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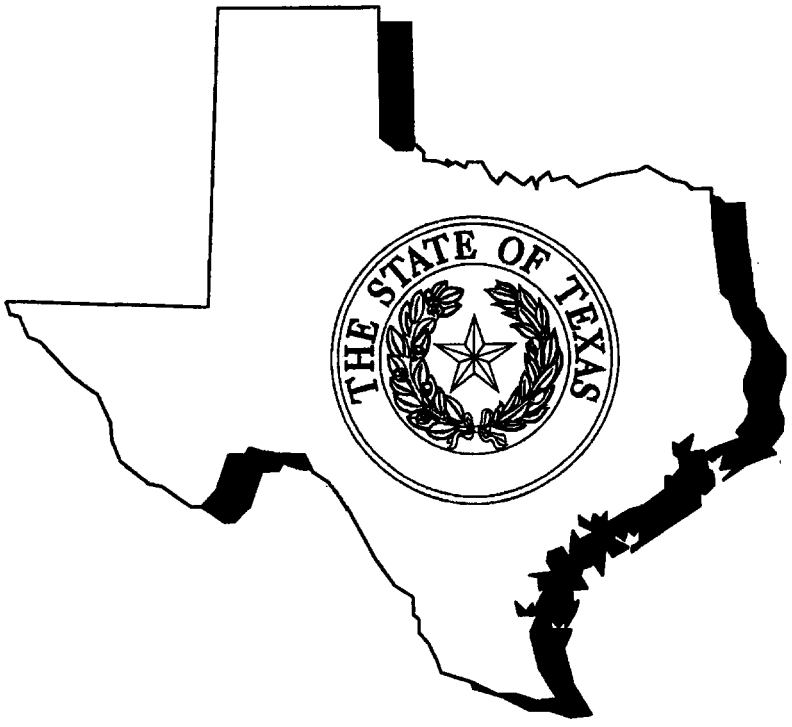
SOAH DOCKET NO. 473-04-1033
PUC DOCKET NO. 28840

APPLICATION OF AEP TEXAS CENTRAL COMPANY FOR AUTHORITY TO CHANGE RATES	§ § § § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS



DIRECT TESTIMONY OF

MATTHEW A. TROXLE

ELECTRIC DIVISION

PUBLIC UTILITY COMMISSION OF TEXAS

FEBRUARY 17, 2004

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ATTACHMENTS:

WORKPAPERS:

I. PROFESSIONAL QUALIFICATIONS

Q. Please state your name and business address.

A. Matthew A. Troxle, 1701 N. Congress Avenue, Austin, TX 78711-3326.

Q. By whom are you employed and in what capacity?

A. I am employed by the Public Utility Commission of Texas ("PUC" or "the Commission") as a Senior Retail Market Analyst in the Retail Market Oversight Section of the Electric Division.

Q. What are your principal responsibilities as a Senior Rate Analyst for the Public Utility Commission of Texas?

A. My principal area of responsibility includes performing analysis of developing retail markets in Texas. This includes: performing pricing analysis for regulated and non-regulated providers, including the effects of customer class allocation and rate design issues on customers and the development of the competitive market; reviewing and analyzing the performance of market participants including compliance with Commission rules; participating in the review and development of market rules for the power regions of Texas; preparing and presenting testimony as an expert witness on rate and related issues in docketed proceedings before the Commission and the State Office of Administrative Hearings; and, working on or leading teams in contested cases, rulemaking projects, reports, and research concerning pricing and other retail competition related issues.

Q. Please state your educational background and professional experience.

A. I have provided a summary of my educational background and professional experiences in Attachment MAT-1.

Q. Have you previously testified before the Commission or the State Office Of Administrative Hearings?

A. Yes. A listing of my previously filed written testimony and adopted testimony for cross examination is also included in Attachment MAT-1.

Q. Have you prepared any Exhibits or Workpapers in conjunction with your testimony?

A. Yes, I have attached Exhibit MAT-2 through MAT-5 to this testimony and have prepared Workpaper MAT-6 through MAT-11.

Q. Were those Exhibits and Workpapers prepared by you or under your supervision?

A. Yes, I prepared the Exhibits and Workpapers.

II. SCOPE OF TESTIMONY

Q. What is the purpose of this testimony?

A. This testimony will address AEP Texas Central Company's (TCC) Cost of Service (COS) Model which was filed in accordance with the Commission's

Investor Owned Utility Transmission and Distribution Cost of Service Rate Filing Package (IOU-T&DCOS-RFP or RFP). More specifically, this testimony will address:

- Corrections that need to be made to TCC's Cost of Service Model;
- TCC's proposal to split the net revenues associated with third-party transmission-related construction services which are applied as an "other revenue" credit to reduce revenue requirement;
- TCC's inclusion of funds to maintain the level of benefit to low-income customers through targeted energy efficiency programs;
- TCC's Rate Design Schedules;
- TCC's new proposed Rate Schedule Riders for Municipal Franchise Fees and Energy Efficiency; and,
- TCC's proposed Tariff Manual.

III. COST OF SERVICE STUDY

Q. Please describe the process of reviewing a Cost of Service Model.

A. When a Cost of Service case is filed, the utility presents a Cost of Service Model that must account for every dollar of the utility. The first model is a Functional (or Functionalization) Model. This model takes the total company dollars and functionalizes (or assigns) them to the functions mandated in the Commission's IOU-T&DCOS-RFP[1]. These functions are: Transmission, Distribution, Metering, and Transmission and Distribution Customer Service (TDCS). The

[1] Project N. 26470, Rate Filing Package For Transmission And Distribution Investor-Owned Utilities, April 2, 2003.

TDCS function can be broken down into more functions, but is allowed to be combined into one function when appropriate to do so.

The model groups categories of costs together, by the Federal Energy Regulatory Commission (FERC) System of Accounts and Accounting Guidelines (FERC Account Number or FERC Account), such as Transmission Plant expenses being recorded in FERC Account Numbers 349 to 359 (and appear in the Cost of Service Model on Schedule II-B-1 Plant), or Operations and Maintenance Expenses that are recorded in FERC Account Numbers 560 to 917 (and appear in the Cost of Service Model on Schedule II-D-1 O&M). Once all of the dollars have been recorded in the appropriate FERC Account Numbers and thus appear in the correct "groupings" on the appropriate schedules, a functionalization factor is used to divide the dollars among the previously listed functions. If the utility's accounting system allows, the dollars can be directly assigned to the functions instead of using a functionalization factor. At this point the Functionalization Model is complete.

The next step is to create Class Allocation Models. These models are repeats of the Functionalization Model except for a few differences. The Class Allocation Models are four identical models, but with each model pertaining only to one particular function. As each Class Allocation Model only pertains one function, the ending values for that function in the Functionalization Model is the starting point for that functions Class Allocation Model. For Example, if FERC Account

560 has a total of $1,000 in the Functionalization Model, and $200 is functionalized to the Distribution Function, then in the Distribution Class Allocation Model, the beginning value for FERC Account 560 is that same $200. Because the dollars are already specific to a particular function, the Class Allocation Models will then allocate the dollars to the customer classes, using an allocation factor or direct assignment, in a similar fashion to how the Functionalization Model functionalized the dollars to the functions.

The end result of the Class Allocation Models is that you can specifically identify the revenue requirement that a particular customer class must pay in relation to a particular function. Using the previous example, as the Distribution function must collect $200 for FERC Account 560, the Class Allocation Model may show that the Residential Customer Class is responsible for collecting $50 of the $200 total.

