate expenses of $16.2 million, consisting of the test year amount of $11.2 million and an additional amount of $5 million, is reasonable.

Affiliate Carrying Costs

129. Commission precedent supports exclusion from rates of the equity portion of the net affiliate charges to the utility for shared building occupancy.

130. The net affiliate charges to AEP Texas reflecting the equity portion of carrying costs associated with shared building occupancy total $136,770.

B. Labor Expenses

Incentive Compensation

131. AEP Texas demonstrated that its Annual and Long-Term Incentive compensation are needed as part of total compensation to enable the Company to attract, retain, motivate and engage employees with the skills and experience necessary to provide reliable electric service efficiently, effectively, and safely to AEP Texas customers.

132. AEP Texas demonstrated that the Annual and Long-Term Incentive compensation the Company provides to employees are part of a reasonable and market-competitive total compensation package that, as a benefit to ratepayers, has no incremental cost above providing the market-competitive compensation through base pay alone.

133. AEP Texas' Annual and Long-Term Incentive compensation benefit ratepayers as they motivate Company employees to maintain higher levels of performance than would be achieved with base pay alone, by linking a portion of employee total compensation opportunity to performance without increasing total compensation expense.

134. The financially-based portions of AEP Texas' Annual and Long-Term Incentive compensation benefit ratepayers as they focus Company employees on cost control and promoting efficient use of financial resources, which is essential for providing reliable service at a reasonable cost to customers.

135. Legislation (House Bill 1767) passed by the Texas Legislature and signed by the Governor in 2019, applicable to natural gas utilities, provides a presumption of reasonableness of employee compensation that does not exempt incentive compensation, including financial-based incentive compensation, if the utility has shown total compensation to be consistent with market compensation studies.

136. A bill similar to House Bill 1767 applicable to electric utilities was filed during the most recent Legislative session, but the Legislature took no action on the bill.
137. No distinction exists between the electric bill and House Bill 1767 to justify a difference in Commission treatment of AEP Texas' employee compensation cost recovery for all of its base and incentive compensation expense to be included in rates.

138. AEP Texas demonstrated that all of its requested test year target level Annual and Long-Term Incentive Compensation expenses were prudently incurred, and are reasonable and necessary expenses that should be included in rates.

**Executive Employee Related Expenses (SERP and Perquisites)**

139. The Internal Revenue Code provides the timing of when retirement benefits are deductible for income taxes. Contributions for benefits under general (or “qualified”) pension plans, which have a specific compensation limit ($280,000 in 2019), are deducted in the current year. The pension benefits for the portion of an employee's salary that exceeds $280,000 would be in the SERP and that deduction would occur when the employee receives the benefit. Both pension contributions are deducted, but the timing of the contribution deductions differ.

140. The SERP plan does not provide additional benefits but rather provides the standard level of retirement benefits that would have been provided to employees under the qualified pension plan but for the Internal Revenue Code limits imposed on that plan.

141. The actual amount of AEP Texas retirement benefits was not excessive. The evidentiary record in this case does not support a disallowance of these expenses.

142. The expense related to executive perquisites was not contested by AEP Texas and should not be included in rates.

**Payroll Adjustments**

143. AEP Texas' proposed base payroll expense is based on annualized test year end salaries, plus a post-test year increase of 3.5%.

144. AEP Texas' post-test year base payroll adjustment is consistent with Commission precedent.

145. AEP Texas' proposed 3.5% post-test year base payroll increase is reasonable, particularly in light of the fact that the Company's base pay has lagged behind market-competitive salaries.

**C. Depreciation and Amortization Expense**

**Advanced Metering Equipment**

146. The depreciation and amortization rates proposed by the Company in this proceeding for its assets are based on a depreciation study conducted by the Company's depreciation witness, Mr. Jason Cash, are reasonable, and should be adopted.
147. The Commission determined in Docket No. 36928\textsuperscript{12} that the useful life of the Company's AMI equipment was seven years.

148. That determination was based on 16 TAC § 25.130(k)(3), which states that, for depreciation purposes, the useful life of this AMI equipment should be five to seven years.

149. As a result, the Company's proposal to continue to use a seven-year life for this equipment is reasonable and should be adopted by the Commission.

150. The apparent net salvage activity that occurred related to AMI equipment is mainly the result of transferring meters between the Company's two divisions and should be removed or ignored when considering net salvage percentage for this account. As a result, the Company's recommended 0% net salvage percentage for AMI equipment is reasonable and should be adopted.

\textbf{Other Curve Life Combinations}

151. The Company's proposed L1.0 65 curve/life combination for FERC Account 352, Transmission Structures and Improvements (Central Division), is reasonable and should be adopted by the Commission.

152. The Company's proposed R5/45 curve/life combination for FERC Account 355, Transmission Poles and Fixtures (North Division), is reasonable and should be adopted by the Commission.

153. The Company's proposed R3/60 curve/life combination for FERC Account 361, Distribution Structures and Improvements (North Division), is reasonable and should be adopted by the Commission.

