

1 A. The purpose of this organizational structure is to streamline access to the
2 Telecommunications organization, reduce complexity in providing solutions, and increase
3 the flexibility and agility of Telecommunications to respond to AEP's business needs.
4 Telecommunications uses common centralized resources to meet common needs resulting
5 in delivery with the lowest reasonable cost and greatest efficiency. AEP Operating
6 Companies collaborate to identify business unit requirements that are communicated to
7 Telecommunications. All requests funnel through the Projects & Planning team to provide
8 consistent estimates to our business units. Telecommunications focuses on consistent,
9 standard solutions for shared requirements and unique solutions where necessary for
10 individual operating companies.

11 Q. WHY HAS AEP CHOSEN TO TAKE A CENTRALIZED APPROACH TO THE
12 PROVISIONING OF TELECOMMUNICATIONS SERVICES?

13 A. Since most business processes are common across SWEPCO and other AEP Operating
14 Companies, a centralized model creates the opportunity for AEP to leverage purchasing
15 power and apply standard architectures to promote cybersecurity practices, centralized
16 support and improve network availability.

17 Q. WHAT ARE THE FUNCTIONS AND TYPES OF COSTS OF EACH OF THE
18 TELECOMMUNICATIONS ORGANIZATIONS?

19 A. Telecommunications Business Office:

20 The Telecommunications Business Office team provides financial analysis and support to
21 help manage Telecommunications budget, Telecommunications safety coordination and
22 support, material management, work release/invoice processing, training services, process

1 improvement and asset management. Costs for this area are also labor and labor related
2 for the specialists who provide these services.

3 Projects & Planning:

4 The Projects & Planning team provides planning services in alignment with the business
5 units to satisfy communication needs, project scoping and estimating, and partner with
6 Telecommunications organization to implement new standard technology. The team also
7 provides project management services, which include scope, financial, schedule, and issue
8 management, tracking and reporting. Costs for this area are labor and labor related for the
9 specialists who provide these services.

10 Engineering:

11 The Engineering team provides engineering design, standards, documentation,
12 procurement and support for multiple technologies, including transport, wireless, network,
13 voice and data, SCADA, Advanced Metering Infrastructure (AMI) and Distribution
14 Automation (DA) systems. The team provides a standard enterprise architecture to
15 provide reliable and secure systems to SWEPCO and its customers. Costs for this area are
16 internal labor and third party contractors.

17 Construction:

18 The Telecommunications Construction organization provides services for fiber
19 engineering/construction and telecommunications site construction. The fiber work
20 consists of engineering and design, documentation, procurement and coordination of fiber
21 installation via third party contractors. The telecommunications site construction activities
22 consist of coordination of: 1) pre-construction site work, 2) construction of foundations
23 for equipment, buildings and towers, 3) tower installations and modifications, and 4)

1 demolition and removal of decommissioned buildings and towers and associated
2 foundations. Costs for this area includes internal labor, staff augmentation contractors,
3 and third party construction contractors.

4 Enterprise Operations:

5 The Telecommunications Enterprise Operations team provides 24x7 centralized
6 operational support of telecommunications devices and circuits including operating,
7 monitoring, incident resolution, maintenance, repair, change/outage management, and
8 compliance aspects. This team also provides implementation support for the same devices
9 by providing configuration and standards support. The devices cover corporate, SCADA
10 and external facing networks and the following technologies: transport, wireless, network,
11 SCADA, meter and DA systems. Costs for this area are internal labor, contract labor and
12 third party contractors.

13 SWEPCO Telecommunications Operations:

14 SWEPCO, headquartered in Shreveport, Louisiana, encompasses AEP service territories
15 in northwestern and central Louisiana, western Arkansas, and east Texas and the
16 Panhandle area of north Texas, which are the Texas service territories that participate in
17 the Southwest Power Pool (SPP). SWEPCO's Texas regulatory and government affairs
18 services are provided through AEP's Austin, Texas offices. Personnel are located across
19 the system to ensure timely response to production issues. Telecommunications
20 technicians work closely with our customers to resolve issues that pertain to radios,
21 Advanced Metering Reading (AMR) connectivity, mobile computing, fiber and
22 microwave outages. The Telecommunications teams are responsible for maintenance of
23 telecommunication sites across SWEPCO. The teams also work with the Construction

1 teams to implement new technologies. Costs for this area are internal labor and third party
2 contractors. There are also Telecommunications Operations teams within the
3 Telecommunications organization for the other AEP Operating Companies that perform
4 similar functions to SWEPCO Telecommunications Operations.

5 Q. WHAT IS THE COMPOSITION OF THE TELECOMMUNICATIONS
6 WORKFORCE?

7 A. The central management and leadership of Telecommunications is provided by AEPSC
8 employees, but Telecommunications-related work to support AEP Operating Companies
9 is carried out by a combination of AEPSC and operating company personnel, as well as
10 third party contractors.

11 As of the end of the Test Year,¹ the Telecommunications work force was
12 composed of a total of 250 AEPSC employees, 222 operating company employees, and
13 152 staff augmentation contractors. Eighteen of the operating company employees are
14 SWEPCO employees.

15 Q. HOW DO YOU DISTINGUISH BETWEEN SERVICE COMPANY (AEPSC) AND
16 OPERATING COMPANY EMPLOYEES?

17 A. Telecommunications employees who perform work for the benefit of more than one AEP
18 Operating Company are AEPSC employees. Each AEP Operating Company has
19 employees whose work is dedicated only to that operating company.

20 Q. ARE THE SERVICES PROVIDED BY TELECOMMUNICATIONS TO SWEPCO
21 NECESSARY FOR SWEPCO TO PROVIDE RELIABLE UTILITY SERVICE?

¹ The Test Year is the twelve-month period ending March 31, 2020.

1 A. Yes. Each service provided to SWEPCO is essential to the mission of providing safe and
2 reliable utility service in a cost-effective manner. Telecommunications provides essential
3 support for the systems that allow SWEPCO to coordinate outage response and repair,
4 perform system operation, manage system construction and maintenance, maintain cyber
5 security, bill its customers and account for its costs. This support from
6 Telecommunications enables virtually all SWEPCO employees to perform their work and
7 serve customers as effectively and efficiently as possible.

8 Q. ARE AEPSC TELECOMMUNICATIONS SERVICES DUPLICATED BY
9 PERSONNEL OUTSIDE TELECOMMUNICATIONS, WITHIN SWEPCO OR ANY
10 OTHER ENTITY?

11 A. No. There is no duplication of the work performed by AEPSC Telecommunications in
12 SWEPCO or any other AEP business unit or other entity.
13

14 IV. REASONABLENESS OF SWEPCO
15 TELECOMMUNICATIONS COSTS

16 Q. WHAT ARE THE TEST YEAR AFFILIATE TELECOMMUNICATIONS
17 OPERATIONS AND MAINTENANCE (O&M) COSTS BILLED TO SWEPCO BY
18 AEPSC TELECOMMUNICATIONS?

19 A. The total adjusted Test Year affiliate O&M Telecommunications costs for SWEPCO are
20 \$556,394.

21 Q. WHAT TYPES OF PROOF OF REASONABLENESS OF THESE COSTS DO YOU
22 PRESENT IN THIS TESTIMONY?

1 A. I have applied a number of methods for demonstrating the reasonableness of affiliate costs,
2 including cost trends and budget performance, budgeting controls, process improvements,
3 full-time equivalent (FTE) trends, outsourcing, and cost-effective additions of services.
4 Each of these is discussed below.

5 A. Cost Trends and Budget Performance

6 Q. HOW HAVE TELECOMMUNICATIONS AFFILIATE CHARGES BEEN TRENDING
7 OVER THE LAST FEW YEARS FOR SWEPCO?

8 A. The table below sets forth SWEPCO Telecommunications affiliate charges for calendar
9 years 2017, 2018 and 2019, as well as the Test Year.

10

SWEPCO Telecomm Affiliate Charges			
2017	2018	2019	Test Year
\$437,951	\$454,842	\$523,556	\$556,394

11
12

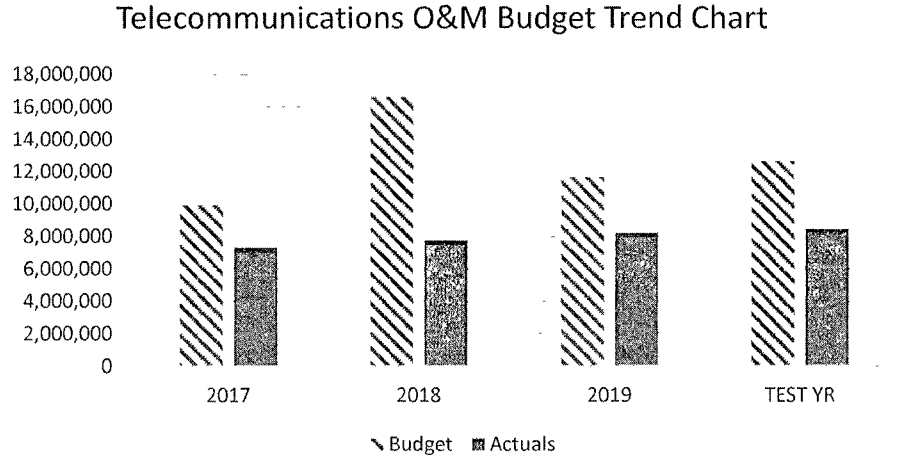
13 Q. WHAT ARE SOME OF THE PRIMARY REASONS FOR THESE TRENDS?

14 A. As can be seen by the above table, the cost of providing Telecommunications services to
15 SWEPCO has increased each year. As business requirements change,
16 Telecommunications efforts vary and, in turn, the costs incurred by each business unit and
17 operating company will fluctuate. Contributing factors include an increase in asset leases
18 for connectivity, increased support of an aged radio system that is in the process of being
19 replaced to reduce support and provide more stability, and an overall increase in required
20 Telecommunications equipment, such as automated meters, to run the business more
21 efficiently.

1 Q. HOW HAS TELECOMMUNICATIONS PERFORMED OVERALL IN TERMS OF
2 BUDGETED TO ACTUAL EXPENSES?

3 A. As shown in the table and chart below, actual Telecommunications departmental expenses
4 continue to remain within budget targets. Because the setting of the control budget
5 happens in the spring prior to the actual budget year, the 2018 control budget was set in
6 2017 when IT and Telecommunications were still one department. The decision to split
7 the departments happened at the end of 2017, which makes the control budget figures
8 appear to be artificially high for Telecommunications. Looking at the IT and
9 Telecommunications budget as a whole, the total is consistent with previous years when
10 the departments were combined. Telecommunications consistently works to drive down
11 operational costs by prudent spending and replacing aged equipment as appropriate with
12 equipment that takes less support. Telecommunications equipment is increasingly
13 becoming IP based, which allows for support from a desk instead of traveling to a site,
14 thereby saving time and money.

Telecommunications Budget vs. Actuals				
	2017	2018	2019	Test Year
Actuals	7,314,659	7,749,200	8,191,214	8,435,403
Budget	9,922,406	16,607,703	11,636,174	12,642,638



1 Q. WHAT DO YOU CONCLUDE FROM THESE COST TRENDS?

2 A. The Telecommunications organization is prudently and consistently meeting its budget
3 targets, while still providing additional capabilities at the same time as it continuously
4 seeks more efficient and effective ways to provide services.

5 B. Budgeting Controls

6 Q. WHAT TYPE OF BUDGETING PROCESS IS EMPLOYED WITH REGARD TO
7 TELECOMMUNICATIONS O&M AND CAPITAL COSTS?

8 A. Budgets are developed annually for each AEP organization. The current year budget is
9 compared to actual spend on a monthly basis and year-end projections are revised as
10 appropriate. The budget is created by considering corporate and operating company
11 financial and business requirements and market conditions relevant to AEP's overall
12 electric utility business.

13 Q. ONCE BUDGETS ARE IN PLACE, WHAT FURTHER COST MONITORING
14 OCCURS?

1 A. Within Telecommunications, managers at every level are responsible for monitoring and
2 controlling budgets that are assigned to their respective teams or projects. Monthly
3 monitoring and forecasting are completed. Proposals for new projects are reviewed to
4 ensure that the work is necessary and can be reasonably funded. Telecommunications
5 senior management reviews all capital proposals to ensure that:

- 6 • projects are aligned with corporate initiatives and are properly budgeted and
7 funded;
- 8 • existing technology is utilized wherever possible as opposed to building or buying
9 new technology;
- 10 • business cases have clear justifications for new technology or enhancements;
- 11 • duplicate systems are not built; and
- 12 • the Telecommunications management team works with the managing director as
13 necessary to address any exceptional requests (*e.g.*, temporary staffing, training
14 opportunities, requests that do not align with standards, etc.).

15 Q. WHAT TYPE OF CORPORATE OVERSIGHT OF TELECOMMUNICATIONS
16 ACTIVITIES IS IN PLACE TO ENSURE THAT ITS SERVICES SUPPORT
17 SWEPCO'S UTILITY SERVICE IN A COST-EFFECTIVE MANNER?

18 A. The corporate oversight process begins approximately six months prior to each calendar
19 (fiscal) year. The Chief Financial Officer leads a process to establish O&M and capital
20 budget guidelines for the following year. The Telecommunications leadership team works
21 within these guidelines to prioritize and plan detailed expenditures.

22 The O&M budget is managed through collaboration between Telecommunications
23 and Corporate Planning & Budgeting (CP&B). Actual expenditures are monitored against
24 the budget every month.

25 The capital budget is managed through collaboration between operating
26 companies, business units and CP&B. The AEP Sub Company Board grants final approval

1 for major (over \$2M) capital investments each month. Investments below this threshold
2 are evaluated and prioritized by Telecommunications leadership working with each
3 business unit and ultimately approved by the leadership of the operating companies,
4 business units and Telecommunications. The planning process is used to prioritize capital
5 investments for the following year. While some changes do occur during the year, for the
6 most part the highest priority capital projects are implemented.

7 C. Process Improvements

8 Q. WHAT ARE THE MAJOR TELECOMMUNICATIONS PROCESS IMPROVEMENT
9 EFFORTS TO ENSURE THAT ITS SERVICES SUPPORT SWEPCO'S UTILITY
10 SERVICE IN A COST-EFFECTIVE MANNER?

11 A. The Telecommunications organization has a standard project process delivery format.
12 This includes a bidding process to suppliers for material and services to ensure SWEPCO
13 gets the best quality and price for its customers.

14 Q. HOW DOES TELECOMMUNICATIONS ENSURE THAT EFFECTIVE SERVICES
15 ARE DELIVERED TO SWEPCO?

16 A. Telecommunications has a Network Operations Center (NOC) and Smart Grid desk,
17 which monitors our network 24 hours a day, 365 days per year. The NOC is Level 1
18 support, meaning it attempts to resolve the issues remotely if possible; if not,
19 Telecommunications Operations is dispatched using the ServiceNow tool to create a ticket
20 to assign the work. These issues are tracked and measured to ensure effectiveness of the
21 network system. Telecommunications Field Managers monitor ServiceNow to detect
22 trends. In situations where abnormal issues are detected, Telecommunications Operations
23 engages Telecommunications Engineering to develop a solution. The SWEPCO

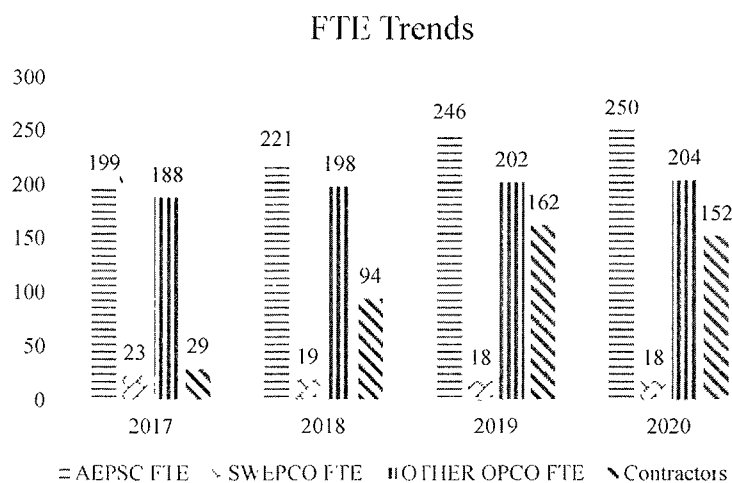
Telecommunications Operations teams will conduct high level troubleshooting from their location and, if unable to restore service, will physically drive to the SWEPCO location to fix the problem on site. Telecommunications also has tools to perform quality of service checks on the network systems.

D. FTE Trends

Q. WHAT ARE THE RECENT STAFFING TRENDS FOR TELECOMMUNICATIONS?

A. The table below depicts overall annual average staff levels, including AEP employees and staff augmentation contractors. The table shows steady overall total employee increases, driven by the need for support of transmission and distribution capital growth. In addition, contractor levels have fluctuated in response to the number of capital projects in progress.

FTE Trends					
Year	AEPSC FTE	SWEPCO FTE	OTHER OPCO FTE	Total FTE	Total Contractors
2017	199	23	188	410	29
2018	221	19	198	438	94
2019	246	18	202	466	162
Test Year	250	18	204	472	152



Q. CAN YOU EXPLAIN THE USE OF CONTRACTORS WITHIN TELECOMMUNICATIONS?

1 A. Contractors are used to supplement Telecommunications workforce in areas such as
2 Engineering, Engineering Design, Construction, and Project Management. Using
3 contractors is more cost-effective than keeping full-time employees year-round because it
4 allows AEP to staff up during times when more people are needed for large projects and
5 be lean when those projects are completed.