Retail rates will then be designed, per customer class, using the revenue requirements that are the end results of the Class Allocation Models. The retail rates will have a Transmission Charge, designed using the revenue requirement shown in the Transmission Class Allocation Model (as modified by Schedule TCOS (Transmission Cost of Service)); a Distribution Charge, designed using the revenue requirement shown in the Distribution Class Allocation Model; a Metering Charge, designed using the revenue requirement shown in the Metering Class Allocation Model; and a Customer Charge, designed using the revenue

requirement shown in the TDCS Class Allocation Model.

Q. Please describe the Transmission Class Allocation Model, and how it is modified by Schedule TCOS for rate design purposes.

A. There is a very important rate design issue concerning the Transmission function that must be explained. I mentioned previously that the end result of a class allocation model is a revenue requirement, by customer class, that will then be used to design retail rates. That statement is not true for the Transmission function. The customer class breakdown for the Transmission function is useful to illustrate the cost causation of the Transmission function revenue requirement, but should not be relied upon for rate design purposes.

For the purpose of rate design, the total revenue requirement for the Transmission function is pulled from the Transmission Class Allocation Model and used as an input into Schedule TCOS Calculation (or Schedule TCOS). This is done because for transmission providers within the Electric Reliability Council of Texas (ERCOT), the Transmission revenue requirement is recovered from all Distribution companies within ERCOT. Retail rates for the Transmission function need only recover the amount that a Distribution company pays to all of the Transmission owning companies within ERCOT.

The amount that retail rates need to collect for the Transmission function may be more or less than the actual Transmission function revenue requirement. This is

because a Distribution company pays to all Transmission companies within ERCOT, the Transmission company's Access Fee (or rate) multiplied by the Distribution company's Four Summer Month Average Coincident Peak (4CP) usage (or load) in Kilowatts (KW). In the aggregate, the Distribution company pays the ERCOT Postage Stamp Rate (the sum of all the individual Transmission owning companies' Access Fees) multiplied by the Distribution company's load.

The amount that TCC's Transmission company will collect will differ from the amount that TCC's Distribution company will pay because the percentage ownership (or TCC's TCOS) of TCC's Transmission company compared to the total ERCOT TCOS is different than the percentage of TCC's Distribution company's load compared to the total ERCOT load. While this may be confusing, it can be summed up more clearly. TCC's Transmission revenue requirement per the Transmission Class Allocation Model will be collected in full from all of the Distribution companies that serve load in ERCOT. TCC's Distribution company will pay to other ERCOT Transmission companies the ERCOT Postage Stamp Rate multiplied by TCC's 4CP load.

In this instance, the amount that TCC's Distribution company pays is less then the Transmission function revenue requirement. It is only the amount that TCC's Distribution company pays that needs to be collected from retail customers in retail rates, as the full Transmission revenue requirement is collected from all ERCOT Distribution companies. For this reason, the class allocation as shown in

the Transmission Class Allocation Model can be ignored for rate design purposes, and the actual rate design for the Transmission function is derived from Schedule TCOS, which utilizes the Commission's Net Wholesale Payment Matrix which contains the ERCOT Postage Stamp Rate and the 4CP loads as reported yearly by ERCOT.

Q. Why is it important for the Functional Model and the Class Allocation Models to properly link?

A. As these models all rely upon each other, consistency is a key element. In addition, as the Class Allocation Models begin with the end values from the Functionalization Model, it is critical that the numbers match from one model to another. This is accomplished by designing the models in Microsoft Excel Format with all cells linked between models. Again, this is a critical element in designing the Cost of Service Models. Only with linked cells, and thus linked models, can an ALJ, a Commissioner, or another decision maker, be confident that any ordered adjustments as a result of the contested nature of this proceeding will accurately "flow" through the Cost of Service Models and ultimately into the retail customers' rates.

FUNCTIONAL AND CLASS ALLOCATION MODELS

Q. Does Staff's Functional and Class Allocation Models "flow" accurately as described previously?

A. Yes. Staff's models contain all of the appropriate links to ensure that data from

the Functional Model "flows" into the Class Allocation Models, and that data from the Class Allocation Models "flow" into the Rate Design Schedules. In addition Staff's models contain all of the appropriate links contained within each individual model.

Q. In preparing Staff's models, did you encounter any errors in the models filed by TCC?

A. Yes. When I prepare Staff's models, they initially contain no adjustments, only the data as filed by TCC. Because of this, Staff's models should match the models filed by TCC. When the models do not match there is an error in one of the models and it is relatively easy to track the differences back to the point of divergence and then investigate the reason for the error. In preparing Staff's models, I encountered the following errors in TCC's models:

- the Taxable Income allocation factor;
- an error that I will describe as a "mismatch" error;
- direct assignment errors as a result of the "mismatch" error;
- an error in the way TCC's Distribution Class Allocation Model accounts for the amount of Transmission revenues that are collected through retail rates, which TCC booked into FERC Account 565; and,
- how the FERC Account 565 error skews allocation factors that use FERC Account 565 in their development.

Staff's models have taken these errors into account, in either correcting them or adjusting for them.

Q. Please describe and expand upon the Taxable Income allocation factor error.

A. In TCC's Transmission Class Allocation Model, Schedule II-F Allocation Data, allocator number 17 is a Taxable Income Allocator. Per the title of this allocation factor, the data to derive the allocation factor should come from Schedule II-E-3 Federal Income Taxes. TCC's model contains an error in that the formula for this allocation factor links to both the Taxable Component of Return (Taxable Income) and the Total Federal Income Taxes. As the Total Federal Income Taxes are comprised of the Taxable Income multiplied by a Tax Factor and then adjusted, by having the Taxable Income allocation factor link to both, there is, in effect, overlap and thus double counting. This will skew the allocation factor as it will take more data into account then is necessary.

Q. Are there any other errors concerning the Taxable Income Allocator?

A. Yes. In addition to the formula error described previously, subsequent class models' Taxable Income Allocators are linked back to the Transmission Class Allocation Model. This means that the taxable income in the Distribution, Metering, and TDCS functions are ignored for the purposes of deriving the allocator.

Q. Have you corrected the Taxable Income Allocator errors when designing Staff's models?

A. Yes. To correct for these errors, in Staff's models, I have linked the Taxable

Income Allocator only to the Taxable Component of Return (Taxable Income). In addition, to take into account the taxable income of the entire company and not just the Transmission function, I have linked the Taxable Income Allocator to the Taxable Component of Return of all four functions. Thus the Taxable Income Allocator is based upon the taxable income of the entire company and the same percentages apply uniformly across the class allocation models.

Q. Please describe and expand upon the "mismatch" error.

A. When building Staff's class allocation models, it became apparent that Staff's models did not match TCC's models for some FERC Accounts. Upon examination to find the source of the divergence, it was discovered that the inconsistency is due to a problem with the TCC models that I have termed the "mismatch" error.

As described previously, Staff's models are all linked and "flow". Therefore the starting point for the class models is the ending point of the Functionalization Model. TCC's models do not match or "flow" in this fashion. This means that for some FERC Accounts TCC's class models do not match the Functionalization Model.

An easy illustrative example of this error is in the Distribution Class Allocation Model, II-D-3 Payroll. In FERC Accounts 560 and 566, TCC's Functional Model shows zero dollars on II-D-3 for the Distribution function (page 2 of 8).

However, in TCC's Distribution Class Allocation Model (shown in Schedule II-I-1, page 17 and 18 of 28) $1,013 is allocated to the customer classes for FERC Account 560, and $2,097 is allocated to customer classes for FERC Account 566. Obviously, if the Functional Model shows zero dollars for a FERC Account in a particular function, it is inappropriate to then allocate anything other than zero for that FERC Account in the class allocation model.

This "mismatch" error occurs throughout the class models and is corrected in Staff's models simply from the nature of Staff's models in that they "flow" by use of the appropriate links between and within the models. Correcting the "mismatch" error results in a divergence between TCC's models and Staff's models. However, Staff's models provide for the appropriate cost allocation, as the divergence represents the correct "flow" of information from one model to another.