154. The Company's proposed L0/42 curve/life combination for FERC Account 362, Distribution Station Equipment (North Division), is reasonable and should be adopted by the Commission.

\textbf{Net Salvage Valves}

155. The Company's proposed -43\% net salvage rate for FERC Account 367, Distribution Underground Conductor (Central Division), is reasonable and should be adopted by the Commission.

156. The Company's proposed -19\% net salvage rate for FERC Account 370, Distribution Meters (Central Division), is reasonable and should be adopted by the Commission.

\footnote{\textit{AEP Texas Central Company and AEP Texas North Company's Request for Approval of Advanced Metering System (AMS) Deployment Plan and Request for AMS Surcharges, Docket No. 36928.}}
157. The Company’s proposed -10% net salvage rate for FERC Account 354, Transmission Towers and Fixtures (North Division), is reasonable and should be adopted by the Commission.

158. The Company’s proposed -38% net salvage rate for FERC Account 370, Distribution Meters (North Division), is reasonable and should be adopted by the Commission.

159. The Company’s proposed -5% net salvage rate for FERC Account 394, General Tools, Shop and Garage Equipment (North Division), is reasonable and should be adopted by the Commission.

D. Affiliate Expenses

160. The growth in AEP Texas affiliate charges between 2015 and the test year is reasonable, particularly in light of the significant growth in its service area experienced by the Company in that time frame.

161. The criticisms of STEC witness Allen regarding AEP Texas’ overall affiliate charges are conclusory and unsupported.

162. AEP Texas’ payments to the World Resources Institute do not relate to legislative advocacy, but instead to improving the Company’s customer service.

163. AEP Texas’ payments to the World Resources Institute are reasonable and made for the support of utility service.

E. Self-Insurance Reserve Expense

The necessary findings related to the Company’s proposed self-insurance plan and associated expense are addressed above in Rate Base, Section I, proposed Findings of Fact Nos. 86-94.

F. Federal Income Tax Expense

164. AEP Texas’ method of calculating its federal income tax expense is reasonable.

165. The amount of federal income tax AEP Texas included in its cost of service was calculated in accordance with the provisions of PURA §§ 36.059 and 36.060.

166. No party challenged the inclusion of federal income tax expense in AEP Texas’ cost of service.

G. Taxes Other Than Income Tax

Ad Valorem (Property) Taxes

167. The Company has experienced an average increase in its property taxes as a percent to net plant in service.
168. To capture this historically experienced increase, the Company took a three-year average of that effective tax rate increase and applied that average growth rate to the Test Year property tax rate.

169. The Texas Supreme Court has found that rates should be as representative as possible of the cost situation that is likely to prevail in the future.

170. AEP Texas made a reasonable adjustment to its property tax rate to reflect the historically experienced average increase in that rate.

H. Recurring/Non-recurring Expenses

   No findings of fact proposed.

I. Rate Case Expense from previous proceedings

171. AEP Texas incurred rate case expenses in eight prior dockets—Docket Nos. 28840, 33309, 33310, 34301, 40261, 47015, 48222, and 48577—that have yet to be recovered. The rate case expenses associated with these dockets total $1,000,027.12 through February 2019. However, AEP Texas proposes 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 only seeks recovery of $697,975.99. AEP Texas requests that it be allowed to recover its reasonable rate case expenses incurred in these eight prior dockets through the rider mechanism to be proposed in Docket No. 49556, the severed docket that has been opened to address the recovery of expenses associated with this case.

172. AEP Texas is seeking rate case expense recovery of only incremental rate case expenses, such as legal, consultants, and Cities expenses, and other incremental expenses. Payroll of employees, AEP Texas or AEPSC, is not included in AEP Texas' rate case expenses for which it seeks a reasonableness finding in this case.

173. The evidence shows that:

   • the rate case expenses incurred by AEP Texas for these prior dockets have been reasonably and necessarily incurred;

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13 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 Co. for Authority to Change Rates), Docket No. 34301.

14 Application of AEP Texas Central Co. and AEP Texas North Co. for Approval of Advanced Metering System Reconciliation Pursuant to PUC Subst. R. § 25.130(k)(6), Docket No. 40261.


16 Application of AEP Texas Inc. to Amend its Distribution Cost Recovery Factor, Docket No. 48222.

17 Application of AEP Texas Inc. for Determination of System Restoration Costs, Docket No. 48577.
• 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; and

• the amounts billed by outside professionals, out-of-pocket costs incurred by AEPSC personnel, and other miscellaneous expenses are proper and reasonable in amount.

174. The rate case expenses incurred by AEP Texas for these eight dockets, as adjusted by AEP Texas witness Strahler in her rebuttal testimony, are reasonable and recoverable through a surcharge. Commission precedent and the factual record in this proceeding support the recovery of the rate case expenses identified above through the rider requested and approved in Docket No. 49556.