6 E. Outsourcing

7 Q. HOW DOES OUTSOURCING PROVIDE A MEANS TO CONTROL
8 TELECOMMUNICATIONS COSTS?

9 A. Telecommunications outsources to control and reduce costs while maintaining or
10 improving operational efficiency and effectiveness. Telecommunications utilizes contract
11 resources as work increases and decreases. Proper planning and project management
12 practices allow Telecommunications to determine if employee resources are available or
13 if contract resources should be utilized.

14 Telecommunications utilizes corporate work release processes and solicits
15 competitive bids for maintenance activities including tower inspections and site
16 maintenance, anchor replacement, antenna alignment, and fiber replacement and splicing.
17 Third party contractor construction activities include underground fiber placement and
18 tower buildings. With limited exceptions, all external work over \$100,000 is put out for
19 bid. In some instances, the bid process is waived (with management approval) to address
20 urgent repairs for system outages.

21 Q. HOW DOES TELECOMMUNICATIONS ENSURE THAT ITS USE OF
22 OUTSOURCING IS COST-EFFECTIVE?

1 A. Telecommunications uses competitive bidding, preferred vendor pricing, fixed-cost
2 contracts and volume discounts for all types of outsourced services. Contract negotiation
3 processes that include 'best and final' requests ensure that all products and services are
4 procured at competitive rates. Periodic contract reviews, driven by the annual budget cycle
5 and contract renewal dates, trigger lease and license renewal negotiations and ensure that
6 marketplace opportunities to improve service or reduce costs are captured in a timely
7 manner.

8 Q. WHAT DO YOU CONCLUDE FROM THE ABOVE INFORMATION REGARDING
9 THE USE OF OUTSOURCING?

10 A. Telecommunications utilizes outsourcing in a targeted manner to optimize overall cost
11 and performance using a mix of external capabilities and firms to encourage competition.
12 Each outsourcing opportunity is carefully evaluated to ensure it provides AEP with a
13 lower cost and equal or higher level of service than an equivalent internal solution or team.

14 F. Cost-Effectiveness

15 Q. HOW HAS THE INCREASED DEMAND FOR TELECOMMUNICATIONS
16 SERVICES AFFECTED TELECOMMUNICATIONS COSTS?

17 A. Despite increased demand for telecommunications services, Telecommunications has
18 successfully added new capabilities while controlling costs (see budget versus actuals
19 chart earlier in my testimony). Telecommunications continues to work closely with
20 Transmission and Distribution to evolve a 10-year capital improvement plan to increase
21 AEP's internal network capabilities and reduce dependency on external services (*i.e.*,
22 leased lines). The expanded fiber footprint will provide greater bandwidth and more
23 secure and reliable technology to substations across the system, reducing usage of current

1 lower bandwidth devices. This internal network growth further provides much needed
2 redundancy for reliability and sustainability.

3
4 V. TELECOMMUNICATIONS CAPITAL ADDITIONS

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

6 A. In this section of my testimony, I describe the Telecommunications-related capital
7 additions to rate base that reflect affiliate charges from AEPSC to SWEPCO.

8 Q. WHAT IS THE TOTAL AMOUNT OF TELECOMMUNICATIONS-RELATED
9 CAPITAL ADDITIONS INCLUDED IN SWEPCO'S RATE BASE SINCE ITS LAST
10 BASE RATE CASE?

11 A. The total for SWEPCO is \$2,582,002 in telecommunications-related charges.

12 Q. HOW ARE THE COSTS OF TELECOMMUNICATIONS AFFILIATE CAPITAL
13 PROJECTS CAPTURED AND TRACKED?

14 A. The affiliate capital costs are captured and billed in much the same way as other affiliate
15 costs, using AEPSC accounting processes and systems. The means of gathering and
16 billing costs by work order is explained more fully in the testimony of Brian Frantz. The
17 capitalized Telecommunications costs that I support can be charged to work orders
18 specific to a certain project or to work orders established to capture ongoing maintenance
19 and routine support of distribution, transmission, and generation. SWEPCO affiliate
20 Telecommunications capital additions include blanket work orders and standalone work
21 orders. These services are either direct billed or allocated using the principles for cost
22 allocation described below and in the testimony of Mr. Frantz.

1 Q. WHY IS A BLANKET WORK ORDER USED TO BILL SOME OF THESE CAPITAL
2 ADDITIONS?

3 A. Blanket work orders are commonly used for capital projects that are smaller in scope and
4 cost, usually high-volume and have the same depreciable life and plant accounting
5 category (starting 2018 with a <\$2,000,000 loaded cost threshold). Blanket work orders
6 are a standard property accounting and industry solution used to efficiently account for
7 smaller capital investments.

8 Q. SINCE THE LAST RATE CASE, WHAT WERE THE MAJOR
9 TELECOMMUNICATIONS-RELATED PROJECTS REFLECTED IN SWEPCO'S
10 CAPITAL ADDITIONS?

11 A. The major telecommunications projects for SWEPCO since the last rate case were projects
12 related to radio and microwave upgrades. These projects totaling \$2,219,375 are described
13 in the chart below. As discussed above, a blanket work order/project was also established
14 to aggregate many smaller projects.

Project ID	Description	Amount
SWEPCO Next Generation Radio System	The SWEPCO Next Generation Radio System is a new digital, IP-based communications network that has the capacity and a forward engineered design for improving existing systems as well as new technologies and applications. The Next Generation Utility communications system provides quality, highly-reliable voice and data communications for all SWEPCO field users.	\$2,219,375
SWEPCO Blanket	A blanket project has been established for small capital projects that fall under the \$2M capital investment threshold, which could include, but are not limited to, aged infrastructure replacements, fiber connections and microwave updates.	\$320,470
Other	Other miscellaneous telecommunication related projects for SWEPCO.	\$42,157

- 1 Q. WHAT PROCESSES DOES TELECOMMUNICATIONS HAVE IN PLACE TO
2 ENSURE THAT THE COSTS OF THESE PROJECTS ARE REASONABLE?
- 3 A. I have already described in section IV of my testimony the internal planning, budgeting,
4 approval, and quality control processes that combine to control the costs of
5 Telecommunications O&M. These same processes equally apply and are utilized to
6 control Telecommunications capital project costs. Each capital project over \$2,000,000
7 includes an evaluation of the options considered – including a high-level assessment of
8 costs and benefits of each option. Project estimates are prepared after an analysis phase
9 that includes collaboration between business partners, operating companies, and
10 Telecommunications departments. Estimates are reviewed and refined through a series of
11 increasingly narrower thresholds to the final approval. The estimates are reviewed by
12 Telecommunications management and approved on a regular basis. If a third party is
13 engaged, the project is bid to multiple vendors. The proposal for each project identifies
14 the high-level requirements and goals for the project. Each project is actively monitored
15 to ensure that the requirements are met and the project is within budget. Moreover, overall

1 staffing trends show that Telecommunications has a reasonable amount of staff devoted
2 to these and other telecommunications projects.

3

4

VI. SUMMARY AND CONCLUSION

5 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

6 A. I have discussed the Telecommunications services provided to SWEPCO by AEP
7 Telecommunications. I have demonstrated that SWEPCO'S Telecommunications O&M
8 costs are reasonable and necessary by describing a combination of process improvements,
9 cost and staffing trends, and budgeting controls.

10 Finally, I have described the affiliate Telecommunications capital additions and
11 the reasons that they are reasonable and necessary.

12 In summary, my testimony supports the conclusion that Telecommunications
13 capital additions and O&M expenses satisfy Commission standards for inclusion in
14 SWEPCO's rates.

15 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

16 A. Yes, it does.

EXECUTIVE SUMMARY OF GREGORY S. WILSON

Mr. Gregory S. Wilson, Vice President and Principal of Lewis & Ellis, Inc., an actuarial consulting firm, supports the establishment and funding of a self-insurance plan requested by Southwestern Electric Power Company (SWEPCO) to protect its transmission and distribution (T&D) assets. Specifically, Mr. Wilson estimates: (1) the annual accruals needed to provide for the expected property losses incurred by SWEPCO for the storm damage losses that are not covered by insurance and for which Section 36.064 of the Public Utility Regulatory Act (PURA) and 16 Tex. Admin. Code § 25.231(b)(1)(G) permit a provision to be made; and (2) a target amount to accumulate in the self-insurance reserve along with a recommended time period over which these accruals are to be made. Mr. Wilson recommends that SWEPCO's self-insurance plan should be based on an annual accrual of \$1,689,700, which is composed of \$799,700 each year to provide for the year's annual expected losses from storms with T&D losses of at least \$500,000 and \$890,000 to build the total self-insurance reserve up to the target level of \$3,560,000.

Because the range of expected property losses from storm damage events covered by the self-insurance reserve varies considerably from year to year, the self-insurance plan recommended by Mr. Wilson and requested by SWEPCO will provide for an amount of money to be accrued to the self-insurance plan each year to provide for property losses expected to occur from such events. In addition, to the extent the annual accrual is not fully used in a given year to fund property losses experienced in that year, the amount in excess of the losses in the year will be added to the self-insurance reserve to provide a financial buffer against the contingency that future-year actual losses may exceed the accrued annual amount for that year.

Mr. Wilson's recommended annual accrual amount for the self-insurance plan is based in part on the average annual expected loss as calculated by a Monte Carlo simulation, which is a statistical technique incorporating a computer program to simulate loss experience over a longer period of time than the period captured in the available loss history. The program simulates individual losses on an annual basis for SWEPCO for 50,000 iterations of annual experience. A statistical distribution was estimated from SWEPCO's trended loss experience and input into the model. The program was run 50,000 times, each time simulating a possible outcome. From these 50,000 iterations of simulated experience, Mr. Wilson was able to determine that \$799,700 is the expected annual loss associated with storms with T&D losses of at least \$500,000. From the 50,000 iterations of simulated experience, Mr. Wilson was also able to determine that in any 25-year period, the largest expected loss is approximately \$3,560,000.

Based on a cost benefit analysis he performed, which compared the requested self-insurance plan to the cost of comparable commercial insurance, Mr. Wilson 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.

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF

SOUTHWESTERN ELECTRIC POWER COMPANY

FOR AUTHORITY TO CHANGE RATES

DIRECT TESTIMONY OF

GREGORY S. WILSON

FOR

SOUTHWESTERN ELECTRIC POWER COMPANY

OCTOBER 2020

<u>SECTION</u>	<u>TESTIMONY INDEX</u>	<u>PAGE</u>
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II. PURPOSE OF TESTIMONY		3
III. SELF-INSURANCE RESERVE BACKGROUND		4
IV. ANNUAL EXPECTED LOSSES		6
V. TARGET RESERVE		7
VI. COST-BENEFIT ANALYSIS		10
VII. CONCLUSION		12

EXHIBITS

<u>EXHIBIT</u>	<u>DESCRIPTION</u>
EXHIBIT GSW-1	Gregory S. Wilson Resume
EXHIBIT GSW-2	Calculation of Recommended Accrual
EXHIBIT GSW-3	Texas Major Storm Damage Adjusted to Current Cost Level
EXHIBIT GSW-4	Example of Loss Trending Methodology

1 I. INTRODUCTION

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

3 A. My name is Gregory S. Wilson. I am a consulting actuary specializing in the area of
4 property-casualty actuarial matters. I am a Vice President and Principal at Lewis &
5 Ellis, Inc. (L&E). My business address is 700 Central Expressway South, Suite 550,
6 Allen, Texas 75007.

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

9 A. I received a Bachelor of Science degree in applied mathematics from the University of
10 Rhode Island in 1976.

11 In 1992, after completing all of the required examinations, I became a Fellow
12 of the Casualty Actuarial Society, the highest designation a property-casualty actuary
13 can attain. This designation is obtained through a rigorous process involving separate
14 examinations on topics such as mathematics, probability and statistics, theory of
15 credibility, theory of risk and insurance, economics, insurance coverages, ratemaking,
16 loss reserving, insurance accounting and regulation, and individual risk rating. I am
17 also a Member of the American Academy of Actuaries.

18 Following college, I was employed by Amica Mutual Insurance Company until
19 1994, at which time I was a vice president serving as chief actuary and supervising the
20 actuarial department.

21 In 1994, I joined PricewaterhouseCoopers, LLP where I provided actuarial
22 consulting services to a wide variety of clients including insurance companies, state
23 insurance regulators, self-insured entities, and non-insurance corporations. I joined

1 L&E in 2001, where I continue to provide actuarial consulting services to a wide variety
2 of clients. My resume is attached to this testimony as EXHIBIT GSW-1.

3 Q. WHAT IS AN ACTUARY?

4 A. An actuary is a business professional who estimates the financial implications of future
5 contingent events or risk, which in the context of a rate case such as this one is the risk
6 of damage to the utility's facilities and infrastructure due to currently unknown (or
7 contingent) future events. Actuaries use mathematics, statistics, and financial theory to
8 help manage such risks. In this proceeding, my analysis of future financial
9 consequences is performed in accordance with the Actuarial Standards of Practice
10 adopted by the American Academy of Actuaries, as well as the Statement of Principles
11 Regarding Property and Casualty Loss and Loss Adjustment Expense Reserves adopted
12 by the Casualty Actuarial Society.

13 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY?

14 A. Yes. I submitted testimony addressing self-insurance reserve issues similar to those that
15 I address in this testimony in Public Utility Commission of Texas (PUC or the
16 Commission) Docket Nos. 16705, 20150, 22356, 30123, 33309, 34800, 37364, 37744,
17 38339, 38480, 39896, 40606, 41791, 43950, 44704, 44746, 46957, 48371, 48401,
18 49421, and 49494. I have also testified on self-insurance issues in conjunction with a
19 utility rate filing before the Missouri Public Service Commission.

1 II. PURPOSE OF TESTIMONY

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

3 A. The purpose of my direct testimony is to offer an independent opinion of the
4 reasonableness of the approach Southwestern Electric Power Company (SWEPCO or
5 the Company) proposes to take with respect to protecting its transmission and
6 distribution (T&D) assets through self-insurance. The specific purpose of my testimony
7 is: (1) to estimate the annual accruals needed to provide for the expected property losses
8 incurred by SWEPCO for the storm damage losses that are not covered by insurance
9 and for which Section 36.064 of the Public Utility Regulatory Act (PURA) permits a
10 provision to be made; and (2) to estimate a target amount to accumulate in the
11 self-insurance reserve along with a recommended time period over which these
12 accruals are to be made.

13 My testimony also includes a cost-benefit analysis demonstrating that self-
14 insurance at the levels proposed by SWEPCO is a lower cost alternative to purchasing
15 insurance and is in the public interest, consistent with 16 Tex. Admin. Code (TAC)
16 § 25.231(b)(1)(G).

17 Q. WHAT DOES 16 TAC § 25.231(b)(1)(G) PROVIDE REGARDING SELF-
18 INSURANCE?

19 A. This rule provides as follows:

20 Accruals credited to reserve accounts for self-insurance under a plan
21 requested by an electric utility and approved by the commission. The
22 commission shall consider approval of a self-insurance plan in a rate
23 case in which expenses or rate base treatment are requested for a such a
24 plan. For the purposes of this section, a self-insurance plan is a plan
25 providing for accruals to be credited to reserve accounts. The reserve
26 accounts are to be charged with property and liability losses which

1 occur, and which could not have been reasonably anticipated and
2 included in operating and maintenance expenses, and are not paid or
3 reimbursed by commercial insurance. The commission will approve a
4 self-insurance plan to the extent it finds it to be in the public interest. In
5 order to establish that the plan is in the public interest, the electric utility
6 must present a cost benefit analysis performed by a qualified
7 independent insurance consultant who demonstrates that, with
8 consideration of all costs, self-insurance is a lower-cost alternative than
9 commercial insurance and the ratepayers will receive the benefits of the
10 self-insurance plan. The cost benefit analysis shall present a detailed
11 analysis of the appropriate limits of self-insurance, an analysis of the
12 appropriate annual accruals to build a reserve account for self-insurance,
13 and the level at which further accruals should be decreased or
14 terminated.

15 Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.

16 A. I propose an annual accrual of \$1,689,700 and a target property loss self-insurance
17 reserve of \$3,560,000 for storm damage losses. As I explain subsequently, the
18 \$1,689,700 million accrual is composed of two elements. The first is \$799,700 to
19 provide for average annual expected losses from storms with T&D losses of at least
20 \$500,000. The second is \$890,000 accrued over four years to achieve the target reserve
21 of \$3,560,000.

22

23 III. SELF-INSURANCE RESERVE BACKGROUND

24 Q. PLEASE STATE THE PURPOSE OF A SELF-INSURANCE RESERVE AND
25 EXPLAIN HOW IT WOULD OPERATE.

26 A. The purpose of SWEPCO's self-insurance reserve is to provide for occurrences
27 resulting in storm-related T&D losses of at least \$500,000.

28 Each year, an amount of money would be accrued in the self-insurance reserve
29 to provide for losses expected to occur in the calendar year. In addition to this amount,

1 an accrual would be made to raise the self-insurance reserve to a level that would serve
2 as a financial buffer in the event that actual losses exceed the accrued annual expected
3 loss amount.

4 Q. WHAT HAPPENS IF THE ANNUAL AGGREGATE LOSSES EXCEED THE
5 AMOUNT ACCRUED IN ANY GIVEN YEAR?

6 A. If the annual aggregate losses exceed the amount accrued in any given year, the
7 remaining reserve would be drawn upon to provide the needed additional amounts. If
8 the annual aggregate losses are less than the amount accrued for that purpose, the excess
9 annual accrual would remain in the self-insurance reserve, serving to bring the self-
10 insurance reserve closer to its target level.

11 Q. WHY IS IT NECESSARY TO BUILD THE SELF-INSURANCE RESERVE UP TO
12 A CERTAIN TARGETED LEVEL?

13 A. The range of expected losses from storm damage covered by the self-insurance reserve
14 varies considerably from year to year, as will the actual losses that SWEPCO will incur.
15 The self-insurance reserve needs to be sufficient to cover the losses for each year,
16 knowing that any given year's actual losses may be very different from the average
17 expected losses. Hence, a reserve large enough to provide for some variation in the
18 annual aggregate amount of losses is needed.

