



Control Number: 51415



Item Number: 1

Addendum StartPage: 0

PUC DOCKET NO.

51415

APPLICATION OF SOUTHWESTERN
ELECTRIC POWER COMPANY FOR
AUTHORITY TO CHANGE RATES

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PUBLIC UTILITY COMMISSION
OF TEXAS

OCTOBER 13, 2020

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APPLICATION OF SOUTHWESTERN	§	BEFORE THE
ELECTRIC POWER COMPANY FOR	§	PUBLIC UTILITY COMMISSION
AUTHORITY TO CHANGE RATES	§	OF TEXAS
	§	

PETITION AND STATEMENT OF INTENT TO CHANGE RATES

Southwestern Electric Power Company (SWEPCO or the Company) files this Petition and Statement of Intent to Change Rates (Petition) in accordance with Subchapter C of Chapter 36 of the Public Utility Regulatory Act (PURA),¹ and 16 Tex. Admin. Code (TAC) § 22.243(b). SWEPCO is filing with this Petition a rate filing package (RFP) that complies in all material respects with the Commission's *Electric Utility Rate Filing Package for Generating Utilities*.²

I. OVERVIEW

The overarching purpose of this case is to better align SWEPCO's revenues with the cost of providing service and to position the Company to provide safe, reliable, and effective service to customers now and in the years to come. The specific case drivers are multifaceted.

SWEPCO's actual return on equity (ROE) since the Commission last adjusted the Company's base rates in Docket No. 46449³ has been below market requirements and the return authorized by the Commission in that case. Further, SWEPCO's load growth has not been such that it allows revenues to keep pace with costs, despite significant cost control efforts. In addition, SWEPCO needs to reflect in its rates incremental investment in generation since the test year in Docket No. 46449 and incremental investment in transmission and distribution since

¹ PURA is codified at Tex. Util. Code Ann. §§ 11.001–66.016.

² Approved September 9, 1992. This Petition serves as the Executive Summary described in the RFP.

³ *Application of Southwestern Electric Power Company for Authority to Change Rates*, Docket No. 46449, Order on Rehearing (Mar. 19, 2018).

the Company last modified its Transmission Cost Recovery Factor (TCRF) and Distribution Cost Recovery Factor (DCRF).

Second, economic circumstances have altered the service life of SWEPCO's Dolet Hills Power Station (Dolet Hills). As a result, SWEPCO has announced that Dolet Hills will retire no later than December 31, 2021. As discussed below, SWEPCO has proposed a rate treatment to mitigate the significant impact of depreciating the plant over its remaining economically useful life.

In addition, SWEPCO is requesting an increase of \$5 million over Test Year⁴ costs to expand its distribution vegetation management program. SWEPCO recommends these funds be specifically earmarked (consistent with current vegetation management costs) to maintain and improve reliability for customers on the targeted circuits in Texas.

In this proceeding, SWEPCO also requests Commission approval of certain policy-oriented proposals, including the establishment of a self-insurance reserve, deferred recovery of Hurricane Laura restoration costs and certain charges billed to SWEPCO by the Southwest Power Pool (SPP), and a declaratory order related to investment in battery storage.

Finally, SWEPCO proposes to: (1) establish baseline calculations of costs to be recovered in a future filing by SWEPCO for a TCRF, DCRF, or Generation Cost Recovery Rider (GCRR); and (2) modify or implement certain new tariffs.

⁴ As authorized by PURA § 36.112(b)(1), SWEPCO bases its request on the Test Year comprised of the 12-month period ending March 31, 2020, adjusted for known and measurable changes.

II. AUTHORIZED REPRESENTATIVES

SWEPCO's business address is 428 Travis Street, Shreveport, Louisiana 71101.

SWEPCO's authorized business representative for this proceeding is:

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SWEPCO requests that all information, pleadings, and other documents in this matter be served on each of the persons above and be emailed to aepaustintx@aep.com.

III. APPLICANT AND JURISDICTION

SWEPCO is a wholly owned subsidiary of American Electric Power Company, Inc., and is a fully integrated investor-owned electric utility serving 543,400 retail customers and six wholesale customers in Texas, Arkansas, and Louisiana. Of those retail customers, 187,400 reside in Texas. Two of the six wholesale customer contracts are with electric cooperatives in Texas.

SWEPCO provides electric generation, transmission, and distribution services in Texas. SWEPCO is a public utility and a utility as those terms are defined in PURA § 11.004(1) and an electric utility as that term is defined in PURA § 31.002(6).

The Commission has jurisdiction over this application pursuant to PURA §§ 14.001, 32.001, and 36.001. Specifically, the Commission has jurisdiction to change SWEPCO's rates within unincorporated areas of the Company's service area, within all municipalities served by the Company that have ceded original jurisdiction to the Commission, and upon appeal by the Company of actions taken by cities exercising original jurisdiction. A list of the cities that have ceded original jurisdiction and those that have retained original jurisdiction is provided as Appendix A to this Petition.

IV. REQUESTED RELIEF

A. Increase in Revenue Requirement

SWEPCO asks the Commission to approve a total Texas retail base rate revenue requirement of \$534,165,103 and a base rate increase of \$105,026,238, an increase of 30.31% over adjusted Texas retail Test Year base rate revenues exclusive of fuel and rider revenues. The proposed increase in annual Texas retail revenues will be offset by setting SWEPCO's current TCRF and DCRF to zero, a reduction of \$14,826,502. Thus, the net proposed increase is \$90,199,736, an increase of 26.03% over adjusted Texas retail Test Year base rate revenues exclusive of fuel and rider revenues. The overall impact of the proposed revenue requirement increase, considering both fuel and non-fuel revenues, is a 15.57% increase. The impact of the rate change on various customer classes will vary from the overall impact.

SWEPCO has calculated the proposed revenue requirement based on an overall weighted average cost of capital (WACC) of 7.22%. That WACC is based on:

- a proposed equity ratio of 49.37%;

- a proposed long-term debt ratio of 50.63%;
- a proposed cost of long-term debt of 4.18%; and
- a proposed ROE of 10.35%.

B. Dolet Hills Ratemaking Treatment

Dolet Hills is a 650 net MW generating unit fueled by lignite mined from the adjacent Dolet Hills and Oxbow reserves (collectively referred to as the DH Mines). SWEPCO reduced mining operations at the DH Mines in 2019, due to *force majeure* events in 2017 and 2018 and increases in lignite production costs. Despite diligent efforts to reduce mining costs, SWEPCO determined in early 2020 that the economically recoverable lignite reserves had been depleted. Based on this determination, lignite production operations at the DH Mines ceased in May 2020. SWEPCO evaluated mining operations and costs of operating Dolet Hills beyond 2021. That analysis, which is included in the workpapers to SWEPCO witness Thomas P. Brice's direct testimony, demonstrates that retirement of Dolet Hills will result in up to \$180 million in estimated fuel savings for SWEPCO customers. Accordingly, Dolet Hills will retire no later than December 31, 2021. Dolet Hills will continue to operate for the benefit of customers through the peak energy use season in 2021 with lignite that has been mined and has been or will be delivered to the plant this year and into 2021.

Consistent with GAAP and standard regulatory practice, the remaining undepreciated value of Dolet Hills would be depreciated through 2021—i.e., the plant's economically useful life. SWEPCO realizes the significant impact this would have on SWEPCO's rates that are to be set in this proceeding. To mitigate this impact, SWEPCO proposes to offset Dolet Hills' remaining undepreciated value by the Company's unprotected excess Accumulated Deferred Income Taxes (ADIT) and a tax refund provision. Specifically, when the United States Congress reduced the federal corporate income tax rate to 21% in 2018, excess ADIT was created for SWEPCO. In Docket No. 46449, SWEPCO's most recent base-rate case, the Commission

ordered that excess deferred taxes resulting from the reduction in the federal income tax rate would be addressed in SWEPCO's next base-rate case. SWEPCO proposes that the balance of the unprotected excess ADIT and the refund provision associated with the protected excess ADIT—SWEPCO has been amortizing the protected excess ADIT in accordance with the Tax Cuts and Jobs Act of 2017 and setting up the Texas portion as a provision for refund—be used to reduce the undepreciated value of Dolet Hills. While this will not completely offset the undepreciated value of the Dolet Hills plant, the proposal will significantly mitigate the rate impact on customers. SWEPCO proposes that the remaining net amount of undepreciated value of the Dolet Hills plant be expensed over a four-year period.

C. Request for Declaratory Order Related to Battery Storage

Batteries can perform a variety of beneficial functions on an electric system and can be classified as distribution, transmission, or generation assets under the FERC Uniform System of Accounts, depending on their usage. With the ongoing reduction in the price of battery storage technology, batteries are becoming a cost-effective alternative to traditional distribution, transmission, and generation options. In some instances, a battery installation can avoid or defer the need for a more expensive distribution or transmission system upgrade. As explained in SWEPCO witness Mr. Brice's testimony, SWEPCO plans to evaluate the feasibility of cost-effective battery storage installation on its system.

It is unclear, however, when or even if a certificate of convenience and necessity (CCN) filing is required for a battery installation. For example, batteries installed as distribution assets appear to be exempt from a CCN filing under 16 TAC § 25.101(c)(4). Similarly, a battery used as a transmission asset appears to be exempt if installed in a new high voltage switching station or substation under 16 TAC § 25.101(c)(2).

SWEPCO requests the Commission confirm that no CCN filing or other Commission pre-approval is required for a vertically integrated utility outside of ERCOT when a battery is installed as an alternative to a distribution upgrade, or installed in a new high voltage switching station or substation as an alternative to a transmission upgrade, and not used to sell energy or ancillary services in the wholesale market. Of course, such assets would be subject to Commission review and inclusion in rates in the same manner as other distribution or transmission assets. And, if a battery was installed as a distribution or transmission asset, SWEPCO would not bid such a battery into the SPP capacity, energy, or ancillary services markets or earn any revenues from the battery in those markets.

D. Self-Insurance Reserve

In accordance with PURA § 36.064, SWEPCO requests the Commission approve the establishment and funding of a self-insurance reserve of \$3,560,000, with an annual accrual of \$1,689,700. SWEPCO's request is supported by Company witness Gregory S. Wilson, who concludes that: the requested self-insurance plan is in the best interests of SWEPCO's customers; considering all costs, self-insurance is a lower cost alternative to purchasing commercial insurance; and SWEPCO's customers will receive the benefits of the savings produced by the plan.

E. Deferral of Hurricane Laura Service Restoration Costs

Hurricane Laura struck SWEPCO's service area as a Category 2 storm on Thursday, August 27, 2020. In total, approximately 136,000 customers were without power, approximately 13,000 of whom were in Texas. As soon as it was safe, SWEPCO crews began restoring power to several critical customers in the Ark-La-Tex area. Employees addressed multiple hazards, including hundreds of downed power lines. Storm restoration efforts extended well into September.

SWEPCO requests authorization to recover its Texas jurisdictional transmission and distribution (T&D) related Hurricane Laura restoration costs. Specifically, SWEPCO requests authority to charge its T&D restoration costs against the self-insurance reserve approved in this case as a regulatory asset that will be reduced each month by the amount of reserve collected. This request is consistent with PURA's provisions addressing the recovery of system restoration costs. For example, PURA § 36.405 entitles an electric utility "to recover system restoration costs consistent with the provisions of [Chapter 36, subchapter I (Securitization for Recovery of System Restoration Costs)]" *as well as* "amounts not recovered under [Chapter 36, subchapter I], including system restoration costs not yet incurred at the time an application is filed under Subsection (b), in its next base rate proceeding or through any other proceeding authorized by Subchapter C or D."⁵ Therefore, PURA § 36.405 contemplates that not all system restoration costs will be recovered via securitization.

F. Deferral of Approved Transmission Charges

SWEPCO's service area is entirely within SPP, which maintains functional control of the SWEPCO transmission system and executes an organized wholesale market in which SWEPCO participates. SWEPCO is charged by SPP for the use of other SPP transmission owners' facilities to serve SWEPCO's customers. SWEPCO also receives payment from SPP for SPP members use of SWEPCO's transmission facilities. These payments and receipts occur pursuant to the SPP Open Access Transmission Tariff (OATT), which has been approved by the Federal Energy Regulatory Commission (FERC). Consistent with past Commission decisions, the net amount that SWEPCO incurred during the Test Year is included in SWEPCO's requested cost-of-service in this proceeding.

⁵ PURA § 36.405(a)

SWEPCO's net Test Year SPP transmission charges, however, are not representative of the amount of such charges going forward. Indeed, the Test Year costs incurred by SWEPCO under the SPP OATT will be outdated when the rates established in this proceeding take effect. To address this reality, SWEPCO is proposing in this case that the portion of its ongoing SPP OATT charges that is above or below the net Test Year level be deferred into a regulatory asset or liability until they can be addressed in a future TCRF or base-rate proceeding. This proposal is discussed further in the direct testimony of SWEPCO witnesses Mr. Brice and John O. Aaron.

As explained by Mr. Brice, SWEPCO's proposal is consistent with PURA and Commission precedent. PURA § 36.209 gives the Commission authority to allow a utility to recover "changes in wholesale transmission charges to the electric utility under a tariff approved by a federal regulatory authority" to the extent the charges have not otherwise been recovered. And in Docket No. 42448, a SWEPCO TCRF proceeding, the Commission found that: (1) SWEPCO is obligated to pay SPP the charges SPP bills to SWEPCO pursuant to the SPP OATT for the provision of transmission services to SWEPCO; and (2) proof that the SPP charges were billed to and paid by SWEPCO pursuant to the SPP OATT demonstrates the reasonableness of the charges for retail ratemaking purposes as a matter of law.⁶ SWEPCO's proposal will allow recovery of the changes in transmission charges incurred by SWEPCO under the SPP OATT as permitted by PURA.

SWEPCO's legal obligation to pay for transmission services provided by SPP is no different than that of distribution service providers in ERCOT. The TCRF rule for distribution service providers operating in ERCOT, 16 TAC § 25.193, authorizes the distribution service provider to charge or credit its customers for the amount of Commission-approved wholesale transmission cost changes to the extent that such costs vary from the transmission service cost

⁶ *Application of Southwestern Electric Power Company for Approval of Transmission Cost Recovery Factor*, Docket No. 42448, Final Order at Conclusions of Law No. 16 and 18 (Nov. 24, 2014)

used to fix the base rates of the distribution service provider. While amending this rule for ERCOT utilities in Project No. 37909, the Commission observed that this recovery mechanism is appropriate because the ERCOT distribution service providers have no ability to avoid such costs or address and manage the regulatory lag that exists with respect to these costs. SWEPCO is in a similar position regarding the costs it incurs under the SPP OATT.

G. Vegetation Management Expenses

SWEPCO requests approval of a total annual vegetation management spend of \$14.57 million. This is an increase of \$5.0 million over the \$9.57 million in vegetation management expenses incurred in the Test Year. Vegetation is a major source of outages for SWEPCO, with outages caused by trees both inside and outside of distribution right-of-ways increasing from 2017 through 2019 as a total percentage of outage causes. The requested increase above Test Year expenses will be spent exclusively on the Company's Texas distribution system to maintain and improve reliability for Texas customers. SWEPCO witness Drew Seidel discusses the recommendation in greater detail in his testimony.

H. Rate-Case Expenses

SWEPCO seeks recovery of the reasonable rate-case expenses, including expenses paid to reimburse intervening municipalities, that it incurs in this case and those rate-case expenses incurred in the following prior dockets:

- Docket No. 49042, SWEPCO's most recent TCRF filing;
- Docket No. 46449 (appellate expenses for SWEPCO's most recently completed base rate case incurred after April 13, 2020); and
- Docket No. 40443 (appellate expenses incurred after April 13, 2020).⁷

⁷ The Commission addressed the reasonableness of SWEPCO's appellate expenses for Docket Nos. 40443 and 46449 incurred through April 13, 2020, in Docket No. 47141. *See Review of Rate Case Expenses Incurred by Southwestern Electric Power Company and Municipalities in Docket No. 46449*, Docket No. 47141, Final Order at Findings of Fact 77, 80, 86, and 93, and Ordering Paragraph 4 ("SWEPCO and CARD may seek to recover rate-case

SWEPCO has submitted, as exhibits to Company witness Lynn Ferry-Nelson's testimony, detailed information and documentation supporting the reasonableness of SWEPCO's actual, unrecovered rate-case expenses that were incurred:

- during the preparation of this case and recorded to SWEPCO's books and records as of July 31, 2020;
- to prosecute Docket No. 49042; and
- in the appeals of Docket Nos. 40443 and 46449 incurred after April 13, 2020, through July 31, 2020.

SWEPCO will supplement these exhibits to reflect its actual expenses for these cases as such expenses are incurred.