Q. Please describe and expand upon the direct assignment error as a result of the "mismatch" error.

A. One consequence of the "mismatch" error is that if for a particular FERC Account affected by this error, TCC does not use an allocation factor, but instead directly assigns dollars to the customer classes, TCC will directly assign a total dollar amount that will be more or less then the actual total dollar amount to be allocated to the customer classes.

This is problematic because a properly linked model will eliminate the "mismatch" errors by referencing the Functional Model and then allocating the correct amount to the customer classes automatically. When a company directly assigns dollars to the customer classes, Staff must manually enter the direct assignment as there is no allocation factor to do so automatically. This means that the only values that Staff has available to allocate to the customer classes do not match what Staff's model shows is the total to be allocated.

Q. How have you corrected this "direct assignment" error in Staff's models?

A. To correct this error, on a FERC Account by FERC Account basis, where this "direct assignment" error occurred I manually created an allocation factor for that FERC Account, deriving the percentages from the direct assignment provided by the TCC models. The created allocation factor was then used to allocate the amount of the "mismatch" error to the customer classes so that the "direct assignment" error was eliminated. This means, for example, if TCC's direct assignment appropriated 10% to the residential customer class, the same 10% would then be applied to the total of the "mismatch" error and allocated to the residential customer class. Applying those percentages to the "mismatch" error for all customer classes eliminates the "direct assignment" error.

To expand upon this example of how the "direct assignment" error is eliminated, consider the following scenario. Assume that $1,000 is to be allocated to the customer classes for FERC Account 920 in the Distribution Class Allocation

Model. Because of the "mismatch" error, the utility has direct assigned $1,100 to the customer classes in FERC Account 920. Of the $1,100 dollars, 20% is directly assigned to the residential customer class ($220). To eliminate the "direct assignment" error, the 20% would be applied to the total amount of the "mismatch" error ($100) and then subtracted from the amount directly assigned to the residential customer class, reducing its total to $200 from $220. The process is then repeated for the other customer classes and when the process is completed, only $1,000 will be assigned to the customer classes and the "direct assignment" error has been eliminated. This error occurred throughout the class models, sometimes with more being directly assigned than appropriate and sometimes with less being directly assigned than appropriate.

Q. Please describe and expand upon the error involving FERC Account 565 in TCC's Distribution Class Allocation Model.

A. TCC misinterpreted how to appropriately use Schedule TCOS. TCC filled out Schedule TCOS with the full revenue requirement of the Transmission function instead of with the amount that retail rates need to collect (TCC's 2002 4CP load times the ERCOT Postage Stamp Rate). TCC did understand though that retail rates were not to collect the full amount of the Transmission revenue requirement. TCC therefore needed a place for its models to show what was to be collected in retail rates for the Transmission function since it did not use Schedule TOCS for this purpose.

TCC therefore placed the amount to be collected for the Transmission function from retail rates in the Distribution Class Allocation Model in FERC Account 565 TCOS, on Schedule II-D-1 O&M. While this is not what the RFP required, the end result is correct as long as the amount for the Transmission revenue requirement (or TCOS) in FERC Account 565 is separated back out of the Distribution function for rate design purposes. Failure to do so would result in Transmission Charge of zero and the Transmission revenue requirement being collected through a much higher than appropriate Distribution Charge.

For ease and consistency between models, TCC's methodology is retained in Staff's model (meaning TCC's TCOS values in FERC Account 565 remain), but Transmission Charges are designed using Staff's corrected Schedule TCOS and not the amount listed in FERC Account 565. As in the rate design phase, the FERC Account 565 TCOS amount is removed from the Distribution function rate design, and the Transmission function rate design is designed using the corrected Schedule TCOS, Staff's models work correctly and the rate design schedules are accurate. The only effect of this error in Staff's models is that until the rate design stage, the Distribution function revenue requirement looks greater then it actually is because it includes the Transmission function revenue requirement.

Q. Please describe and expand upon the error involving the allocation factors that use FERC Account 565 in their derivation.

A. Because of the TCOS error involving FERC Account 565 described previously,

there are three class allocation factors in the Distribution Class Allocation Model that are inaccurate because they incorporate FERC Account 565 in their derivation. The three factors are Allocation Factor number 57 – Accounts 561-566, number 68 – Total O&M, and number 103 – Account 565.

Q. Please describe how you have corrected the allocation factors in Staff's model.

A. To correct the allocation factors that incorporate FERC Account 565 in their derivation, I removed the amount in FERC Account 565 – TCOS from the data that was used to derive these allocation percentages in the Distribution Class Allocation Model. This allows any FERC Account that is allocated based upon one of these allocators to be allocated based only on the amount that is appropriately in FERC Account 565 and to not be biased by the incorrectly located Transmission revenue requirement.

SPLIT OF CONSTRUCTION REVENUES NET MARGINS

Q. Please explain your understanding of TCC's proposal involving revenues from third party transmission-related construction services.

A. TCC is proposing to share the net revenues relating to third party transmission-related construction services with customers on a 50/50 basis. This would be a departure from the requirements under the Commission's Substantive Rules, Chapter 25.342(f)(1)(D)(ii)(III), which states that the utility must credit all revenues received from other services to the ratepayers. These "other" revenues

appear in the models in Schedule II-E-5 Other Revenues. TCC proposes to share the revenues with ratepayers, instead of crediting the full amount to ratepayers, because TCC states that if it were allowed to retain some share of the net revenues from these services, TCC would have a positive financial incentive to pursue other opportunities. TCC also states that customers would benefit also, through their share of the net revenues which otherwise may not materialize absent this incentive[2]. As shown on Exhibit JCC-3, Page 1, the construction services net revenues that TCC is proposing to share with ratepayers totals $2,708,122.16 in the Transmission function. Therefore, with TCC's proposed split, $1,354,061.08 would be credit to ratepayers as "other" revenues on Schedule II-E-5, and TCC would retain $1,354,061.08.

Q. Please provide your recommendation concerning TCC's proposal for the sharing of other revenues and explain your decision.

A. Staff recommends that the proposal of TCC to split the net "other" revenues associated with third party transmission-related construction services be denied. PUC Substantive Rule §25.342(f)(1)(D)(ii)(III) is very clear on the proper treatment of test year "other revenues" and it is inappropriate to change that policy in this case. Staff would recommend that if the Commission feels there is merit to TCC's proposal concerning a performance based incentive, then the issue should be considered in the broader setting of a Commission rulemaking.

[2] Direct Testimony of Calvin Crowder for AEP Texas Central Company, Pages 34-36, lines 21(pg 34) to 7 (pg 36), November 2003.

Apart from the clear rule requirements, Staff does not believe that TCC has demonstrated adequate need for a financial incentive in order to pursue these types of activities. In AEP Texas Central Company's Response To Office of Public Utility Counsel's Third Request For Information (RFI), Question No. 3-1, Larry Foust responds that TCC has reflected in cost of service a net profit of $2.7 million for all construction services which it feels is a representative annual level of profit and which it proposes to share with ratepayers[3].

If the $2.7 million level is reasonable on a going forward basis as a representative annual level of profit, then all of the $2.7 million should be credited back to ratepayers as "other" revenues. This is because the RFI response indicates that TCC expects to do this amount of work on an annual basis without any financial incentive.