19 Q. IS SWEPCO'S SELF-INSURANCE PROGRAM IN THE CUSTOMERS'
20 INTEREST?

21 A. Yes. SWEPCO's self-insurance program is in the best interest of the Company's
22 customers. As will be shown later, the program provides a lower cost alternative than
23 purchasing insurance for all losses. At the same time, it provides for utility rate stability

1 by providing for a self-insurance reserve to absorb the variation in the experience from
2 the expected annual losses so that customers' rates will not reflect dramatically
3 different self-insurance losses from one year to the next.

4 IV. ANNUAL EXPECTED LOSSES

5 Q. HOW MUCH MONEY SHOULD SWEPCO ACCRUE ANNUALLY IN THE SELF-
6 INSURANCE RESERVE TO COVER THE EXPECTED LOSSES FOR EACH
7 YEAR?

8 A. The amount SWEPCO should accrue annually for expected losses of the self-insurance
9 reserve is \$1,689,700. This amount is the expected value of the annual losses incurred
10 from all storm damage adjusted to reflect current conditions and current cost levels.
11 This recommended amount is calculated by running the loss history from 2000 through
12 March 2020 (shown on EXHIBIT GSW-2) through a Monte Carlo simulation.

13 Q. WHAT IS A MONTE CARLO SIMULATION?

14 A Monte Carlo simulation is a statistical technique incorporating a computer program
15 to simulate loss experience over a longer period of time than the period captured in the
16 available loss history. The program simulates individual losses on an annual basis for
17 50,000 iterations of annual experience. A statistical distribution is estimated from the
18 division's trended loss experience and input into the model. The model is run 50,000
19 times, each time simulating a possible outcome. From these 50,000 iterations of
20 simulated experience, I was able to determine that SWEPCO's average annual
21 indicated T&D-related loss associated with storms with at least \$500,000 in losses over
22 this period was \$799,700.

1 Q. DID YOU MAKE ANY ADJUSTMENTS TO THE COMPANY'S HISTORICAL
2 DATA?
3 EXHIBIT GSW-4 contains an example showing how each historic loss was adjusted
4 to reflect the current cost levels using the Handy-Whitman index of cost trends of
5 electric utility construction for the South-Central Region. The Handy-Whitman index
6 data is a standard type of database used to measure cost changes for utility companies.
7 The loss in the example occurred on May 28, 2017, for \$3,954,987. The Handy-
8 Whitman index as of January 2017, was 672; as of July 2017, it was 684. Interpolating
9 between these two points to May 28, 2017, produces an expected index of 682.471. As
10 of July 2020, the Handy-Whitman index was 732. Thus, the change from May 28, 2017,
11 to July 2020, was 732 divided by 682.471 or 1.073 (7.3% increase). Multiplying the
12 loss of \$3,954,987 by 1.073 gives a cost-adjusted loss of \$4,243,701. This procedure
13 was used for each loss of \$500,000 or greater that occurred during the experience
14 period. This approach is reasonable because it adjusts historical costs to current dollar
15 levels.

16

17 V. TARGET RESERVE

18 Q. WHAT IS THE TARGET AMOUNT OF MONEY NEEDED TO PROVIDE FOR AN
19 ADEQUATE SELF-INSURANCE RESERVE?

20 A. The recommended total target amount of the reserve is \$3,560,000, which is the amount
21 of operations and maintenance (O&M) damage expected to result from a 25-year storm
22 with total losses of at least \$500,000. The Company needs to provide for anticipated

1 T&D losses resulting from severe storms in order to ensure safe, reliable, and adequate
2 service to ratepayers.

3 Q. WHY IS IT NECESSARY TO ACCRUE MORE TO THE SELF-INSURANCE
4 RESERVE THAN THE AMOUNT FOR EXPECTED LOSSES?

5 A. The accrual is intended to cover only the average annual expected loss from storm
6 damage. These losses can range from very low amounts to millions of dollars in any
7 one year. The storm damage reserve needs to be built up to provide for extreme or
8 catastrophic events in any one year.

9 Q. HOW WAS YOUR TARGET RESERVE DEVELOPED?

10 A. As indicated above, I ran a Monte Carlo simulation on the loss history of the Company.
11 From the 50,000 iterations of simulated experience, I was able to determine that in any
12 25-year period, the largest expected loss is approximately \$3,560,000.

13 Q. WHY IS THIS RESERVE LEVEL APPROPRIATE?

14 A. This reserve level is the amount that should be carried by SWEPCO to make an
15 actuarially sound provision for coverage of the self-insured losses. The target reserve
16 will be sufficient if annual losses are equal to or less than the target in a given year
17 provided the reserve is already in place at its target amount; but if the actual losses
18 exceed the amount accrued for the expected annual amount for several years in a row,
19 the self-insurance reserve may be depleted.

20 For example, once the reserve level has been reached, if there are several years
21 with losses of approximately \$799,700, the reserve will remain unused. However, if
22 there are two consecutive years with annual aggregate losses of more than \$4,000,000

1 each year, the self-insurance reserve would be in a deficit position. The deficit amount
2 would need to be collected from future ratepayers.

3 Q. WHAT ARE THE INDIVIDUAL COMPONENTS OF THE ANNUAL ACCRUAL
4 TO THE SELF-INSURANCE RESERVE INDICATED BY YOUR ANALYSIS?

5 A. The annual amount to be accrued each year is \$1,689,700, which is composed of two
6 elements. First, there is \$799,700 each year to provide for the year's annual expected
7 losses from storm with at least \$500,000 in T&D damages. Second, there should be an
8 accrual of \$890,000 each year for four years to provide for the variation in annual losses
9 from year to year by building the total self-insurance reserve up to the \$3,560,000 level.

10 I have recommended a four-year period to be consistent with the Company's
11 anticipated rate filing schedule.

12 Q. ARE THESE CALCULATIONS PREPARED IN ACCORDANCE WITH
13 GENERALLY ACCEPTED ACTUARIAL PROCEDURES?

14 A. Yes. The process reflects generally accepted actuarial procedures. However, I have
15 made certain adjustments to reflect the nature of ratemaking for public utilities. For
16 example, it would be customary to project losses to the anticipated cost level of the
17 future time period during which rates will be in effect. Because of the historical test
18 year approach to utility ratemaking and the adjustment of expense items based on
19 known and measurable quantities only, I have limited loss adjustments to the current
20 cost levels. The dates to which the losses were adjusted reflect the dates of the most
21 recent indices available at the time the adjustments were made.

22 In addition, it is customary to reflect future increased exposure to loss in the
23 process. For example, in 2021 SWEPCO may own more property in the service area

1 that is exposed to loss than it had in years during the experience period. This would
2 increase the exposure to loss, and lead to a higher recommended reserve using normal
3 actuarial procedures. However, I have not made any such forward-looking adjustment
4 due to the nature of the public utility rate-setting process.

5 Q. HOW WILL THE SELF-INSURANCE RESERVE ACCRUALS OPERATE?

6 A. The excess of annual expected losses over actual self-insured losses, to the extent there
7 is any such excess, will accrue to the self-insurance target reserve and cause SWEPCO
8 to reach its target earlier, all other things being equal. Any deficiency between the
9 annual expected losses and the actual self-insured layer losses in any calendar year will
10 serve to extend the period over which the Company can expect to reach its target.

11
12 VI. COST-BENEFIT ANALYSIS

13 Q. HOW DID YOU DETERMINE THAT SELF-INSURANCE IS A LOWER COST
14 ALTERNATIVE FOR THOSE T&D AND OTHER PROPERTY LOSSES THAT
15 ARE STORM-RELATED AND GREATER THAN \$500,000?

16 A. There are at least two ways to consider the costs and benefits of self-insuring these
17 losses. The first is by considering the manner in which insurance companies set
18 premiums and the second is by an actual comparison to estimated insurance premiums
19 for the self-insurance coverage. I employ both of these methods.

20 Q. WHAT ASPECTS OF AN INSURANCE COMPANY'S PREMIUM
21 DETERMINATION PROCESS DID YOU CONSIDER IN CONCLUDING THAT
22 THE SELF-INSURANCE APPROACH FOR THE DESIGNATED LAYER OF
23 LOSSES IS APPROPRIATE?

1 A. Insurance companies include provisions in their premiums for all costs associated with
2 the transfer of the insurance risk. Hence, they include provisions for losses, loss
3 adjustment expenses, non-loss related expenses, premium taxes, and a profit.

4 A self-insurance reserve, such as SWEPCO's reserve, does not need to include
5 many of the provisions other than those for losses and loss-related expenses. For
6 example, a self-insurance reserve does not need to pay premium taxes and other state-
7 imposed fees. An insurance company needs to make a profit on the business it transacts.
8 A self-insurance reserve, on the other hand, is not intended to generate a profit and,
9 hence, no provision for profit needs to be included in the accrual provisions. Insurance
10 companies also incur costs associated with the acquisition of insured risks. The largest
11 of these expenses is that associated with the payment of commissions to insurance
12 agents or brokers to place the business. A self-insurance reserve does not include any
13 provision for commissions. Finally, an insurance company must expend resources to
14 underwrite risks, market its products, and maintain overhead expenses. A self-
15 insurance reserve does not need to provide for these costs.

16 In summary, self-insurance saves the costs of premium taxes, commissions,
17 profit, and many of the general expenses associated with the operation of an insurance
18 company.

19 Q. WHAT OTHER COST-BENEFIT ANALYSIS HAVE YOU RELIED UPON TO
20 SHOW THAT THE COST FOR THE SELF-INSURED LAYER IS LOWER THAN
21 THE COST OF COMMERCIAL INSURANCE FOR THE SAME LAYER OF
22 INSURANCE AND IS IN THE INTEREST OF THE COMPANY'S CUSTOMERS?

1 A. Comparing the cost of self-insurance versus the cost of buying insurance is another
2 way to establish that it is more cost effective for SWEPCO to self-insure. SWEPCO's
3 experience is that this type of coverage is significantly more expensive than self-
4 insurance. My understanding is that private coverage continues to be prohibitively
5 expensive. As a result, the only conclusion is that commercial insurance is not
6 economically available and the only way to protect SWEPCO's assets is through self-
7 insurance.

8 VII. CONCLUSION

9 Q. WHAT DO YOU CONCLUDE REGARDING SWEPCO'S REQUEST FOR
10 SELF-INSURANCE RESERVE TO T&D PROPERTY LOSSES?

11 A. I have conducted an analysis that meets the Commission's rule requirements and have
12 demonstrated that self-insurance is necessary and desirable given the lack of reasonably
13 priced commercial insurance. My conclusion is that SWEPCO should accrue
14 \$1,689,700, which is composed of \$799,700 each year to provide for the year's annual
15 expected losses from storms with at least \$500,000 in T&D damages and \$890,000 to
16 build the total self-insurance reserve up to the \$3,560,000 level. In addition, I conclude
17 that the requested self-insurance plan is a lower cost alternative to purchasing
18 commercial insurance, when considering all costs. Finally, I conclude that the plan is
19 in the best interests of SWEPCO's customers and that SWEPCO's customers will
20 receive the benefits of the savings produced by the plan.

21 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

22 A. Yes, it does.

GREGORY S. WILSON, FCAS, MAAA
Vice President and Principal

CURRENT POSITION

Mr. Wilson is a Vice President and Principal with Lewis & Ellis, Inc.

EXPERIENCE:

Mr. Wilson's responsibilities include evaluating the adequacy of insurance company reserve levels in conjunction with actuarial certification for the annual statement as well as state insurance department examinations. He also evaluates the adequacy of loss reserves for several self-insured companies. In addition, he performs rate level analyses for insurance companies and helps them prepare filings for the state insurance departments, as well as self-insured analyses for electric utilities and prepares testimony for the Public Utility Commission.

Prior to joining the firm, Mr. Wilson was a Principal Consultant at PricewaterhouseCoopers LLP. His responsibilities were similar to his current responsibilities. In addition, he reviewed retrospective rating calculations for several companies involved in class action litigation in Texas. He also performed several funding analyses for governmental entities.

Prior to joining PricewaterhouseCoopers LLP, Mr. Wilson was Vice President of Amica Mutual Insurance Company in Providence, Rhode Island.

There, he supervised all aspects of ratemaking, from procedures to recommendations, helped negotiate the purchase of reinsurance, determined IBNR, developed a strategy for Massachusetts Automobile and developed other states' residual market strategies, in particular, New York and New Jersey.

EDUCATION

Mr. Wilson received his Bachelor's degree in Applied Mathematics from the University of Rhode Island.

PROFESSIONAL ACTIVITIES

Mr. Wilson is a former member of the Casualty Actuarial Society's Examination Committee, Committee on Ratemaking, and Committee on Reserving. He is also a Past President of the Southwest Actuarial Forum.

SWEPCO
Calculation of Recommended Accrual

Expected Annual Storm Loss	799,700
Incremental Amount to Build Storm Reserve	890,000
Total Annual Accrual	1,689,700

Southwestern Electric Power Company
Major Storm Damage in Texas
Adjusted to Current Cost Levels
2000-2020

<u>Year</u>	<u>Actual</u> <u>Loss</u>	<u>Trended</u> <u>Loss</u>
2000	14,634,881	33,923,654
2001	0	0
2002	0	0
2003	0	0
2004	641,212	1,328,591
2005	1,544,036	2,913,595
2006	0	0
2007	0	0
2008	2,245,332	3,145,709
2009	0	0
2010	732,724	982,582
2011	891,110	1,156,661
2012	0	0
2013	0	0
2014	814,915	947,746
2015	2,462,740	2,777,970
2016	0	0
2017	3,954,987	4,243,701
2018	0	0
2019	6,407,780	6,407,780
2020	0	0
Average (Rounded)	1,630,000	2,750,000

Southwestern Electric Power Company
Example of Loss Trending Methodology

1)	Date of Loss	28-May-17
2)	Amount of Loss	\$3,954,987
3)	Handy-Whitman Index - Electric Utility Construction South Central Region - Distribution Plant	
a)	January, 2017	672
b)	July, 2017	684
c)	May 28, 2017	682.471
d)	July, 2020	732
4)	Trend Factor (3d) / (3c)	1.073
5)	Cost-Adjusted Losses (2) x (4)	\$4,243,701

EXECUTIVE SUMMARY OF BRYAN J. COFFEY

Bryan J. Coffey is a Load Research Analyst for American Electric Power Service Corporation, a subsidiary of American Electric Power Company, Inc. (AEP). He is currently responsible for the load research sampling and analysis activities for the following AEP operating companies: Southwestern Electric Power Company (SWEPCO), Public Service of Oklahoma, and AEP Texas Inc.

Mr. Coffey sponsors the various schedules prepared by the Load Research Section for SWEPCO's rate filing package, including the schedules that provide the Texas rate class load information on test year actual and test year adjusted bases.

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF
SOUTHWESTERN ELECTRIC POWER COMPANY
FOR AUTHORITY TO CHANGE RATES

DIRECT TESTIMONY OF

BRYAN J. COFFEY
FOR
SOUTHWESTERN ELECTRIC POWER COMPANY

OCTOBER 2020

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1 I. INTRODUCTION

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

3 A. My name is Bryan J. Coffey. I am a Load Research Analyst Sr. for American Electric
4 Power Service Corporation (AEPSC), a subsidiary of American Electric Power
5 Company, Inc. (AEP). My business address is 1 Riverside Plaza, Columbus, Ohio
6 43215.

7 Q. WHAT ARE YOUR CURRENT JOB RESPONSIBILITIES?

8 A. I am currently responsible for all load research sampling and analysis activities for the
9 following AEP operating companies: Southwestern Electric Power Company
10 (SWEPCO or the Company), Public Service of Oklahoma (PSO), and AEP Texas Inc.
11 (AEP Texas).

12 Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL
13 EXPERIENCE.

14 A. I hold a Bachelor of Science in Mathematics from The Ohio State University. I joined
15 the Load Research Analytics section as a Load Research Analyst Assc. in February
16 2016. Since then I have assumed increasing section responsibilities and gained
17 experience in all facets of load research analytics. I have also been involved in several
18 workshops and conferences through the Association of Edison Illuminating Companies
19 (AEIC) Load Research Committee, an organization dedicated to exchanging technical
20 information and promoting industry standard practices.

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS DOCKET?

2 A. I sponsor various schedules prepared by the Load Research Section for SWEPCO's
3 rate filing package, including the schedules that provide the Texas rate class load
4 information on test year actual and test year adjusted bases.

5 Q. WHAT WAS THE BASIS FOR THE DERIVATION OF THE TEST YEAR AND
6 ADJUSTED TEST YEAR CLASS LOAD INFORMATION?

7 A. The unadjusted test year class load information was derived from actual test year
8 customer interval meter usage data. For classes without interval meter data available
9 for all customers, interval meter data from a random sample of customers, drawn
10 following the methodologies in the AEIC Load Research Manual, were used to estimate
11 the class load information. The adjusted test year load information was derived by
12 applying weather, customer, and other pro forma adjustments provided by SWEPCO
13 witnesses Chad Burnett and John Aaron, respectively, to the unadjusted test year class
14 information.