It is impossible, however, to address all of the expenses associated with this case in this case because at the time of hearing a portion of both SWEPCO's and any intervening municipalities' actual expenses not yet incurred will be unknown. Accordingly, SWEPCO expects the parties to agree on a cut-off date for expenses that will be reviewed in this case. SWEPCO proposes that the Commission: (1) review and determine the reasonableness of its actual rate-case expenses incurred in this proceeding before the cut-off date; and (2) authorize recovery of any expenses found to have been reasonably incurred through SWEPCO's Rate Case Surcharge Rider (RCS Rider). As to the rate-case expenses incurred in this proceeding after the cut-off date, SWEPCO proposes:

- 1) to file a projection of the expenses expected to be incurred through a final order in this docket with its final supplemental rate-case expense report;
- 2) that these projected expenses be included in and recovered through SWEPCO's RCS Rider;
- 3) that the Company's actual expenses incurred after the cut-off date be reviewed for reasonableness in the next proceeding before the Commission in which the Company's rate-case expenses are addressed; and

expenses incurred after April 13, 2020, for the appeals of Docket Nos. 40443 and 46449 in a future proceeding.") (Aug. 27, 2020).

- 4) that in the subsequent proceeding, the Commission adjust SWEPCO's RCS Rider to account for any over- or under-collection of rate-case expenses associated with this proceeding that have been found reasonable.

As to the expenses associated with Docket No. 49042, SWEPCO requests that any expenses found reasonable by the Commission be included in and recovered through SWEPCO's RCS Rider.

Finally, SWEPCO proposes that any expenses for the appeals of Docket Nos. 40443 and 46449 found reasonable by the Commission in this case be included in and recovered through SWEPCO's RCS Rider. SWEPCO proposes that any expenses for these appeals incurred after the cut-off date be addressed in the Company's next rate case.

V. PROPOSED REVISIONS OF TARIFFS AND SCHEDULES

SWEPCO is proposing revisions to most tariffs and schedules. A copy of all of the proposed revised tariffs is included within SWEPCO's RFP (Schedule Q-8.8). A description of these proposed revisions is contained in EXHIBIT JLJ-2 of the testimony of SWEPCO witness Jennifer L. Jackson. In order to facilitate TCRF, DCRF, and GCRR filings pursuant to 16 TAC §§ 25.239, 25.243, and 25.248, respectively, SWEPCO requests that the Commission set the Company's current TCRF and DCRF to zero and establish in this docket the baseline values consisting of the inputs to the calculations that will be used to calculate SWEPCO's TCRF, DCRF, and GCRR in future dockets.

Further, SWEPCO is proposing several new tariffs. In particular, SWEPCO is proposing two new rate schedules to accommodate the swiftly evolving electric vehicle (EV) industry: a rate schedule for home EV charging and a time-of-use rate suitable for commercial electric vehicle fleet service. SWEPCO is also requesting to revise its Experimental Economic Development Rider (ED Rider) in Texas and offer two options for Large Lighting and Power (LLP) and Lighting and Power Customers (LP). Economic development enables the long-term

growth and success of the communities in which we work and live. A strong and growing economy provides numerous benefits. For example, more and better paying jobs provide more financial security, better quality of life, additional reinvestment into the local economy and a greater tax base. Finally, SWEPCO is proposing to implement a time-of-use pilot project, which will provide participating customers with the ability to more precisely manage their energy costs by taking advantage of off-peak pricing. These tariff proposals are discussed by SWEPCO witnesses A. Malcolm Smoak and Ms. Jackson.

VI. EFFECTIVE DATE

The proposed effective date of the requested rate change is 35 days after the filing of this Petition. To the extent that the Commission suspends this requested effective date, SWEPCO requests that the rates approved by the Commission be made effective for consumption on and after the 155th day after the filing of this Petition in accordance with PURA § 36.211(b).

VII. AFFECTED PERSONS

SWEPCO has approximately 187,000 Texas retail customers, all of whom are affected by this application to change rates. Bill comparisons of the current and proposed rates for the residential and small commercial classes at various usage levels are attached as Appendix B to this Petition and also shown on Schedule Q-8.9. A comparison of present revenues by class at an equalized rate of return and the proposed class revenue assignments for both base rate revenues and total revenues is shown in the testimony of SWEPCO witness Jackson.

VIII. REQUESTED PROTECTIVE ORDER

SWEPCO requests that the Presiding Officer assigned to this case issue a protective order in the form provided as Appendix C to this Petition and RFP Schedule W to govern review and use of confidential, proprietary, and market-sensitive information. Schedule W tracks the

protective order adopted by the Commission in Docket No. 46449,⁸ which was SWEPCO's last base rate proceeding.

SWEPCO requests that the Presiding Officer consider this request for issuance of a protective order on an expedited basis. Pending approval of the protective order, SWEPCO will offer access to confidential and highly sensitive information to eligible requesting parties who execute the protective order certification. The confidential and highly sensitive information will also be made available at the Austin offices of AEP to those eligible parties who execute the protective order certification, which is included as Attachment A to the proposed protective order. Attachment C to the proposed protective order is a list of documents accompanying the RFP that SWEPCO considers confidential or highly sensitive information entitled to protection under the proposed protective order.

IX. NOTICE

SWEPCO will publish notice of this Petition in accordance with PURA §§ 36.102 and 36.103, as well as 16 TAC § 22.51(a). SWEPCO will submit proof of satisfying the Commission's notice requirements in the form of affidavits as soon as that information is available. The Company requests that the Presiding Officer, on an expedited basis, find that its proposed notice complies with PURA and the Commission's rules. The form of notice is attached to this Petition as Appendix D.

X. WAIVER OF RFP REQUIREMENTS

SWEPCO requests waiver of RFP requirements as set out in Schedule V of the RFP filed in this proceeding. On June 9, 2020, in Docket No. 50917, SWEPCO filed an application requesting a good cause waiver of the requirement that it file RFP Schedule S and perform the

⁸ Docket No. 46449, SOAH Order No. 1 at 3 (Dec. 21, 2016).

related audit required by Schedule S.⁹ SWEPCO served a copy of its application on all parties to its most recent base rate proceeding, Docket No. 46449.¹⁰ Cities Advocating Reasonable Deregulation (CARD) intervened in support of the requested waiver and, on July 31, 2020, Commission Staff recommended that SWEPCO's application be approved.¹¹ SWEPCO and Commission Staff filed an agreed proposed notice of approval on August 12, 2020.¹² No objection to SWEPCO's waiver application has been raised.

XI. PRAYER FOR RELIEF

For the reasons set out in this Petition and Statement of Intent, RFP, and accompanying testimony, SWEPCO requests that the Commission change its base rates and grant the relief sought in this Petition and such other relief to which SWEPCO may be entitled.

⁹ *Application of Southwestern Electric Power Company for Waiver of Rate Filing Package Schedule S*, Docket No. 50917, Application (Jun. 9, 2020).

¹⁰ Docket No. 50917, Proof of Notice Affidavit (Jul. 6, 2020)

¹¹ *Id.*, Commission Staff's Recommendation on Final Disposition at 1 (Jul. 31, 2020).

¹² *Id.*, Agreed Proposed Notice of Approval (Aug. 12, 2020).

Respectfully submitted,

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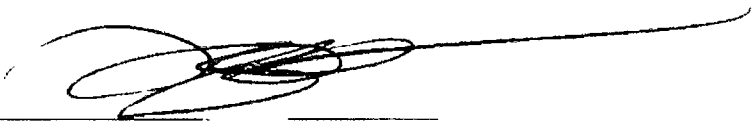
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By: 
William Coe

**ATTORNEYS FOR SOUTHWESTERN
ELECTRIC POWER COMPANY**

APPLICATION OF SOUTHWESTERN ELECTRIC POWER COMPANY FOR AUTHORITY TO CHANGE RATES	§ § §	BEFORE THE PUBLIC UTILITY COMMISSION OF TEXAS
-------------------------------------------------------------------------------------------------	----------------------	--------------------------------------------------------------

**LIST OF CITIES IN WHICH
SERVICE IS PROVIDED AND THE STATUS OF THEIR JURISDICTION**

Alba	Marshall
Atlanta	Maud
Avery	McLeod
* Beckville	Memphis
Bettie	Miller's Cove
Big Sandy	Mineola
Bloomburg	Mt. Enterprise
Carthage	Mt. Pleasant
Cason	Mt. Vernon
Center	Naples
Childress	Nash
* Clarendon	New Boston
Clarksville City	New London
Cookville	Omaha
Daingerfield	Overton
DeKalb	Pickton
* Dodson	Pittsburg
East Mountain	Price
Estelline	Pritchett
Fruitvale	Queen City
* Gary	Rolling Meadows
Gilmer	Redlick
Gladewater	Saltillo
Golden	Scottsville
Grand Saline	* Shamrock
Hallsville	Springhill
Hawkins	* Tatum
* Hedley	Tenaha
* Henderson	Texarkana
Hooks	Turnertown
Hughes Springs	* Union Grove
Jefferson	Wake Village
Joinerville	Wamba
Kilgore	Warren City
Lakeport	Waskom
* Lakeview	Wellington
Leary	White Oak
* Liberty City	Winfield
Linden	Winsboro
Longview	Winona

*Ceded Jurisdiction

SOUTHWESTERN ELECTRIC POWER COMPANY
Executive Summary
Bill Comparisons for Current and Proposed Rates

Appendix B

Residential Service

kWh	Current Rates Monthly Average Total Bill	Proposed Rates Monthly Average Total Bill
100	\$17.88	\$21.29
200	\$27.75	\$32.57
300	\$37.62	\$43.84
400	\$47.50	\$55.13
500	\$57.37	\$66.42
600	\$67.25	\$77.70
700	\$76.63	\$88.40
800	\$86.01	\$99.09
900	\$95.40	\$109.80
1000	\$104.78	\$120.49
1500	\$151.70	\$173.99
2000	\$198.61	\$227.49
2500	\$245.54	\$280.97
3000	\$292.46	\$334.46

General Service without Demand

kWh	Current Rates Monthly Average Total Bill	Proposed Rates Monthly Average Total Bill
100	\$21.31	\$27.21
200	\$31.03	\$39.41
300	\$40.75	\$51.62
400	\$50.48	\$63.82
500	\$60.20	\$76.03
600	\$69.92	\$88.23
700	\$79.64	\$100.45
800	\$89.36	\$112.65
900	\$99.08	\$124.86
1000	\$108.80	\$137.06
1500	\$157.41	\$198.09
2000	\$206.02	\$259.12
2500	\$254.64	\$320.15
3000	\$303.24	\$381.17

Detail for this calculation included in Schedule Q-8.9

APPLICATION OF SOUTHWESTERN	§	BEFORE THE
ELECTRIC POWER COMPANY FOR	§	PUBLIC UTILITY COMMISSION
AUTHORITY TO CHANGE RATES	§	OF TEXAS

PROTECTIVE ORDER

This Protective Order shall govern the use of all information deemed confidential (Protected Materials) or highly confidential (Highly Sensitive Protected Materials), including information whose confidentiality is currently under dispute, by a party providing information to the Public Utility Commission of Texas (Commission) or to any other party to this proceeding.

It is ORDERED that:

1. **Designation of Protected Materials.** Upon producing or filing a document, including, but not limited to, records on a computer disk or other similar electronic storage medium in this proceeding, the producing party may designate that document, or any portion of it, as confidential pursuant to this Protective Order by typing or stamping on its face “PROTECTED PURSUANT TO PROTECTIVE ORDER ISSUED IN DOCKET NO. _____” (or words to this effect) and consecutively Bates Stamping each page. Protected Materials and Highly Sensitive Protected Materials include the documents so designated, as well as the substance of the information contained in the documents and any description, report, summary, or statement about the substance of the information contained in the documents.
2. **Materials Excluded from Protected Materials Designation.** Protected Materials shall not include any information or document contained in the public files of the Commission or any other federal or state agency, court, or local governmental authority subject to the Public Information Act.¹ Protected Materials also shall not include documents or information which at the time of, or prior to disclosure in, a proceeding is or was public knowledge, or which becomes public knowledge other than through disclosure in violation of this Protective Order.

¹ Tex. Gov’t Code Ann. §§ 552.001-552.353 (West 2012 & Supp. 2016).

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3. **Reviewing Party.** For the purposes of this Protective Order, a “Reviewing Party” is any party to this docket.
4. **Procedures for Designation of Protected Materials.** On or before the date the Protected Materials or Highly Sensitive Protected Materials are provided to the Commission, the producing party shall file with the Commission and deliver to each party to the proceeding a written statement, which may be in the form of an objection, indicating: (a) any exemptions to the Public Information Act claimed to apply to the alleged Protected Materials; (b) the reasons supporting the producing party’s claim that the responsive information is exempt from public disclosure under the Public Information Act and subject to treatment as protected materials; and (c) that counsel for the producing party has reviewed the information sufficiently to state in good faith that the information is exempt from public disclosure under the Public Information Act and merits the Protected Materials designation.
5. **Persons Permitted Access to Protected Materials.** Except as otherwise provided in this Protective Order, a Reviewing Party may access Protected Materials only through its “Reviewing Representatives” who have signed the Protective Order Certification Form (see Attachment A). Reviewing Representatives of a Reviewing Party include its counsel of record in this proceeding and associated attorneys, paralegals, economists, statisticians, accountants, consultants, or other persons employed or retained by the Reviewing Party and directly engaged in this proceeding. At the request of the PUC Commissioners, copies of Protected Materials may be produced by Commission Staff. The Commissioners and their staff shall be informed of the existence and coverage of this Protective Order and shall observe the restrictions of the Protective Order.
6. **Highly Sensitive Protected Material Described.** The term “Highly Sensitive Protected Materials” is a subset of Protected Materials and refers to documents or information that a producing party claims is of such a highly sensitive nature that making copies of such documents or information or providing access to such documents to employees of the Reviewing Party (except as specified herein) would expose a producing party to unreasonable risk of harm. Highly Sensitive Protected Materials include but are not limited

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to: (a) customer-specific information protected by § 32.101(c) of the Public Utility Regulatory Act;² (b) contractual information pertaining to contracts that specify that their terms are confidential or that are confidential pursuant to an order entered in litigation to which the producing party is a party; (c) market-sensitive fuel price forecasts, wholesale transactions information and/or market-sensitive marketing plans; and (d) business operations or financial information that is commercially sensitive. Documents or information so classified by a producing party shall bear the designation “HIGHLY SENSITIVE PROTECTED MATERIALS PROVIDED PURSUANT TO PROTECTIVE ORDER ISSUED IN DOCKET NO. _____” (or words to this effect) and shall be consecutively Bates Stamped. The provisions of this Protective Order pertaining to Protected Materials also apply to Highly Sensitive Protected Materials, except where this Protective Order provides for additional protections for Highly Sensitive Protected Materials. In particular, the procedures herein for challenging the producing party’s designation of information as Protected Materials also apply to information that a producing party designates as Highly Sensitive Protected Materials.

7. **Restrictions on Copying and Inspection of Highly Sensitive Protected Material.**

Except as expressly provided in this Protective Order, one copy of Highly Sensitive Protected Materials may be made and kept in the possession of outside counsel for a Reviewing Party and one copy in the possession of the outside consultants having a need to access the materials, except that additional copies may be made to have sufficient copies for introduction of the material into the evidentiary record if the material is to be offered for admission into the record. The Reviewing Party shall maintain a record of all copies made of Highly Sensitive Protected Material and shall send a duplicate of the record to the producing party when the copy or copies are made. The record shall specify the location and the person possessing the copy. Limited notes may be made of Highly Sensitive Protected Materials, and such notes shall themselves be treated as Highly Sensitive Protected Materials unless such notes are limited to a description of the document and a

² Public Utility Regulatory Act, Tex. Util. Code Ann. §§ 11.001-66.016 (West 2007 & Supp. 2016) (PURA).

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general characterization of its subject matter in a manner that does not state any substantive information contained in the document.

8. **Restricting Persons Who May Have Access to Highly Sensitive Protected Material.**

With the exception of Commission Staff, the Office of the Attorney General (OAG), and the Office of Public Utility Counsel (OPC), and except as provided herein, the Reviewing Representatives for the purpose of access to Highly Sensitive Protected Materials may be persons who are (a) outside counsel for the Reviewing Party, (b) outside consultants for the Reviewing Party working under the direction of Reviewing Party's counsel or, (c) employees of the Reviewing Party working with and under the direction of Reviewing Party's counsel who have been authorized by the presiding officer to review Highly Sensitive Protected Materials. The Reviewing Party shall limit the number of Reviewing Representatives that review Highly Sensitive Protected Materials to the minimum number of persons necessary. The Reviewing Party is under a good faith obligation to limit access to each portion of any Highly Sensitive Protected Materials to two Reviewing Representatives whenever possible. Reviewing Representatives for Commission Staff, OAG, and OPC, for the purpose of access to Highly Sensitive Protected Materials, shall consist of their respective counsel of record in this proceeding and associated attorneys, paralegals, economists, statisticians, accountants, consultants, or other persons employed or retained by them and directly engaged in these proceedings.