Staff would like to point out that regulatory lag, in effect, already gives TCC the benefit (or incentive) that TCC is requesting to actively seek additional work. As a rate case is based on a historic test year, but is applied going forward, TCC will retain 100% of any revenues over the amount included in the test year. Instead of a 50/50 split, Staff would correlate this to a 100/100 split. The "other" revenues per the test year go 100% to ratepayers and anything extra TCC can earn would be 100% retained by TCC. If this causes TCC to substantially over or under-recover on a consistent basis, such would be reflected in the earnings monitoring reports and a new rate proceeding would be initiated to return to earnings to an

[3] See Exhibit MAT-4.

appropriate level, just as in this proceeding. Any profit that TCC achieved as over-earnings would be retained and would continue to be accrued until regulatory lag "caught up" and required a new rate proceeding. This should illustrate why Staff recommends that TCC's request for a good cause exception should be denied, as it is unnecessary to achieve TCC's desired financial incentive.

Q. Have you made an adjustment to Staff's models to reflect your recommendation?

A. Yes. Because TCC only credited $1,354,061.08 as "other" revenues associated with third party transmission-related construction services and retained the other half, I have made an adjustment to Staff's models to reflect the full amount that should be credited to rate payers as "other" revenues. To make this correction, I have added $1,354,061 to the total amount in the Functional Model, Schedule II-E-5 Other Revenues, FERC Account 456. The entire added amount is directly assigned to the Transmission Function as the revenues are for transmission-related construction.

TDHCA FUNDING LEVELS

Q. Please discuss TCC's proposal with respect to funding for the Texas Department of Housing and Community Affairs (TDHCA) targeted low-income weatherization programs.

A. TCC witness Mr. Billy G. Berny proposed that, if the Commission determines

that it is appropriate to fund the TDHCA targeted low-income weatherization programs, that the funding level for TCC be established at $1,365,000, and that amount, including any administrative costs, should be recovered through TCC's rates.

Q. Is it appropriate for the Commission to require that TCC provide funding for TDHCA's targeted low-income weatherization programs?

A. No. As Mr. Berny discussed, the Texas Legislature determined that it was appropriate for the TDHCA weatherization programs to be funded out of the System Benefit Fund (SBF), should sufficient funds be appropriated to do so. During the 78th Legislature, the Texas Legislature did not appropriate any SBF funds for TDHCA's weatherization programs. TDHCA continues to administer those programs with funding from the U.S. Department of Energy. As discussed in Commission Staff's Response to Order No. 2 in Docket No. 28237, *Petition of Texas Legal Services Center, Texas Ratepayers Organization to Save Energy, and the AARP Texas State Office for Continued Funding for Targeted Energy Efficiency Programs for FY 2004-2005*[4], the Legislature's choice with respect to deciding not to appropriate SBF monies to these programs reflects a decision in funding priority that the Commission should not contravene.

Q. Has TCC's requested funding level been removed from the Staff's cost study?

[4] The petition filed in Docket No. 28237 requested that the Commission order all transmission and distribution companies to fund the TDHCA targeted weatherization programs at a level equal to the funding that had previously been provided through the Legislative appropriation to TDHCA in 2002 and 2003 from the system benefit fund. The petition was withdrawn by the filing parties prior to Commission action.

A. Yes. Staff witness Ms. Mary Jacobs' recommendation to only permit inclusion of test year energy efficiency costs has the effect of removing the requested TDHCA funding amount from TCC's proposed rates, as no costs related to TDHCA programs were incurred during the test year.

PROPOSED RIDERS

Q. Please describe and explain TCC's proposed Rate Schedule Riders that are not in the current rates.

A. TCC has proposed new Rate Schedule Riders 6.1.1.14.3 Rider MFF – Municipal Franchise Fee, 6.1.1.14.4 Rider MFFA – Municipal Franchise Fee Adjustment, 6.1.1.14.5 Rider EECR – Energy Efficiency Cost Recovery Rider, and 6.1.1.14.5.1 Rider EECR – Energy Efficiency Cost Recovery Factors. The Riders pull revenue requirement out of the Distribution function, related to Municipal Franchise Fees and Energy Efficiency, and collect those revenues through these separate Riders instead of through the Distribution Charge, as is currently done. A reason for these Riders to be separated from the Distribution Charge is so that the Adjustment Rider and Recovery Factor Rider can be implemented. TCC proposes to use the Municipal Franchise Fee Adjustment and the Energy Efficiency Cost Recovery Factors to "true-up" or adjust the Municipal Franchise Fee Rider and the Energy Efficiency Cost Recovery Rider.

Q. Should this "true-up" or adjustment be allowed?

A. No, it should not. The Public Utilities Regulatory Act (PURA) §36.201 states that

the Commission may not establish a rate or tariff that authorizes an electric utility to automatically adjust and pass through to the utility's customers a change in the utility's costs. In addition, rates of a utility are based upon the total (or overall) revenue requirements of the utility. The utility is then given a reasonable opportunity to recover the revenue requirements, but is not guaranteed full recovery. It would be unfair to allow the utility to increase charges in some categories where expenses have increased, while ignoring other categories where expenses may have decreased. This is why rates are set on the total revenue requirements of the utility. Doing otherwise would constitute "piecemeal" ratemaking, and the above example is why PURA §36.051 specifically states that the regulatory shall establish the utility's ***overall*** revenues at an amount that will permit the utility a reasonable opportunity to earn a reasonable return on the utility's invested capital and the utility's reasonable and necessary expenses. Thus, PURA §36.051 implicitly disallows "piecemeal" ratemaking and §36.201 explicitly disallows automatic adjustments in rates. Therefore, PURA requires that TCC's proposed Municipal Franchise Fee Adjustment (6.1.1.14.4) and the Energy Efficiency Cost Recovery Factors (6.1.1.14.5.1) be rejected.

As the rates of TCC will be set on the overall revenue requirements, the rates will include amounts that are necessary to collect the Municipal Franchise Fee amounts and the Energy Efficiency Cost amounts. In the event that these costs increase, then just as when any other expenses increase, if the overall change in expenses of TCC causes TCC to significantly under-recover, then TCC can file a

new rate proceeding to re-set the rates at an appropriate level. This is the established mechanism as provided for in PURA §36.051 and accounts for the fact that while some expenses may have increased, other expenses may have decreased and eliminated the need to raise the rates.

Q. Should TCC's proposed Municipal Franchise Fee Rider (6.1.14.3) and proposed Energy Efficiency Cost Recovery Rider (6.1.1.14.5) be separate Riders?

A. No. Separating the costs for Municipal Franchise Fees and Energy Efficiency Costs is unnecessary and inappropriate. The Commission could have separated out these costs into separate Riders in the Generic Rate Design in Docket No. 22344, as it did with the System Benefit Fund and Nuclear Decommission, but it chose not to do so. There is no reason to do so now.

In addition, the entire transmission and distribution system benefits from being an integrated system and not isolated "islands". This is shown in Docket No. 16705, *Application Of Entergy Gulf States, Inc. For Approval Of Its Transition To Competition Plan And The Tariffs Implementing The Plan, And For The Authority To Reconcile Fuel Costs, To Set Revised Fuel Factors, And To Recover A Surcharge For Underrecovered Fuel Costs*, Second Order on Rehearing, Finding of Fact 224, Page 98 of 155, which states that the use of city streets and property enables EGS to have an integrated utility system from which all ratepayers benefit. The costs associated with Municipal Franchise Fees and Energy

Efficiency are system costs in that they are simply an input into the costs of the integrated system that benefits the entire transmission and distribution system. As this is the case, it is appropriate for the costs to be rolled into the entirety of the system costs and collected through the Distribution Charge.

Q. What changes have you made to Staff's models to reflect your recommendations?

A. The revenue requirement that TCC has proposed to be collected through the Municipal Franchise Fee Rider (6.1.14.3) and proposed Energy Efficiency Cost Recovery Rider (6.1.1.14.5) have been returned to the Distribution Function and for rate design purposes are collected through Distribution Charges.