15

16 II. RATE FILING PACKAGE SCHEDULES

17 Q. WHAT SCHEDULES IN THE RATE FILING PACKAGE DO YOU SPONSOR?

18 A. I sponsor the following schedules:

19 Schedule H-12-6 Technical Data Load Curves

20 Schedule O-1.3 Unadjusted Test Year Data by Rate Class

21 Schedule O-1.4 Monthly Adjusted Test Year Data by Rate Class

22 Schedule O-1.6 System Load Factors

23 Schedule O-1.9 Peak Demand by Rate Class

1 Schedule O-6.1 Unadjusted kWh Sales by Month of Test Year
2 Schedule O-6.2 Adjusted kWh Sales Data
3 Schedule Q-5.1 Demand Data by Customer Class
4 Schedule Q-5.2 Demand, Consumption, and Customer Data by Stratum
5 Schedule Q-5.3 Demand Estimates Methodology
6 Schedule Q-8.5 Demand Billing Determinants
7 Q. PLEASE DESCRIBE THE CONTENT OF THE H SCHEDULES YOU ARE
8 SPONSORING.
9 A. Schedule H-12.6a provides SWEPCO system monthly minimum and peak demands.
10 Schedule H-12.6b provides SWEPCO system hourly load by month, in descending load
11 order.
12 Schedule H-12.6c provides annual SWEPCO system hourly load, in descending load
13 order.
14 Q. PLEASE DESCRIBE THE CONTENT OF THE O SCHEDULES YOU ARE
15 SPONSORING.
16 A. The O Schedules present the summary of test year data, normally by rate class.
17 Schedule O-1.3 supplies the unadjusted test year data by rate class for each
18 month of the test year including class peaks, coincident peaks, non-coincident peaks,
19 and energy sales both at the source and at the meter. Also supplied are monthly class
20 coincidence and load factors, for the test year and two previous years, where available.
21 Schedule O-1.4 provides the same information as Schedule O-1.3, with test year
22 values adjusted to reflect year end customer status and weather abnormalities.

1 Schedule O-1.6 provides the system load factor for the test year and each month
2 of the test year, along with corresponding monthly energy and peak demand values.

3 Schedule O-1.9 provides the rate class demands at time of SWEPCO peak for
4 each month of the test year.

5 Schedule O-6.1 provides the unadjusted calendar month kWh sales values by
6 month for the test year and describes the line loss adjustments necessary to reconcile
7 net energy for load with total system sales, including any opportunity sales or other off-
8 system sales.

9 Schedule O-6.2 reflects the same data as Schedule O-6.1, using adjusted kWh
10 sales.

11 Q. PLEASE DESCRIBE THE CONTENT OF THE Q SCHEDULES YOU ARE
12 SPONSORING.

13 A. The Q schedules provide load research information related to rate classes for which
14 each customer is interval metered and rate classes for which class load estimates are
15 based upon interval metered randomly selected sample customers.

16 Schedule Q-5.1 supplies the unadjusted test year monthly peak demand values
17 for each rate class for each month of the test year including class peaks, coincident
18 peaks, and non-coincident peaks, both at the source and at the meter.

19 Schedule Q-5.2 supplies stratification information for each rate class for which
20 demands were derived from randomly-sampled interval meters. Information supplied
21 includes strata usage boundaries, sample sizes, and stratum contributions to the various
22 class peak demand values, for each month of the test year.

1 Schedule Q-5.3 supplies a description of the methodology used to develop
2 demand estimates for rate classes not included in the previous Q-5 schedules.

3 Schedule Q-8.5 supplies monthly 60-minute based non-coincident peak
4 demands for rate classes for which the majority of customers are interval metered.

5 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

6 A. Yes, it does.

EXECUTIVE SUMMARY OF CHAD M. BURNETT

Chad M. Burnett is Director of Economic Forecasting for American Electric Power Service Corporation. Mr. Burnett is responsible for preparing customer, sales, peak demand, and revenue forecasts for each of the American Electric Power Company electric operating companies.

Mr. Burnett presents the kilowatt-hour (kWh or energy) and kilowatt (kW or peak) forecast for Southwestern Electric Power Company, the weather normalization process employed, and the post-test year adjustment that was made. He also describes the processes and methodology employed to produce the forecasts.

Mr. Burnett's testimony establishes that the methodology used to produce the forecasts is reasonable. His testimony further demonstrates that the data underlying the forecasts comes from reliable sources and that the techniques on which the forecasts rely are widely accepted in the electric utility industry.

Finally, Mr. Burnett's testimony identifies a number of large industrial accounts that have recently announced closures. He explains why it is important to account for these significant changes in the test year to properly reflect jurisdictional cost allocations and rate design implications for the rate year.

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF
SOUTHWESTERN ELECTRIC POWER COMPANY
FOR AUTHORITY TO CHANGE RATES

DIRECT TESTIMONY OF
CHAD M. BURNETT
FOR
SOUTHWESTERN ELECTRIC POWER COMPANY

OCTOBER 2020

TESTIMONY INDEX

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EXHIBITS

<u>EXHIBIT</u>	<u>DESCRIPTION</u>
EXHIBIT CMB-1	“Regional Steel Plant is Closing – 600 Jobs Axed,” Texarkana Gazette – June 10, 2020
EXHIBIT CMB-2	Domtar Q2 2020 Financial Report & Strategic Initiatives
EXHIBIT CMB-3	“Domtar Permanently Shutting Down Machine At Ashdown Mill,” Texarkana Today – August 10, 2020
EXHIBIT CMB-4	Libbey Inc – July 8, 2020 Press Release
EXHIBIT CMB-5	“Libbey Glass Plans to Shutter Shreveport Facility” Shreveport Times – July 8, 2020

1 I. INTRODUCTION

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

3 A. My name is Chad Burnett, and I am the Director of Economic Forecasting for
4 American Electric Power Service Corporation (AEPSC), the service company
5 affiliate of Southwestern Electric Power Company (SWEPCO or the Company). My
6 business address is 212 East 6th Street, Tulsa, Oklahoma 74119.

7 Q. WOULD YOU PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND
8 AND BUSINESS EXPERIENCE?

9 A. I earned a Bachelor of Science degree in Business Administration from the University
10 of Tulsa in 1998 with a double major in Economics and Finance. In 2002, I earned a
11 Master of Business Administration degree from the University of Tulsa. In 2005, I
12 completed the Executive Strategic Leadership program at The Ohio State University.

13 I have worked in the utility industry as an economist since 1997 when I was
14 employed by Central and South West Service Corporation, which later merged with
15 American Electric Power Company, Inc. (AEP) in June 2000. I became the Manager
16 of Economic Forecasting in June 2007. In October 2013, I was promoted to Director
17 of Economic Forecasting. In my current role, I am responsible for preparing
18 customer, sales, peak demand, and revenue forecasts for each of the AEP operating
19 companies in the eleven jurisdictions and three regional transmission organizations
20 (RTOs) that cover the AEP service territory. In addition, I am responsible for weather
21 normalization calculations and monthly sales and revenue variance reports for each of
22 the AEP operating companies, including SWEPCO.

1 I also work as an Adjunct Professor of Economics at Southern Nazarene
2 University where I have taught Managerial Economics, Health Care Economics, and
3 the Survey of Economics in the graduate business school program since 2002.

4 Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY AS A WITNESS
5 BEFORE ANY REGULATORY COMMISSION?

6 A. Yes. I filed testimony before the Public Utility Commission of Texas (Commission)
7 in Docket No. 36966 in 2009, Docket No. 37364 in 2009, Docket No. 40443 in 2012,
8 Docket No. 44701 in 2015, Docket No. 46449 in 2016, and Docket No. 49494 in
9 2019. I have also testified before regulatory commissions in the states of Arkansas,¹
10 Indiana², Michigan³, Oklahoma⁴, Tennessee⁵, and Virginia⁶.

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

12 A. The purpose of my direct testimony is to present the weather normalization process
13 used to adjust the Test Year billing determinants.⁷ I also point out other significant
14 changes to SWEPCO load that warrant adjustments to the Test Year billing
15 determinants.

¹ Docket No. 19-008-U in 2019.

² Cause No. 44967 in 2017, Cause No. 45235 in 2019, and Cause No. 45285 in 2020.

³ Case No. U-20359 in 2019 and Case No. U-20591 in 2020.

⁴ Cause No. 20080014 in 2008 and Cause No. 201800097 in 2019.

⁵ Docket No. 16-00001 in 2016.

⁶ Case No. PUR-2017-00174 in 2018 and Case No. PUR-2018-00051 in 2018.

⁷ The Test Year is the twelve-month period from April 1, 2019, through March 31, 2020.

1 Q. HOW DID WEATHER IMPACT THE COMPANY'S SALES DURING THE TEST
2 YEAR?

3 A. Weather had an unfavorable effect on the Company's sales during the Test Year,
4 meaning SWEPCO sales in its Texas retail jurisdiction were approximately 71 GWh
5 lower than they would have been under *normal* weather conditions.
6

7 II. WEATHER NORMALIZATION PROCESS

8 Q. WHAT IS THE PURPOSE OF MAKING A WEATHER ADJUSTMENT TO
9 NORMALIZE THE TEST YEAR BILLING DETERMINANTS?

10 A. Test year billing determinants are used to set rates in a rate proceeding. The
11 authorized revenue requirement by class is divided by the test year billing
12 determinants to come up with the new effective rates. If the test year billing
13 determinants are too high because of a favorable impact of weather, then the new
14 rates would be set too low for the utility to recover the authorized revenue
15 requirement under normal conditions going forward. Likewise, if the test year billing
16 determinants were too low due to unfavorable weather during the historical test year
17 period, then the rates would essentially be set too high, enabling the utility to recover
18 more than the authorized revenue requirement.

19 To address this issue, the Commission allows the utility to adjust the test year
20 billing determinants for abnormal weather so that the ultimate rates that are set in a
21 rate proceeding are normalized for the effect of weather.

22 Q. PLEASE DESCRIBE THE METHODOLOGY USED TO ESTIMATE THE
23 IMPACT OF WEATHER ON KILOWATT HOUR SALES.

1 A. Weather adjustments to residential and commercial kilowatt hour (kWh) sales for
2 SWEPCO are computed by multiplying differences between actual and average
3 degree days by the weather coefficients from the forecast usage models and then
4 multiplying by the number of actual customers for each month. The general equation
5 takes the form:

$$\text{Weather Impact}_t = [\beta_{\text{CDD}} \times (\text{CDD}_t - \text{NCDD}_t) + \beta_{\text{HDD}} \times (\text{HDD}_t - \text{NHDD}_t)] \times \text{Customers}_t.$$

8 Where:

9 β_{CDD} and β_{HDD} are the kWh per customer per degree day parameter estimates
10 from the regression model used to produce the company's monthly short-term
11 forecast of energy sales.

12 CDD_t and NCDD_t are the actual and average cooling degree days for month t.

13 HDD_t and NHDD_t are the actual and average heating degree days for month t.

14 Customers_t is the actual customer count for month t for the corresponding
15 customer class.

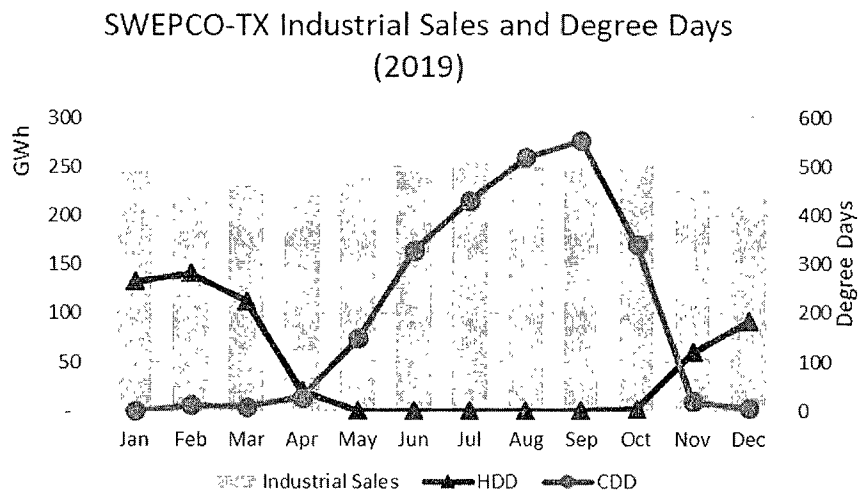
16 This exercise is done independently for the residential, commercial, and wholesale
17 classes, although for the wholesale class, these computations are done on an
18 individual customer basis.

19 Q. DOES THE COMPANY MAKE ANY WEATHER ADJUSTMENTS FOR THE
20 INDUSTRIAL CLASS OF CUSTOMERS?

21 A. No. The Company does not compute a weather adjustment for the Industrial class
22 because Industrial sales are generally not weather sensitive. Similarly, the Company
23 does not compute a weather adjustment for the lighting classes. A weather adjustment
24 is only computed for classes whose consumption patterns are impacted by weather. If
25 a class is weather sensitive, the sales should increase during the winter and summer

1 months (when heating and cooling loads are on), and a decrease during the spring and
2 fall months when the heating and cooling loads are not utilized. The chart below
3 (Figure CMB-1) illustrates why the Company does not compute a weather adjustment
4 for the Industrial class. It clearly shows that SWEPCO Texas's Industrial sales are
5 relatively steady throughout the year and do not exhibit the same seasonal
6 consumption patterns as the weather sensitive classes.

7 **Figure CMB-1**



8 Q. WHAT VARIABLES ARE INCLUDED IN THE FORECAST MODELS FROM
9 WHICH THE WEATHER COEFFICIENTS ARE DERIVED?

10 A. The regression models are estimated using monthly billing-cycle weighted cooling
11 and heating degree days, monthly average number of days billed, indicator variables
12 as needed, as well as any auto-regressive moving average (ARMA) error structure
13 deemed necessary to predict monthly kWh per customer values for each class of
14 customers.

1 Q. HOW DO YOU COME UP WITH THE MONTHLY BILLING-CYCLE
2 WEIGHTED COOLING AND HEATING DEGREE DAYS THAT GO INTO THE
3 WEATHER NORMALIZATION CALCULATION?

4 A. The monthly billing-cycle weighted degree days are computed using daily average
5 temperatures measured from three different weather stations: Fayetteville, AR – used
6 for SWEPCO – Arkansas, Shreveport, LA – used for SWEPCO – Louisiana, and
7 Texarkana, TX – used for SWEPCO – Texas. Each month’s degree day value is
8 summed using a simple “triangular” weighting scheme whereby the days of each
9 month and its previous month are given weights that increase linearly throughout the
10 previous month’s days and then decrease linearly over the current month’s days.
11 These particular weights imply that equal shares of customers are billed in each
12 billing cycle and that the last day of the previous month and the first day of the
13 current month are included in the largest number of customers’ bills. The
14 corresponding average values are computed by taking average daily temperatures
15 over the normalization period and adjusting them for billing cycles in the same
16 manner.

17 Q. DESCRIBE THE WEATHER ASSUMPTIONS USED IN BOTH FORECAST
18 MODELS.

19 A. The forecast model assumes normal weather during the entire forecast horizon. One
20 of the primary reasons to use normal weather is to be able to make probability
21 assessments regarding the test year billing determinants. In other words, when you
22 have a normal distribution there is an equal chance that weather will be above the
23 normal mean as there is that the temperatures will be below the normal mean. The

1 industry standard is to use a 30-year normal because it aligns with the statistical and
2 meteorological science that says if you recognize that there are weather trends that
3 prevent temperatures from being normally distributed, then you need at least 30
4 observations to be able to make the same normal probability assessments for the
5 non-normal distribution of temperature data. However, in recent base rate cases, the
6 Commission has directed utilities to use a 10-year average to normalize billing
7 determinants in a base case.⁸ As a result, the Company has used a rolling 10-year
8 average of heating and cooling degree days to compute the projected *normal* degree
9 days for this case, even though they are clearly not normally distributed.

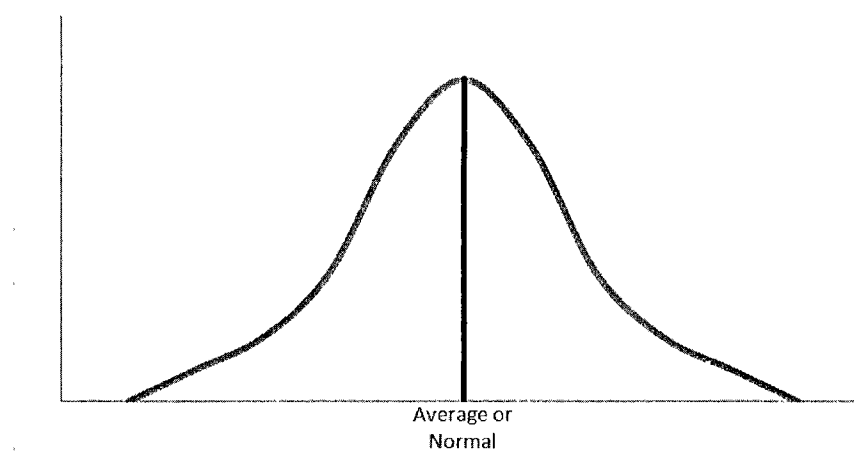
10 Q. WHY DO YOU SAY THAT THE USE OF A 10-YEAR AVERAGE OF HEATING
11 AND COOLING DEGREE DAYS TO PROJECT THE NORMAL DEGREE DAYS
12 WILL RESULT IN A PROJECTION THAT IS CLEARLY NOT NORMALLY
13 DISTRIBUTED?

14 A. A normal distribution implies a symmetrical bell-shaped distribution curve around a
15 mean that is useful in making probability assessments (see Figure CMB-2 below). In
16 other words, if the weather data is normally distributed, then the average or “normal”
17 degree days will have the highest probability of occurring and there will be an equal
18 chance that the temperature in the next period will be higher or lower than the mean.

⁸ See, e.g., *Application of Southwestern Electric Power Company for Authority to Change Rates*, Docket No. 46449, Order on Rehearing at Finding of Fact Nos. 273-75 (Mar. 19, 2018).

Figure CMB-2

Normal Distribution



However, in its Final Order in both Docket No. 40443 and Docket No. 46449, the Commission found that “[w]eather data is not randomly distributed by year” and that “[t]here can be weather trends.”⁹ Once you acknowledge that weather trends exist, you must also acknowledge that the distribution of weather data is not normal because it is not symmetrical. And if the distribution is not normal, then none of the probability relationships that exist in a normal distribution as described earlier would apply.