9. **Copies Provided of Highly Sensitive Protected Material.** A producing party shall provide one copy of Highly Sensitive Protected Materials specifically requested by the Reviewing Party to the person designated by the Reviewing Party who must be a person authorized to review Highly Sensitive Protected Material under Paragraph 8. Representatives of the Reviewing Party who are authorized to view Highly Sensitive Protected Material may review the copy of Highly Sensitive Protected Materials at the office of the Reviewing Party's representative designated to receive the information. Any Highly Sensitive Protected Materials provided to a Reviewing Party may not be copied except as provided in Paragraph 7. The restrictions contained herein do not apply to

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Commission Staff, OPC, and the OAG when the OAG is a representing a party to the proceeding.

10. **Procedures in Paragraphs 10-14 Apply to Commission Staff, OPC, and the OAG and Control in the Event of Conflict.** The procedures in Paragraphs 10 through 14 apply to responses to requests for documents or information that the producing party designates as Highly Sensitive Protected Materials and provides to Commission Staff, OPC, and the OAG in recognition of their purely public functions. To the extent the requirements of Paragraphs 10 through 14 conflict with any requirements contained in other paragraphs of this Protective Order, the requirements of these Paragraphs shall control.
11. **Copy of Highly Sensitive Protected Material to be Provided to Commission Staff, OPC and the OAG.** When, in response to a request for information by a Reviewing Party, the producing party makes available for review documents or information claimed to be Highly Sensitive Protected Materials, the producing party shall also deliver one copy of the Highly Sensitive Protected Materials to the Commission Staff, OPC, and the OAG (if the OAG is representing a party) in Austin, Texas. Provided however, that in the event such Highly Sensitive Protected Materials are voluminous, the materials will be made available for review by Commission Staff, OPC, and the OAG (if the OAG is representing a party) at the designated office in Austin, Texas. The Commission Staff, OPC and the OAG (if the OAG is representing a party) may request such copies as are necessary of such voluminous material under the copying procedures specified herein.
12. **Delivery of the Copy of Highly Sensitive Protected Material to Commission Staff and Outside Consultants.** The Commission Staff, OPC, and the OAG (if the OAG is representing a party) may deliver the copy of Highly Sensitive Protected Materials received by them to the appropriate members of their staff for review, provided such staff members first sign the certification specified by Paragraph 15. After obtaining the agreement of the producing party, Commission Staff, OPC, and the OAG (if the OAG is representing a party) may deliver the copy of Highly Sensitive Protected Materials received by it to the agreed, appropriate members of their outside consultants for review, provided such outside consultants first sign the certification in Attachment A.

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13. **Restriction on Copying by Commission Staff, OPC and the OAG.** Except as allowed by Paragraph 7, Commission Staff, OPC and the OAG may not make additional copies of the Highly Sensitive Protected Materials furnished to them unless the producing party agrees in writing otherwise, or, upon a showing of good cause, the presiding officer directs otherwise. Commission Staff, OPC, and the OAG may make limited notes of Highly Sensitive Protected Materials furnished to them, and all such handwritten notes will be treated as Highly Sensitive Protected Materials as are the materials from which the notes are taken.
14. **Public Information Requests.** In the event of a request for any of the Highly Sensitive Protected Materials under the Public Information Act, an authorized representative of the Commission, OPC, or the OAG may furnish a copy of the requested Highly Sensitive Protected Materials to the Open Records Division at the OAG together with a copy of this Protective Order after notifying the producing party that such documents are being furnished to the OAG. Such notification may be provided simultaneously with the delivery of the Highly Sensitive Protected Materials to the OAG.
15. **Required Certification.** Each person who inspects the Protected Materials shall, before such inspection, agree in writing to the following certification found in Attachment A to this Protective Order:

I certify my understanding that the Protected Materials are provided to me pursuant to the terms and restrictions of the Protective Order in this docket, and that I have been given a copy of it and have read the Protective Order and agree to be bound by it. I understand that the contents of the Protected Materials, any notes, memoranda, or any other form of information regarding or derived from the Protected Materials shall not be disclosed to anyone other than in accordance with the Protective Order and unless I am an employee of the Commission or OPC shall be used only for the purpose of the proceeding in Docket No. _____. I acknowledge that the obligations imposed by this certification are pursuant to such Protective Order. Provided, however, if the information contained in the Protected Materials is obtained from independent public sources, the understanding stated herein shall not apply.

In addition, Reviewing Representatives who are permitted access to Highly Sensitive Protected Material under the terms of this Protective Order shall, before inspection of such

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material, agree in writing to the following certification found in Attachment A to this Protective Order:

I certify that I am eligible to have access to Highly Sensitive Protected Material under the terms of the Protective Order in this docket.

The Reviewing Party shall provide a copy of each signed certification to Counsel for the producing party and serve a copy upon all parties of record.

16. **Disclosures between Reviewing Representatives and Continuation of Disclosure Restrictions after a Person is no Longer Engaged in the Proceeding.** Any Reviewing Representative may disclose Protected Materials, other than Highly Sensitive Protected Materials, to any other person who is a Reviewing Representative provided that, if the person to whom disclosure is to be made has not executed and provided for delivery of a signed certification to the party asserting confidentiality, that certification shall be executed prior to any disclosure. A Reviewing Representative may disclose Highly Sensitive Protected Material to other Reviewing Representatives who are permitted access to such material and have executed the additional certification required for persons who receive access to Highly Sensitive Protected Material. In the event that any Reviewing Representative to whom Protected Materials are disclosed ceases to be engaged in these proceedings, access to Protected Materials by that person shall be terminated and all notes, memoranda, or other information derived from the protected material shall either be destroyed or given to another Reviewing Representative of that party who is authorized pursuant to this Protective Order to receive the protected materials. Any person who has agreed to the foregoing certification shall continue to be bound by the provisions of this Protective Order so long as it is in effect, even if no longer engaged in these proceedings.
17. **Producing Party to Provide One Copy of Certain Protected Material and Procedures for Making Additional Copies of Such Materials.** Except for Highly Sensitive Protected Materials, which shall be provided to the Reviewing Parties pursuant to Paragraphs 9, and voluminous Protected Materials, the producing party shall provide a Reviewing Party one copy of the Protected Materials upon receipt of the signed certification described in Paragraph 15. Except for Highly Sensitive Protected Materials, a Reviewing Party may

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make further copies of Protected Materials for use in this proceeding pursuant to this Protective Order, but a record shall be maintained as to the documents reproduced and the number of copies made, and upon request the Reviewing Party shall provide the party asserting confidentiality with a copy of that record.

18. **Procedures Regarding Voluminous Protected Materials.** 16 Tex. Admin. Code (TAC) § 22.144(h) will govern production of voluminous Protected Materials. Voluminous Protected Materials will be made available in the producing party's voluminous room, in Austin, Texas, or at a mutually agreed upon location, Monday through Friday, 9:00 a.m. to 5:00 p.m. (except on state or Federal holidays), and at other mutually convenient times upon reasonable request.
19. **Reviewing Period Defined.** The Protected Materials may be reviewed only during the Reviewing Period, which shall commence upon entry of this Protective Order and continue until the expiration of the Commission's plenary jurisdiction. The Reviewing Period shall reopen if the Commission regains jurisdiction due to a remand as provided by law. Protected materials that are admitted into the evidentiary record or accompanying the evidentiary record as offers of proof may be reviewed throughout the pendency of this proceeding and any appeals.
20. **Procedures for Making Copies of Voluminous Protected Materials.** Other than Highly Sensitive Protected Materials, Reviewing Parties may take notes regarding the information contained in voluminous Protected Materials made available for inspection or they may make photographic, mechanical or electronic copies of the Protected Materials, subject to the conditions in this Protective Order; provided, however, that before photographic, mechanical or electronic copies may be made, the Reviewing Party seeking photographic, mechanical or electronic copies must provide written confirmation of the receipt of copies listed on Attachment B of this Protective Order identifying each piece of Protected Materials or portions thereof the Reviewing Party will need.
21. **Protected Materials to be Used Solely for the Purposes of These Proceedings.** All Protected Materials shall be made available to the Reviewing Parties and their Reviewing Representatives solely for the purposes of these proceedings. Access to the Protected

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Materials may not be used in the furtherance of any other purpose, including, without limitation: (a) any other pending or potential proceeding involving any claim, complaint, or other grievance of whatever nature, except appellate review proceedings that may arise from or be subject to these proceedings; or (b) any business or competitive endeavor of whatever nature. Because of their statutory regulatory obligations, these restrictions do not apply to Commission Staff or OPC.

22. **Procedures for Confidential Treatment of Protected Materials and Information Derived from Those Materials.** Protected Materials, as well as a Reviewing Party's notes, memoranda, or other information regarding or derived from the Protected Materials are to be treated confidentially by the Reviewing Party and shall not be disclosed or used by the Reviewing Party except as permitted and provided in this Protective Order. Information derived from or describing the Protected Materials shall be maintained in a secure place and shall not be placed in the public or general files of the Reviewing Party except in accordance with the provisions of this Protective Order. A Reviewing Party must take all reasonable precautions to insure that the Protected Materials including notes and analyses made from Protected Materials that disclose Protected Materials are not viewed or taken by any person other than a Reviewing Representative of a Reviewing Party.
23. **Procedures for Submission of Protected Materials.** If a Reviewing Party tenders for filing any Protected Materials, including Highly Sensitive Protected Materials, or any written testimony, exhibit, brief, motion or other type of pleading or other submission at the Commission or before any other judicial body that quotes from Protected Materials or discloses the content of Protected Materials, the confidential portion of such submission shall be filed and served in sealed envelopes or other appropriate containers endorsed to the effect that they contain Protected Material or Highly Sensitive Protected Material and are sealed pursuant to this Protective Order. If filed at the Commission, such documents shall be marked "PROTECTED MATERIAL" and shall be filed under seal with the presiding officer and served under seal to the counsel of record for the Reviewing Parties. The presiding officer may subsequently, on his/her own motion or on motion of a party, issue a ruling respecting whether or not the inclusion, incorporation or reference to

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Protected Materials is such that such submission should remain under seal. If filing before a judicial body, the filing party: (a) shall notify the party which provided the information within sufficient time so that the producing party may seek a temporary sealing order; and (b) shall otherwise follow the procedures in Rule 76a, Texas Rules of Civil Procedure.

24. **Maintenance of Protected Status of Materials during Pendency of Appeal of Order**

Holding Materials are not Protected Materials. In the event that the presiding officer at any time in the course of this proceeding finds that all or part of the Protected Materials are not confidential or proprietary, by finding, for example, that such materials have entered the public domain or materials claimed to be Highly Sensitive Protected Materials are only Protected Materials, those materials shall nevertheless be subject to the protection afforded by this Protective Order for three (3) full working days, unless otherwise ordered, from the date the party asserting confidentiality receives notice of the presiding officer's order. Such notification will be by written communication. This provision establishes a deadline for appeal of a presiding officer's order to the Commission. In the event an appeal to the Commissioners is filed within those three (3) working days from notice, the Protected Materials shall be afforded the confidential treatment and status provided in this Protective Order during the pendency of such appeal. Neither the party asserting confidentiality nor any Reviewing Party waives its right to seek additional administrative or judicial remedies after the Commission's denial of any appeal.

25. **Notice of Intent to Use Protected Materials or Change Materials Designation.**

Parties intending to use Protected Materials shall notify the other parties prior to offering them into evidence or otherwise disclosing such information into the record of the proceeding. During the pendency of Docket No. _____ at the Commission, in the event that a Reviewing Party wishes to disclose Protected Materials to any person to whom disclosure is not authorized by this Protective Order, or wishes to have changed the designation of certain information or material as Protected Materials by alleging, for example, that such information or material has entered the public domain, such Reviewing Party shall first file and serve on all parties written notice of such proposed disclosure or request for change in designation, identifying with particularity each of such Protected Materials. A Reviewing

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Party shall at any time be able to file a written motion to challenge the designation of information as Protected Materials.

26. **Procedures to Contest Disclosure or Change in Designation.** In the event that the party asserting confidentiality wishes to contest a proposed disclosure or request for change in designation, the party asserting confidentiality shall file with the appropriate presiding officer its objection to a proposal, with supporting affidavits, if any, within five (5) working days after receiving such notice of proposed disclosure or change in designation. Failure of the party asserting confidentiality to file such an objection within this period shall be deemed a waiver of objection to the proposed disclosure or request for change in designation. Within five (5) working days after the party asserting confidentiality files its objection and supporting materials, the party challenging confidentiality may respond. Any such response shall include a statement by counsel for the party challenging such confidentiality that he or she has reviewed all portions of the materials in dispute and, without disclosing the Protected Materials, a statement as to why the Protected Materials should not be held to be confidential under current legal standards, or that the party asserting confidentiality for some reason did not allow such counsel to review such materials. If either party wishes to submit the material in question for in camera inspection, it shall do so no later than five (5) working days after the party challenging confidentiality has made its written filing.
27. **Procedures for Presiding Officer Determination Regarding Proposed Disclosure or Change in Designation.** If the party asserting confidentiality files an objection, the appropriate presiding officer will determine whether the proposed disclosure or change in designation is appropriate. Upon the request of either the producing or Reviewing Party or upon the presiding officer's own initiative, the presiding officer may conduct a prehearing conference. The burden is on the party asserting confidentiality to show that such proposed disclosure or change in designation should not be made. If the presiding officer determines that such proposed disclosure or change in designation should be made, disclosure shall not take place earlier than three (3) full working days after such

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determination unless otherwise ordered. No party waives any right to seek additional administrative or judicial remedies concerning such presiding officer's ruling.

28. **Maintenance of Protected Status during Periods Specified for Challenging Various Orders.** Any party electing to challenge, in the courts of this state, a Commission or presiding officer determination allowing disclosure or a change in designation shall have a period of ten (10) days from: (a) the date of an unfavorable Commission order; or (b) if the Commission does not rule on an appeal of an interim order, the date an appeal of an interim order to the Commission is overruled by operation of law, to obtain a favorable ruling in state district court. Any party challenging a state district court determination allowing disclosure or a change in designation shall have an additional period of ten (10) days from the date of the order to obtain a favorable ruling from a state appeals court. Finally, any party challenging a determination of a state appeals court allowing disclosure or a change in designation shall have an additional period of ten (10) days from the date of the order to obtain a favorable ruling from the state supreme court, or other appellate court. All Protected Materials shall be afforded the confidential treatment and status provided for in this Protective Order during the periods for challenging the various orders referenced in this paragraph. For purposes of this paragraph, a favorable ruling of a state district court, state appeals court, Supreme Court or other appellate court includes any order extending the deadlines in this paragraph.
29. **Other Grounds for Objection to Use of Protected Materials Remain Applicable.** Nothing in this Protective Order shall be construed as precluding any party from objecting to the use of Protected Materials on grounds other than confidentiality, including the lack of required relevance. Nothing in this Protective Order constitutes a waiver of the right to argue for more disclosure, provided, however, that unless the Commission or a court orders such additional disclosure, all parties will abide by the restrictions imposed by the Protective Order.
30. **Protection of Materials from Unauthorized Disclosure.** All notices, applications, responses or other correspondence shall be made in a manner which protects Protected Materials from unauthorized disclosure.

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31. **Return of Copies of Protected Materials and Destruction of Information Derived from Protected Materials.** Following the conclusion of these proceedings, each Reviewing Party must, no later than thirty (30) days following receipt of the notice described below, return to the party asserting confidentiality all copies of the Protected Materials provided by that party pursuant to this Protective Order and all copies reproduced by a Reviewing Party, and counsel for each Reviewing Party must provide to the party asserting confidentiality a letter by counsel that, to the best of his or her knowledge, information, and belief, all copies of notes, memoranda, and other documents regarding or derived from the Protected Materials (including copies of Protected Materials) that have not been so returned, if any, have been destroyed, other than notes, memoranda, or other documents which contain information in a form which, if made public, would not cause disclosure of the substance of Protected Materials. As used in this Protective Order, “conclusion of these proceedings” refers to the exhaustion of available appeals, or the running of the time for the making of such appeals, as provided by applicable law. If, following any appeal, the Commission conducts a remand proceeding, then the “conclusion of these proceedings” is extended by the remand to the exhaustion of available appeals of the remand, or the running of the time for making such appeals of the remand, as provided by applicable law. Promptly following the conclusion of these proceedings, counsel for the party asserting confidentiality will send a written notice to all other parties, reminding them of their obligations under this Paragraph. Nothing in this Paragraph shall prohibit counsel for each Reviewing Party from retaining two (2) copies of any filed testimony, brief, application for rehearing, hearing exhibit or other pleading which refers to Protected Materials provided that any such Protected Materials retained by counsel shall remain subject to the provisions of this Protective Order.
32. **Applicability of Other Law.** This Protective Order is subject to the requirements of the Public Information Act, the Open Meetings Act,³ the Texas Securities Act⁴ and any other applicable law, provided that parties subject to those acts will notify the party asserting

³ Tex. Gov’t Code Ann. § 551.001-551.146 (West 2012 & Supp. 2016).