Retail Transmission and Distribution Cost of Service

175. AEP Texas provided its consolidated Retail Transmission Cost of Service study in Schedule III-A-1 of the Rate Filing Package.

A. The TCRF Proposal

176. AEP Texas proposed to recover all of its transmission costs through its Transmission Cost Recover Factor (TCRF).

177. Utilization of the TCRF provides more accurate recovery of transmission costs, which are in large part simply a pass through expense for the Company.

178. Staff witness Narvaez recommended that the Company be required to make an annual update to its class allocation factors in connection with its recovery of transmission costs through its TCRF.

179. The Commission’s TCRF Rule requires that the class allocation factors approved in the utility’s most recent rate case be used in TCRF filings, unless otherwise ordered by the Commission.

180. The evidence does not demonstrate that extraordinary circumstances exist justifying use of allocation factors other than the factors determined in this base rate proceeding.

181. The evidence provides no basis for determining the procedures and requirements for implementation of an annual update to TCRF allocation factors.

B. Retail Distribution Cost of Service

182. AEP Texas presented a consolidated Retail Distribution Cost of Service study in Schedule II-I-1 of the Rate Filing Package.
183. In its rebuttal case, AEP Texas presented a revised consolidated Retail Distribution Cost of Service Study that adopted several cost allocation recommendations of intervenor and Staff witnesses.

**Wholesale Transmission Cost of Service**

184. AEP Texas based its filed Wholesale Transmission Cost of Service (TCOS) on the ERCOT Wholesale Transmission Charge Matrix, including the updated wholesale rates for AEP Texas proposed in this filing.

185. The recommendation of Staff witness Narvaez to adjust the wholesale transmission requirement to account for TCOS rate changes for ERCOT transmission providers through April 2019 makes the wholesale TCOS revenue requirement more representative of going forward costs, is unopposed by AEP Texas, and is reasonable.

186. The recommendation of Staff witness Narvaez to adjust the revenue credit related to AEP Texas DC Tie export revenue is unopposed by the Company and is reasonable.

187. In its rebuttal case, AEP Texas provided a revised Wholesale TCOS that captured the Staff adjustment for changes in the ERCOT Wholesale Transmission Charge Matrix, but not Staff’s adjustment of the revenue credit related to DC Tie export revenue.

**Billing Determinants**

188. As described in the Direct Testimony of Company witness Jackson, AEP Texas properly used adjusted test year billing determinants to design its distribution, transmission and TCRF rates.

**Functionalization and Cost Allocation**

A. Functionalization

189. Since the Company’s test year uncollectible expense is primarily related to rentals to telecommunications companies, it is reasonable to functionalize uncollectible expenses in the same manner as revenues associated with electric property rentals.

B. Class Allocation

   **Class Allocation of Transmission Costs**

190. Using 15-minute interval data to derive the class ERCOT 4CP demands is consistent with Commission precedent and with how ERCOT determines the ERCOT 4CP for purposes of the ERCOT Transmission Matrix.

191. No adjustments should be made to the calculation of the AEP Texas-specific class ERCOT 4CP demands, save to apply loss factors so the data is stated at the source rather than the meter.
Distribution Demand Cost Allocation

192. Distribution plant should be allocated to customer classes using the single maximum diversified demand value (1MDD).

193. Distribution plant class allocation factors should be calculated using demand loss factors rather than energy loss factors.

New Primary Substation Class

194. AEP Texas’ proposed customer classes are in compliance with the generic classes ordered by the Commission in Order No. 40 in Docket No. 22344.18

195. TIEC proposes the addition of a new customer class—Primary Substation—composed of customers served directly from a utility-owned substation. TIEC, however, failed to provide sufficient information showing the cost and rate impact on other classes of adding the new Primary Substation class.

196. The record does not contain sufficient reliable information upon which to determine the composition of the proposed Primary Substation class.

Municipal Franchise Fees

197. Long-established Commission precedent requires allocation of municipal franchise fees to all retail customer classes based on inside-city kWh deliveries.

198. TIEC proposes that the established Commission methodology for allocating municipal franchise fees be modified so that fees are allocated in different percentages from city to city, depending on the proportion of kWh delivered to particular classes in the various cities.

199. TIEC’s proposal for the allocation of municipal franchise fees is at odds with prior Commission findings that the payment of franchise fees confers a system-wide benefit.

200. TIEC’s proposal for the allocation of municipal franchise fees has previously been rejected by the Commission.

Other cost allocation issues

a. Minimum Distribution Study

201. FEA proposes that AEP Texas perform a Minimum Distribution Study, and based on the results, propose in a future case to allocate distribution costs in Accounts 364-368 between demand and customer count.

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202. No utility in Texas currently allocates distribution costs in Accounts 364-368 based on a Minimum Distribution Study.

203. AEP Texas, its predecessors, and its affiliates have for many years consistently allocated distribution costs in Accounts 364-368 based on demand.