Q. HOW CAN METEOROLOGISTS DEFINE “NORMAL WEATHER” IF IT HAS BEEN PROVEN THAT WEATHER TRENDS EXIST AND WEATHER DATA IS NOT NORMALLY DISTRIBUTED?

⁹ *Application of Southwestern Electric Power Company for Authority to Change Rates and Reconcile Fuel Costs*, Docket No. 40443, Order on Rehearing at Finding of Fact No. 256 (Mar. 6, 2014); *see also Application of Southwestern Electric Power Company for Authority to Change Rates*, Docket No. 46449, Order on Rehearing at Finding of Fact No. 271 (Mar. 19, 2018).

1 A. Meteorologists have known for years that weather trends exist and that weather data
2 is not normally distributed. They rely on statistics, specifically the Central Limit
3 Theorem (CLT), to guide their definition. The CLT states that if you know a data
4 series is not normally distributed, but you want to be able to make the same kind of
5 normal probability assessments, the data will approximate a normal distribution
6 around that trended mean if you have at least 30 observations. That is why
7 meteorologists and utilities across the country use the 30-year definition for normal
8 degree days. It is also why utilities in the state of Texas used the 30-year normal
9 definition in base cases prior to Docket No. 40443.

10 Q. WHAT ARE THE IMPLICATIONS OF USING A 10-YEAR NORMAL?

11 A. Switching to a 10-year normal greatly increases volatility in normal weather
12 computation and therefore weather impacts, which could cause SWEPCO to over- or
13 under-collect its authorized revenue requirement. This volatility could also increase
14 the frequency of case filings, which, in turn, increases the volatility of customer rates.
15

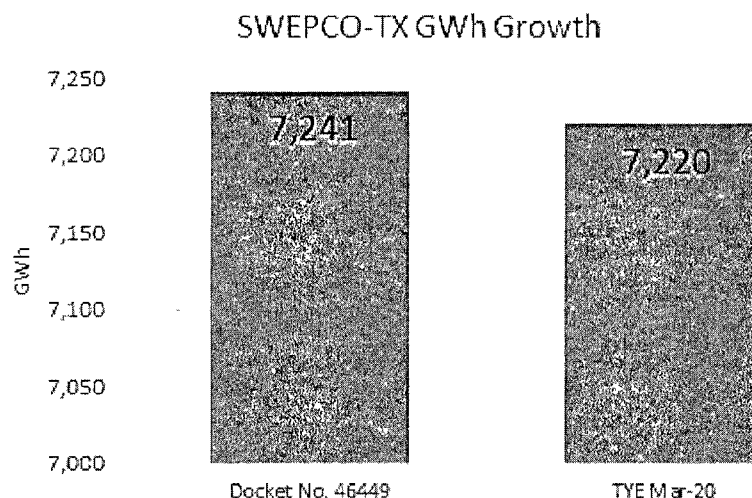
16 III. CUSTOMER LOAD EXPERIENCE

17 Q. HAS SWEPCO EXPERIENCED CUSTOMER LOAD GROWTH SINCE ITS LAST
18 BASE RATE CASE?

19 A. No. Figure CMB-3 below shows the comparison of the 12-month period used to set
20 SWEPCO's current rates for the Texas jurisdiction in Docket No. 46449 to the Test
21 Year used in this case. Notably, the Test Year kWh is slightly below the test year
22 kWh from Docket No. 46449.

1

Figure CMB-3



2

3 Q. HAVE THERE BEEN ANY CHANGES TO SWEPCO LOAD THAT WARRANT
4 ADJUSTMENTS TO THE TEST YEAR BILLING DETERMINANTS?

5 A. Yes. Since the end of the Test Year, three large industrial customers within
6 SWEPCO's service territory have shutdown operations.

7 Q. TO WHICH LARGE INDUSTRIAL CUSTOMERS ARE YOU REFERRING?

8 A. U.S. Steel announced in early May 2020, that it would be "indefinitely idling" its
9 plant located near Daingerfield, TX (Exhibit CMB-1). Domtar announced in its "Q2
10 2020 Financial Report and Strategic Initiatives" that the paper machine in Ashdown,
11 AR will be permanently shutdown, having been idle since April of 2020 (EXHIBITS
12 CMB-2 & CMB-3). Finally, Libbey Glass announced intentions to shutdown its
13 Shreveport, LA plant by the end of 2020 due to declining demand for its products
14 which was exacerbated by the COVID-19 pandemic (EXHIBITS CMB-4 & CMB-5).
15 Together, these three customers' electricity usage during the Test Year was
16 approximately 403.4 GWh.

1 Q. WHAT WOULD BE THE IMPACT OF NOT ADJUSTING THE TEST YEAR
2 BILLING DETERMINANTS AND JURISDICTIONAL COST ALLOCATORS
3 FOR THESE LARGE CUSTOMERS?

4 A. If the Company did not make pro-forma adjustments to the Test Year for these large
5 customers, the allocated costs for Texas retail customers would be overstated (since
6 US Steel was SWEPCO's largest customer in its Texas jurisdiction) and rates would
7 not yield the final revenue requirement ordered by the Commission. For more
8 discussion on the impact of jurisdictional and class cost allocation, see Company
9 witness John Aaron's testimony. Company witness Jennifer Jackson addresses the
10 impact these pro-forma adjustments have on rate design.
11

12 IV. RATE FILING PACKAGE SCHEDULES

13 Q. PLEASE DESCRIBE THE CONTENTS OF THE RATE FILING PACKAGE
14 SCHEDULES YOU ARE SPONSORING.

15 A. The Rate Filing Package O Schedules that I sponsor present the summary of Test
16 Year data by rate class, such as kWh sales, billing demands, customer counts and the
17 related revenue impacts. Specifically, I sponsor the following schedules:

18 Schedule O-1.5 provides net system capacity, unavailable capacity due to
19 scheduled maintenance, available dependable capacity, system peak demand, and
20 reserve.

21 Schedule O-1.10 provides the breakdown of rate class sales.

22 Schedule O-2.1 provides model information to derive adjustments to the test
23 year operating statistics.

24 Schedule O-2.2 provides all data used to develop the models in Schedule
25 O-2.1.

1 Schedule O-2.3 provides raw model data prior to any transformations.

2 Schedule O-7.1 provides sales and demand forecasts on a monthly basis for
3 the proposed rate year ending December 2020 through 24 months following the
4 proposed rate year.

5 Schedule O-7.2 provides historical monthly kWh sales data by revenue class
6 for the 12 years ending with the first month of the proposed rate year at the meter and
7 at the generator.

8 Schedule O-8.1 provides historical weather data by weather station for the test
9 year.

10 Schedule O-8.2 provides historical weather data after weighting for billing
11 cycle adjustments.

12 Schedule O-8.3 provides normal heating and cooling degree days on a
13 monthly basis for the test year.

14 Schedule O-8.4 provides data used in Schedules O-8.1, O-8.2 and O-8.3 using
15 a 65-degree base temperature.

16 Schedule O-9.1 provides information for the rate year forecast models both
17 before and after any corrective procedures are applied.

18 Schedule O-9.2 provides all variables in their raw form, prior to any
19 transformations for the rate year forecast models.

20 Schedule O-10.1 presents historical number of customers, revenues,
21 population estimates, total employment and total non-agricultural employment for at
22 least 15 years, ending 24 months beyond the last month of the proposed rate year.

23 Schedule O-10.2 provides personal income data for at least 15 years, ending
24 24 months beyond the last month of the proposed rate year.

25 Finally, Schedule O-10.3 provides nominal and real price of electricity for at
26 least 15 years, ending 24 months beyond the last month of the proposed rate year.

27 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

28 A. Yes, it does.

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Texarkana News

Regional steel plant is closing | 600 jobs axed

U.S. Steel is closing its plant here, and laying off 600 people as a result of a "dramatic decline in business conditions" caused by the pandemic, according to a company official.

by Christy Busby Worsham Jun. 10 2020 @ 11:34pm

LONE STAR, Texas — U.S. Steel is closing its plant here, and laying off 600 people as a result of a "dramatic decline in business conditions" caused by the pandemic, according to a company official.

"We will accelerate the previously announced indefinite idlings of the #1 and #2 Weld Mills and associated heat-treat and finishing operations at our Lone Star Tubular Operations," according to a statement released in early May. "We will also now indefinitely idle the plant's #2 Heat Treat Line, Finishing Line 2, Pipe Main Finishing Line and related supporting departments, which will result in a complete idling of the facility upon conclusion."

Lone Star is located in Morris County and is about 73 miles from Texarkana and about six miles outside Daingerfield.

The indefinite closure of U.S. Steel's Hughes Springs, Texas, location of Wheeling Machine Products was also announced. The Hughes Springs layoffs affect about 50 employees.

The 600 Lone Star employees being laid off include management and corporate employees and employees who are members of the United Steel Workers, said Meghan M. Cox, U.S. Steel's external communications manager.

The closure efforts at both plants are currently underway, she said.

Worker Adjustment and Retraining Notification (WARN) were sent to employees, which helps ensure advance notice in cases of qualified plant closings and mass layoffs, Cox said.

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The Lone Star community did not develop until the 1930s when a Dallas-based company established the steel mill, according to the Texas State Historical Association website.

During World War II, the plant expanded to 600 acres and employed about 6,000, according to the website. The Lone Star community incorporated in the mid-1950s as a result of people settling there to be near work, according to the website.

The business prospered in the 1970s and began having economic challenges in the 1980s, primarily because of the decline in the oil industry and competition from steel suppliers abroad, the website states.

Almost half of the company's 3,800 employees were laid off in 1986.

U.S. Steel's Seamless Mill at Lorain Tubular Operations in Lorain, Ohio, is also expected to close.

"We will operate our remaining tubular facilities (Fairfield Tubular Operations, Offshore Operations Houston, and Wheeling Machine Products Pine Bluff, Arkansas, location) at reduced levels in line with current demand and make additional adjustments as needed," a release states.

Topics

[Hughes Springs](#), [LONE STAR](#), [Lone Star Tubular Operations](#), [Meghan M. Cox](#), [Texas](#), [U S Steel](#), [Weld Mills](#)

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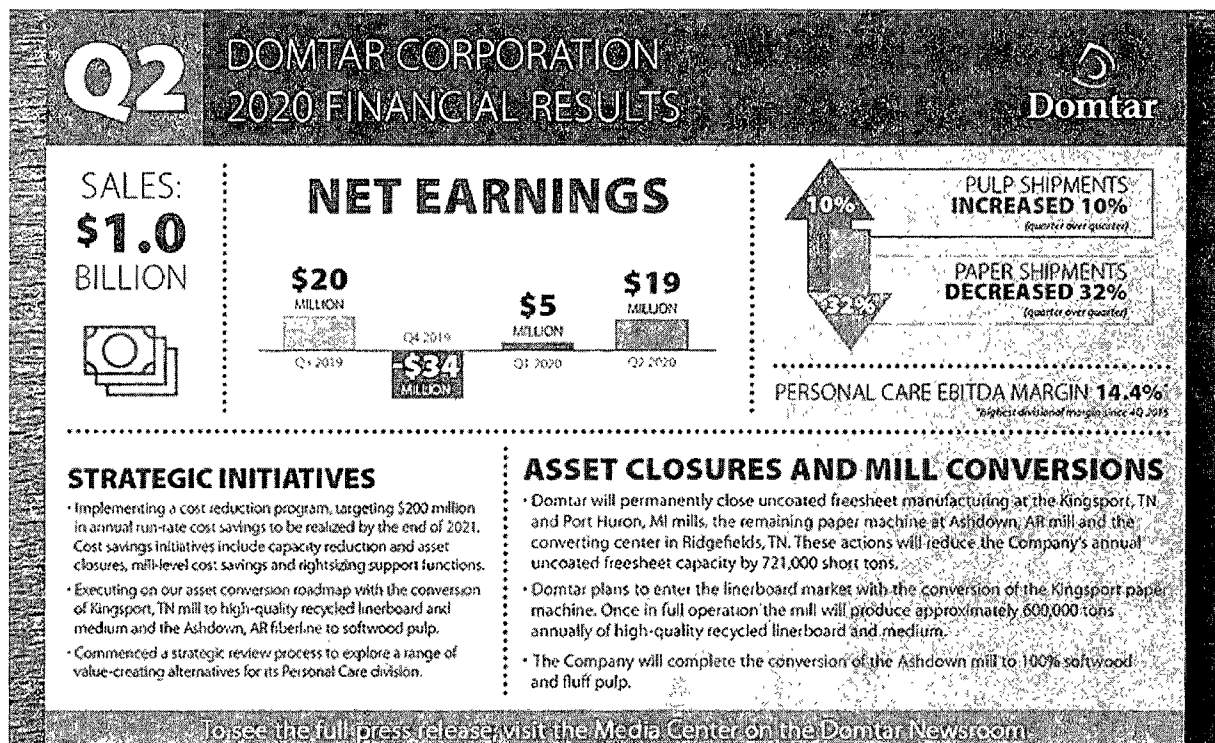
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Domtar Report Q2 2020 Financial Report and Strategic Initiatives

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Domtar Quarterly Report: Q2 2020 Financial Report, Strategic Initiatives

Our preliminary Q2 2020 financial report is here. Highlights from this Domtar financial report include second-quarter financial results and strategic initiatives:

- Second-quarter 2020 net earnings of \$0.34 per share
- Announces significant cost savings program with expected annual savings of \$200 million
- Execution of asset repurposing plan with conversion of Kingsport, Tennessee, and Ashdown, Arkansas
- Commences review of strategic alternatives for Personal Care Division

Quarterly Review

In its Q2 2020 financial report, Domtar reported net earnings of \$19 million (\$0.34 per share) for the second quarter of 2020 compared to net earnings of \$5 million (\$0.09 per share) for the first quarter of 2020 and net earnings of \$18 million (\$0.28 per share) for the second quarter of 2019. Sales for the second quarter of 2020 were \$1.0 billion.

"We have been proactive in reducing risk and safeguarding our ability to weather the current crisis. We are taking the appropriate steps to optimize our operations and to remain an agile, reliable partner to our customers," said

9/21/2020

Domtar Report Q2 2020 Financial Report and Strategic Initiatives

John D. Williams, president and chief executive officer. "Despite the significant challenges we faced in Pulp and Paper markets, we have been able to manage costs while initiating cash and cost conservation initiatives across the network."

Williams added, "In Personal Care, second-quarter revenues were lower following a record first quarter, which was driven partly by consumer pantry loading. While revenues were lower than in the prior quarter, good cost control and improved operational efficiencies supported a solid EBITDA performance. The second quarter ended with an EBITDA margin of 14.4 percent, which was a 160 basis point improvement when compared to the first quarter and the highest divisional margin since the fourth quarter of 2015."

Operating income was \$14 million in the second quarter of 2020 compared to operating income of \$19 million in the first quarter of 2020. Depreciation and amortization totaled \$71 million in the second quarter of 2020.

The decrease in operating income in the second quarter of 2020 was the result of lower volume and unfavorable productivity. These factors were partially offset by lower maintenance costs and lower salaries and wages, mostly due to wage subsidies; lower selling, general and administrative expenses; lower raw material costs; favorable exchange rates; and lower fixed and other costs.

When compared to the first quarter of 2020, manufactured paper shipments were down 32 percent, and pulp shipments increased 10 percent. The shipment-to-production ratio for paper was 105 percent in the second and the first quarters of 2020. Paper inventories decreased by 22,000 tons, and pulp inventories decreased by 2,000 metric tons when compared to the first quarter of 2020.

Outlook

We expect the overall environment to continue to remain challenging. In Paper, we expect demand to remain weak, with some incremental recovery expected in quarter three and towards year-end. We expect near-term pulp markets to be impacted by seasonal softness, elevated global inventories and weak demand trends from paper markets. Personal Care will continue to benefit from productivity gains and the impact from new customer wins. Overall raw material costs are expected to remain stable.

Strategic Initiatives

COST-REDUCTION PROGRAM

The Company is implementing a cost-reduction program, targeting \$200 million in annual run-rate cost savings to be realized by the end of 2021. The goal of the program is to build a stronger business operation, enhance the Company's cost efficiency and improve operating margins and maximize productivity and cash flow. The cost-saving initiatives include capacity reduction and asset closures, mill-level cost savings and rightsizing support functions. The leaner organizational structure is also expected to improve communication flow and cross-functional collaboration, leveraging more efficient business processes.

As part of the cost-savings program, the Company will permanently close the uncoated freesheet manufacturing at the Kingsport, Tennessee, and Port Huron, Michigan, mills; the remaining paper machine at the Ashdown, Arkansas, mill; and the converting center in Ridgefields, Tennessee. These actions will reduce the Company's annual uncoated freesheet paper capacity by approximately 721,000 short tons and will result in a workforce reduction of approximately 780 employees. The Kingsport and Ashdown paper machines, which have been idled since April 2020, will not recommence operations. Port Huron and Ridgefields mills are expected to shut down by the end of the first quarter of 2021.

"We remain disciplined in our efforts to manage our costs to improve profitability and further strengthen our balance sheet. In line with these goals and current market conditions, we are implementing a significant cost-

9/21/2020

Domtar Report Q2 2020 Financial Report and Strategic Initiatives

savings program to streamline operations, maximize productivity and improve margins. This program will create a stronger, leaner organization aligned to meet the needs of the business and our customers in a post COVID-19 era," said Williams. "This important and necessary step is expected to reduce our annualized costs by more than \$200 million, while significantly improving our free cash flow and return on invested capital. We have a talented and dedicated workforce at Domtar, and decisions that affect people are never easy. However, we are taking the necessary steps to better position our business for the future."