⁴ Tex. Rev. Civ. Stat. Ann. arts. 581-1 to 581-43 (West 2010 & Supp. 2016).

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confidentiality, if possible under those acts, prior to disclosure pursuant to those acts. Such notice shall not be required where the Protected Materials are sought by governmental officials authorized to conduct a criminal or civil investigation that relates to or involves the Protected Materials, and those governmental officials aver in writing that such notice could compromise the investigation and that the governmental entity involved will maintain the confidentiality of the Protected Materials.

33. **Procedures for Release of Information under Order.** If required by order of a governmental or judicial body, the Reviewing Party may release to such body the confidential information required by such order; provided, however, that: (a) the Reviewing Party shall notify the producing party of the order requiring the release of such information within five (5) calendar days of the date the Reviewing Party has notice of the order; (b) the Reviewing Party shall notify the producing party at least five (5) calendar days in advance of the release of the information to allow the producing party to contest any release of the confidential information; and (c) the Reviewing Party shall use its best efforts to prevent such materials from being disclosed to the public. The terms of this Protective Order do not preclude the Reviewing Party from complying with any valid and enforceable order of a state or federal court with competent jurisdiction specifically requiring disclosure of Protected Materials earlier than contemplated herein. The notice specified in this section shall not be required where the Protected Materials are sought by governmental officials authorized to conduct a criminal or civil investigation that relates to or involves the Protected Materials, and those governmental officials aver in writing that such notice could compromise the investigation and that the governmental entity involved will maintain the confidentiality of the Protected Materials.
34. **Best Efforts Defined.** The term “best efforts” as used in the preceding paragraph requires that the Reviewing Party attempt to ensure that disclosure is not made unless such disclosure is pursuant to a final order of a Texas governmental or Texas judicial body, the written opinion of the Texas Attorney General sought in compliance with the Public Information Act, or the request of governmental officials authorized to conduct a criminal or civil investigation that relates to or involves the Protected Materials. The Reviewing

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Party is not required to delay compliance with a lawful order to disclose such information but is simply required to timely notify the party asserting confidentiality, or its counsel, that it has received a challenge to the confidentiality of the information and that the Reviewing Party will either proceed under the provisions of §552.301 of the Public Information Act, or intends to comply with the final governmental or court order. Provided, however, that no notice is required where the Protected Materials are sought by governmental officials authorized to conduct a criminal or civil investigation that relates to or involves the Protected Materials, and those governmental officials aver in writing that such notice could compromise the investigation and that the governmental entity involved will maintain the confidentiality of the Protected Materials.

35. **Notify Defined.** “Notify” for purposes of Paragraphs 32, 33 and 34 means written notice to the party asserting confidentiality at least five (5) calendar days prior to release; including when a Reviewing Party receives a request under the Public Information Act. However, the Commission, OAG, or OPC may provide a copy of Protected Materials to the Open Records Division of the OAG as provided herein.
36. **Requests for Non-Disclosure.** If the producing party asserts that the requested information should not be disclosed at all, or should not be disclosed to certain parties under the protection afforded by this Protective Order, the producing party shall tender the information for in camera review to the presiding officer within ten (10) calendar days of the request. At the same time, the producing party shall file and serve on all parties its argument, including any supporting affidavits, in support of its position of non-disclosure. The burden is on the producing party to establish that the material should not be disclosed. The producing party shall serve a copy of the information under the classification of Highly Sensitive Protected Material to all parties requesting the information that the producing party has not alleged should be prohibited from reviewing the information.

Parties wishing to respond to the producing party’s argument for non-disclosure shall do so within five working days. Responding parties should explain why the information should be disclosed to them, including why disclosure is necessary for a fair adjudication of the case if the material is determined to constitute a trade secret. If the presiding officer

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Protective Order

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finds that the information should be disclosed as Protected Material under the terms of this Protective Order, the presiding officer shall stay the order of disclosure for such period of time as the presiding officer deems necessary to allow the producing party to appeal the ruling to the Commission.

37. **Sanctions Available for Abuse of Designation.** If the presiding officer finds that a producing party unreasonably designated material as Protected Material or as Highly Sensitive Protected Material, or unreasonably attempted to prevent disclosure pursuant to Paragraph 36, the presiding officer may sanction the producing party pursuant to 16 TAC § 22.161.
38. **Modification of Protective Order.** Each party shall have the right to seek changes in this Protective Order as appropriate from the presiding officer.
39. **Breach of Protective Order.** In the event of a breach of the provisions of this Protective Order, the producing party, if it sustains its burden of proof required to establish the right to injunctive relief, shall be entitled to an injunction against such breach without any requirements to post bond as a condition of such relief. The producing party shall not be relieved of proof of any element required to establish the right to injunctive relief. In addition to injunctive relief, the producing party shall be entitled to pursue any other form of relief to which it is entitled.

ATTACHMENT A

Protective Order Certification

I certify my understanding that the Protected Materials are provided to me pursuant to the terms and restrictions of the Protective Order in this docket and that I have received a copy of it and have read the Protective Order and agree to be bound by it. I understand that the contents of the Protected Materials, any notes, memoranda, or any other form of information regarding or derived from the Protected Materials shall not be disclosed to anyone other than in accordance with the Protective Order and unless I am an employee of the Commission or OPC shall be used only for the purpose of the proceeding in Docket No. _____. I acknowledge that the obligations imposed by this certification are pursuant to such Protective Order. Provided, however, if the information contained in the Protected Materials is obtained from independent public sources, the understanding stated here shall not apply.

Signature

Party Represented

Printed Name

Date

I certify that I am eligible to have access to Highly Sensitive Protected Material under the terms of the Protective Order in this docket.

Signature

Party Represented

Printed Name

Date

ATTACHMENT B

I request to view/copy the following documents:

Document Requested	# of Copies	Non-Confidential	Protected Materials and/or Highly Sensitive Protected Materials

Signature

Party Represented

Printed Name

Date

ATTACHMENT C

APPLICATION OF SOUTHWESTERN § BEFORE THE
ELECTRIC POWER COMPANY FOR § PUBLIC UTILITY COMMISSION
AUTHORITY TO CHANGE RATES § OF TEXAS

**STATEMENT UNDER SECTION 4 OF THE PROTECTIVE ORDER AND
LIST OF CONFIDENTIAL/HIGHLY SENSITIVE INFORMATION**

Southwestern Electric Power Company's (SWEPCO) filing package includes customer specific information, confidential employee related information, proprietary information, commercially or competitively sensitive information, and/or trade secret information, or information whose public disclosure would be contrary to contractual obligations to which SWEPCO is bound. The public disclosure of this information would harm SWEPCO or third parties with whom SWEPCO must maintain an ongoing business relationship. Therefore, this information is protected under the Public Information Act, Tex. Gov't. Code §§552.101, 552.104, and 552.110, or Tex. Util. Code §32.101(c). The following is a list of schedules, exhibits, and workpapers that include such information, along with the sponsoring witness, the designation of the information, and applicable legal exemption.

Confidential and Highly Sensitive Material

Witness	Exempt Material	Designation	Exempt Under Tex. Gov't Code
Andrew R. Carlin	Testimony Exhibits ARC-10 and ARC-11	Confidential	§§552.101, 552.104, 552.110
David A. Hodgson	Testimony Exhibit DAH-8	Highly Sensitive	§552.101, 552.104, 552.110
Amy E. Jeffries	Schedule E-2.2; WP/Schedule E-2.2; Schedule E-2.3; Schedule E-2.4	Highly Sensitive	§§552.104, 552.110

Michael A. Baird; Andrew R. Carlin	Schedule G-2.3, Attachments 1-5	Confidential	§§552.104, 552.110
David A. Hodgson	Schedule G-7.13e; Schedule G-7.13f; WP/Schedule G-7.13	Highly Sensitive	§552.101, 552.104, 552.110
Monte A. McMahon	Schedule H-6.2a; Schedule H-6.2b; Schedule H-6.2c	Highly Sensitive	§§552.104, 552.110
Monte A. McMahon	Schedule H-12.3a; Schedule H-12.3c	Highly Sensitive	§§552.104, 552.110
Amy E. Jeffries	Schedule I-4; WP/Schedule I-4	Highly Sensitive	§§552.104, 552.110
Amy E. Jeffries	Schedule I-17.1; Schedule I-17.2	Highly Sensitive	§§552.104, 552.110
Renee V. Hawkins	Schedule K-5; Schedule K-6; Schedule K-7	Highly Sensitive	§§552.104, 552.110
Chad M. Burnett	Schedule O-2.1; Schedule O-2.2; Schedule O-9.1; Schedule O-9.2	Highly Sensitive	§§552.101, 552.104, 552.110

I certify that I have reviewed the information sufficiently to state in good faith that the information is exempt from public disclosure under the Public Information Act or Tex. Util. Code § 32.101(c) and merits the application designation of Confidential (Protected) Materials or Highly Sensitive (Highly Sensitive Protected) Materials detailed in the Protective Order accompanying this Application.


Patrick Pearsall

Date: October 13, 2020

NOTICE OF RATE CHANGE REQUEST

On October 13, 2020, Southwestern Electric Power Company (SWEPCO or Company) filed a Petition and Statement of Intent to Change Rates (the Petition) with the Public Utility Commission of Texas (PUC or the Commission) in Docket No. _____, and with those municipal authorities in its Texas service territory that have original jurisdiction over SWEPCO's electric rates. This notice is being published in accordance with Section 36.103 of the Public Utility Regulatory Act and Commission Procedural Rule 16 Tex. Admin. Code § 22.51(a)(1).

SWEPCO has approximately 187,000 Texas retail customers. All such customers and all classes of customers will be affected by the relief requested in SWEPCO's Petition.

SWEPCO's request to change its rates is based on the financial results for a 12-month test year ending on March 31, 2020. SWEPCO's Petition seeks an overall increase of \$105,026,238, an increase of 30.3% over adjusted Texas retail test year base rate revenues exclusive of fuel and rider revenues. SWEPCO's proposed revenue increase will be offset by a \$14,826,502 decrease in annualized Transmission Cost Recovery Factor (TCRF) and Distribution Cost Recovery Factor (DCRF) revenue. Thus, the net proposed Texas retail revenue increase is \$90,199,736, an increase of 26.0% over adjusted Texas retail test year base rate revenues exclusive of fuel and rider revenues. The overall impact of the rate change, considering both fuel and non-fuel revenues, is a 15.6% increase. The impact of the rate change on various customer classes will vary from the overall impact described in this notice, as shown in the table below. In addition, SWEPCO is seeking recovery of the reasonable rate-case expenses, including expenses paid to reimburse intervening municipalities, that it incurs in this case and those rate-case expenses incurred in three prior dockets that have yet to be recovered.

A Residential Service customer using 1,000 kilowatt-hours of energy per month will see an increase in their total bill (including fuel costs and rate riders) of \$15.71 per month, an increase of approximately 15.0%.

The following table presents the percentage annual revenue increases, by type of service, under the proposed rates in this proceeding:

SWEPCO Texas Proposed Base Rate Increase			
MAJOR RATE CLASS	Change in Non-Fuel Revenue (\$) *	Change in Non-Fuel Revenue (%) **	Change in Total Bill (%) ***
RESIDENTIAL	\$ 34,924,204	23.75%	15.64%
GENERAL SERVICE	6,629,030	28.19%	20.61%
LIGHTING & POWER	35,573,447	27.55%	16.26%
COTTON GIN	69,427	26.14%	15.74%
TOTAL COMMERCIAL	42,271,904	28.80%	16.82%
INDUSTRIAL	11,738,370	27.98%	13.28%
TOTAL COMM & INDUSTRIAL	54,010,274	28.61%	15.90%
MUNICIPAL	367,417	9.35%	5.35%
MUNICIPAL LIGHTING	222,068	9.67%	6.88%
TOTAL MUNICIPAL	589,485	9.47%	5.84%
LIGHTING	674,745	15.18%	10.57%
* Base rate revenue net of transmission and distribution cost recovery revenues.			
** Transmission and distribution cost recovery factor revenue recovered in existing base rates will be reset to zero with this filing.			
*** Bill impact includes base rate revenue plus fuel factor, energy efficiency cost recovery factor, rate-case expense surcharge, transmission cost recovery revenue, and distribution cost recovery revenue.			

SWEPCO has proposed that its requested rate change become effective 35 days after the filing of the Petition and Statement of Intent. The proposed effective date is subject to suspension and extension by actions that may be taken by the Commission and other regulatory authorities.

SWEPCO is proposing revisions to most tariffs and schedules. In addition, in order to facilitate future TCRF, DCRF, and Generation Cost Recovery Rider (GCRR) filings pursuant to 16 TAC §§ 25.239, 25.243, and 25.248, respectively, SWEPCO requests that the Commission: (1) set the Company's current TCRF and DCRF to zero; and (2) establish in this docket the baseline values consisting of the inputs to the calculations that will be used to calculate SWEPCO's TCRF, DCRF, and GCRR in future dockets.

Persons with questions or who want more information on this Petition may contact SWEPCO at 428 Travis Street, Shreveport, Louisiana 71101, or call toll-free at (888) 216-3523 during normal business hours. A complete copy of the Petition and related filings is available for inspection at the address listed in the previous sentence.

Persons who wish to intervene in or comment upon these proceedings should notify the Commission as soon as possible, as an intervention deadline will be imposed. A request to intervene or for further information should be mailed to the Public Utility Commission of Texas, P.O. Box 13326, Austin, Texas 78711-3326. Further information may also be obtained by calling the Public Utility Commission at (512) 936-7120 or (888) 782-8477. Hearing- and speech-impaired individuals with text telephones (TTY) may contact the commission at (512) 936-7136. A request for intervention or for further information should refer to Docket No. _____.

EXECUTIVE SUMMARY OF ALBERT MALCOLM SMOAK

Albert Malcolm Smoak, Southwestern Electric Power Company's (SWEPCO or the Company) President and Chief Operating Officer, is responsible for the safe delivery of reliable electric energy and quality services to SWEPCO's customers in Texas, Arkansas, and Louisiana. This includes oversight of distribution, customer service, regulatory and statutory compliance, community and economic development, and maintenance of SWEPCO's financial performance and health. Additionally, Mr. Smoak provides strategic coordination of transmission and generation operations as those activities affect SWEPCO's financial health and day-to-day operations. He coordinates with American Electric Power Service Corporation (AEPSC) departments and leaders responsible for supporting SWEPCO's provision of utility service. Mr. Smoak also represents SWEPCO as it interacts with other operating units within the American Electric Power Company (AEP) system. Mr. Smoak's testimony provides an overview of SWEPCO, describes the nature of this case, and describes the rate relief SWEPCO is requesting.

SWEPCO is a wholly owned subsidiary of AEP and is a fully integrated electric utility providing service to 543,400 retail customers and six wholesale customers in Texas, Arkansas, and Louisiana. Of those retail customers, 187,400 reside in Texas. Two of SWEPCO's six FERC-approved wholesale customer contracts are with electric cooperatives in Texas. Through wholesale arrangements with these Texas cooperatives, SWEPCO supplies generation to cooperatives serving approximately 240,000 retail customers in Texas. SWEPCO's Texas service area is entirely in the Southwest Power Pool (SPP), which maintains functional control of SWEPCO's transmission system and executes an organized wholesale market in which SWEPCO participates.

Mr. Smoak's testimony provides an overview of SWEPCO's rate case application, the witnesses SWEPCO is presenting, and some of the primary drivers behind the filing, as well as some of the requested changes to SWEPCO's tariffed services. Among the tariff revisions supported by Mr. Smoak is the addition of electric vehicle (EV) charging tariffs, a time of use tariff, and expansion of an economic development tariff.

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF
SOUTHWESTERN ELECTRIC POWER COMPANY
FOR AUTHORITY TO CHANGE RATES

DIRECT TESTIMONY OF
A. MALCOLM SMOAK
FOR
SOUTHWESTERN ELECTRIC POWER COMPANY

OCTOBER 2020

TESTIMONY INDEX

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EXHIBITS

<u>EXHIBIT</u>	<u>DESCRIPTION</u>
EXHIBIT AMS-1	List of SWEPCO Witnesses

1 I. INTRODUCTION

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

4 A. My name is Albert Malcolm Smoak. I am employed by Southwestern Electric Power
5 Company (SWEPCO or the Company) as President and Chief Operating Officer
6 (COO). SWEPCO is an operating company of American Electric Power Company,
7 Inc. (AEP). My business address is 428 Travis Street, Shreveport, Louisiana 71101.