Q. Do you agree with TCC's proposed allocation of Municipal Franchise Fees?

A. No. PURA §38.008(b) requires the utility to pay Municipal Franchise Fees based on sales inside the relevant municipalities. Therefore, the revenue requirement associated with the Municipal Franchise Fees should be allocated to the customer classes based upon the kWh delivered by the utility to each retail customer that is located within the municipal's boundaries. The charge itself, as part of the Distribution Charge, should then be charged to all of the customers within that customer class based upon the appropriate billing determinants[5]. The data needed to make the correct allocation of the Municipal Franchise Fees to the customer classes is contained in AEP Texas Central Company's Response To TIEC's 1st

[5] Currently, in TCC's non-bypassable charges, the Municipal Franchise Fees for the Transmission Customer Class are collected independently from the other customer classes. Staff would not be opposed to retaining this methodology to retain the current rate structure.

Request For Information, Question No. 2(b), prepared by Shawnna Jones, and has been reflected in Staff's models[6].

IV. RATE DESIGN SCHEDULES

SCHEDULE TCOS

Q. Please describe and expand upon TCC's use of Schedule TCOS.

A. As described previously, TCC incorrectly filled out Schedule TCOS. This seems to have been a simple misunderstanding as to how to appropriately use the Schedule as this is a new schedule in a new Rate Filing Package. However, TCC incorrectly used the Transmission function revenue requirement in the Customer Class Allocation and Per Unit Charge Calculator on Schedule TCOS, instead of the output of the Net Wholesale Transmission Payment Matrix Calculator, which would show the amount to be recovered in retail rates. The amount to be recovered in retail rates is the ERCOT Postage Stamp Rate (which would include the new TCC Access Fee resulting from this Docket) multiplied by TCC's 2002 4CP load.

Q. Are there any other corrections that need to be made to TCC's Schedule TCOS?

A. Yes. In addition to the error discussed previously, TCC incorrectly used the Net Wholesale Transmission Payment Matrix Calculator. In updating the Postage Stamp Rate, TCC inappropriately included an estimated Access Fee for City Public Service of San Antonio of $1.251 per KW. San Antonio's TCOS Case

[6] See Exhibit MAT-5.

(Docket No. 28475) is still pending and thus the Postage Stamp Rate should reflect the previously approved San Antonio Access Fee of $0.935 per KW, as shown on the Commission's last approved Net Wholesale Payment Matrix in Docket No. 26950. The result of fixing this error reduces the amount that retail rates must collect for the Transmission Function by approximately $1.285 million[7].

4CP ALLOCATOR ADJUSTMENT

Q. Please describe and expand upon TCC's use of the 4CP Allocator in Schedule TCOS.

A. Once the Net Wholesale Payment Matrix Calculator has calculated the amount that retail rates need to collect for the Transmission function, the Customer Class Allocation and Per Unit Charge Calculator allocates the amount to the customer classes using a 4CP allocator. TCC has made an adjustment to the 4CP allocator. TCC made this adjustment to ensure that the Interval Demand Recorder (IDR) metered customers pay exactly the Postage Stamp Rate in their retail rates. By pulling the amount of revenue out of the total to ensure the IDR customers pay exactly the Postage Stamp Rate, and then adjusting the allocation of the remaining customer classes to reflect that the IDR customers have been allocated separately, when you take the amount of money to ultimately be collected from each customer class and compare it to the total, the allocation is no longer on a 4CP basis. This is inconsistent with the RFP which shows on Schedule TCOS that the

[7] While the pending wholesale Access Fee change of San Antonio in Docket No. 28475 will not be reflected in the rates that are a result of this Docket, TCC will be able to change its retail rates after San Antonio's wholesale Access Fee changes, through the Transmission Cost Recovery Factor (TCRF) mechanism, authorized in Substantive Rule §25.193.

4CP is to be the basis for the customer class allocation. TCC's adjustment to the 4CP to ensure that the IDR metered customers pay exactly the Postage Stamp Rate is unnecessary and not reflected in Commission Order No. 14, *Ruling On Category A Issues*, nor Order No. 40, *Interim Order Establishing Generic Customer Classification And Rate Design*, of Docket No. 22344, *Generic Issues Associated With Applications For Approval Of Unbundled Cost of Service Rate Pursuant to PURA §39.201 and Public Utility Commission Substantive Rule §25.344*. The unadjusted "actual" 4CP should be used to allocate the Transmission function revenue requirement to be collected in retail rates to the customer classes. This "actual" unadjusted 4CP allocation is shown on TCC's Allocation of Transmission Revenue Requirement, RD Workpaper 4, Page 1 of 1, in the middle of the page.

Q. Have you made this correction to the 4CP Allocator in Staff's Schedule TCOS?

A. Yes. I have corrected the 4CP Allocator in Staff's Schedule TCOS and the appropriate amounts are allocated to the customer classes to be used in determining the ultimate per unit charge per customer class.

GENERIC ORDER NO. 40

Q. Does the Rate Design Proposed by TCC match the Generic Rate Design requirements from Docket No. 22344, Order No. 40?

A. Yes. With the above exceptions, the rate design shown in the proposed Tariff is

consistent with Order No. 40 from Docket No. 22344. TCC has not proposed any changes to the generic customer classifications or rate design other than a split in the customer charge to differentiate between customers that have and IDR meter and those who do not, in the Secondary > 10 KW and Primary customer classes and the proposed new Riders, both of which are addressed in other portions of this testimony.

SPLIT BETWEEN IDR AND NON-IDR FOR CUSTOMER CHARGE

Q. Please describe and expand upon the proposed split of the Customer Charge for the Secondary > 10 KW and Primary customer classes based upon the customer having an IDR meter.

A. TCC states that since market opening, it has become apparent that the resource requirements for processing IDR meter bill data are significantly different from non-IDR customer bill processing and are much greater than previously anticipated during the Unbundled Cost of Service (UCOS) case[8]. TCC also states that the new structure of IDR/non-IDR customer charges appropriately reflects the cost to process and bill each group of customers[9].

Order No. 40 specifically talks about the issue of cost causation in the generic customer classes. This is why in these customer classes (Secondary > 10 KW and Primary) a split already exists between IDR and non-IDR customers in the Transmission Charge. The Commission has previously allowed an additional

[8] Direct Testimony of Jennifer Jackson For AEP Texas Central Company, Page 10, Lines 4 to 6, November 2003.
[9] Direct Testimony of Jennifer Jackson For AEP Texas Central Company, Page 10, Lines 6 to 8, November 2003.

split between IDR and non-IDR customers in the CenterPoint territory; for these two customer classes, the Metering Charge is also split between IDR and non-IDR customers,[10] in addition to the Transmission Charge which is split in all service territories. The difference in the proposed Customer Charges helps to illustrate why the proposed split between IDR and non-IDR customers is appropriate. Staff recommends that TCC's proposal to split the Customer Charge among customer with an IDR meter and those without, for the Secondary > 10 KW and Primary customer classes be granted.

V. TARIFF MANUAL

Q. Do you have any recommendations concerning TCC's proposed Tariff Manual?

A. Yes. When this case was filed, Docket No. 28559, *AEP Texas Central Company Compliance Tariff Filing To Provide Competitive Metering Credit Pursuant To Subst. R. §25.311*, was still pending. As Notice Approving TCC's Tariff Sheets was issued on December 31, 2003, when TCC makes an updated Tariff filing to reflect the decisions in this case it should update the proposed Tariff to account for the decisions in Docket No. 28559 relating to Rider CMC - Competitive Meter Credit (6.1.1.14.6), the Discretionary Charges relating to competitive metering, and the Agreement For Meter Ownership and/or Access (6.3.4.4). In addition to the competitive metering updates, TCC's Rider TCRF – Transmission Cost Recovery Factor (6.1.1.13) needs to be updated to reflect the ultimate allocation of the Transmission revenue requirement.