204. FEA’s proposal to require AEP Texas to perform a Minimum Distribution Study and adopt the results for purposes of future cost allocation is unsupported.

b. Allocation of Customer-Related Costs

205. Consistent with Commission precedent, it is reasonable to allocate the expensed cost of major account representatives in FERC Accounts 903, 907, and 908 to the Secondary > 10 kW, Primary and Transmission classes and not to other classes who do not receive such services.

c. Other unopposed adjustments

206. The following additional adjustments to the Company’s proposed class cost allocation are reasonable:

a. allocate uncollectible expense based on overhead distribution plant.

b. adjust the Account 907 labor allocator to remove energy efficiency costs.

c. allocate Account 581 Load Dispatching expenses based on primary distribution demand.

d. allocate Account 953 expense to secondary distribution based on the amount of secondary distribution plant in Account 365.

e. allocate Account 902 meter reading expense on a METER allocator as opposed to a METER READ allocator.

Revenue Distribution and Rate Design

A. Rate Moderation

207. Designing T&D rates to follow cost of service is consistent with long-established Commission policy.

208. Bills for wires service only constitute a portion of the customer’s overall electric bill, lessening the need for consideration of gradualism.

209. The REP providing retail service sets the overall rate for retail electric service, which may vary significantly depending on pricing arrangements.

210. It is important to set wires charges as close to cost as possible to provide REPs with the true cost of the service as they make their pricing decisions.
211. TIEC, the principle proponent of rate moderation in this proceeding, failed to demonstrate that the overall bill impacts on customers in the North division Primary and Transmission classes warrant application of rate moderation.

212. The rate moderation proposals of TIEC witness Pollock are unjustified.

213. Cities witness Johnson’s proposal to mitigate the impact of the rate consolidation between the Central and North divisions is unnecessary in the circumstances of this case.

214. AEP Texas’ transmission and distribution rates should be designed to recover costs from customer classes consistent with the results of the Company’s cost of service studies.

B. Tariff Revisions

215. AEP Texas’ proposed inadvertent gain fee appropriately assesses a fee to collect from REPs the cost of correcting an inadvertent gain.

216. AEP Texas’ proposed inadvertent gain fee is reasonably priced based on time studies and historical experience related to inadvertent gains, and appropriately anticipates that the potential assessment of the fee will lead to a reduction in the number of inadvertent gains.

217. Consistent with the approval of consolidated rates, AEP Texas’ proposal to consolidate its Central and North Division tariffs is reasonable and appropriate.

218. The following rates should be excepted from the consolidation of Central and North division rates and tariffs:

   a. Transition Charges as found in sections 6.1.1.2 of the Central division tariff should remain limited to the Central division;

   b. Nuclear Decommissioning Charges as found in section 6.6.1.5 of the Central division tariff should remain limited to the Central division;

   c. The specified street lighting fixture found in section 6.1.1.6.2 of the Central division tariff should remain limited to the Central division;

   d. The specified street lighting fixture found in section 6.1.1.6.1 of the North division tariff should remain limited to the North division.

C. Uncontested Tariff and Rate Design Matters

   Uncontested Tariff Changes

219. The following tariff changes, as proposed by AEP Texas, are uncontested and reasonable:
a. Update the language in Facilities Extension Schedules 6.1.2.2.1, 6.1.3.2.1 and 6.1.4.2.1.

b. Update the language in the Retail Electric Switchover Fee, sections 6.1.2.2.2, 6.1.3.2.2 and 6.1.4.2.2.

c. Update the language in the Facilities Relocation/Modification Fee, sections 6.1.2.2.3, 6.1.3.2.3 and 6.1.4.2.3.

d. Remove the Builder’s Construction Service Fee in sections 6.1.2.3.1, 6.1.3.3.1 and 6.1.4.3.1.

e. Remove the Temporary Service Fee in sections 6.1.2.3.2, 6.1.3.3.2 and 6.1.4.3.2.

f. Update the language regarding the fee for Advanced Metering Equipment Installation and Access to Meter Data (now the Pulse Metering Fee) in tariff sections 6.1.2.3.8, 6.1.3.3.8 and 6.1.4.3.8.

g. Update the language regarding the fee for Dispatched Order Cancellation (now Unexecutable Order Fee) in tariff sections 6.1.2.3.13, 6.1.3.3.13 and 6.1.4.3.13.

h. Replace the Dual Register Meter Installation Fee with a Distributed Generation Meter Installation Fee in tariff sections 6.1.2.3.14, 6.1.3.3.14, and 6.1.4.3.14.

i. Remove the IDR Equipment Installation Fee from tariff sections 6.1.2.3.15, 6.1.3.2.2.15 and 6.1.4.3.15.

j. Add a new Damage to Company Facilities Fee in tariff sections 6.1.2.3.14, 6.1.3.3.14 and 6.1.4.3.14.

k. Update the tariff language in sections 2.1, 2.2 and 2.3 regarding description of service area.

l. Update the tariff language addressing availability of Secondary Voltage Service Less than or Equal to 10-kW-Unmetered Service.

m. Update the tariff language in section 6.2.3.3.2 regarding Location and Installation of Meters.

n. Update tariff section 6.2.3.1 regarding Rights-Of-Way and Easements.

o. Remove obsolete tariff sections, including the section 6.3.4.6 agreement to pass through service quality credits, and the AMSCRF, SCUD, SBF, TC Transition Charge, and Rider TC Refund riders; remove tariff references to obsolete Rider EMC-Excess Mitigation Credit.
p. Add new LED lighting service options and rates to the tariff for Municipal Street Lighting and Non-Roadway Lighting services.