EXECUTION OF THE ASSET-CONVERSION ROADMAP

Domtar's decision to repurpose assets at Kingsport, Tennessee, and Ashdown, Arkansas, follows a disciplined and measured review of the Company's manufacturing footprint. This conversion program is consistent with the roadmap that Domtar made public in 2018. The previously announced multi-mill conversion roadmap is designed to increase shareholder value as we adjust our paper capacity to align with our customer demand. Through this process, we have identified up to four large-scale paper machine/mill repurposing projects that have the ability to produce 2.5 million tons of containerboard and/or 570,000 ADMT of additional market softwood and fluff pulp.

Entering the recycled linerboard market at Kingsport, Tennessee

The Company plans to enter the linerboard market with the conversion of the Kingsport paper machine. Once in full operation, the mill will produce and market approximately 600,000 tons annually of high-quality recycled linerboard and medium, providing the Company with a strategic footprint in a growing adjacent market. The conversion is expected to be completed by the first quarter of 2023.

Domtar estimates the conversion cost to be between \$300 and \$350 million. Once fully operational, the mill is expected to be a very low-cost, first quartile recycled linerboard mill in North America. The converted mill is expected to directly employ approximately 160 employees.

"Repurposing the Kingsport mill provides Domtar with the best strategic entry point into a growing market with a very competitive, low-cost asset and represents a first step to building a large and cost-competitive business," said Williams. "Kingsport is well-positioned to be the go-to supplier to independent converters for quality, service and innovation as the mill is less than a day's drive from over 60 customers representing an addressable 3.9 million tons of annual containerboard demand."

Completing the conversion to softwood and fluff pulp at Ashdown, Arkansas

The Company will complete the conversion of the Ashdown mill to 100 percent softwood and fluff pulp, which will require \$15 to \$20 million of capital investments and will take 12 to 14 months to implement. The mill will produce additional market hardwood pulp until it converts the fiberline to softwood pulp. The conversion of the fiberline to 100 percent softwood is also necessary for an eventual expansion into containerboard. Following the fiberline conversion, Ashdown will be a world-class market pulp mill with annual capacity of 775,000 tons of fluff and softwood pulp.

With these two conversions, Domtar continues to deliver on its strategic roadmap to make value creating investments in its world-class facilities, and to this end, provides a bright future for the Kingsport and Ashdown mills.

REVIEW OF STRATEGIC ALTERNATIVES FOR PERSONAL CARE DIVISION

The Company has commenced a strategic review process to explore a range of value-creating alternatives for its Personal Care division, which may include a sale of the business. The strategic review process will be conducted with the assistance of Domtar's independent financial and legal advisors and will consider a full range of potential alternatives with respect to the Company's Personal Care division.

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Domtar Report Q2 2020 Financial Report and Strategic Initiatives

"Over the past year, we have significantly improved the operating structure and cost profile of our Personal Care division due in large part to the hard work and perseverance of our teams. In addition, the scale-up of new customer and sales pipeline gives us confidence in the long-term prospects for the business," Williams said. "With this positive momentum, we believe now is the right time to initiate a strategic review."

The Company has not set a deadline for the conclusion of its review of strategic alternatives and does not intend to comment further unless and until the board of directors has approved a specific course of action or the Company has otherwise determined that further disclosure is appropriate or necessary.

For more information on this Domtar Q2 2020 financial report, [please read the full press release](#). This and [other press releases](#) are available in our [media center](#).

All information from the Domtar Q2 2020 financial report is in U.S. dollars, and all earnings-per-share results are diluted unless otherwise noted.

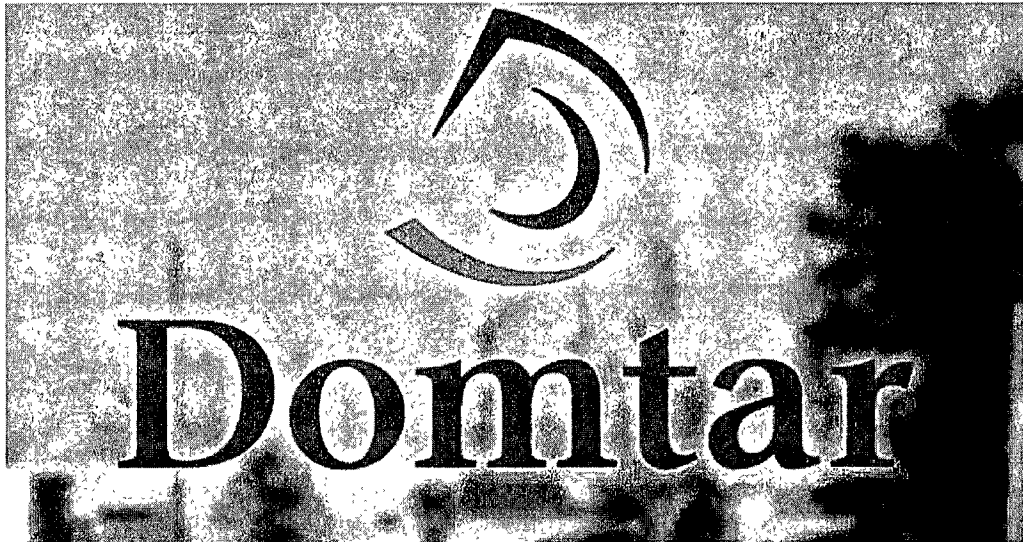


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Version 1.1

Domtar Permanently Shutting Down Paper Machine at Ashdown Mill

By **Field Walsh** - August 10, 2020



Domtar announced today they will be permanently closing their remaining paper machine at the Ashdown, Arkansas mill.

According to Domtar around 109 employees will be let go due to the closure.

The machine has been idled since April 2020. The mill will now only produce pulp.

Domtar made the announcement today in its preliminary second quarter 2020 financial results.

"As part of the cost savings program, the Company will permanently close the uncoated freesheet manufacturing at the Kingsport, Tennessee and Port Huron, Michigan mills, the remaining paper machine at the Ashdown, Arkansas mill and the converting center in Ridgefields, Tennessee. These actions will reduce the Company's annual uncoated freesheet paper capacity by approximately 721,000 short tons, and will result in a workforce reduction of approximately 780 employees. The Kingsport and Ashdown paper machines, which have been idled since April 2020, will not recommence operations. The Port Huron and Ridgefields mills are expected to shut down by the end of the first quarter of 2021."

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Libbey Inc - Libbey Announces Recommended Plan to Close Facility in Shreveport, Louisiana



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LIBBEY ANNOUNCES RECOMMENDED PLAN TO CLOSE FACILITY IN SHREVEPORT, LOUISIANA

07/08/2020

Part of Continued Actions to Reduce Costs and Align Manufacturing Capacity with Customer Demand

TOLEDO, Ohio, July 8, 2020 /PRNewswire/ -- Libbey Inc. (OTC: LBYYQ) ("Libbey" or the "Company"), one of the world's largest glass tableware manufacturers, today announced a tentative plan to close its manufacturing facility in Shreveport, Louisiana, as the Company continues to take actions to reduce costs and align manufacturing capacity with lower levels of projected demand. Libbey will negotiate this recommendation further with the unions representing its employees prior to finalizing a decision.

Mike Bauer, chief executive officer of Libbey, said, "Over the last few years, we have experienced declining demand in our core markets, which has contributed to overcapacity. This has been exacerbated by COVID-19. The recommendation to close our facility in Shreveport will better align our cost structure with current and expected customer demand as we position Libbey for the future. If the closure occurs, we will leverage our existing U.S. and international manufacturing footprint, along with our best in-class sourcing capabilities, to continue to provide industry-leading service to our customers and end users."

He continued, "Although difficult, we believe this is a necessary step in transforming Libbey for success in the post-COVID-19 era, and we recognize the impact it could have on our 450 employees in Shreveport, their families and the communities in which we operate. We will work constructively with the unions representing Libbey employees and will keep all stakeholders informed as we consider our final decision about our continued operations."

This tentative plan, if implemented, would wind down Libbey's manufacturing operations in Shreveport by the end of 2020. The Company's distribution center in Greenwood, Louisiana, is not impacted by this announcement and will remain open.

9/21/2020

Libbey Inc - Libbey Announces Recommended Plan to Close Facility in Shreveport, Louisiana

Additional Resources

As previously announced, on June 1, 2020, the Company and its U.S.-based subsidiaries filed voluntary petitions for a court-supervised reorganization under Chapter 11 under Title 11 of the United States Code in the U.S. Bankruptcy Court for the District of Delaware. Libbey's international subsidiaries in Canada, China, Mexico, the Netherlands and Portugal are not included in the Chapter 11 proceedings and are operating in the normal course of business.

Additional information is available at www.LibbeyRestructuringInfo.com. Court filings and other information related to the court-supervised proceedings are available at <http://cases.primeclerk.com/libbey> or by calling Libbey's claims agent, Prime Clerk, at (877) 429-7404 (or (646) 214-8836 for international calls).

About Libbey Inc.

Based in Toledo, Ohio, Libbey Inc. is one of the largest glass tableware manufacturers in the world. Libbey Inc. operates manufacturing plants in the U.S., Mexico, China, Portugal and the Netherlands. In existence since 1818, the Company supplies tabletop products to retail, foodservice and business-to-business customers in over 100 countries. Libbey's global brand portfolio, in addition to its namesake brand, includes Libbey Signature®, Master's Reserve®, Crisa®, Royal Leerdam®, World® Tableware, Syracuse® China, and Crisal Glass®. In 2019, Libbey Inc.'s net sales totaled \$782.4 million. Additional information is available at www.libbey.com.

Forward-Looking Statements

This press release includes forward-looking statements as defined in Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements reflect only the Company's best assessment at this time and are indicated by words or phrases such as "goal," "plan," "expects," "believes," "will," "would," "estimates," "projects," "anticipates," or similar phrases. These forward-looking statements include all matters that are not historical facts. They include statements regarding, among other things, the Company's intentions, beliefs or current expectations concerning the tentative plan to close the Company's manufacturing facility in Shreveport, Louisiana, the outcome of negotiations regarding the tentative plan with the unions representing Company's employees, the course of action ultimately taken by the Company and the potential impact to the Company's business of such course of action. By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Investors are cautioned that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity, and the development of the industry in which we operate, may differ materially from these statements. Investors should not place undue reliance on such statements. Important factors potentially affecting performance include but are not limited to risks and uncertainties related to the ability to realize the cost reduction and capacity alignment goals associated with the tentative plan, the ability to manage the costs and timing of executing the tentative plan if implemented, risks

9/21/2020

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attendant to the bankruptcy process, including our ability to obtain court approvals with respect to motions filed in the Chapter 11 proceedings (the "Chapter 11 Cases"), the outcomes of court rulings and the Chapter 11 Cases in general and the length of time that we may be required to operate in bankruptcy, the effectiveness of the overall restructuring activities pursuant to the Chapter 11 Cases and any additional strategies that we may employ to address our liquidity and capital resources; the actions and decisions of creditors, regulators and other third parties that have an interest in the Chapter 11 Cases, which may interfere with the ability to confirm and consummate the Company's plan of reorganization, restrictions on us due to the terms of the Company's debtor-in-possession financing agreements (the "DIP Credit Agreements") and restrictions imposed by the applicable courts; potential delays in the Chapter 11 Cases due to the effects of COVID-19; the effects of the Chapter 11 Cases on the Company and on the interests of various constituents, including holders of the Company's common stock, other litigation and inherent risks involved in a bankruptcy process; risks related to the trading of the Company's securities on the OTC Pink marketplace; the impact of COVID-19 on the global economy, our associates, our customers and our operations, our high level of indebtedness and the availability and cost of credit; high interest rates that increase the Company's borrowing costs or volatility in the financial markets that could constrain liquidity and credit availability; the inability to achieve savings and profit improvements at targeted levels in the Company's operations or within the intended time periods, increased competition from foreign suppliers endeavoring to sell glass tableware, ceramic dinnerware and metalware in our core markets, global economic conditions and the related impact on consumer spending levels; major slowdowns or changes in trends in the retail, travel, restaurant and bar or entertainment industries, and in the retail and foodservice channels of distribution generally, that impact demand for our products; inability to meet the demand for new products, material restructuring charges related to involuntary employee terminations, facility sales or closures, or other various restructuring activities, significant increases in per-unit costs for natural gas, electricity, freight, corrugated packaging, and other purchased materials, our ability to borrow under the DIP Credit Agreements, protracted work stoppages related to collective bargaining agreements; increased pension expense associated with lower returns on pension investments and increased pension obligations, increased tax expense resulting from changes to tax laws, regulations and evolving interpretations thereof; devaluations and other major currency fluctuations relative to the U.S. dollar and the euro that could reduce the cost competitiveness of the Company's products compared to foreign competition, the effect of exchange rate changes to the value of the euro, the Mexican peso, the Chinese renminbi and the Canadian dollar and the earnings and cash flows of our international operations, expressed under U.S. GAAP, the effect of high levels of inflation in countries in which we operate or sell our products; the failure of our investments in e-commerce, new technology and other capital expenditures to yield expected returns, failure to prevent unauthorized access, security breaches and cyber-attacks to our information technology systems; compliance with, or the failure to comply with, legal requirements relating to health, safety and environmental protection, our failure to protect our intellectual property, and the inability to effectively integrate future business we acquire or joint ventures into which we enter. These and other risk factors that could cause results to differ materially from the forward-looking statements can be found in the Company's Annual Report on Form 10-K, the Company's Quarterly Report on Form 10-Q, the Company's other filings

with the Securities and Exchange Commission (the "SEC") and in the Disclosure Statement filed with the
<https://investor.libbey.com/news-and-events/news/news-details/2020/Libbey-Announces-Recommended-Plan-to-Close-Facility-in-Shreveport-Louisiana...> 3/6

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with the Securities and Exchange Commission (the "SEC") and in the Disclosure Statement filed with the Bankruptcy Court for the District of Delaware in connection with the Chapter 11 Cases. Refer to the Company's most recent SEC filings for any updates concerning these and other risks and uncertainties that may affect the Company's operations and performance. Any forward-looking statements speak only as of the date of this press release, and the Company assumes no obligation to update or revise any forward-looking statement to reflect events or circumstances arising after the date of this press release.

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Shreveport Times

NEWS

Libbey Glass plans to shutter Shreveport facility

Jimmy Watson Shreveport Times

Published 8:52 p.m. CT Jul. 8, 2020 | Updated 8:07 a.m. CT Jul. 9, 2020

One of the oldest and largest manufacturing plants in Northwest Louisiana is apparently closing its Shreveport operation thanks in part to the effects of COVID-19.

In an effort to reduce costs and match manufacturing capacity with less demand, the Libbey Glass plant will cease operation in the near future putting 450 employees out of work, according to a report on toledoblade.com.

The plant has been operated by Libbey Inc., which became involved in Chapter 11 bankruptcy proceedings approximately a month ago.

According to the report, the company will need to negotiate with unions before a final decision is made.

“Over the last few years, we have experienced declining demand in our core markets, which has contributed to overcapacity. This has been exacerbated by COVID-19,” Mike Bauer, Libbey chief executive officer told The Blade. “The recommendation to close our facility in Shreveport will better align our cost structure with current and expected customer demand as position Libbey for the future.

Libbey’s operations in Shreveport could cease by the end of the current year, if negotiations go as planned. Apparently, the company’s distribution center in Greenwood is not affected by the planned closure.

Twitter: @JimmyWatson6

More: Local expert talks economic outcomes for area businesses

EXECUTIVE SUMMARY OF JOHN O. AARON

John O. Aaron is the Director of Regulated Pricing and Analysis in the Regulatory Services Department of American Electric Power Service Corporation. He is responsible for supervising the preparation of cost-of-service studies, rate design, special contracts and pricing, and tariff provisions for the three American Electric Power Company, Inc. (AEP) West operating companies, including Southwestern Electric Power Company (SWEPCO or the Company), that operate in the Southwest Power Pool (SPP) and the Electric Reliability Council of Texas. Mr. Aaron is also responsible for the preparation of, and support for, filings before the regulatory commissions exercising jurisdiction over the AEP West electric operating companies.

Mr. Aaron's testimony presents and supports SWEPCO's jurisdictional and class cost-of-service studies and supports various Rate Filing Package schedules. Mr. Aaron supports the baseline calculation of costs to be recovered in a future filing by SWEPCO for a Transmission Cost Recovery Factor, Distribution Cost Recovery Factor, and Generation Cost Recovery Rider. Mr. Aaron also describes SWEPCO's request to defer certain SPP approved transmission charges above or below the component included in its TURF baseline as a regulatory asset or liability to be addressed in a future Transmission Cost Recovery Factor filing or base rate proceeding.

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF
SOUTHWESTERN ELECTRIC POWER COMPANY
FOR AUTHORITY TO CHANGE RATES

DIRECT TESTIMONY OF
JOHN O. AARON
FOR
SOUTHWESTERN ELECTRIC POWER COMPANY

OCTOBER 2020

TESTIMONY INDEX

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EXHIBITS

<u>EXHIBIT</u>	<u>DESCRIPTION</u>
EXHIBIT JOA-1	RFP Schedule List
EXHIBIT JOA-2	Jurisdictional Production Allocation
EXHIBIT JOA-3	Jurisdictional Transmission Allocation
EXHIBIT JOA-4	Class Production and Transmission Allocations
EXHIBIT JOA-5	TCRF Base Line
EXHIBIT JOA-6	DCRF Base Line
EXHIBIT JOA-7	GCRR Base Line

1 I. INTRODUCTION

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

3 A. My name is John O. Aaron. I am a Director, Regulated Pricing and Analysis, in the
4 Regulatory Services Department of American Electric Power Service Corporation
5 (AEPSC). AEPSC is a subsidiary of American Electric Power Company, Inc. (AEP)
6 that provides corporate support services to the operating subsidiaries of AEP, including
7 Southwestern Electric Power Company (SWEPCO or the Company). My business
8 address is 212 East Sixth Street, Tulsa, Oklahoma 74119-1295.