8 Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND BUSINESS BACKGROUND.

9 A. I hold a Bachelor of Science degree in electrical engineering from Louisiana Tech
10 University. I am a registered professional engineer in the State of Louisiana, a
11 member of the Institute of Electrical and Electronics Engineers (IEEE), and former
12 President of the IEEE Shreveport chapter. I am a member of the National Society of
13 Professional Engineers (NSPE) and represent the NSPE on the National Electrical
14 Safety Code, Subcommittee Eight.

15 My career at SWEPCO began in 1984 as a distribution engineer. I have held
16 positions of escalating responsibility serving as a meterman supervisor, the Louisiana
17 division operations superintendent, distribution operations supervisor, distribution
18 engineering supervisor, and the Shreveport district manager of the distribution
19 system. I assumed the position of Vice President of Distribution Region Operations
20 in 2004, at which time I had responsibility for distribution throughout the SWEPCO
21 service territory in Arkansas, Louisiana, and Texas. In May 2018, I was promoted to
22 my current position.

1 Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES?

2 A. As President and COO of SWEPCO, I am responsible for the safe delivery of reliable
3 electric energy and quality services to our customers. This includes oversight of the
4 following SWEPCO functions in Arkansas, Louisiana, and Texas:

- 5 • Distribution;
- 6 • Customer service;
- 7 • Regulatory and statutory compliance;
- 8 • Community relations and economic development; and
- 9 • Maintenance of SWEPCO's financial performance and health.

10 In addition, I provide strategic coordination of transmission and generation
11 operations as these activities affect SWEPCO's financial health and day-to-day
12 operations. In fulfilling these roles, I coordinate with American Electric Power Service
13 Corporation (AEPSC) departments and leaders responsible for supporting SWEPCO's
14 provision of utility services. I also represent SWEPCO as it interacts with other
15 operating units within the AEP system.

16 Q. HAVE YOU SUBMITTED TESTIMONY BEFORE A REGULATORY
17 COMMISSION?

18 A. Yes. I have filed testimony before the Arkansas Public Service Commission, the
19 Louisiana Public Service Commission, and the Public Utility Commission of Texas
20 (Commission). I have previously submitted testimony before this Commission in
21 Docket Nos. 49737, 46449, 45712, 40443, and 37364.

1 II. PURPOSE OF TESTIMONY

2 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

3 A. My testimony:

4 1. provides an overview of the Company:

5 2. describes the nature of this case:

6 3. describes the rate relief SWEPCO is requesting; and

7 4. describes some of the requested changes to SWEPCO's tariffed services.

8 Q. WILL YOU PLEASE IDENTIFY THE OTHER TESTIMONY SWEPCO IS
9 SUBMITTING IN SUPPORT OF THIS APPLICATION AND THE SUBJECT
10 MATTER OF THE TESTIMONY?

11 A. Yes. SWEPCO is presenting 30 pieces of testimony and related exhibits in this case.

12 The general subject matter of each witness's testimony is listed in EXHIBIT AMS-1.
13

14 III. SWEPCO OVERVIEW

15 Q. PLEASE DESCRIBE SWEPCO.

16 A. SWEPCO is a wholly owned subsidiary of AEP and is a fully integrated electric utility
17 providing service to 543,400 retail customers and six wholesale customers in Texas,
18 Arkansas, and Louisiana. Of those retail customers, 187,400 reside in Texas. Two of
19 our six FERC-approved wholesale customer contracts are with electric cooperatives in
20 Texas. Through wholesale arrangements with these Texas cooperatives, SWEPCO
21 supplies generation to cooperatives serving approximately 240,000 retail customers in
22 Texas.

23 SWEPCO's Texas service area generally includes the area between Waskom
24 (on the eastern Texas border) and Sulphur Springs on the west, and Texarkana and

1 Center on the north and south, with an additional five counties along the eastern Texas
2 border in the Texas panhandle, running north of Childress to Wheeler. The largest
3 cities in SWEPCO's Texas service area include Longview, Texarkana, Marshall,
4 Mount Pleasant, Kilgore, and Henderson. This service area is entirely in the Southwest
5 Power Pool (SPP). The SPP maintains functional control of the SWEPCO transmission
6 system and executes an organized wholesale market in which SWEPCO participates.

7 Q. PLEASE DISCUSS THE OVERALL ORGANIZATION OF THE AEP SYSTEM
8 AND HOW SWEPCO FITS WITHIN THAT SYSTEM.

9 A. AEP is an electric utility holding company whose electric utility subsidiaries provide
10 generation, transmission, and distribution services to approximately 5.5 million retail
11 customers in Arkansas, Indiana, Kentucky, Louisiana, Michigan, Ohio, Oklahoma,
12 Tennessee, Texas, Virginia, and West Virginia. AEP owns nine electric utility
13 operating companies including two operating in Texas – SWEPCO and AEP Texas Inc.
14 -- as well as AEPSC. AEP also participates in several transmission joint ventures,
15 including Electric Transmission Texas, LLC in the Electric Reliability Council of
16 Texas.

17
18 IV. NATURE OF THE CASE

19 Q. WHAT IS THE PURPOSE OF THIS CASE?

20 A. The drivers of this case are multifaceted. First, SWEPCO's actual return on equity
21 since the Commission last adjusted SWEPCO's base rates in Docket No. 46449 has
22 been below market requirements and the return authorized by the Commission in that
23 case. Further, SWEPCO's load growth has not been such that it allows revenues to

1 keep pace with costs, despite significant cost control efforts. The Commission set
2 SWEPCO's existing base rates based on a July 1, 2015 through June 30, 2016 test year.
3 While the Company has taken advantage of the Transmission Cost Recovery Factor
4 (TCRF) and Distribution Cost Recovery Factor (DCRF) mechanisms, the cost and cost
5 allocation information from those previous cases is now stale. In addition, SWEPCO
6 needs to reflect in its rates incremental investment in generation since the test year in
7 Docket No. 46449 and incremental investment in transmission and distribution since
8 the TCRF and DCRF mechanisms mentioned previously.

9 Second, economic circumstances have altered the service life of SWEPCO's
10 Dolet Hills Power Station (Dolet Hills). Dolet Hills is a lignite-fired generation plant
11 supplied by an adjacent lignite mine. Regarding Dolet Hills, SWEPCO has determined
12 that all of the economically recoverable lignite has been mined from the adjacent mine.
13 Lignite production at the adjacent mine ceased in May of 2020. Dolet Hills will
14 continue to operate for the benefit of customers through the peak energy use season in
15 2021 with lignite that has been mined and has been, or will be, delivered to the
16 generation plant this year and in 2021. Dolet Hills will retire no later than December
17 31, 2021.

18 Realizing that depreciation of Dolet Hills over its 2021 economically useful life
19 for ratemaking purposes would have a significant impact on SWEPCO's rates that are
20 to be set in this proceeding, SWEPCO proposes a rate treatment that will significantly
21 mitigate that rate impact. When the United States Congress reduced the federal
22 corporate income tax rate to 21% in 2018, an excess of Accumulated Deferred Income
23 Taxes (ADIT) was created for SWEPCO. In SWEPCO's previous general base rate

1 case. Docket No. 46449, the Commission ordered that excess deferred taxes resulting
2 from the reduction in the federal income tax rate be addressed in SWEPCO's next base-
3 rate case.¹ SWEPCO proposes to use the balance of the unprotected excess ADIT and
4 the refund provision associated with the protected excess ADIT to offset the
5 undepreciated value of Dolet Hills in this rate proceeding. This rate treatment is
6 discussed further by SWEPCO witnesses Thomas Brice and Michael Baird.

7 Further, SWEPCO is proposing in this case a total annual vegetation
8 management spend of \$14.57 million. This is an increase of \$5.0 million over the
9 \$9.57 million in vegetation management expenses incurred in the Test Year.²
10 Vegetation is a major source of outages for SWEPCO, with outages caused by trees
11 both inside and outside of distribution right-of-ways increasing from 2017 through
12 2019 as a total percentage of outage causes. The requested increase above Test Year
13 expenses will be used solely for increased vegetation management. SWEPCO's
14 proposal for an increased level of vegetation management funds will be spent
15 exclusively on the Company's Texas distribution system, with the objective of reducing
16 tree-related outages and improving reliability on the targeted Texas circuits. This
17 proposal is addressed further by SWEPCO witness Drew Seidel.

18 In this proceeding, SWEPCO also requests Commission approval of certain
19 policy-oriented proposals including the establishment of a self-insurance reserve,

¹ *Application of Southwestern Electric Power Company for Authority to Change Rates*, Docket No. 46449, Order on Rehearing, Ordering Paragraph 10 (Mar. 19, 2018)

² The Test Year in this case is the historical period from April 1, 2019 through March 31, 2020.

1 deferred recovery of Hurricane Laura restoration costs, and a declaratory order related
2 to investment in battery storage. These policy-oriented proposals are addressed by
3 SWEPCO witness Mr. Brice.

4 SWEPCO also proposes several revisions to its tariffs. Among these revisions
5 is the addition of electric vehicle (EV) charging tariffs, a time of use tariff, and
6 expansion of an economic development tariff. I discuss these three changes to our
7 tariffed services below. The details of the proposed changes to SWEPCO's Texas
8 tariffs is discussed by SWEPCO witness Jennifer Jackson.

9 Overall, the purpose of this case is to better align SWEPCO's revenues with the
10 cost of providing service and to position the Company to provide safe, reliable, and
11 effective service to customers now and in the years to come.

12 Q. YOU STATE THAT SWEPCO'S LOAD GROWTH HAS NOT KEPT PACE WITH
13 THE COST OF PROVIDING SERVICE. WILL YOU PLEASE ELABORATE?

14 A. Since the test year in SWEPCO's previous base rate case, Docket No. 46449, the
15 Company's weather normalized GWh sales have actually decreased from 7.241 GWh
16 to 7,220 GWh in the current Test Year. The Company's load growth is further
17 addressed by SWEPCO witness Chad Burnett.

18 Q. PLEASE DESCRIBE THE RATE INCREASE BEING REQUESTED IN THIS
19 FILING.

20 A. SWEPCO seeks an overall increase in annual Texas retail revenues of \$90,199,736.
21 The effect of SWEPCO's proposed rate change would be to increase its adjusted Texas
22 retail Test Year base rates by \$105,026,238. However, this increase is offset by a
23 decrease in annualized TCRF and DCRF revenues of \$14,826,502 for a net increase of

\$90,199,736. The overall impact of the net increase in revenues, considering both fuel and non-fuel revenues, is a 15.57% increase.

WHAT IMPACT WILL THE REQUESTED RATE INCREASE HAVE ON A
TYPICAL CUSTOMER'S BILL?

While the overall impact of the rate change considering both fuel and non-fuel revenues is a 15.57% increase, the requested rate change will increase the electric bill for a residential customer using 1,000 kWh by \$15.71 per month, or 14.99%.³

V. EV CHARGING TARIFFS

WILL YOU PLEASE EXPAND ON SWEPKO'S REQUEST TO ESTABLISH EV CHARGING TARIFFS?

SWEPSCO is proposing two new rate schedules to accommodate the swiftly evolving EV industry, a rate schedule for home EV charging and a time-of-use rate suitable for commercial electric vehicle fleet service. This first rate option is available to customers taking service under the Residential Service (RS) rate schedule who use Plug-In Electric Vehicles (PEV). The commercial time-of-use rate suitable for electric vehicle fleet service is discussed further in Section VI below.

For service under the PEV rider, a standard meter will measure total residence kWh usage as usual for standard residential service and an additional sub-meter capable

³ The percentage impact described here differs from the overall average Residential impact of 15.64% because it is based on the annualized usage of a 1,000 kWh per month customer. The overall average Residential impact percentage, on the other hand, includes all Residential customers, regardless of monthly usage level.

1 of measuring energy consumption during on-peak and off-peak billing periods will be
2 installed to separately measure PEV kWh usage. Total residence usage will be billed
3 under the standard Residential Service rate schedule. A credit will be applied to the
4 customers' bill for all off-peak period PEV kWh usage measured at the sub-meter.
5 There is no billing adjustment for on-peak PEV usage, which will be billed at the
6 normal RS charges.

7 Q. IS THE OFF-PEAK CHARGING CREDIT AN IMPORTANT FEATURE OF THE
8 EV CHARGING TARIFF?

9 A. Yes. It is important that load from electric transportation be integrated into the grid in
10 a manner that minimizes or eliminates additional system costs. This is generally
11 accomplished by programs and rates that incent charging behavior to occur during off-
12 peak times. When this happens, additional energy sales occur without requiring
13 additional fixed assets to be deployed. Additional details about this proposed tariff can
14 be found in SWEPCO witness Jackson's testimony.

15 16 VI. TIME OF USE PILOT PROJECT

17 Q. WILL YOU PLEASE EXPAND UPON SWEPCO'S REQUEST TO OFFER A TIME
18 OF USE RATE TO ITS TEXAS CUSTOMERS?

19 A. SWEPCO is proposing a new optional Residential Service Time-of-Use (RSTOU) rate
20 schedule as a pilot available to residential customers who can take advantage of a
21 whole-house time-of-use rate structure. SWEPCO is also proposing a new optional
22 Commercial time-of-use schedule for commercial loads of 100 kW or greater. This
23 proposed rate schedule is a pilot to gauge interest and acceptance of the time-of-use

1 format by customers who may be interested in a time-of-use rate schedule but who do
2 not qualify for SWEPCO's Off Peak Rider for LP, LLP, and MMS service, which has
3 a 500 kW minimum billing demand.

4 The ability to offer these time of use pricing structures requires advanced
5 metering infrastructure (AMI). SWEPCO has initiated an AMI pilot project in Eureka
6 Springs, Arkansas. The Company has done so by leveraging the technology
7 infrastructure of an affiliated AEP operating company. This arrangement has provided
8 SWEPCO with the ability to offer its Texas customers the option to participate in a
9 time of use pilot project in SWEPCO's Texas service territory using AMI technology.
10 Participation in the time of use pilot project will be voluntary. These tariffs are
11 discussed further by SWEPCO witness Ms. Jackson.

12 Q. WHAT ARE SOME OF THE ADVANTAGES OF SUCH AN OFFERING?

13 A. First, the pilot project will provide participating customers with the ability to more
14 precisely manage their energy costs by taking advantage of off-peak pricing. The
15 advantages of shifting energy consumption to off-peak hours for all customers and the
16 SWEPCO system are discussed above in my discussion of the EV charging tariff.
17 Further, the time of use pilot project will provide SWEPCO with valuable experience
18 ahead of the full deployment of AMI technology in SWEPCO's Texas service territory,
19 which the Company expects to request in the near future.

1 VII. ECONOMIC DEVELOPMENT TARIFF

2 Q. WHAT IS SWEPCO PROPOSING AS IT RELATES TO ECONOMIC
3 DEVELOPMENT IN TEXAS?

4 A. SWEPCO is requesting to revise its Experimental Economic Development Rider (ED
5 Rider) in Texas and offer two options for Large Lighting and Power (LLP) and Lighting
6 and Power Customers (LP).

7 Q. WHY IS ECONOMIC DEVELOPMENT IMPORTANT TO SWEPCO AND ITS
8 CUSTOMERS?

9 A. Economic development enables the long-term growth and success of the communities
10 in which we work and live. A strong and growing economy provides numerous
11 benefits. For example, more and better paying jobs provide more financial security,
12 better quality of life, additional reinvestment into the local economy, and a greater tax
13 base.

14 Q. CAN YOU PLEASE DESCRIBE THE TREND IN SWEPCO'S RETAIL
15 KILOWATT-HOUR SALES IN THE TEXAS SERVICE TERRITORY?

16 A. The region of Texas that SWEPCO serves has seen declining kilowatt-hour sales since
17 its last rate case in Docket No. 46449. Furthermore, as explained in the testimony of
18 SWEPCO witness Burnett, SWEPCO will have lost three large industrial customers
19 across its service territory by the end of 2020 -- U.S. Steel, Domtar, and Libbey Glass.
20 Together, these three customers' electricity usage during the Test Year was
21 approximately 403.4 GWh. SWEPCO believes that offering the revised tariffs for
22 economic development will help to spur economic growth in the area, which will
23 provide long-term benefits to SWEPCO's customers.