**Uncontested Rate Design Matters**

220. The following AEP Texas rate design proposals are uncontested and reasonable:

a. Eliminate the ratchet currently applied in determining the distribution service charge for the Secondary Voltage > 10 kW service class.

b. Eliminate the differential in the Customer and Metering Charges by meter type currently observed in the Secondary Voltage > 10 kW Service and Primary service customer classes.

c. Update outdated nomenclature for Secondary Voltage Service > 10 kW, Primary Voltage Service and Transmission Service classes from “IDR and non-IDR” to “4CP and NCP kW.”

d. Clarify that the Transmission Service Charge, including charges associated with the TCRF Rider, will be based on the customer’s ERCOT average 4CP demand for all new customers with maximum loads over 700 kW taking service under the Secondary Voltage > 10 kW Service and Primary Voltage Service and for all existing customers that were previously billed Transmission Service and TCRF charges based on their 4CP demand.

e. Consolidate and streamline the lighting fixture offerings and charges for the Municipal and Non-Roadway lighting fixtures.

f. Move costs currently recovered through the AMSCRF Rider into base rates.

g. Approve AEP Texas’ uncontested proposed pricing for discretionary fees.

**Riders**

221. AEP Texas proposed the Income Tax Refund (ITR) Rider to address the impacts of the Tax Cuts and Jobs Act of 2017 (TCJA).

222. The Commission’s amended order in Docket No. 4794519 relating to tax reform required the establishment of a regulatory liability.

223. AEP Texas complied with this order through its refund provisions.

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224. AEP Texas will refund: (1) the difference between the revenues collected under existing rates and the revenues that would have been collected had the existing rates been set using the recently approved federal income tax rates; (2) amounts associated with the change in the amortization of protected Excess Accumulated Deferred Federal Income Taxes (EADFIT) as a result of the TCJA; and (3) unprotected EADFIT associated with the TCJA tax rate change.

225. AEP Texas’ proposal to refund amounts to distribution customers as a result of the TCJA over a four year period through its ITR Rider is reasonable and appropriate.

226. The total refund for distribution customers in the amount of $82,966,393 has been properly calculated.

227. The annual refund of $20,741,958 to distribution customers through the ITR Rider has been properly calculated.

228. The one-time refund for transmission customers in the amount of $29,260,683 has been properly calculated.

229. AEP Texas’ proposal to refund amounts owed to wholesale transmission customers as a result of the TCJA through its TCOS using a one-time credit is reasonable and appropriate.

230. AEP Texas’ proposed ITR Rider is reasonable and should be implemented on a consolidated basis.

**Baselines for Cost-Recovery Factors**

231. AEP Texas demonstrated that its requested baseline treatment with respect to TCOS, TCRF, and DCRF as part of its changes to its base distribution rates is reasonable.

**Other Issues**

A. Contested Issues

*Transmission Line Extension Policy*

232. AEP Texas proposes three changes to its transmission line extension policy:

a. Exclude the current allowance for installation of the extension at no cost to the customer when the length of the extension is one mile or less.

b. Include language stating that the Company will determine if the extension warrants service at transmission voltage.

c. Include language providing that “the Company may require additional contractual agreements and other means of security to ensure the costs for planning, licensing and constructing non-customer owned facilities are recoverable in the event the transmission service customer is unable to take transmission service.”
233. By including language requiring evaluation of whether a Contribution in Aid of Construction (CIAC) will be required from the customer, AEP Texas’ proposed line extension policy modifications reasonably account for the potential that the customer may not be required to pay all costs of the extension.

234. TIEC’s proposed language for the line extension policy requiring reimbursement of the customer should additional customers utilize the line extension does not reflect ERCOT tariff practice and is unnecessary.

235. AEP Texas’ proposed modifications to the line extension policy reasonably includes a provision authorizing the Company to determine the “appropriate delivery voltage” for the extension.

236. TIEC’s proposal to include language in the transmission line extension policy addressing customer ownership of substations is unnecessary, inadequately supported, and does not reasonably address issues regarding NERC reliability compliance associated with ownership and operation of substation facilities.

AMS Reconciliation

237. AEP Texas has requested to reconcile AMS costs with AMS surcharge revenues under 16 TAC § 25.130(k)(6) — the Commission’s AMS rule.

238. Those costs and revenues have been incurred by AEP Texas and collected from customers, respectively, since the end of the previous AMS reconciliation period (December 31, 2011) through the end of the Test Year.