[10] Docket No. 22355, Application Of Reliant Energy HL&P For Approval Of Unbundled Cost Of Service Rate Pursuant To PURA §39.201 And Public Utility Commission Substantive Rule §25.344, Final Order,

VI. OTHER STAFF ADJUSTMENTS

Q. Have you incorporated the adjustments proposed by other Commission Staff members in your Exhibits and Workpapers?

A. Yes. Exhibits MAT-2 and MAT-3, and WP-MAT-6 through WP-MAT-11, incorporate the adjustments to the Functional Model and the Class Allocation Models proposed by other Commission Staff members as well as the adjustments addressed in this testimony.

VII. SUMMARY AND CONCLUSION

Q. Please Summarize your adjustments and recommendations.

A. The following list summarizes my adjustments and recommendations.

1. The Taxable Income Allocator has been corrected.
2. The "mismatch" error that exists between TCC's Functional Model and Class Allocation Models has been corrected in Staff's models.
3. The "direct assignment" error that occurs as a result of the "mismatch" error has been corrected in Staff's models.
4. TCC's incorrect accounting of Transmission revenue requirement in Distribution FERC Account 565 has been removed from the Distribution revenue requirement for rate design purposes.
5. Allocation Factors that are derived using FERC Account 565 have been corrected to remove the inappropriate inclusion of Transmission revenue requirement in FERC Account 565.

6. The proposed split of the net margins relating to third party transmission-related construction services should be denied. Staff's models have been updated to reflect this recommendation.
7. Funding for TDHCA should be denied as the System Benefit Fund was created for this, among other, purposes and the 78th Legislature did not appropriate SBF funds for TDHCA's weatherization programs. Staff's models have been updated to reflect this recommendation.
8. The new proposed Rate Schedule Riders of TCC (6.1.1.14.3 Rider MFF – Municipal Franchise Fee, 6.1.1.14.4 Rider MFFA – Municipal Franchise Fee Adjustment, 6.1.1.14.5 Rider EECR – Energy Efficiency Cost Recovery Rider, and 6.1.1.14.5.1 Rider EECR – Energy Efficiency Cost Recovery Factors) should be rejected. In Staff's models, the revenue requirements associated with these proposed Rate Schedule Riders have been returned to the Distribution Class Allocation Model, to be recovered through the Distribution Charge.
9. TCC incorrectly used Schedule TCOS and incorrectly determined the ERCOT Postage Stamp Rate. Staff's model has corrected Schedule TCOS to ensure that retail rates recover the appropriate level of Transmission revenue.
10. TCC unnecessarily adjusted the 4CP Allocator used in Schedule TCOS. Staff's model reflects the appropriate, unadjusted, 4CP values.
11. Other than the exceptions noted in other portions of this testimony, the proposed rate design of TCC is consistent with Docket No. 22344 Order No. 40, and should be accepted.
12. The proposed split of the Customer Charge between customers with an IDR meter

and those without for the Secondary > 10 KW and Primary customer classes is appropriate and should be accepted.

13. TCC's proposed Tariff Manual should be updated to reflect all relevant decisions in this Docket, as well as the decisions in Docket No. 28559 relating to Competitive Metering, which were not included in this filing as Docket No. 28559 was still pending at the time this application was filed.

Q. Does this complete your direct testimony?

A. Yes.

Matthew Aaron Troxle
Public Utility Commission of Texas
1701 North Congress Avenue
Austin, TX 78711-3326

REGULATORY POLICY EXPERIENCE:

Senior Retail Market Analyst:

Public Utility Commission of Texas, Electric Division, Retail Market Oversight Section.

Employed from December 1999 to present. Promoted to Senior Rate Analyst in August 2000.

Duties: Performs analysis of developing retail markets in Texas. Performs pricing analysis for regulated and non-regulated providers, including the effects of customer class allocation and rate design issues on customers and the development of the competitive market. Reviews and analyzes certifications and registrations of market participants and analyzes performance of market participants including compliance with Commission rules. Participates in review and development of market rules for the power regions of Texas. Prepares and presents testimony as expert witness on rate and related issues in docketed proceedings before the Commission and the State Office of Administrative Hearings. Responsible for working on or leading teams in contested cases, rulemaking projects, reports, and research concerning pricing and other retail competition related issues.

Economist:

Louisiana Public Service Commission, Economics and Rates Analysis Division

Employed from June 1997 to December 1999.

Duties: Responsible for implementing policy in the Louisiana electric industry. Conducted workshops to develop policy material for investigation into electric deregulation. Performed review of utility rate applications with specific concern for statewide economic effects. Responsible for presenting Commission Staff's case in legal proceedings. Prepared electric industry reports regarding deregulation. Primary

responsibility as the lead on the Commission's investigation on whether deregulation would benefit the state of Louisiana.

Testimony at Public Utility Commission of Texas or State Office of Administrative Hearings:

Docket No. 28980 – *Petition Of CenterPoint Energy Houston Electric, LLC For Finding That The 40% Threshold Under PURA §39.202(e) Has Been Met For Small Commercial Customers – January 2004.*

Docket No. 28563 – *Compliance Filing Of Oncor Electric Delivery Company Pursuant To Subst. R. 25.311 Regarding Competitive Meter Ownership – November 2003.*

Docket No. 28562 – *Compliance Filing And Petition Of CenterPoint Energy Houston Electric, LLC To Provide Competitive Metering Service Credit Pursuant To PUC Subst. R. 25.311 – November 2003.*

Docket No. 28560 – *Compliance Filing Of AEP Texas North Company To Provide Competitive Metering Credit – November 2003.*

Docket No. 28559 – *Compliance Filing Of AEP Texas Central Company To Provide Competitive Metering Credit – November 2003.*

Docket No. 28556 – *Texas-New Mexico Power Company's Compliance Filing To Provide Competitive Metering Credit Pursuant To Subst. R. 25.311 – November 2003.*

Docket No. 28585 – *Application Of TXU SESCO Energy Services Company To Increase Price To Beat Fuel Factors And Reduce Price To Beat Base Rates – October 2003 – Adopted Testimony of Brian H. Lloyd.*

Docket No. 25421 – *Application of LCRA Transmission Services Corp. to Charge Rates for Transmission and Transformation Utility Cost of Service – October 2002.*

Docket No. 25429 – *Appeal of Oncor From An Ordinance of the City of Allen and Request for Interim Relief – August 2002.*

Docket No. 25960 – *Application of Brazos Electric Power Cooperative, Inc. to Change Rates for Wholesale Transmission Service – Interim Rates Phase – August 2002.*

Docket No. 25874 – *Application of Mutual Energy WTU, LP to Increase Price to Beat Fuel Factors – May 2002.*

Docket No. 24449 – *Application of Southwestern Electric Power Company to Implement the Fuel Factor Component of Price to Beat Rates – October 2001.*

Docket No. 24336 – *Application of Entergy Gulf States, Inc. for Approval of Price to Beat Fuel Factor – September 2001.*

Docket No. 24194 – *Application of Texas-New Mexico Power Company to Establish Price to Beat Fuel Factor – August 2001.*

Docket No. 24040 – *Application of TXU Electric Company to Implement Price to Beat Fuel Factors – August 2001.*

Docket No. 23950 – *Petition of Reliant Energy, Inc. to Establish Price to Beat Fuel Factor and Request for Good Cause Exception to Subst. R. 25.41 – July 2001.*

Docket No. 22351 – *Application of Southwestern Public Service for Approval of Unbundled Cost of Service Rate Pursuant to PURA §39.201 and Public Utility Commission Substantive Rule §25.344 – February 2001.*