1 Q. PLEASE DESCRIBE THE REVISED SWEPCO TARIFF FOR ECONOMIC
2 DEVELOPMENT.

3 A. SWEPCO's economic development rider was originally developed to only apply to
4 customers with loads greater than 500kW or with loads that increased by 500kW or
5 more. SWEPCO is now proposing two options for customers under the tariff – one of
6 which will include customers with new loads or increased loads with demands greater
7 than 200kW. This tariff is discussed further by SWEPCO witness Ms. Jackson.

8 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

9 A. Yes, it does.

SWEPCO Witnesses 2020 Texas Base Rate Case			
	Subject	Witness	Description of Testimony
1.	Policy and Overview	A. Malcolm Smoak	Mr. Smoak provides an overview of SWEPCO and describes the nature of this case, the rate relief SWEPCO is requesting, and some of the requested changes to SWEPCO's tariffed services. Mr. Smoak also identifies the other pieces of testimony the Company is submitting in support of its application.
2.	Description of Rate Filing Package and Support for Policy-Oriented Requests	Thomas Brice	Mr. Brice identifies the regulatory authorities that exercise jurisdiction over SWEPCO's rates, and describes SWEPCO's rate case application and Rate Filing Package (RFP). Mr. Brice also supports SWEPCO's recommended ratemaking treatment for the Dolet Hills Power Station. Mr. Brice presents SWEPCO's request for a declaratory order related to battery storage. Mr. Brice discusses SWEPCO's requests for the establishment of a self-insurance reserve and deferral of system restoration costs associated with Hurricane Laura. Finally, Mr. Brice supports SWEPCO's request for changes in the recovery of wholesale transmission charges.
3.	Regulatory and Legal Affiliate Expenses and Rate-Case Expenses	Lynn Ferry-Nelson	Ms. Ferry-Nelson supports SWEPCO affiliate expenses related to legal and regulatory activities. She also supports SWEPCO's rate-case expenses.
4.	Cost of Service, Rate Base, Pro Forma Accounting Adjustments	Michael Baird	Mr. Baird presents SWEPCO's requested total company cost of service and associated RFP schedules. He also describes various pro forma accounting adjustments.
5.	Overall and Affiliate Generation O&M Expenses, Generation Capital Additions, Expected Plant Lives	Monte McMahon	Mr. McMahon describes SWEPCO's power generation fleet. He also supports the reasonableness of affiliate non-fuel generation O&M, generation capital additions, and expected plant lives.
6.	Cost of Common Equity	Dylan D'Ascendis	Mr. D'Ascendis presents his recommended return on equity.
7.	Capital Structure and Overall Cost of Capital. AEP Utility Money Pool	Renee Hawkins	Ms. Hawkins addresses SWEPCO's recommended capital structure and proposed weighted average cost of capital. She also discusses SWEPCO's credit ratings and the benefits of the corporate borrowing program.
8.	Service Reliability, Affiliate Distribution Costs, Distribution Capital Additions	Drew Seidel	Mr. Seidel discusses SWEPCO's distribution system and performance with respect to various reliability and quality of service measures. He also supports the reasonableness and necessity of SWEPCO's total costs for distribution services, including affiliate charges, as well as distribution capital additions.

SWEPCO Witnesses 2020 Texas Base Rate Case			
	Subject	Witness	Description of Testimony
9.	Overall and Affiliate Transmission O&M Costs	Dan Boezio	Mr. Boezio discusses the AEP and SWEPCO transmission systems and describes AEP's transmission organization and operations. He supports SWEPCO's overall and affiliate O&M costs for transmission services.
10.	Transmission Capital Additions	Wayman Smith	Mr. Smith supports SWEPCO's transmission capital additions.
11.	Customer Service Metrics, Overall and Affiliate Customer Service O&M Costs	Paul Pratt Jr.	Mr. Pratt describes the SWEPCO and AEPSC customer service organizations and discusses SWEPCO's quality of customer service. He also supports the reasonableness and necessity of SWEPCO's overall and affiliate O&M costs for customer service.
12.	External Affairs, Federal Affairs O&M Costs, Advertising and Contributions, and Corporation Communications	Brian Bond	Mr. Bond describes SWEPCO's External Affairs organization and the services it provides. He also discusses AEPSC's Federal Affairs organization and demonstrates the reasonableness and necessity of the affiliate charges billed to SWEPCO. He further supports SWEPCO's request for certain advertising costs, contributions, and membership dues. Finally, Mr. Bond discusses SWEPCO's Corporate Communication organization and the services it provides.
13.	Generation Plant Demolition Cost Estimate	Paul Eiden	Mr. Eiden addresses the results of the site-specific studies conducted to estimate the costs of dismantling SWEPCO's electric power generating facilities.
14.	Depreciation	Jason Cash	Mr. Cash discusses the depreciation study overview, the study methods and procedures, and the study results.
15.	Federal and State Income Taxes, Tax-Related Adjustments	David Hodgson	Mr. Hodgson discusses SWEPCO's Federal Income Taxes included in its cost of service and describes the RFP's tax schedules.
16.	AEPSC and Affiliate Transactions, Supply Chain, Fleet and Procurement Affiliate Charges	Brian Frantz	Mr. Frantz discusses AEPSC and the corporate support services it provides. He describes AEPSC's internal controls, billing and cost allocation methods, and how they assure that SWEPCO is charged reasonable and necessary costs for affiliate services. He also provides supporting testimony regarding the reasonableness and necessity of accounting, finance, supply chain, and Chairman's department affiliate costs.

SWEPCO Witnesses 2020 Texas Base Rate Case			
	Subject	Witness	Description of Testimony
17.	Reasonableness of AEPSC Services and Charges, AEPSC Budgeting Processes, and Cost Allocation	Patrick Baryenbruch	Mr. Baryenbruch presents an assessment of the reasonableness and necessity of the services provided to SWEPCO by AEPSC, and the associated costs. This assessment includes review of the necessity and benefit of AEPSC services, the appropriateness of AEPSC allocation factors, and of AEPSC and SWEPCO costs.
18.	Human Resources Organization and Affiliate Charges	Brian Healy	Mr. Healy discusses the services of the AEPSC Human Resources Department. He supports the reasonableness and necessity of the Human Resource Department affiliate charges to SWEPCO.
19.	Employee Compensation, Employee Benefit Plans	Andrew Carlin	Mr. Carlin describes the reasonableness and market competitiveness of the AEP compensation plan and the salary and incentive compensation levels for SWEPCO and AEPSC. Mr. Carlin further describes and supports the reasonableness of the benefit plans for SWEPCO and AEPSC employees.
20.	Real Estate and Workplace Services Affiliate Charges	Randolph Ware	Mr. Ware provides supporting testimony for SWEPCO affiliate expenses related to AEPSC Real Estate and Workplace Services. He supports the reasonableness and necessity of SWEPCO's affiliate costs for these services.
21.	Information Technology Organization and Affiliate Charges	Greg Filipkowski	Mr. Filipkowski discusses the AEP Information Technology (IT) organization and the services provided. He supports the reasonableness and necessity of SWEPCO's IT and Security affiliate costs.
22.	Commercial Operations Organization and Affiliate Charges, Purchased Capacity Costs	Scott Mertz	Mr. Mertz describes AEPSC's Commercial Operations Group, how it is organized, the types of services provided to SWEPCO, and demonstrates the reasonableness and necessary costs billed to SWEPCO. He also discusses the dispatch of generation, off-system purchases and sales of electric energy by SWEPCO.
23.	Affiliate Costs & Inventory Levels	Amy Jeffries	Ms. Jeffries discusses the reasonableness of SWEPCO's fuel inventory levels. She also discusses the fuel procurement and administrative activities associated with AEPSC's fuel procurement organization. She supports the reasonableness and necessity of the affiliate charges to SWEPCO for these services.
24.	Physical & Cyber Security	Stephen Swick	Mr. Swick discusses the AEP Security organization and the services provided. He supports the reasonableness of SWEPCO's Security affiliate costs.

SWEPCO Witnesses 2020 Texas Base Rate Case			
	Subject	Witness	Description of Testimony
25.	Telecom	Stacy Stoffer	Ms. Stoffer discusses the AEP Telecom organization and the services provided, supports the reasonableness of SWEPCO's Telecom affiliate costs, and supports Telecom capital additions.
26.	Self-Insurance Reserve	Greg Wilson	Mr. Wilson discusses SWEPCO's request to establish a self-insurance reserve.
27.	Load Research Schedule Sponsorship	Brian Coffey	Mr. Coffey sponsors various schedules related to load and demand.
28.	Energy Forecast and Weather Normalization	Chad Burnett	Mr. Burnett presents the weather normalization processes used in forecasting.
29.	Cost of Service and Jurisdictional Study	John Aaron	Mr. Aaron presents and supports SWEPCO's jurisdictional and class cost-of-service studies. He also supports the pro forma adjustments made to the test year customer, revenue, and sales volume data. Finally, Mr. Aaron supports the baseline calculation of costs to be recovered in a future filing by SWEPCO for a Transmission Cost Recovery Factor (TCRF), Distribution Cost Recovery Factor (DCRF), and Generation Cost Recovery Rider (GCRR).
30.	Rate Design and Tariff Riders	Jennifer Jackson	Ms. Jackson presents SWEPCO's Texas retail class rate design.

EXECUTIVE SUMMARY OF THOMAS P. BRICE

Thomas P. Brice is Vice President Regulatory and Finance for Southwestern Electric Power Company (SWEPCO or the Company). Mr. Brice's testimony addresses SWEPCO's rate filing, the requested ratemaking treatment of the Dolet Hills Power Station (Dolet Hills), SWEPCO's request for a declaratory order related to battery storage, SWEPCO's request for self-insurance reserve and deferral of Hurricane Laura restoration costs, and SWEPCO's request to defer changes in wholesale transmission charges.

Mr. Brice's testimony addresses SWEPCO's test year ending March 31, 2020 and confirms SWEPCO has adhered to all rate setting standards established in PURA and the Commission's cost of service rule. SWEPCO is not filing a fuel reconciliation proceeding in this docket, and Mr. Brice verifies that SWEPCO requested a waiver of the Schedule S filing requirements – a request supported by Commission Staff.

Mr. Brice's testimony points out the how the economically useful life of the Dolet Hills Power Station (Dolet Hills) and circumstances at the Dolet Hills lignite reserves have changed since the Commission last reviewed the useful life of the plant. Lignite production at the Dolet Hills lignite reserves ceased in May 2020, and SWEPCO determined the plant will be retired by December 31, 2021. SWEPCO proposes that the balance of the unprotected excess Accumulated Deferred Income Taxes (ADIT) and the refund provision associated with the protected excess ADIT be used to offset the undepreciated value of the Dolet Hills Power Station. However, the amount of unprotected excess ADIT and the protected excess ADIT refund provision will not completely offset the plant's undepreciated value. SWEPCO proposes that Dolet Hills' remaining undepreciated value after the offset of the ADIT be depreciated over a four-year period.

Further, Mr. Brice describes SWEPCO's plan to evaluate the feasibility of battery installation on its system, and requests the Commission confirm that no certificate of convenience and necessity (CCN) filing or other Commission pre-approval is required when a battery is installed to serve a distribution function or is installed in a new switching station or substation to serve a transmission function.

Mr. Brice's testimony outlines the Company's request for establishment of a self-insurance reserve and how a self-insurance reserve is in the interest of both SWEPCO and its customers. Mr. Brice also requests authorization to credit the Texas jurisdictional Hurricane Laura restoration costs against the self-insurance reserve as a regulatory asset that will be reduced each month by the amount of reserve collected.

Lastly, Mr. Brice proposes that the portion of its ongoing Southwest Power Pool (SPP) Open Access Transmission Tariff (OATT) charges that is above or below the net Test Year level approved for recovery by the Commission, be deferred into a regulatory asset or liability until they can be addressed in a future Transmission Cost Recovery Factor (TCRF) or base-rate proceeding.

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF
SOUTHWESTERN ELECTRIC POWER COMPANY
FOR AUTHORITY TO CHANGE RATES

DIRECT TESTIMONY OF
THOMAS P. BRICE
FOR
SOUTHWESTERN ELECTRIC POWER COMPANY

OCTOBER 2020

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1 I. INTRODUCTION

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

4 A. My name is Thomas P. Brice. My business position is Vice President Regulatory and
5 Finance for Southwestern Electric Power Company (SWEPCO or the Company). My
6 business address is 428 Travis Street, Shreveport, Louisiana 71101.

7 Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND BUSINESS BACKGROUND.

8 A. I graduated from the University of Louisiana at Monroe (formerly Northeast Louisiana
9 University) in 1985 with a Bachelor of Business Administration in Accounting and a
10 minor in Finance. I am a certified public accountant and certified internal auditor. I
11 am a member of the American Institute of Certified Public Accountants and the
12 Louisiana State Society of Certified Public Accountants. I have more than 34 years of
13 experience in the electric and natural gas utility industries.

14 After graduation, I was employed by Arkla, Inc., which at the time was a
15 vertically integrated natural gas company, in the internal audit department. Upon my
16 departure in 1992, I was a senior auditor with primary responsibilities in contract and
17 joint venture auditing.

18 In 1992, I was employed by SWEPCO as an audit manager and soon thereafter
19 assumed the responsibilities of audit director on an interim basis in early 1993. My
20 primary responsibilities as audit manager/interim audit director included managing the
21 day-to-day operation of the department, ensuring successful completion of the annual
22 audit plan, and reporting annual audit results to SWEPCO's Board of Directors.

1 From 1994 through 2004, I worked as a senior consultant for SWEPCO in the
2 areas of planning and analysis, business ventures, and regulatory services. During this
3 period of time, I had the opportunity to manage a diverse set of projects for the
4 Company.

5 In 2004, I assumed the position of Director, Business Operations Support. I was
6 responsible for the Company's financial plans and coordination with other
7 organizations within the AEP system on matters directly affecting SWEPCO's
8 financial and operational results.

9 In June 2010, I assumed the responsibilities of Director, Regulatory Services.
10 In this capacity, I was responsible for the regulatory matters of SWEPCO in Arkansas,
11 Louisiana, and Texas. In May 2017, I assumed my current responsibilities of Vice
12 President of Regulatory and Finance.

13 Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES?

14 A. I am responsible for SWEPCO's financial results and regulatory matters in Arkansas,
15 Louisiana, and Texas. I have responsibility for the preparation, filing, and litigation of
16 regulatory cases. Additionally, I am responsible for regulatory interactions, monitoring
17 of regulatory filings, participation in rulemakings, rate and tariff administration, and
18 ensuring compliance with regulatory requirements. I am also responsible for the
19 financial matters of the Company, which includes serving as the primary interface with
20 SWEPCO's parent company, American Electric Power Company, Inc. (AEP).

21 Q. HAVE YOU SUBMITTED TESTIMONY BEFORE A REGULATORY
22 COMMISSION?

1 A. Yes. I have filed testimony before the Arkansas Public Service Commission (APSC),
2 the Louisiana Public Service Commission (LPSC), and the Public Utility Commission
3 of Texas (Commission).

4

5 II. PURPOSE OF TESTIMONY

6 Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

7 A. The purpose of my testimony is to identify SWEPCO's regulatory authorities and
8 describe SWEPCO's rate filing package provided in this proceeding. In addition, I will
9 introduce and support some of the more significant policy-oriented requests being made
10 by SWEPCO in this proceeding, including:

- 11 • Proposed ratemaking treatment for its Dolet Hills Power Station;
- 12 • Request for a declaratory order related to battery storage;
- 13 • Establishment of a self-insurance reserve and the deferral of Hurricane
- 14 Laura restoration costs; and
- 15 • Deferral of changes in wholesale transmission charges.
- 16
- 17
- 18
- 19

20 III. SWEPCO'S REGULATORY AUTHORITIES

21 Q. WHAT REGULATORY AUTHORITIES CURRENTLY EXERCISE
22 JURISDICTION OVER SWEPCO'S RATES?

23 A. The cities retaining original jurisdiction under Section 33.001 of the Public Utility
24 Regulatory Act (PURA) exercise original jurisdiction over SWEPCO's base rates
25 within city limits in the state of Texas. The Commission has original jurisdiction over
26 SWEPCO's rates in environs areas and within cities that have relinquished their
27 original jurisdiction. The Commission has *de novo* appellate jurisdiction over rates

1 determined by cities with original jurisdiction. The APSC and LPSC exercise authority
2 over SWEPCO within their respective states. The Federal Energy Regulatory
3 Commission (FERC) has jurisdiction over SWEPCO's wholesale customers, the
4 Southwest Power Pool (SPP) Open Access Transmission Tariff (OATT) and Regional
5 Transmission Organization (RTO) rates and charges.
6

7 IV. DESCRIPTION OF SWEPCO RATE FILING

8 Q. WHAT IS THE TEST YEAR UPON WHICH SWEPCO'S RATE FILING IS
9 BASED?

10 A. SWEPCO's rate filing is based on a Test Year ending March 31, 2020. SWEPCO has
11 made certain known and measurable pro-forma adjustments that are further discussed
12 by SWEPCO witness Michael Baird.