9 Q. PLEASE BRIEFLY DESCRIBE YOUR CURRENT JOB RESPONSIBILITIES.

10 A. As Director, Regulated Pricing and Analysis, I supervise the preparation of cost-of-
11 service studies, rate design, special contracts and pricing, and tariff provisions for the
12 three AEP West operating companies¹ that operate in the Southwest Power Pool (SPP)
13 and the Electric Reliability Council of Texas (ERCOT). I am also responsible for the
14 preparation of, and support for, filings before the regulatory commissions exercising
15 jurisdiction over the AEP West operating companies.

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

18 A. I received a Bachelor of Science in Accounting from Louisiana State University in
19 Shreveport in May 1980. I am a Certified Public Accountant (CPA) in the State of
20 Oklahoma and a member of the American Institute of CPAs and the Oklahoma Society
21 of CPAs. Upon graduation from college, I was employed as an Internal Auditor for a

¹ The AEP West operating companies include SWEPCO, Public Service Company of Oklahoma, and AEP Texas Inc.

1 multi-state wholesale appliance and electrical supplier in Shreveport, Louisiana. In
2 May 1984, I accepted employment with SWEPCO as an accountant in the Property
3 Accounting Department. From 1985 through 1995, I held various positions in the
4 Accounting, Internal Auditing and Rate Departments, including Supervisor of
5 Regulatory Accounting Support and Supervisor of Wholesale Marketing Support.
6 From 1995 through 2010, I held various positions in the Regulatory Accounting
7 Services Department at Central and South West Services, Inc. (CSWS), the service
8 company for the former Central and South West Corporation (CSW) System. With the
9 merger of AEP and CSW, as of January 1, 2001, AEPSC became the successor to
10 CSWS. In August 2010, I transferred to AEPSC's Regulatory Services Department as
11 manager and was promoted in April 2019 to my current position as Director, Regulated
12 Pricing and Analysis.

13 Q. HAVE YOU PREVIOUSLY FILED TESTIMONY?

14 A. Yes. Before the Public Utility Commission of Texas (PUC or the Commission) I have
15 filed testimony in the following matters: SWEPCO Docket Nos. 32624, 32672, 32898,
16 35137, 36949, 37364, 40443, 42089, 42448, 44496, 45691, 46449, 47461, 49042 and
17 49737; AEP Texas North Company Docket Nos. 18607, 18970, 21385 and 23477; AEP
18 Texas Central Company Docket No. 22352; and AEP Texas Docket No. 49494. I have
19 also filed testimony before the Oklahoma Corporation Commission and the Louisiana
20 Public Service Commission.

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II. PURPOSE OF TESTIMONY

- Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?
- A. The purpose of my testimony is to present and support SWEPCO’s jurisdictional and class cost-of-service studies submitted in this proceeding and to support various Rate Filing Package (RFP) schedules. Additionally, I support the baseline calculation of costs to be recovered in a future filing by SWEPCO for a Transmission Cost Recovery Factor (TCRF), a Distribution Cost Recovery Factor (DCRF), and a Generation Cost Recovery Rider (GCRR). The class cost-of-service study was used by SWEPCO witness Jennifer L. Jackson to develop SWEPCO’s proposed rates.
- Q. DO YOU HAVE ANY EXHIBITS ATTACHED TO THIS TESTIMONY?
- A. Yes. The exhibits to my testimony are listed in the Index to my testimony.
- Q. DO YOU SPONSOR OR CO-SPONSOR ANY SCHEDULES IN THE RFP THAT HAVE BEEN FILED IN THIS PROCEEDING?
- A. Yes. EXHIBIT JOA-1 identifies the RFP schedules that I sponsor or co-sponsor. Section III of my testimony describes each schedule listed in this exhibit in more detail.
- III. RATE FILING PACKAGE SCHEDULES
- Q. PLEASE DESCRIBE THE CONTENTS OF THE A AND B SCHEDULES YOU ARE COSPONSORING.
- A. Schedule A-1 summarizes SWEPCO’s overall cost-of-service on a Texas retail basis. Schedule B-1.1 summarizes the original cost of SWEPCO’s rate base, the requested adjustments to rate base, and the requested rate of return on a Texas retail basis.

1 Q. PLEASE DESCRIBE THE CONTENTS OF THE O SCHEDULES YOU ARE
2 SPONSORING.

3 A. The O Schedules present the summary of Test Year² data by rate class such as kWh
4 sales, billing demands, customers and the related revenue impacts.

5 Schedule O-1.1 provides the average, year-end, and Test Year adjusted number
6 of customers by rate class. In addition, the Test Year unadjusted kWh sales, kWh
7 adjustments for abnormal weather, annualized customer counts, other adjustments and
8 the total adjusted kWh sales are shown.

9 Schedule O-1.2 provides the same kWh data as Schedule O-1.1 by month for
10 the Test Year.

11 Schedule O-1.7 shows the unadjusted billing demands (kW), adjustments to the
12 Test Year billing demands and the adjusted billing demands for the Test Year by rate
13 class.

14 Schedule O-1.8 is a narrative explanation for all adjustments made to Test Year
15 operating statistics provided in Schedule O-1. This is described later in my testimony.

16 Schedule O-3.1 presents the monthly Test Year and adjusted number of
17 customers by rate class for the Test Year and the prior three years.

18 Schedule O-3.2 is an explanation of the methodology by which customer
19 adjustments are performed. This is described later in my testimony.

20 Schedule O-3.3 requires all data necessary to reproduce customer adjustments
21 if not in O-3.1.

² The Test Year includes the twelve month period ending March 31, 2020.

1 Schedule O-4.1 includes the unadjusted test year revenues, revenue impacts
2 associated with the customer and weather kWh sales and demand (kW) adjustments,
3 revenue impacts associated with other adjustments, and the total adjusted revenues for
4 the Test Year.

5 Schedule O-4.2 is a narrative explanation of the methodologies used to calculate
6 the revenue items in Schedule O-4.1. This is described later in my testimony.

7 Schedule O-5 provides the average fuel cost per kilowatt hour (kWh) at the total
8 system unadjusted and adjusted kWh sales levels.

9 Schedule O-6.3 provides the total system line loss calculations.

10 Q. PLEASE DESCRIBE THE CONTENTS OF THE P SCHEDULES YOU ARE
11 SPONSORING.

12 A. The P schedules present the results of the cost-of-service study for the retail and
13 wholesale jurisdictions as well as the individual customer classes within SWEPCO's
14 Texas retail jurisdiction. The P schedules reflect the adjusted Test Year, including any
15 post-test year adjustments.

16 Schedule P-1 presents the summary results of the cost-of-service study. The
17 results provide allocated rate base, revenues, expenses, rate of return, and relative rate
18 of return by jurisdiction and for SWEPCO's Texas retail jurisdictional customer classes
19 using present retail revenues developed by applying the currently approved rates
20 established in SWEPCO's PUC Docket No. 48233. Schedule P-1 also presents
21 proposed revenue deficiencies by retail customer class under equalized rates of return
22 using the Company's proposed revenues in this filing.

1 Schedule P-2 presents the allocation of revenue deductions (i.e., operations and
2 maintenance expenses (O&M), depreciation, and other revenue deductions) by
3 jurisdiction and by customer class for SWEPCO's Texas retail jurisdiction. All cost-
4 of-service components presented on Schedule A (Overall Cost of Service) are reflected
5 on Schedule P-2.

6 Schedule P-3 presents the allocation of total rate base by jurisdiction and by
7 customer class for SWEPCO's Texas retail jurisdiction. All rate base components
8 presented on Schedule B-1 (Rate Base and Return) are reflected on Schedule P-3.

9 Schedule P-4 summarizes SWEPCO's Texas retail jurisdictional customer class
10 revenue deductions by function (i.e., production, transmission, and distribution) and by
11 cost component (i.e., demand, energy, and customer).

12 Schedule P-5 provides the components of rate base for SWEPCO's Texas retail
13 jurisdiction by customer class.

14 Schedule P-6 summarizes SWEPCO's Texas retail jurisdictional customer class
15 revenue requirements by function and by cost component on a per unit cost basis (i.e.,
16 \$/kW, \$/kWh, and \$/customer). The unit costs by retail customer class are calculated
17 using three different assumptions: 1) with revenues based upon the approved rates from
18 PUC Docket No. 48233; 2) with equalized rates of return utilizing the proposed cost of
19 capital; and 3) with the proposed rates by class as requested in this filing.

20 Schedule P-7 contains a listing of the allocation factors utilized in the
21 jurisdictional and retail customer class cost-of-service study set forth in Schedules P-1
22 through P-6 of the RFP.

1 A. A cost-of-service study determines a utility's cost of providing service and allocates or
2 assigns cost responsibility to jurisdictions and classes based on cost causation.
3 SWEPCO provides electric service at retail in Texas, Arkansas, and Louisiana subject
4 to the jurisdiction of each respective state commission as well as to wholesale
5 customers subject to the jurisdiction of the Federal Energy Regulatory Commission
6 (FERC). Because SWEPCO incurs costs to provide service to these multi-
7 jurisdictional customers, a jurisdictional cost-of-service study is necessary to allocate
8 or assign these costs, as measured by the total company revenue requirement, to the
9 appropriate jurisdiction in order to determine the cost-of-service for that specific
10 jurisdiction. The result is a fully allocated embedded cost-of-service study that
11 establishes the cost responsibility for each jurisdiction.

12 Once the jurisdictional costs are determined, a class (e.g., residential,
13 commercial, industrial, municipal, and outdoor lighting) cost-of-service study further
14 allocates or assigns the jurisdictional cost-of-service to the different customer classes
15 based on the customers' use of SWEPCO's electric system. In this filing, the embedded
16 class cost-of-service study allocates the Texas retail jurisdictionally allocated total
17 company costs to the individual retail customer classes to evaluate the cost SWEPCO
18 incurs in providing electric service to the retail customer classes. The resulting fully
19 allocated embedded class cost-of-service study establishes the cost responsibility
20 which is used as a tool in determining the rates developed for the electric services
21 provided by SWEPCO.

22 Q. WHAT DATA SOURCES ARE USED IN A COST-OF-SERVICE STUDY?

1 A. A cost-of-service study relies on the utility company's historical test year accounting
2 records to establish cost levels for rate base and expenses. Selected RFP schedules are
3 the source of the cost levels for rate base and expenses in this cost-of-service study.
4 The costs recorded in each FERC account are presented in RFP schedules and are
5 adjusted as needed to reflect the applicable regulatory commission's policies and for
6 known and measurable changes to the test year level of expenditures. Operating
7 statistics such as peak demands, energy sales, customer counts and other data support
8 the allocation of the costs to jurisdictions and classes.

9 Q. HOW IS THIS INFORMATION SEPARATED IN ORDER TO DETERMINE THE
10 COST OF SERVING THE VARIOUS CLASSES OF CUSTOMERS?

11 A. A three-step process is followed to assign costs to the customer classes:
12 functionalization, classification, and finally, allocation.

13 Q. PLEASE DESCRIBE THE FIRST STEP TO FUNCTIONALIZE COSTS.

14 A. In the first step, the costs are separated by function (e.g., production, transmission,
15 distribution, and customer services). The production function captures the costs
16 associated with generation facilities and power purchase agreements. The transmission
17 function captures the costs associated with the transmission voltage lines and associated
18 transmission facilities that deliver power from generation resources to the distribution
19 system and connect with other utilities, generators, and some large customers. The
20 distribution function includes facilities and costs associated with distribution stations,
21 primary and secondary distribution lines, transformers, service drops, and meters that
22 connect most customers to the utility network. The customer service function
23 encompasses the services and costs associated with providing meter reading, billing,

1 collection, customer information and related services, such as energy applications,
2 advice, and assistance.

3 Q. PLEASE DESCRIBE THE CLASSIFICATION PROCESS.

4 A. The second step is to separate the functionalized costs based on the characteristics of
5 the electric service provided. The major classifications are demand-related costs,
6 energy-related costs, and customer-related costs. Demand-related costs are associated
7 with the kilowatt (kW) demand imposed by the customer on the electric system at a
8 point in time. Energy-related costs are associated with the kWh of energy consumed
9 by the customer for a given time period. Customer-related costs are directly related to
10 the number of customers served. The following table shows the cost classifications for
11 the functional costs.

Function	Demand	Energy	Customer
Production	X	X	
Transmission	X		
Distribution	X		X
Customer Service			X

12 Production plant costs, such as depreciation and return on investment, are
13 considered to be demand-related costs. Fuel costs and certain production O&M
14 expenses are energy-related because they vary with the quantity of energy produced.
15 Transmission costs are demand-related because they are fixed and do not vary with
16 energy usage. Distribution system costs are driven by the need to deliver the peak
17 demand of customers served from each facility and by the number of customers served.

1 Distribution costs for substations, primary lines, and transformers tend to vary with the
2 size and location of the load served, while service drops and meter costs vary based on
3 the number of customers receiving the service. Customer service costs vary with the
4 number of customers and the complexity of meeting their needs. The classification
5 process provides a basis on which to allocate different categories of costs (demand,
6 energy, or customer) to SWEPCO's jurisdictions, and ultimately to the customer
7 classes through the allocation process.

8 Q. PLEASE DESCRIBE THE ALLOCATION PROCESS.

9 A. The final step of the three-step process is to allocate the functional classified costs
10 among the jurisdictions, or classes of customers. The nature of the service provided
11 and the load characteristics for each cost item such as peak demand (kW), energy
12 consumed (kWh) or number of customers serves as the basis for this allocation process.

13 The allocation process involves dividing the functionalized and classified costs
14 among the jurisdictions and customer classes. The objective of this process is to assign
15 costs in a reasonable and understandable way. Some costs are directly assignable to a
16 jurisdiction, a single class, or even a single customer. Examples of costs directly
17 assigned to a jurisdiction are distribution tree trimming expenses and regulatory
18 commission expenses. An example of costs assigned to a single class is the cost
19 associated with the poles and luminaires used for street lighting, which are directly
20 assigned to the street lighting class.

21 Most costs, however, are attributable to more than one type of customer. These
22 common costs must be allocated to customer classes by an allocation methodology that
23 recognizes each class's contribution to the cost driver such as peak demand, energy

1 consumed, or the number of customers. This allocation ultimately determines the
2 overall level of cost for each sub-category of utility service.

3 In many instances, the classification process will lead to an allocation
4 methodology. For example, the cost of billing customers varies with the number of
5 customers as well as the complexity of preparing the customer's bill. Thus, the costs
6 associated with billing are allocated to the jurisdictions based on a weighted number of
7 customers. A weighted number of customers allocation factor is developed by
8 multiplying the number of customers in each class or jurisdiction by a factor
9 representing the difference in cost associated with providing that service to different
10 types of customers.

11 Q. WHAT IS THE RESULT OF THE FUNCTIONALIZATION, CLASSIFICATION
12 AND ALLOCATION PROCESS?

13 A. The result is a fully allocated embedded cost-of-service study that establishes the cost
14 responsibility for each jurisdiction and class of service.

15 B. Allocation Methodologies

16 Q. WHAT CRITERIA ARE USED TO ENSURE THAT THE ALLOCATION OF
17 COSTS TO THE CUSTOMERS IS APPROPRIATE?

18 A. The following criteria are generally used to determine the appropriateness of an
19 allocation methodology:

- 20 (1) The method should recognize individual customer class characteristics
21 such as energy usage, peak demand on the relevant portion of the
22 system, service diversity characteristics, or the number of customers.
- 23 (2) The method should be based on the activity that drives the cost and on
24 the rate classes' share of that activity.

- 1 (3) Customers who benefit from the use of the system should also bear the
2 appropriate cost responsibility for their use of the system.
- 3 (4) The method should reflect the planning and operating characteristics of
4 the utility's system.
- 5 (5) The method should produce reliable results that are relatively stable
6 from year to year.

7 Q. DO THE ALLOCATION METHODS EMPLOYED BY SWEPCO MEET THESE
8 OBJECTIVES?

9 A. Yes, they do. The allocation methodologies used in SWEPCO's jurisdictional and class
10 cost-of-service studies reflect the criteria listed above. The results of the jurisdictional
11 cost-of-service study can be relied upon to determine the revenue requirement for the
12 Texas retail jurisdiction and the class cost-of-service study can be relied upon to
13 determine the cost to serve SWEPCO's Texas retail rate classes.

14 Q. ARE THE ALLOCATION METHODOLOGIES USED IN THE COST-OF-
15 SERVICE STUDIES DESCRIBED IN A RATE FILING PACKAGE SCHEDULE?

16 A. Yes. Schedule P-7 contains a listing of the allocation factors utilized in the
17 jurisdictional and retail customer class cost-of-service study set forth in Schedules P-1
18 through P-6 of the RFP and Schedule P-8 refers to the classification factors used to
19 separate accounts into demand, energy, and customer-related components.

20 Although a considerable number of different allocation factors are employed in
21 a cost-of-service study, the allocation in all cases is ultimately dependent upon the three
22 basic cost components: demand, energy, and customer.

23 Q. ARE SWEPCO'S PROPOSED ALLOCATION METHODS AND PROCESSES
24 CONSISTENT WITH THOSE MOST RECENTLY APPROVED BY THE
25 COMMISSION FOR SWEPCO?

1 A. Yes. The allocation methodologies and processes described below in my testimony are
2 reflected in the cost-of-service studies filed in this proceeding and are consistent with
3 the base rates approved by the Commission in Docket No. 46449 and updated in Docket
4 No. 48233.

5 The following portion of my testimony will describe the allocation of the major
6 cost items on a function and cost component basis.