239. The Commission’s AMS rule states, “the electric utility may request multiple reconciliation proceedings, but no more frequently than once every three years.”

240. AEP Texas has provided extensive evidence supporting the reasonableness of the AMS costs incurred by the Company.

241. AEP Texas’ AMS costs are reasonable, and those costs incurred and AMS revenues collected through the end of the Test Year are reconciled.

242. As identified in the direct testimony of AEP Texas witness Whitney, accounting for the actual costs, investment, and revenues associated with the Company’s AMS deployment through the reconciliation period has resulted in AMS surcharge under-recoveries of $30,157,739 (net of $6,063,403 of cumulative interest expense) and $12,923,589 (including $283,307 of cumulative interest benefit) as of December 31, 2018, for AEP Texas’ Central and North Divisions, respectively.
B. Uncontested Issues

Cash Working Capital

243. Investor-owned utilities may include in rate base a reasonable allowance for cash working capital as determined by a lead-lag study conducted in accordance with 16 TAC § 25.231(c)(2)(B)(iii).

244. Cash working capital represents the amount of working capital, not specifically addressed in other rate base items, that is necessary to fill the gap between the time expenditures are made and the time corresponding revenues are received.

245. AEP Texas’ proposed cash working capital allowance required for the Company’s operations is reasonable and measured in compliance with 16 TAC § 25.231(c)(2)(B)(iii) and Commission precedent.

CWIP

246. Consistent with PURA § 36.054, AEP did not include any CWIP in its rate base.

Post Test-Year Adjustments

247. AEP Texas’ uncontested post-test year adjustments were made in accordance with the authorization in 16 TAC § 25.231 for known and measurable changes to the Company’s historical test year.

Tax Savings from liberalized depreciation

248. AEP Texas’ federal income taxes were calculated consistent with PURA § 36.059 including treatment of tax savings derived from liberalized depreciation and amortization, investment tax credit, or similar methods.

Advertising expense

249. AEP Texas’ expenditures for advertising, contributions, and donations included in its cost of service meet the standard and thresholds set forth in 16 TAC § 25.231(b)(1)-(2).

250. AEP Texas uses advertising to convey important information regarding safety and reliability to its customers and to support local initiatives.

251. AEP Texas did not include any prohibited advertising expenses in its request.

252. AEP Texas and AEPSC make charitable contributions toward education, community service, and economic development in and for the benefit of the communities in which it operates.

253. AEP Texas membership expenses for participation in organizations addressing electric industry issues are reasonable and comply with the Commission’s standards.
254. Recovery of these costs is reasonable and necessary for AEP Texas to meet its ongoing obligations of providing safe and reliable service to its customers.

*Nuclear decommissioning expense*

255. AEP Texas’ Rider NDC was recently approved by the Commission in Docket No. 49163.

256. AEP Texas proposed no change to its current Rider NDC.

*Competitive affiliates*

257. No party challenged AEP Texas’ compliance with 16 TAC § 25.272 or adherence to Commission rules and precedent regarding affiliates.

*Revenues for transmission service to export or import power from ERCOT*

258. As adjusted by Staff, the ERCOT export revenues included as a credit to AEP Texas’ TCOS are reasonable.

*Transmission expense and revenues under FERC-approved tariff*

259. Upon receipt of Commission approval of an updated transmission revenue requirement in this case, AEP Texas will file its request with FERC to modify Attachment K to its OATT, to reflect both the combined rate for AEP Texas and the updated transmission revenue requirement approved in this case.

*Seeking to defer any costs*

260. SOAH Order No. 2 granted AEP Texas’ motion to sever rate case expenses and any expenses incurred by municipalities participating in this case.

261. Severance of those expenses was not challenged by any party.

*Appropriate rates for exports of power from ERCOT*

262. Rates for exports of power from ERCOT are calculated and determined in accordance with 16 TAC § 25.192(e) and ERCOT protocols.

263. AEP Texas did not oppose Staff’s recommended adjustments to DC tie export revenue.

264. Final export rates should be determined in association with the tariff compliance filings following this case, consistent with the final Commission determinations.

*Wholesale transmission service at distribution voltage to any customers*

265. No party challenged AEP Texas’ assignment of costs, or proposed rates, pursuant to PURA § 35.004(c).
Energy Efficiency costs to remove from rate base

266. As expressly provided in the Commission's orders in Docket Nos. 33309 and 33310, AEP Texas Central and North Divisions have amounts of Energy Efficiency (EE) funding included in the Distribution base rate charge.

267. AEP Texas seeks to shift recovery of all EE funding to the EECRF mechanism.

268. This proposal is consistent with and required by 16 TAC § 25.182(d)(4) which provides that base rates shall not be set to recovery EE costs.

269. EE amounts were excluded from AEP Texas' test year costs.

270. To ensure proper recovery of the approved EE revenue requirement, AEP Texas requested approval to include the amount of base rate EE costs with the EE revenue requirement already included in the approved 2019 EECRF riders for the Central and North Divisions.