13 Q. WHAT ARE THE GENERAL COMMISSION RATE SETTING STANDARDS
14 UPON WHICH SWEPCO RELIED IN PREPARING THIS FILING?

15 A. SWEPCO has adhered to the rate setting standards set out in Chapter 36 of PURA and
16 the Commission's "Cost of Service" rule, 16 Tex. Admin. Code (TAC) § 25.231, which
17 requires that rates be set based on historical test year costs, adjusted for known and
18 measurable changes. Rates established consistent with SWEPCO's request should
19 allow SWEPCO the opportunity to recover a reasonable return on its used and useful
20 invested capital, in excess of its reasonable and necessary operating expenses,
21 consistent with the requirements of PURA § 36.051. Various SWEPCO witnesses
22 address the requirements of PURA and the Commission's substantive rules as those
23 requirements apply to the costs they sponsor.

1 Q. HAS SWEPCO PROVIDED ALL THE SCHEDULES AND WORKPAPERS TO
2 COMPLY WITH THE COMMISSION'S REQUIREMENTS FOR BASE RATE
3 PROCEEDINGS?

4 A. Yes. However, SWEPCO requests a waiver of the portions of the Rate Filing Package
5 (RFP) that requests information related to fuel reconciliation proceedings. SWEPCO
6 is not filing a fuel reconciliation proceeding in this docket; therefore, the schedules
7 dealing with fuel reconciliation proceedings are not applicable. Schedule V of the RFP
8 will provide more detail on specific schedules that are not required in this proceeding
9 related to fuel reconciliation, as well as certain other waivers requested by SWEPCO.

10 Additionally, SWEPCO requested a waiver of the requirement to file
11 Schedule S (Independent Audit of the Application) in Docket No. 50917. No objection
12 to SWEPCO's waiver application has been raised, and the Commission Staff
13 recommended approval of the request. SWEPCO and Commission Staff filed an
14 agreed proposed notice of approval on August 12, 2020.

15

16 V. DOLET HILLS POWER STATION RATEMAKING TREATMENT

17 Q. PLEASE DESCRIBE THE DOLET HILLS POWER STATION.

18 A. The Dolet Hills Power Station (Dolet Hills) is located southeast of Mansfield,
19 Louisiana and is a 650 net MW lignite fueled generating unit. Lignite for Dolet Hills is
20 mined from the adjacent Dolet Hills and the Oxbow reserves (collectively referred to
21 as DH Mines), located in Desoto Parish and Red River Parish, respectively.

22 Dolet Hills is owned by Cleco Power, LLC (CLECO), SWEPCO, Northeast
23 Texas Electric Cooperative, Inc. (NTEC), and Oklahoma Municipal Power Authority

1 (OMPA). SWEPCO's ownership interest is 262 MW or 40.234% of the unit's total
2 capacity. CLECO operates and manages Dolet Hills pursuant to the Dolet Hills Power
3 Station Ownership, Construction and Operating Agreement between CLECO and
4 SWEPCO, effective November 13, 1981.

5 Q. HAS THE ECONOMICALLY USEFUL LIFE OF DOLET HILLS CHANGED
6 SINCE THE COMMISSION LAST REVIEWED ITS USEFUL LIFE?

7 A. Yes. In May 2020, lignite production operations at the DH Mines ceased based on
8 SWEPCO's and CLECO's determination that all economically recoverable lignite had
9 been depleted. Dolet Hills will continue to operate for the benefit of customers through
10 the peak energy use season in 2021 with lignite that has been mined and has been or
11 will be delivered to the plant this year and into 2021. Dolet Hills will retire no later
12 than December 31, 2021.

13 Q. HOW DID CIRCUMSTANCES CHANGE AT DOLET HILLS AND THE DH
14 MINES SINCE THE COMMISSION LAST REVIEWED THE USEFUL LIFE OF
15 THE PLANT?

16 A. Due to *force majeure* events in 2017 and 2018 and increases in lignite production costs,
17 in 2019 SWEPCO reduced operations at the mine to engage a single dragline excavator
18 instead of the three dragline excavators previously used. Despite diligent efforts to
19 reduce mining costs, SWEPCO determined early in 2020 that the economically
20 recoverable reserves were depleted and that mining activities should cease and the plant
21 be retired by the end of 2021. The Company evaluated mining operations and costs of
22 operating Dolet Hills beyond 2021. That analysis, which is included in my workpapers,

1 demonstrates that retirement of Dolet Hills will result in up to \$180 million in estimated
2 fuel savings.

3 Q. ACCORDING TO GENERALLY ACCEPTED ACCOUNTING PRINCIPLES
4 (GAAP) AND STANDARD REGULATORY PRACTICE, OVER WHAT TIME
5 PERIOD WILL THE REMAINING UNDEPRECIATED VALUE OF DOLET HILLS
6 BE DEPRECIATED?

7 A. Consistent with GAAP and standard regulatory practice, the remaining undepreciated
8 value of Dolet Hills will be depreciated through 2021. SWEPCO realizes that
9 depreciation of Dolet Hills over its 2021 economically useful life for ratemaking
10 purposes would have a significant impact on SWEPCO's base rates that are to be set in
11 this proceeding.

12 Q. DOES SWEPCO HAVE A PROPOSAL THAT WILL SIGNIFICANTLY MITIGATE
13 THE RATE IMPACT OF DEPRECIATING THE PLANT OVER ITS
14 ECONOMICALLY USEFUL LIFE?

15 A. Yes. When the United States Congress reduced the federal corporate income tax rate
16 to 21% in 2018, an excess of Accumulated Deferred Income Taxes (ADIT) was created
17 for SWEPCO. In SWEPCO's previous general rate case, Docket No. 46449, the
18 Commission ordered that excess deferred taxes resulting from the reduction in the
19 federal income tax rate would be addressed in SWEPCO's next base-rate case.
20 SWEPCO proposes that the balance of the unprotected excess ADIT and the refund
21 provision associated with the protected excess ADIT (SWEPCO has been amortizing
22 the protected excess ADIT in accordance with the Tax Cuts and Jobs Act of 2017 and
23 setting up the Texas portion as a provision for refund) be used to offset the

1 Undepreciated value of Dolet Hills. However, the amount of unprotected excess ADIT
2 and the protected excess ADIT refund provision will not completely offset the plant's
3 undepreciated value. SWEPCO proposes that Dolet Hills' remaining undepreciated
4 value after the offset of the ADIT is applied be depreciated over a four-year period.
5 Under this proposal, the rate impact on customers associated with the retirement of
6 Dolet Hills is significantly mitigated. This rate treatment is discussed further in the
7 direct testimony of SWEPCO witness Michael Baird.

8
9 VI. REQUEST FOR DECLARATORY ORDER
10 RELATED TO BATTERY STORAGE

11 Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

12 A. This section of my testimony describes SWEPCO's plan to evaluate the feasibility of
13 battery installation on its system and requests that the Commission confirm that no
14 certificate of convenience and necessity (CCN) filing or other Commission pre-
15 approval is required for a vertically integrated utility outside of Electric Reliability
16 Council of Texas (ERCOT) in Texas when a battery is installed to serve a distribution
17 function or is installed in a new switching station or substation to serve a transmission
18 function.

19 Q. PLEASE DESCRIBE SWEPCO'S PLAN TO EVALUATE THE FEASIBILITY OF
20 BATTERY INSTALLATION ON ITS SYSTEM.

21 A. Batteries can perform a variety of beneficial functions on an electric system and can be
22 classified as distribution, transmission, or generation assets under the FERC System of
23 Accounts, depending on their usage. With the ongoing reduction in the price of battery

1 storage technology, batteries are becoming a cost-effective alternative to traditional
2 distribution, transmission, and generation options. In some instances, a battery
3 installation can avoid or defer the need for a more expensive distribution or
4 transmission system upgrade. In the coming years, SWEPCO will actively evaluate
5 the feasibility of cost-effective battery storage installations on its transmission and
6 distribution system.

7 Q. IS A CCN AMENDMENT FILING NECESSARY FOR A BATTERY
8 INSTALLATION?

9 A. It is not clear that the Commission's CCN rule, 16 TAC § 25.101, requires a CCN filing
10 for any battery installation. Batteries installed as distribution assets appear to be
11 exempt from a CCN filing under 16 TAC § 25.101(c)(4) and a battery used as a
12 transmission asset appears to be exempt if installed in a new high voltage switching
13 station or substation under 16 TAC § 25.101(c)(2). A battery installed as a generation
14 asset (i.e., to sell energy or ancillary services in the wholesale power market) could be
15 considered a generation facility that is required to file for a CCN amendment under 16
16 TAC § 25.101(b)(2), although it is unclear.

17 Q. HOW WOULD THE ENERGY CHARGED INTO AND DISCHARGED FROM A
18 BATTERY INSTALLED AS A DISTRIBUTION OR TRANSMISSION ASSET BE
19 ACCOUNTED FOR?

20 A. If a battery was installed as a distribution or transmission asset, SWEPCO would not
21 bid such a battery into the SPP capacity, energy, or ancillary services markets or earn
22 any revenues from the battery in those markets. The cost of the energy purchased to
23 charge the battery will be recorded in FERC Account 555.1 in accordance with FERC

1 Order No. 784.¹ When the battery is discharged during an outage on the associated
2 distribution or transmission circuit, SWEPCO's customers will continue to pay their
3 retail tariff rates for the energy discharged by the battery. The battery will not displace
4 energy sales by other generators because it will discharge only when necessary to
5 ensure the reliability of the circuit, and generators will have the opportunity to make
6 additional sales when the battery is recharged after the circuit is back in service.

7 Q. WHAT GUIDANCE DOES SWEPCO REQUEST FROM THE COMMISSION
8 WITH RESPECT TO POTENTIAL BATTERY INSTALLATIONS?

9 A. SWEPCO requests the Commission confirm that a battery installed as an alternative to
10 a distribution upgrade, or installed in a new high voltage switching station or substation
11 as an alternative to a transmission upgrade, and not used to sell energy or ancillary
12 services in the wholesale market, does not require a CCN filing or other Commission
13 pre-approval prior to installation. Of course, such assets would be subject to
14 Commission review and inclusion in rates in the same manner as other distribution or
15 transmission assets.

16
17 VII. SELF-INSURANCE RESERVE AND DEFERRAL OF
18 HURRICANE LAURA RESTORATION COSTS

19 Q. IS SWEPCO REQUESTING ESTABLISHMENT OF A SELF-INSURANCE
20 RESERVE IN THIS CASE?

¹ *Third-Party Provision of Ancillary Services, Accounting and Financial Reporting for New Elec Storage Techs*, Order No. 784, FERC Stats. & Regs. ¶ 31,349, PP 122-41 (2013), order on clarification, Order No. 784-A, 146 FERC ¶ 61,114 (2014).

1 A. Yes, SWEPCO is requesting the Commission establish a self-insurance reserve for
2 SWEPCO under PURA Section 36.064. SWEPCO witness Gregory Wilson addresses
3 the scope of the self-insurance reserve, the analysis necessary to establish that a self-
4 insurance reserve is beneficial to customers in comparison to the purchase of
5 commercial insurance, and SWEPCO's proposed annual accrual to fund the reserve.
6 SWEPCO witness Michael Baird addresses the proper accounting for the proposed self-
7 insurance reserve.

8 Q. IS THE ESTABLISHMENT OF A SELF-INSURANCE RESERVE IN THE
9 INTEREST OF BOTH THE COMPANY AND ITS CUSTOMERS?

10 A. Yes. The Legislature created the option of a self-insurance reserve, which ensures that
11 customers will pay a representative amount each year towards that reserve and the
12 variability of losses will be averaged out over time through the use of that reserve. This
13 method of recovering qualifying catastrophic losses is the fairest means of ensuring
14 over time that customers pay for only actual costs incurred and that the Company
15 recovers only its actual costs. For that reason, it is in the best interest of SWEPCO and
16 its customers to establish a reserve as authorized by the PURA and as proposed in this
17 case.

18 Q. WHAT IS THE COMPANY'S REQUEST WITH REGARD TO RESTORATION
19 COSTS ASSOCIATED WITH HURRICANE LAURA?

20 A. Hurricane Laura struck SWEPCO's service area as a Category 2 storm on Thursday,
21 August 27. In total, approximately 13,000 customers in Texas were without power.
22 As soon as it was safe, SWEPCO crews began restoring power to several critical
23 customers in the Ark-La-Tex area. Employees addressed multiple hazards, including

1 hundreds of downed power lines. Storm restoration efforts extended well into
2 September. The Company requests authorization to charge the Texas jurisdictional
3 Hurricane Laura restoration costs against the self-insurance reserve as a regulatory
4 asset that will be reduced each month by the amount of reserve collected.

5
6 VIII. DEFERRAL OF CHANGES IN WHOLESALE TRANSMISSION CHARGES

7 Q. DOES SWEPCO'S COST OF SERVICE INCLUDE THE TRANSMISSION
8 CHARGES INCURRED DURING THE TEST YEAR PURSUANT TO THE FERC-
9 APPROVED SPP OATT?

10 A. Yes. SWEPCO is charged by SPP for the use of other SPP transmission owners'
11 facilities to serve SWEPCO's customers. SWEPCO also receives payment from SPP
12 for SPP members' use of SWEPCO's transmission facilities. These payments and
13 receipts occur pursuant to FERC-approved tariffs and rates. The net amount that
14 SWEPCO incurred during the Test Year is included in SWEPCO's requested cost of
15 service in this proceeding.

16 Q. IS THIS NET AMOUNT INCURRED DURING THE TEST YEAR
17 REPRESENTATIVE OF THE AMOUNT OF SUCH CHARGES SWEPCO WILL
18 INCUR GOING FORWARD?

19 A. No. The costs historically incurred by SWEPCO under the SPP OATT will be outdated
20 when the rates established in this proceeding take effect.

21 Q. DOES SWEPCO HAVE A PROPOSAL TO ADDRESS THE FACT THAT THE
22 HISTORICALLY INCURRED SPP OATT COSTS ARE NOT REPRESENTATIVE
23 OF THE COSTS SWEPCO WILL INCUR GOING FORWARD?

1 A. Yes. SWEPCO proposes that the portion of its ongoing SPP OATT charges that is
2 above or below the net Test Year level approved for recovery by the Commission, be
3 deferred into a regulatory asset or liability until they can be addressed in a future
4 Transmission Cost Recovery Factor (TCRF) or base-rate proceeding. This proposal is
5 discussed further in the direct testimony of SWEPCO witness John Aaron.

6 Q. DOES SWEPCO'S PROPOSAL HAVE SUPPORT IN PURA AND COMMISSION
7 PRECEDENT?

8 A. Yes. Section 36.209 of PURA gives the Commission authority to allow a utility to
9 recover "changes in wholesale transmission charges to the electric utility under a tariff
10 approved by a federal regulatory authority" to the extent the charges have not otherwise
11 been recovered. SWEPCO's proposal will allow recovery of the changes in
12 transmission charges incurred by SWEPCO under the SPP OATT that the Commission
13 has found reasonable and necessary as a matter of law. In fact, in Docket No. 42448,
14 a SWEPCO TCRF proceeding, the Commission found that proof that the SPP charges
15 were billed to and paid by SWEPCO pursuant to the SPP OATT demonstrates the
16 reasonableness of the charges for retail ratemaking purposes as a matter of law.²

17 Q. DOES THE COMMISSION ALLOW ERCOT UTILITIES TO RECOVER
18 CHANGES IN THEIR WHOLESALE TRANSMISSION CHARGES?

19 A. Yes. It is my understanding that the TCRF rule for distribution service providers
20 operating in ERCOT (16 TAC § 25.193) authorizes the distribution service provider to

² *Application of Southwestern Electric Power Company for Approval of Transmission Cost Recovery Factor*,
Docket No. 42448, Final Order at Conclusion of Law No. 18 (Nov. 24, 2014).

1 charge or credit its customers for the amount of Commission-approved wholesale
2 transmission cost changes to the extent that such costs vary from the transmission
3 service cost used to fix the base rates of the distribution service provider. While
4 amending this rule in Project No. 37909, the Commission observed that this recovery
5 mechanism is appropriate because the ERCOT distribution service providers have no
6 ability to avoid such costs or address and manage the regulatory lag that exists with
7 respect to these costs. SWEPCO is in the same position regarding the costs it incurs
8 under the SPP OATT. As such, SWEPCO is proposing to better match the costs
9 SWEPCO incurs under the SPP OATT with the revenues received by the customers
10 that ultimately benefit from the utilization of the open-access transmission system,
11 similar to the recovery mechanism utilized by the ERCOT distribution service
12 providers today.