7 Q. WHAT ALLOCATION METHODOLOGY WAS USED FOR THE
8 JURISDICTIONAL ALLOCATION OF PRODUCTION DEMAND-RELATED
9 COSTS?

10 A. The jurisdictional cost-of-service study in this proceeding reflects a four coincident
11 peak (4CP) allocation methodology for the jurisdictional assignment of production
12 demand-related costs. This method reflects the jurisdictions' use of SWEPCO's
13 production facilities at the time of the system peak demands for the summer months of
14 June through September.

15 Q. HOW WERE THE PRODUCTION ALLOCATION FACTORS DEVELOPED?

16 A. The production allocation factor (identified as DEMPROD in the cost-of-service study)
17 for a particular jurisdiction is a ratio in which the numerator is the average of that
18 jurisdiction's 4CP demand and the denominator is the average of the SWEPCO's total
19 production system 4CP.

20 Q. WERE ADJUSTMENTS MADE TO THE 4CP PRODUCTION ALLOCATION
21 FACTOR?

22 A. Yes. As shown on EXHIBIT JOA-2, the average of the 4CP demands for SWEPCO's
23 FERC jurisdiction was reduced by customer supplied resources. Some of SWEPCO's

1 wholesale customers own or have production resources dedicated to serve their
2 individual demand and energy requirements. The output from these resources is
3 included in the metered values in SWEPCO's demand and energy accounting.
4 Allocating production costs on the gross 4CP value (i.e., the unadjusted 4CP) would
5 inappropriately allocate production costs to the wholesale jurisdiction.

6 Q. WHAT METHOD WAS USED TO ALLOCATE PRODUCTION ENERGY-
7 RELATED COSTS TO JURISDICTIONS?

8 A. Production energy-related costs, including expenses recorded in FERC Account 501
9 not recovered through SWEPCO's fuel clause (i.e., non-reconcilable fuel expenses),
10 were allocated to each jurisdiction based on adjusted Test Year annual kWh sales as
11 reflected in Schedule O-4.1.

12 Q. WHAT METHOD WAS USED TO ALLOCATE TRANSMISSION-RELATED
13 COSTS TO JURISDICTIONS?

14 A. Transmission related costs are allocated using the average of SWEPCO's twelve
15 monthly peak demands (12 CP) coinciding with the monthly peaks in Zone 1 of the
16 SPP. This allocation methodology appropriately reflects SWEPCO's load
17 responsibility in the SPP as shown on EXHIBIT JOA-3.

18 Q. HOW WERE DISTRIBUTION DEMAND-RELATED COSTS ALLOCATED TO
19 SWEPCO'S JURISDICTIONS?

20 A. Distribution plant was directly assigned to the states based on the geographic location
21 and allocated to the FERC jurisdiction by individual FERC distribution accounts.
22 Certain wholesale customers take service from SWEPCO pursuant to wholesale

1 formula rates at distribution voltage levels. This appropriately assigns the cost
2 responsibility to the FERC jurisdiction.

3 Q. WHAT ALLOCATION METHODOLOGIES DID YOU EMPLOY FOR
4 CUSTOMER-RELATED DISTRIBUTION COSTS?

5 A. Customer-related distribution costs such as the investment in meters and lights were
6 also directly assigned to the jurisdictions by individual FERC distribution accounts.

7 Q. PLEASE DESCRIBE THE ALLOCATION OF THE REMAINING COSTS THAT
8 ARE IDENTIFIABLE AS CUSTOMER-RELATED.

9 A. Customer accounting expenses, customer information expenses, and customer services
10 expenses were allocated to each jurisdiction using a combination of adjusted Test Year-
11 end number of customers, manually billed customers, and various other customer-
12 based allocators as provided on Schedule P-11.

13 Q. HOW WAS GENERAL PLANT ALLOCATED TO THE JURISDICTIONS?

14 A. SWEPCO's investment in general plant are allocated on the basis of the labor allocation
15 factors developed in Schedules P-7 and P-10. These factors are developed by allocating
16 the labor portion of each O&M expense account on the same basis as the total expense.
17 The resulting labor allocation factors are used to allocate general plant as well as many
18 administrative and general expense items.

19 Q. ARE SWEPCO'S TEXAS JURISDICTIONAL COSTS ALLOCATED TO CLASSES
20 USING THE SAME ALLOCATION METHODS DESCRIBED ABOVE?

21 A. No. SWEPCO's Texas jurisdictional production, transmission, and distribution
22 demand-related components are allocated differently in the class cost-of-service study.

1 Customer related costs are allocated on a similar manner in both the jurisdictional and
2 class cost-of-service studies.

3 Q. HOW ARE PRODUCTION DEMAND-RELATED COSTS ALLOCATED IN THE
4 COMPANY'S CLASS COST-OF-SERVICE STUDY COMPARED TO THE
5 JURISDICTIONAL COST-OF-SERVICE STUDY?

6 A. In the class cost-of-service study, production demand-related costs are allocated to the
7 various retail customer classes on the average and excess demand four coincident
8 methodology (A&E 4CP) whereas the jurisdictional cost-of-service study allocates
9 production demand-related costs on a 4CP methodology.

10 Q. WHY IS IT APPROPRIATE TO USE THE 4CP A&E METHODOLOGY FOR THE
11 ALLOCATION OF PRODUCTION DEMAND-RELATED COSTS IN THE CLASS
12 COST-OF-SERVICE STUDY?

13 A. The A&E 4CP method allocates production demand-related costs to all retail rate
14 classes while a 4CP method would not allocate production demand-related costs to
15 classes where the usage occurs outside the peak hours (e.g., lighting classes). The
16 average demand component in the A&E 4CP ensures that all customers who benefit
17 from the use of SWEPCO's production facilities are allocated a reasonable share of the
18 cost of operating that system. The average demand is the class Test Year adjusted kWh
19 at the generator divided by 8,760 hours in the year. The excess component of the A&E
20 4CP, calculated as the 4CP peak demand less the average demand, recognizes the
21 additional cost responsibility assigned to those customers who place a peak demand on
22 the system that is in excess of their average demand. Without the average demand
23 component, customer classes such as the lighting class that do not operate at the time

1 of any of the 4CP demands would receive no allocation of SWEPCO's production
2 plant. The A&E 4CP methodology reasonably assigns costs on the basis of system
3 usage.

4 Q. HOW ARE TRANSMISSION-RELATED COSTS ALLOCATED IN THE CLASS
5 COST-OF-SERVICE STUDY COMPARED TO THE JURISDICTIONAL COST-
6 OF-SERVICE STUDY?

7 A. Transmission-related costs are allocated on an A&E 4CP basis whereas the
8 jurisdictional cost-of-service study allocates transmission-related costs on a 12CP
9 basis. The A&E 4CP allocation for transmission-related costs differs from the A&E
10 4CP allocation used for production-related costs because the transmission allocation
11 includes synchronized behind the meter generation that is included in SWEPCO's
12 transmission load responsibility in the SPP. This treatment is consistent with the cost
13 causation concepts applied in SWEPCO's cost-of-service studies. EXHIBIT JOA-4
14 contains the class allocations for production and transmission related costs.

15 Q. HOW WERE DISTRIBUTION DEMAND-RELATED COSTS ALLOCATED IN
16 THE CLASS COST-OF-SERVICE STUDY?

17 A. Distribution plant costs recorded in FERC Accounts 360 through 368 are allocated on
18 the basis of customer class Maximum Diversified Demands (MDD) during the Test
19 Year. MDDs can be thought of as a group's maximum demand placed on the system
20 regardless of the relationship of that point in time to the time of the system peak. This
21 allocation was selected because SWEPCO's distribution system is sized and operated
22 to meet the localized load imposed upon it which is directly related to demands and not
23 how customers are connected.

1 Q. WHAT ALLOCATION METHODOLOGIES DID YOU EMPLOY FOR
2 CUSTOMER-RELATED DISTRIBUTION COSTS?

3 A. Customer-related distribution costs recorded in FERC Accounts 369 through 373 are
4 limited to the costs that vary directly with the number of customers (i.e., incurred
5 because of the existence of a customer such as meters, service drops, transformers, and
6 associated expenses). The customer-related distribution plant costs and associated
7 expenses are allocated to the customers who require such facilities by using a weighted
8 number of customers' methodology. For example, meter reading expenses were
9 allocated to classes based on the number of customer meters in each class, reflecting
10 the differences in time it takes to read each type of customer meter installed to serve
11 each class.

12 Q. HOW WERE REVENUES REFLECTED IN THE COST OF SERVICE STUDIES?

13 A. In the jurisdictional cost-of-service study, electricity sales revenues are directly
14 assigned to the jurisdictions based on the existing approved jurisdictional tariffs. In the
15 Texas retail class cost-of-service study, electricity sales revenues reflect Test Year
16 adjusted retail sales assigned to classes by the tariff code that is designated for the type
17 of service provided by SWEPCO and provided in RFP Schedule O-4.1. Late Payment
18 Charges and Miscellaneous Service Revenues are directly assigned to the retail
19 jurisdictions. Other Miscellaneous Electric Revenue are first functionalized based
20 upon an analysis of the Company's records and then allocated to the jurisdictions based
21 on the functional assignment of the asset used to generate the revenue.

22 C. Adjustments to Test Year Data

23 Q. WERE ADJUSTMENTS MADE TO THE TEST YEAR DATA IN THIS FILING?

1 A. Yes. Appropriate adjustments to the schedules I identified earlier have been made to
2 reflect known and measurable changes necessary to ensure the data either accurately
3 represent the Test Year or includes those changes necessary to reflect permanent
4 differences from the data that will occur before any revised rates resulting from this
5 proceeding will be put in effect. 16 Tex. Admin. Code (TAC) § 25.234(b) states “[r]ates
6 will be determined using revenues, billing and usage data for a historical test year
7 adjusted for known and measurable changes, and cost of service as defined in §25.231
8 of this title (relating to Cost of Service).”

9 Q. WHAT IS THE SOURCE FOR THE REVENUE, CUSTOMER, AND SALES DATA
10 PRESENTED IN THE COST-OF-SERVICE STUDY AND RFP SCHEDULES?

11 A. The source for customer, revenue, and sales data contained in cost-of-service study and
12 RFP Schedules is the Marketing, Accounting and Customer Services System
13 (MACSS). MACSS is the mainframe application that houses SWEPCO’s customer-
14 specific data to bill each customer and is recorded to the Company’s general ledger.

15 Q. PLEASE DESCRIBE THE PRO FORMA ADJUSTMENTS THAT ARE MADE TO
16 THE CUSTOMER, SALES, AND REVENUE VOLUMES CONTAINED IN THE
17 COST-OF-SERVICE STUDY AND SCHEDULE O.

18 A. The pro forma adjustments fall into four categories: (1) annualizing the number of
19 customers; (2) customer billing adjustments; (3) normalizing weather; and (4)
20 removing revenues from base revenues.

21 Q. PLEASE DESCRIBE THE ADJUSTMENT TO ANNUALIZE THE NUMBER OF
22 CUSTOMERS.

1 A. The adjustment to annualize the number of customers reflects the customer levels at
2 the end of the Test Year. For most rate classes, monthly year-end customer adjustment
3 factors are calculated by dividing the year-end number of customers by the number of
4 customers in each individual month. These customer adjustment factors are then
5 applied to the corresponding month's kWh and kW sales for each rate class, which
6 results in the customer-adjusted kWh and kW. The customer-adjusted kWh and kW
7 are re-billed at the corresponding tariff rates to determine the revenues associated with
8 the customer adjustment. Likewise, the change in customer counts was multiplied by
9 the corresponding customer charge, where applicable, to determine the customer
10 charge revenue change for each class. For certain large customers, such as those in the
11 Large Lighting and Power transmission rate class, the customer adjustment was
12 determined by analyzing individual customers within the rate class.

13 Q. PLEASE DESCRIBE THE CUSTOMER BILLING ADJUSTMENT.

14 A. The customer billing adjustment adjusts customers' usage and revenues to reflect
15 appropriate monthly consumption and revenues. An example of this type of adjustment
16 would be a customer with two months of revenues (i.e., sales) booked in one month.
17 The adjustment corrects the data by splitting it between the two months, reflecting what
18 would occur during a normal year. Another example of this type of adjustment would
19 be a customer moving to a different rate class during the Test Year. This adjustment
20 rebills the customer on the current rate for the months that he was not on that rate to
21 make it appear that he was on the current rate for the entire Test Year period.

22 Q. PLEASE DESCRIBE THE WEATHER NORMALIZATION ADJUSTMENT.

1 A. The weather normalization adjustment normalizes the Test Year kWh sales and
2 associated revenue for a normal weather year. SWEPCO witness Chad Burnett
3 provided the weather adjustment factors to normalize Test Year kWh for a normal
4 weather year. Please see his testimony for a description of the weather normalization
5 process.

6 Q. PLEASE DESCRIBE THE ADJUSTMENT REMOVING RIDER REVENUES
7 FROM BASE RATE REVENUES.

8 A. This adjustment excludes from base rate revenues the rider revenues that are collected
9 for specific purposes such as energy efficiency programs, fuel and purchased power
10 costs, franchise taxes, and rate case expenses. Because the associated expenses
11 incurred by SWEPCO for these activities are not included in SWEPCO's base rate
12 revenue requirement, the revenues collected for these activities are also excluded. This
13 adjustment also removes TCRF and DCRF revenues collected in the Test Year because
14 base rate revenues will be recalibrated to include the O&M and capital investment
15 associated with the TCRF and DCRF riders.

16 Q. ARE ADJUSTMENTS MADE TO MISCELLANEOUS ELECTRIC REVENUES?

17 A. Yes. A detailed listing of the Test Year miscellaneous revenues recorded in FERC
18 Accounts 450, 451, 454, and 456 was compiled in order for adjustments to be made to
19 normalize revenues to reflect the appropriate Test Year level. These adjustments reflect
20 the elimination of non-recurring entries, known rate changes, and the reclassification
21 of revenue between accounts.

1 Q. HOW ARE MISCELLANEOUS REVENUES ASSIGNED IN THE COST-OF-
2 SERVICE STUDY?

3 A. Miscellaneous revenues are reviewed at the transaction level to determine the
4 appropriate functional assignment of the revenue. Revenues are assigned to functions
5 based on the underlying asset associated with the revenue received. For instance,
6 revenues received from the rental of distribution facilities are assigned to the
7 distribution function, while revenues received for transmission service under the SPP
8 Open Access Transmission Tariff (OATT) are assigned to the transmission function.
9 The amount and functionalization of miscellaneous revenues is important in a cost-of-
10 service study due to the treatment of these revenues as revenue credits. Revenue credits
11 in the cost-of-service study reduce the base rate revenue requirement of each
12 jurisdiction.

13 Q. DOES THE COST-OF-SERVICE STUDY REFLECT ALL TEST YEAR
14 ADJUSTMENTS?

15 A. Yes. All of the adjustments to rate base and O&M discussed by SWEPCO witness
16 Michael Baird and earlier in my testimony are reflected in the cost-of-service study
17 submitted in this proceeding.

D. SWEPCO's Cost-of-Service Studies

1
2 Q. PLEASE DESCRIBE THE CONTENTS OF THE JURISDICTIONAL AND CLASS
3 COST-OF-SERVICE STUDIES INCLUDED IN SCHEDULE P.

4 A. Schedule P contains the results of the jurisdictional cost-of-service study as well as the
5 customer class cost-of-service study.

6 Jurisdictional Schedule P-1 presents the summary results of the cost-of-service
7 study for SWEPCO's retail and wholesale jurisdictions. Jurisdictional Schedule P-1
8 also shows the proposed revenue requirement calculated based upon the proposed
9 revenue change and revenue distribution for each jurisdiction. Jurisdictional Schedule
10 P-2 presents the allocation of revenue deductions (i.e., O&M expenses, depreciation,
11 and other revenue deductions) by jurisdiction and Jurisdictional Schedule P-3 provides
12 the allocation of rate base by jurisdiction. Jurisdictional Schedule P-10 details the
13 payroll distribution by account for each jurisdiction.

14 Q. PLEASE SUMMARIZE THE RESULTS OF THE TEXAS RETAIL COST-OF-
15 SERVICE STUDY CONTAINED IN SCHEDULE P.

16 A. The following table summarizes the Texas retail cost-of-service study contained in
17 Schedule P.

Rate Base	\$	2,025,542,720
Weighted Average Cost of Capital		7.22%
Return on Rate Base		146,323,859
O&M Expense		215,741,511
Depreciation and Amortization		105,928,834
Taxes Other than Income Tax		41,570,103
Income Tax		24,601,826
Total Texas Retail Cost of Service	\$	534,166,132
Present Base Revenues		429,139,894
Texas Retail Base Rate Increase	\$	105,026,238
TCRF Current Revenue		9,398,074
DCRF Current Revenue	\$	5,428,428
Net Increase	\$	90,199,736

1 Q. DOES THE TABLE ABOVE REFLECT THE INCREASE TO BASE RATES
2 REQUESTED BY SWEPCO IN THIS PROCEEDING?

3 A. Yes. However, the Texas Retail Base Rate Increase reflected in the table above does
4 not account for the fact that SWEPCO's TCRF and DCRF will be reduced to \$0 at the
5 conclusion of this case. SWEPCO currently recovers \$9,398,074 through its TCRF
6 and \$5,428,428 through its DCRF. Thus, SWEPCO's proposed net increase over
7 current revenues is \$90,199,736. SWEPCO witness Jackson also describes the reset of
8 the TCRF and DCRF in her direct testimony.

9 Q. ARE SWEPCO'S COST-OF-SERVICE STUDIES DEVELOPED IN A MANNER
10 CONSISTENT WITH THE METHODS AND PROCESSES DESCRIBED EARLIER
11 IN YOUR TESTIMONY AND ALSO CONSISTENT WITH JURISDICTIONAL
12 STUDIES PREVIOUSLY FILED BY SWEPCO WITH THE PUC?

13 A. Yes. The methodologies and processes described earlier in my testimony are reflected
14 in the cost-of-service studies filed in this proceeding and are consistent with the