271. In Docket No. 48422, the Commission authorized AEP Texas to adjust its EECRFs to recover $11,407,222 ($8,972,430 for the Central Division and $2,434,792 for the North Division).

272. The Commission also determined that AEP Texas was also collecting through base rates $7,224,886 for the Central Division and $1,407,497 for the North Division.

273. The total energy efficiency revenue requirement approved for the Central Division in Docket No. 48422 is $16,197,316.

274. The total energy efficiency revenue requirement approved for the North Division in Docket No. 48422 is $3,842,289.

275. AEP Texas' proposal to transition from base rate, divisional recovery of energy efficiency costs to consolidated recovery under the EECRF is reasonable, necessary, and consistent with the requirements of 16 TAC § 25.182.

Any exceptions requested to Commission rules

276. AEP Texas did not seek any exceptions to the Commission's rules in this proceeding.

Should the Commission approve requests for waivers?

277. AEP Texas did not seek a waiver of any requirements in its filing package.

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20 Application of AEP Texas Inc. To Adjust Energy Efficiency Cost Recovery Factor (EECRF) and Related Relief, Docket No. 48422, Final Order (Nov. 8, 2018).

21 Docket No. 48422, Final Order at 7, 9, Finding of Fact (FoF) Nos. 53, 65 (Nov. 8, 2018).

22 Docket No. 48422, Final Order at 10, 11, FoF Nos. 73, 78 (Nov. 8, 2018).
278. AEP Texas provided all schedules and workpapers necessary to comply with the Commission’s requirements under 16 TAC § 22.243 for T&D base rate proceedings.

279. AEP Texas submitted pre-filed testimony in accordance with 16 TAC § 22.225(a)(6).

**Compliance with Docket No. 46284**

280. In Docket No. 46284, the Commission approved AEP Texas’ last request to continue providing facilities rental services to certain existing customers through January 1, 2020.

281. The Commission ordered AEP Texas, at the earlier of its next base rate case or application to extend its facilities rental tariff, 1) to file a comprehensive study addressing the cost and rate impact of adding additional metering points to each installation where company-owned facilities are on the customer side of the meter and 2) to provide a proposed cost-based tariff for transformation services.

282. AEP Texas provided this information with its application in compliance with Docket No. 46284.

**Competitive Energy Service**

283. Under the definitions stated in 16 TAC § 25.341(3)(F), facilities rental service to retail customers is considered a Competitive Energy Service (CES).

284. An electric utility may petition the Commission for authorization to provide CES under 16 TAC § 25.343(d).

285. The Commission’s most recent approval of AEP Texas’ facilities rental service is set to expire January 1, 2020.

286. The Company seeks approval to continue its provision of facilities rental service under tariff schedules 6.1.2.3.3, 6.1.3.3.6, and 6.1.4.3.6 for an additional three years.

287. The Company seeks to continue providing facilities rental service to those existing distribution voltage customers currently leasing facilities under its Facilities Rental Tariffs.

288. AEP Texas’ proposal is reasonable and should be adopted.

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23 Application of AEP Texas North Company and AEP Texas Central Company to Extend Facilities Rental Tariffs, Docket No. 46284.

24 Docket No. 46284, Order at Ordering Paragraph Nos. 3-4 (Dec. 16, 2016).

II. Conclusions of Law

1. AEP Texas is governed by the Public Utility Regulatory Act ( PURA). Tex. Util. Code §§ 11.001-64.158.

2. AEP Texas is an electric utility, a public utility, and a transmission and distribution utility (TDU) as defined in PURA § 31.002.

3. The Commission exercised regulatory authority over AEP Texas, and jurisdiction over the subject matter of this application pursuant to PURA §§ 14.001, 32.001, 32.101, 33.002, 33.051, and 36.101-.112.

4. SOAH has jurisdiction over matters related to the conduct of the hearing and the preparation of a proposal for decision in this docket, pursuant to PURA § 14.053 and Tex. Gov’t Code § 2003.049.

5. This docket was processed in accordance with the requirements of PURA, the Texas Administrative Procedure Act (APA), Tex. Gov’t Code Chapter 2001, and Commission rules.

6. AEP Texas provided notice of its application in compliance with PURA § 36.103 and 16 TAC § 22.51(a).

7. Pursuant to PURA § 33.001, each municipality in AEP Texas’ service area that has not ceded jurisdiction to the Commission has jurisdiction over the Company’s application, which seeks to change rates for the distribution services within each municipality.

8. Pursuant to PURA § 33.051, the Commission has jurisdiction over an appeal from a municipality’s rate proceeding.

9. The applicant has the burden of proof under PURA § 36.006 to demonstrate the reasonableness of its rates and rate design in a rate case. However, the burden of production shifts when another party proposes a change to the application. It is then incumbent on the challenging party to produce credible evidence that its proposal is more reasonable than the applicant’s.