13 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

14 A. Yes, it does.

EXECUTIVE SUMMARY OF LYNN FERRY-NELSON

Lynn Ferry-Nelson is the Director, Regulatory Services for Southwestern Electric Power Company (SWEPCO). The purpose of Ms. Ferry-Nelson's testimony is twofold. First, Ms. Ferry-Nelson's testimony:

- describes American Electric Power Service Corporation's (AEPSC) Legal Services Department and Regulatory Services organizations;
- discusses the services these organizations provided to SWEPCO during the Test Year¹;
- identifies the Test Year amounts charged to SWEPCO for these organizations' services—\$1,568,383 (Legal Services) and \$2,300,575 (Regulatory Services); and
- demonstrates that these Test Year charges were reasonable and necessary using a variety of forms of proof, including: budgeting processes and budget performance; trends in actual costs incurred by the organizations as a whole, and in costs billed to SWEPCO; staffing trends; and cost-control initiatives employed by organizations.

Second, Ms. Ferry-Nelson's testimony supports SWEPCO's requested recovery of rate-case expenses incurred in this docket and certain past dockets that have yet to be reviewed for reasonableness. Specifically, SWEPCO is seeking recovery of the reasonable rate-case expenses, including expenses paid to reimburse intervening municipalities, that it incurs in this case and those rate-case expenses incurred in the following prior dockets:

- Docket No. 49042, SWEPCO's most recent Transmission Cost Recovery Factor (TCRF) filing;
- Docket No. 46449 (appellate expenses for SWEPCO's most recently completed base rate case); and
- Docket No. 40443 (appellate expenses).

Based on her experience and review of the supporting documentation for the rate-case expenses requested for this case and the prior dockets at issue, Ms. Ferry-Nelson concludes that the expenses were reasonably and necessarily incurred.

¹ The Test Year is the twelve-month period from April 1, 2019, through March 31, 2020.

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF
SOUTHWESTERN ELECTRIC POWER COMPANY
FOR AUTHORITY TO CHANGE RATES

DIRECT TESTIMONY OF
LYNN FERRY-NELSON
FOR
SOUTHWESTERN ELECTRIC POWER COMPANY

OCTOBER 2020

TESTIMONY INDEX

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EXHIBITS

<u>EXHIBIT</u>	<u>DESCRIPTION</u>
EXHIBIT LFN-1	Rate Case Expense Summary & Supporting Materials for Base Case (Updated through 7/31/2020)
EXHIBIT LFN-2	Rate-Case Expense Summary & Supporting Materials for Prior Dockets (Updated through 7/31/2020)
EXHIBIT LFN-3	Rate Case Practices and Procedural Manual

1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME, POSITION IN THE COMPANY, AND
3 BUSINESS ADDRESS.

4 A. My name is Lynn Ferry-Nelson, and my position is Director, Regulatory Services for
5 Southwestern Electric Power Company (SWEPCO or the Company). My business
6 address is 428 Travis Street, Shreveport, Louisiana 71101.

7 Q. WOULD YOU BRIEFLY DESCRIBE YOUR EDUCATIONAL AND
8 PROFESSIONAL BACKGROUND?

9 A. I graduated with honors from New Mexico State University in 1991 with a Bachelor
10 of Business Administration in Finance. I also earned my Project Manager
11 Certification from the University of California at Irvine. I have more than 25 years of
12 utility, regulatory, and commission experience. Throughout my career, I have
13 worked for the Federal Energy Regulatory Commission (FERC); the Oklahoma
14 Corporation Commission (OCC); Central and Southwest Services, Inc./American
15 Electric Power Company, Inc. (AEP); CLECO Power, LLC; and the Southern
16 California Edison Company. Before joining SWEPCO in July 2016 as the Manager of
17 External Affairs in Longview, Texas, I was Senior Manager, Performance
18 Management and Project Support, for Southern California Edison Company. While in
19 Longview, I served on the Longview Chamber of Commerce Board of Directors, the
20 Chamber's Education Foundation Board, and Partners in Prevention Board of
21 Directors. I assumed my current position of Director, Regulatory Services in August
22 2017.

1 Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES?

2 A. I am responsible for SWEPCO regulatory matters in Texas, Arkansas, and Louisiana.
3 I have responsibility for the preparation, filing, and litigation of regulatory cases.
4 Additionally, I am responsible for regulatory interactions, monitoring of regulatory
5 filings, participation in rulemakings, rate and tariff administration, managing a team
6 of regulatory consultants and a tariff manager, and ensuring compliance with
7 regulatory requirements.

8 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE ANY REGULATORY
9 AGENCY?

10 A. Yes. I have submitted testimony before the Public Utility Commission of Texas
11 (PUC or the Commission) in Docket No. 22354, *Application of West Texas Utilities*
12 *for Approval of Unbundled Cost of Service Rate Pursuant to PURA §39.201 and*
13 *Public Utility Commission Substantive Rule §25.344*, and Docket No. 49094,
14 *Complaint of Sheretta and Michael Williams against Southwestern Electric Power*
15 *Company*. I have also filed testimony at the OCC in Cause Nos. PUD940000343,
16 PUD940000354, PUD940000477, PUD950000017, PUD950000391,
17 PUD950000396, PUD960000116, PUD960000359, PUD970000032, and
18 PUD970000032. Finally, I have filed testimony before the FERC in Docket Nos.
19 ER92-595-000, ER92-596-000, and ER92-626-000 (consolidated).

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II. PURPOSE OF TESTIMONY

- Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?
- A. The purpose of my testimony is twofold:
- First, my testimony describes American Electric Power Service Corporation’s (AEPSC) Legal Department and Regulatory Services organization, identifies the Test Year² amounts charged to SWEPCO for these groups’ services, and demonstrates that these charges were reasonable and necessary.
 - Second, my testimony supports SWEPCO’s requested recovery of rate-case expenses incurred in this docket and certain past dockets that have yet to be reviewed for reasonableness. Specifically, SWEPCO proposes that to the extent possible, the Commission review in this proceeding the reasonableness of the expenses incurred in connection with this proceeding. In addition, SWEPCO is seeking recovery in this proceeding of rate-case expenses incurred in Docket Nos. 49042,³ 46449 (appellate expenses),⁴ and 40443 (appellate expenses).⁵ SWEPCO witness Jennifer L. Jackson presents the rate-case expense surcharge tariff for the recovery of these expenses.

III. AFFILIATE EXPENSES

- Q. WHAT CLASSES OF AFFILIATE EXPENSES DO YOU SUPPORT?
- A. As noted above, I support two classes of affiliate expenses, Legal Services and Regulatory Services, each of which consists of charges for services provided by AEPSC to SWEPCO. The charges included in the Test Year are shown in the table below:

Table LFN-1

CLASS	TEST YEAR
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² The Test Year is the twelve-month period from April 1, 2019, through March 31, 2020.

³ *Application of Southwestern Electric Power Company to Amend its Transmission Cost Recovery Factor*, Docket No. 49042, Final Order (Jul. 18, 2019).

⁴ *Application of Southwestern Electric Power Company for Authority to Change Rates*, Docket No. 46449, Order on Rehearing (Mar. 19, 2018) (only appellate expenses incurred after April 13, 2020, are at issue in this case).

⁵ *Application of Southwestern Electric Power Company for Authority to Change Rates and Reconcile Fuel Costs*, Docket No. 40443, Order on Rehearing (Mar. 6, 2014) (only appellate expenses incurred after April 13, 2020, are at issue in this case).

	AMOUNT
Legal Services	\$1,568,383
Regulatory Services	\$2,300,575
Total Test Year Charges	\$3,868,959

In the remainder of this section, I discuss these classes of affiliate expenses in more detail and show that these costs are reasonable and necessary.

A. Description of Affiliate Legal Services

Q. DOES AEPSC PROVIDE LEGAL SERVICES FOR SWEPCO?

A. Yes, all internal legal services are provided to SWEPCO by the AEPSC Legal Department. SWEPCO has no employees providing legal services.

Q. HOW IS THE AEPSC LEGAL DEPARTMENT ORGANIZED?

A. The department is led by an Executive Vice President, who is AEP's General Counsel and Corporate Secretary. The attorneys in the Legal Department are organized into practice groups, each of which is led by a Deputy General Counsel or an Associate General Counsel.

Q. PLEASE DESCRIBE THE SERVICES PROVIDED BY THE VARIOUS PRACTICE GROUPS IN THE LEGAL DEPARTMENT.

A. The Legal Department's practice groups provide the following services:

- Litigation—The attorneys in this group initiate and defend various types of lawsuits involving SWEPCO, such as personal injury claims, disputes with contractors, injuries resulting from contact with energized facilities, and employment-related arbitrations and litigation.
- Regulatory—This group's 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 SWEPCO's 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

- 1 • Real Estate—The attorneys in this group are responsible for overseeing
2 negotiations and documentation required in connection with a variety of real
3 estate transactions entered into by SWEPCO, such as transmission and
4 distribution easements, real estate leases, and condemnation-related matters.
- 5 • Transactions, Commercial Operations, and Logistics—This group’s lawyers draft,
6 negotiate, and interpret many different types of contracts that SWEPCO must
7 enter into in the ordinary course of its business, including software licenses,
8 vendor contracts, and purchase and sale agreements related to facilities. Energy,
9 commercial operations, and fuel matters are also handled by this group.
- 10 • Finance and Compliance—The attorneys in this group handle corporate
11 financings, oversee the preparation of Securities and Exchange Commission
12 reports required by federal law and regulations, such as Forms 10-K, 10-Q and 8-
13 K, and ensure that SWEPCO’s financial activities are in compliance with its
14 corporate charter, by-laws, and state corporate laws.
- 15 • Tax—The attorneys in this group advise SWEPCO on all aspects of state, local,
16 and federal taxation. They also work on pension-related Employee Retirement
17 Income Security Act and compliance matters and handle matters related to the
18 drafting and administration of employee health, welfare, and benefit plans.
- 19 • Environmental, Safety & Health—The attorneys in this group are responsible for
20 the provision of legal services to SWEPCO related to environmental, safety, and
21 health issues. They help ensure that SWEPCO remains in compliance with
22 applicable federal and state environmental, safety, and health laws.

23 Q. ARE THERE COSTS INCLUDED IN THE LEGAL DEPARTMENT’S TEST
24 YEAR AMOUNTS FOR ANY OTHER WORK GROUPS THAT ALSO
25 REPORTED TO THE GENERAL COUNSEL?

26 A. Yes. Included in the Test Year are expenses associated with two other groups that
27 also reported to the General Counsel: Ethics and Compliance and Physical and Cyber
28 Security. The Ethics and Compliance group is designed to promote ethical behavior
29 and ensure compliance with all laws and regulations that affect AEP’s business
30 activities. The Physical and Cyber Security group is addressed in detail by SWEPCO
31 witness Stephen Swick.

1 Q. IS THERE ANY DUPLICATION OF THE LEGAL SERVICES PROVIDED TO
2 SWEPCO BY THE LEGAL DEPARTMENT?

3 A. No. No other department in AEPSC provides legal services to SWEPCO; thus, there
4 is no duplication of these services within AEPSC and SWEPCO. Moreover, as
5 discussed below, AEPSC retains outside counsel to supplement its legal services to
6 perform legal work when the Legal Department does not have the resources or
7 expertise available at the time to perform the work in-house.

8 Q. WHO ARE THE CLIENTS OF THE VARIOUS PRACTICE GROUPS IN THE
9 LEGAL DEPARTMENT?

10 A. The Legal Department provides legal services to all companies in the AEP System.
11 The use of practice groups allows AEPSC to centralize expertise in areas of legal
12 services critical to the support of various utility activities. At the same time, because
13 all of the practice groups are integrated in a single department, each practice group is
14 able to provide support to the activities of another group as the needs of a particular
15 legal matter may dictate. For example, while the Finance group would be in charge
16 of doing the due diligence work and document preparation for a SWEPCO bond
17 financing, that practice group could turn to the Regulatory group if the need arose for
18 guidance regarding the state and federal regulatory requirements pertaining to the
19 proposed transaction.

20 Q. DOES THE AEPSC LEGAL DEPARTMENT DEDICATE STAFF TO SWEPCO?

21 A. No, it does not.

1 Q. WHERE ARE LEGAL DEPARTMENT PERSONNEL LOCATED?

2 A. Most of the Legal Department staff is based in the AEP headquarters in Columbus,
3 Ohio, and some are located regionally, such as in AEP's Austin, Dallas, and
4 Oklahoma City offices. Certain legal services require a degree of localized expertise
5 to interact face-to-face with the parties, officials, and decision makers involved in a
6 particular lawsuit, real estate transaction, or other legal matter. To that end, AEPSC
7 maintains attorneys in Dallas, Austin, and Oklahoma City to handle litigation, real
8 estate, regulatory, and environmental matters involving AEP Operating Companies in
9 the west.

10 AEPSC's regulatory attorneys in Texas are a good example of how AEP
11 utilizes regionally located counsel. Texas regulatory matters require daily interaction
12 between the Company's counsel, various staff members of the Commission, and other
13 parties involved in numerous contested case proceedings, rulemakings, workshops,
14 and other projects that directly affect SWEPCO. During the Test Year, AEPSC had
15 five attorneys located in Austin, three of whom were regulatory attorneys with
16 extensive backgrounds in Texas utility law and regulation. They provide some of the
17 legal support necessary for SWEPCO's interests to be properly represented in these
18 proceedings. These attorneys, however, perform work for all of AEP's Operating
19 Companies located in Texas, as well as for AEP Operating Companies in the
20 remainder of the western portion of the system (Arkansas, Louisiana, and Oklahoma)
21 to gain the efficiencies and economies of scale associated with the provision of
22 centralized legal services.

1 Q. ARE LEGAL SERVICES PROVIDED TO SWEPCO THROUGH OUTSIDE
2 COUNSEL AS WELL AS LEGAL DEPARTMENT EMPLOYEES?

3 A. Yes. SWEPCO utilizes the services of outside counsel to keep up with legal work as
4 needed to support a regulated company as large and complex as SWEPCO.
5 Moreover, SWEPCO and AEPSC believe that use of outside counsel, when warranted
6 by the volume of work or when the nature of work requires expertise not otherwise
7 available internally, maintains the quality of the Company's legal services. If
8 SWEPCO and the other AEP Operating Companies each had to staff a legal
9 department sufficient to cover this range of legal services, it would lead to over-
10 staffing and under-utilization of staff.

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

13 A. AEP prefers to use in-house counsel if possible. As I discuss below, in-house
14 employees are less expensive than external counsel. A number of factors are weighed
15 on a case-by-case basis in the decision to retain outside counsel for any particular
16 legal matter. For example, outside counsel may be retained when internal workload
17 is such that the legal services cannot be provided by service company attorneys alone,
18 or when counsel with specialized expertise is not otherwise available internally. The
19 legal staffing for this rate case is a good example of AEP's approach to using outside
20 counsel. This case is too large to be handled only by in-house counsel, given the
21 limited number of available in-house counsel possessing the necessary experience
22 and expertise. Accordingly, SWEPCO has staffed the case with both internal and

1 outside counsel working cooperatively to ensure that all legal services necessary to
2 support SWEPCO's interests are covered without undue overlap.

3 Q. HOW DO AEPSC AND SWEPCO SELECT OUTSIDE COUNSEL?

4 A. AEPSC and SWEPCO select outside counsel who possess the requisite experience
5 and demonstrated expertise in the areas of legal services required by SWEPCO, and
6 who have a substantial base of knowledge concerning the Company's organization
7 and business operations. For the most part, these attorneys have gained their
8 experience and demonstrated their expertise through prior relationships with
9 SWEPCO and with AEP, during which time they have demonstrated the ability to
10 deliver high-quality legal services in a timely fashion. When outside counsel is
11 engaged, the Associate General Counsel in Austin employs a number of policies to
12 ensure an appropriate level of control over outside counsel's activities, fees, and
13 expenses, including utilizing standardized billing procedures and reviewing each
14 invoice from outside counsel to ensure the charges and scope of work are consistent
15 with AEP's policies and requirements. Further, AEPSC and SWEPCO are aware of
16 the range of hourly rates for consultants and attorneys in the field of utility regulation
17 because they contract with such professionals on a routine basis. This knowledge is
18 applied in determining the reasonableness of outside counsel's hourly rates and
19 charges for services.

20 Q. WERE THE SERVICES PROVIDED DURING THE TEST YEAR BY THE
21 LEGAL DEPARTMENT NECESSARY IN ORDER FOR SWEPCO TO PROVIDE
22 RELIABLE UTILITY SERVICE?