10. Prudence is the exercise of that judgment and the choosing of one of that select range of options which a reasonable utility manager would exercise or choose in the same or similar circumstances given the information or alternatives available at the point in time such judgment is exercised or option is chosen.

11. There may be more than one prudent option within the range available to a utility in a given context. Any choice within the select range of reasonable options is prudent, and the Commission should not substitute its judgment for that of the utility. The reasonableness of an action or decision must be judged in light of the circumstances, information, and available options existing at the time, without benefit of hindsight.
12. There is no prescribed formula for the type and quantum of evidence that is sufficient to demonstrate prudence.

13. Affiliate expenses to be included in AEP Texas' rates must meet the standards articulated in PURA §§ 36.051 and 36.058 and in Railroad Commission of Texas v. Rio Grande Valley Gas Co., 683 S.W.2d 783 (Tex. App.—Austin 1984, no writ).

14. To the extent approved in this order, AEP Texas’ affiliate charges meet the requirements of PURA § 36.058.

15. AEP Texas is required under 16 TAC § 25.52(b)(1) to: (1) make all reasonable efforts to prevent interruptions of service; and (2) reestablish service within the shortest possible time when interruptions do occur.

16. PURA § 36.064 permits a utility to self-insure “potential liability or catastrophic property loss, including windstorm, fire, and explosion losses, that could not have been reasonably anticipated and included under operating and maintenance expenses.”

17. The Commission shall approve a self-insurance plan under that section if it finds the coverage in the public interest, the plan, considering all of its costs, is a lower cost alternative to purchasing commercial insurance, and ratepayers receive the benefits of the savings.

18. A self-insurance plan with an annual accrual of $4.27 million and a target reserve amount of $13.3 million is in accordance with PURA § 36.064 and 16 TAC § 25.231(b)(1)(G).

19. The return on equity (ROE) and overall rate of return authorized in this proceeding are consistent with the requirements of PURA §§ 36.051 and 36.052.

20. The TCJA reduced the federal income tax rate from 35% to 21%.

21. AEP Texas complied with the Commission's amended order in Docket No. 47945 addressing the effects of the TCJA.

22. Functionalization and allocation of AEP Texas' costs of facilities, revenues, expenses, taxes, and reserves consistent with the requirements of this order is reasonable and consistent with the requirements of PURA § 36.055.

23. AEP Texas' proposal to consolidate Central and North Division rates and tariffs is just and reasonable and in compliance with PURA § 36.003.

24. AEP Texas' proposed transmission rates, distribution rates, and discretionary charges, as approved in this order, are just and reasonable in accordance with PURA § 36.003.
25. AEP Texas' proposed rates for provision of transmission service, to the extent approved in this order, comply with PURA § 35.004.

26. Changes to current Commission policy regarding the implementation of TCRF updates should be considered in a rulemaking.

27. Modification of AEP Texas' tariff for retail delivery services, consistent with the requirements of this order, is just and reasonable.

28. AEP Texas' proposal to move energy efficiency costs from base rates to the EECRF and to transition to a consolidated EECRF complies with PURA § 39.905 and 16 TAC § 25.182.

29. AEP Texas' request to continue to offer facilities rental services complies with 16 TAC § 25.342(d).

III. Ordering Paragraphs

In accordance with these findings of fact and conclusions of law, the Commission issues the following orders:

1. The Proposal for Decision prepared by the SOAH Administrative Law Judges is ADOPTED to the extent consistent with this Order.

2. AEP Texas' application is GRANTED to the extent consistent with this Order.

3. AEP Texas' proposal to consolidate Central and North Division rates and tariffs as authorized in this Order is APPROVED.

4. To the extent consistent with this Order, AEP Texas' proposed modifications to its tariff for retail delivery services is APPROVED.

5. AEP Texas' application to continue to offer facilities rental service is APPROVED and the expiration date of the facilities rental service is extended until three years from the date of this order.

6. AEP Texas' request for approval of AMS reconciliation pursuant to 16 TAC § 25.130(k)(6) is GRANTED.

7. AEP Texas shall file tariffs consistent with this order within 20 days of the date of this order in Compliance Tariff for Final Order in Docket No. 49494 (Application of AEP Texas for Authority to Change Rates), Control No. XXXXX. No later than ten days after the date of the tariff filings, Staff shall file its comments recommending approval, modification, or rejection of the individual sheets of the tariff proposal. Responses to Commission Staff's recommendation shall be filed no later than 15 days after the filing of the tariff. The
Commission shall by letter approve, modify, or reject each tariff sheet, effective the date of the letter.

8. The tariff sheets shall be deemed approved and shall become effective on the expiration of 20 days from the date of filing, in the absence of written notification of modification or rejection by the Commission. If any sheets are modified or rejected, AEP Texas shall file proposed revisions of those sheets in accordance with the Commission's letter within ten days of the date of that letter, and the review procedure set out above shall apply to the revised sheets.

9. Copies of all tariff-related filings shall be served on all parties of record.