Docket No. 22350 – *Application of TXU Electric Company for Approval of Unbundled Cost of Service Rate Pursuant to PURA §39.201 and Public Utility Commission Substantive Rule §25.344 – February 2001.*

Docket No. 22356 – *Application of Entergy Gulf States Inc. for Approval of Unbundled Cost of Service Rate Pursuant to PURA §39.201 and Public Utility Commission Substantive Rule §25.344 – January 2001.*

Docket No. 22355 – *Application of Reliant Energy Incorporated for Approval of Unbundled Cost of Service Rate Pursuant to PURA §39.201 and Public Utility Commission Substantive Rule §25.344 – December 2000.*

Docket No. 22350 – *Application of TXU Electric Company for Approval of Unbundled Cost of Service Rate Pursuant to PURA §39.201 and Public Utility Commission Substantive Rule §25.344 – November 2000.*

Docket No. 22349 – *Application of Texas-New Mexico Power Company for Approval of Unbundled Cost of Service Rate Pursuant to PURA §39.201 and Public Utility Commission Substantive Rule §25.344 – ECOM Phase – September 2000.*

EDUCATION:

Economics:	Louisiana State University, Baton Rouge, LA
	Master of Science, May 1997.
Business Admin/Pre Law	Louisiana State University, Baton Rouge, LA
	Bachelor of Science, May 1995.

PUBLIC UTILITY COMMISSION OF TEXAS
AEP TEXAS CENTRAL COMPANY
IV-J-1 CLASS REVENUE REQUIREMENT BY FUNCTION
TEST YEAR ENDING 6/30/2003
DOCKET 28840

Description	1 Test Year Revenue Requirement Total	2 Total To Be Allocated To Retail	3 Residential	4 Secondary <=10 kW	5 Secondary > 10 kW IDR	6 Secondary > 10 kW Non-IDR	7 Primary IDR	8 Primary Non-IDR	9 Transmission	10 Lighting	11 Retail Total
Transmission	73,315,623	73,315,623	33,951,382	1,642,844	657,007	20,650,895	6,436,779	1,063,135	8,899,302	-	73,301,344
Distribution	267,318,331	267,289,289	134,234,622	6,703,192	2,870,532	79,441,264	15,644,520	2,479,290	2,052,737	23,863,131	267,289,289
Metering	30,678,925	30,675,585	21,926,309	3,388,383	12,355	3,842,506	444,459	298,690	762,883	-	30,675,585
T&D Customer Service	19,814,146	19,813,610	16,833,760	1,511,407	31,331	1,328,853	74,712	6,205	11,246	16,096	19,813,610
Municipal Gross Receipts Fee	-	-	-	-	-	-	-	-	-	-	-
Nuclear Decommissioning	8,156,968	8,156,968	3,878,415	173,719	72,220	2,174,411	673,404	111,258	944,717	128,825	8,156,968
Energy Efficiency	-	-	-	-	-	-	-	-	-	-	-
Total Revenue Requirement	399,283,993	399,236,796	210,824,488	13,419,544	3,643,445	107,437,930	23,273,874	3,958,578	12,670,886	24,008,053	399,236,796
Excess Mitigation Credit	15,995,504	15,995,504	6,666,627	506,880	165,216	4,892,530	1,346,188	226,243	1,950,127	241,693	15,995,504
Total Staff Adjusted Revenue Requirement (w/EMC)	**383,288,489**	**383,241,292**	**204,157,861**	**12,912,664**	**3,478,229**	**102,545,400**	**21,927,686**	**3,732,335**	**10,720,759**	**23,766,360**	**383,241,292**
TCC Requested Amounts (From TCC Schedule IV-J-1)		426,626,736	225,418,914	14,448,586	3,804,332	112,996,658	23,235,236	4,165,325	16,893,345	25,664,340	426,626,736
Total Amount of Staff Reduction From Request		**(43,385,444)**	**(21,261,053)**	**(1,535,922)**	**(326,103)**	**(10,451,258)**	**(1,307,550)**	**(432,990)**	**(6,172,586)**	**(1,897,980)**	**(43,385,444)**
Amount of TCOS that TCC incorrectly placed in Distribution	75,646,001	75,646,001	35,025,862	1,687,765	682,691	21,315,143	6,637,278	1,099,892	9,178,407	-	75,627,038
Real Amount of Distribution (including incorrect TCOS, Nuc Dec, minus EMC)	335,125,796	335,096,754	166,472,272	8,057,795	3,460,227	98,038,288	21,609,013	3,464,197	10,225,734	23,750,263	335,077,791
Match to Distribution I-A-1 (Including incorrect TCOS)	335,125,796	335,125,796	166,472,272	8,057,795	3,460,227	98,038,288	21,609,013	3,464,197	10,225,734	23,750,263	335,077,791
Difference (amount shown due to Wholesale allocation amount)	-	29,042	-	-	-	-	-	-	-	-	-
Total Dist Rev Req without incorrect TCOS, with Nuc Dec and EMC (shown on II-I-1)	259,479,795	259,450,753	131,446,410	6,370,030	2,777,536	76,723,145	14,971,735	2,364,305	1,047,327	23,750,263	259,450,753

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Public Utility Commission of Texas
Docket No. 28840
Test Year Ended June 30, 2003

Table1 - Rate Design:

CLASS	RATE CHARGES			
	CHARGES	COMMISSION STAFF RECOMMENDATION		
RESIDENTIAL	CUSTOMER CHARGE	$	2.35	per customer
	METERING CHARGE	$	3.06	per customer
	TRANSMISSION SERVICE CHARGE	$	0.004125	per kWh
	DISTRIBUTION SERVICE CHARGE	$	0.016310	per kWh
SECONDARY =<10 kW	CUSTOMER CHARGE	$	2.37	per customer
	METERING CHARGE	$	5.32	per customer
	TRANSMISSION SERVICE CHARGE	$	0.002265	per kWh
	DISTRIBUTION SERVICE CHARGE	$	0.019796	per kWh
SECONDARY >10kW IDR	CUSTOMER CHARGE	$	22.32	per customer
	METERING CHARGE	$	6.83	per customer
	TRANSMISSION SERVICE CHARGE	$	1.538	per 4CP kW
	DISTRIBUTION SERVICE CHARGE	$	3.45	per kW
SECONDARY >10kW Non-IDR	CUSTOMER CHARGE	$	2.36	per customer
	METERING CHARGE	$	6.83	per customer
	TRANSMISSION SERVICE CHARGE	$	1.075	per NCP kW
	DISTRIBUTION SERVICE CHARGE	$	3.45	per kW
PRIMARY IDR	CUSTOMER CHARGE	$	22.32	per customer
	METERING CHARGE	$	124.36	per customer
	TRANSMISSION SERVICE CHARGE	$	1.781	per 4CP kW
	DISTRIBUTION SERVICE CHARGE	$	3.123	per kW
PRIMARY Non-IDR	CUSTOMER CHARGE	$	2.36	per customer
	METERING CHARGE	$	124.36	per customer
	TRANSMISSION SERVICE CHARGE	$	1.327	per NCP kW
	DISTRIBUTION SERVICE CHARGE	$	3.123	per kW
TRANSMISSION	CUSTOMER CHARGE	$	22.31	per customer
	METERING CHARGE	$	1,513.66	per customer
	TRANSMISSION SERVICE CHARGE	$	1.654	per 4CP kW
	DISTRIBUTION SERVICE CHARGE	$	0.124	per kW

Public Utility Commission of Texas
Docket No. 28840
Test Year Ended June 30, 2003

Other Non-ByPassable Charges:

CLASS	RATE CHARGES		
	CHARGES	COMMISSION STAFF RECOMMENDATION	
RESIDENTIAL	Gross Receipts Fee	$ -	per kWh
	Nuclear Decommissioning Fee	$ 0.000471	per kWh
	Energy Efficiency Fee	$ -	per kWh
SECONDARY =<10 kW	Gross Receipts Fee	$ -	per kWh
	Nuclear Decommissioning Fee	$ 0.000417	per kWh
	Energy Efficiency Fee	$ -	per kWh
SECONDARY >10kW IDR	Gross Receipts Fee	$ -	per kWh
	Nuclear Decommissioning Fee	$ 0.094186	per kW
	Energy Efficiency Fee	$ -	per kWh
SECONDARY >10kW Non-IDR	Gross Receipts Fee	$ -	per kWh
	Nuclear Decommissioning Fee	$ 0.094186	per kW
	Energy Efficiency Fee	$ -	per kWh
PRIMARY IDR	Gross Receipts Fee	$ -	per kWh
	Nuclear Decommissioning Fee	$ 0.135207	per kW
	Energy Efficiency Fee	$ -	per kWh
PRIMARY Non-IDR	Gross Receipts Fee	$ -	per kWh
	Nuclear Decommissioning Fee	$ 0.135207	per kW
	Energy Efficiency Fee	$ -	per kWh
TRANSMISSION	Gross Receipts Fee	$ -	per kWh
	Nuclear Decommissioning Fee	$ 0.057109	per kW
	Energy Efficiency Fee	$ -	per kWh

Not At Issue in this Case:

Residential	TC	$ 0.004241	per kWh
C&SI - Energy	TC	$ 0.005830	per kWh
C&SI - Demand	TC	$ 2.156375	per kW or kVa
L Industrial - Firm	TC	$ 1.136831	per kW or kVa
L Industrial - NonFirm	TC	$ 0.774222	per kW or kVa
Standby - Firm	TC	$ 0.109371	per kW or kVa
Standby - Non-Firm	TC	$ 0.144868	per kW or kVa
Muni and Cotton Gin	TC	$ 0.004514	per kWh

Residential	EMC	$ 0.000822	per kWh
C&SI - Energy	EMC	$ 0.001108	per kWh
C&SI - Demand	EMC	$ 0.258	per kW or kVa
L Industrial - Firm	EMC	$ 0.232	per kW or kVa
L Industrial - NonFirm	EMC	$ 0.047	per kW or kVa
Standby - Firm	EMC	$ 0.022	per kW or kVa
Standby - Non-Firm	EMC	$ 0.028	per kW or kVa
Muni and Cotton Gin	EMC	$ 0.000825	per kWh

RESIDENTIAL	SBF Fee	$ 0.000662	per kWh
SECONDARY =<10 kW	SBF Fee	$ 0.000662	per kWh
SECONDARY >10kW IDR	SBF Fee	$ 0.000662	per kW
SECONDARY >10kW Non-IDR	SBF Fee	$ 0.000662	per kW
PRIMARY IDR	SBF Fee	$ 0.000635	per kW
PRIMARY Non-IDR	SBF Fee	$ 0.000635	per kW
TRANSMISSION	SBF Fee	$ 0.000624	per kW

EXHIBIT MAT-4

SOAH DOCKET NO. 473-04-1033
PUC DOCKET NO. 28840

APPLICATION OF AEP	§	**BEFORE THE STATE OFFICE**
TEXAS CENTRAL COMPANY FOR	§	**OF**
AUTHORITY TO CHANGE RATES	§	**ADMINISTRATIVE HEARINGS**

AEP TEXAS CENTRAL COMPANY'S RESPONSE TO OFFICE OF PUBLIC UTILITY COUNSEL'S THIRD REQUEST FOR INFORMATION

Question No. 3-1:

Please refer to the Construction Services section of WP/Exhibit JCC-3, Page 1 of 2, and provide a full and complete explanation as to the $203,877 loss incurred by the Company during the test year on the Magic Valley EC transmission construction contract. In addition, please provide the calculated portion of such loss that the Company is asking the Texas ratepayers to bear, in sufficient detail to facilitate replication.

Response No. 3-1:

Activity on the Magic Valley project occurred not only during the test year but also before and after the test year. The amounts shown on WP/Exhibit JCC-3, page 1of 2 reflect the actual costs and revenues booked only during the test year. The loss position during the test year is the result of a timing mismatch between expenses being incurred and revenues being received. The opposite timing issue also occurs. As can be seen on WP/Exhibit JCC-3, Sharyland's revenues of $536,606 substantially exceeds the expenses in the test year of $272,873. The Company has reflected in cost of service a net profit of $2.7 million for all ABD construction services which it feels is a representative annual level of profit and which it proposes to share with ratepayers.

Prepared By: Larry C. Foust — Title: Issues Manager
Sponsored By: J. Calvin Crowder — Title: Managing Director, External Affairs

SOAH DOCKET NO. 473-04-1033
PUC DOCKET NO. 28840

APPLICATION OF AEP TEXAS	§	**BEFORE THE STATE OFFICE**
	§	
CENTRAL COMPANY FOR	§	**OF**
	§	
AUTHORITY TO CHANGE RATES	§	**ADMINISTRATIVE HEARINGS**

AEP TEXAS CENTRAL COMPANY'S RESPONSE TO TIEC'S 1ST REQUEST FOR INFORMATION

Question No. 2:

Please provide the following information pertaining to municipal franchise fees for the test year in this case:

a. Total municipal franchise fee revenues collected from retail customers located within the city limits of a municipality, by retail rate class;
b. Total adjusted test year kWh billing determinants for retail customers located within the city limits of a municipality, by retail rate class;
c. Total municipal franchise fee revenues collected from retail customers located outside the city limits of a municipality, by retail rate class; and
d. Total adjusted test year kWh billing determinants for retail customers located outside the city limits of a municipality, by retail rate class.

Response No. 2:

a. Municipal franchise fees for all rate classes except transmission are bundled in distribution rates and are not billed separately, therefore only revenues for the transmission class are reflected in the attachment.

b. Please see the attachment.

c. Please see the answer to part a.

d. Please see the answer to part b.

Prepared By: Shawnna G. Jones Title: Regulatory Consultant II
Sponsored By: Jennifer L. Jackson Title: Senior Regulatory Consultant

EXHIBIT MAT-5
PAGE 2 OF 2

SOAH DOCKET NO. 473-04-1033
PUC Docket No. 28840
TIECs 1st, Q. # 2(b)
Attachment

AEP TEXAS CENTRAL COMPANY
INSIDE/OUTSIDE CITY LIMITS
ADJUSTED BILLING KWH AT METER
FOR TEST YEAR ENDED JUNE 30, 2003

DESCRIPTION		VOLT	TEST YEAR KWH	MUNICIPAL FRANCHISE FEE REVENUE	
RESIDENTIAL SERVICE	INSIDE CITY LIMITS	SEC	6,712,643,780		
	OUTSIDE CITY LIMITS		1,517,802,763		
	TOTAL		8,230,446,543	BUNDLED*	
SECONDARY ≤ 10 kW	INSIDE CITY LIMITS	SEC	370,486,823		
	OUTSIDE CITY LIMITS		105,370,036		
	TOTAL		475,856,859	BUNDLED*	
SECONDARY > 10 kW NON-IDR	INSIDE CITY LIMITS	SEC	4,541,589,422		
	OUTSIDE CITY LIMITS		701,953,320		
	TOTAL		5,243,542,742	BUNDLED*	
SECONDARY > 10 kW IDR	INSIDE CITY LIMITS	SEC	152,483,265		
	OUTSIDE CITY LIMITS		31,906,424		
	TOTAL		184,389,689	BUNDLED*	
PRIMARY NON-IDR	INSIDE CITY LIMITS	PRI	257,922,543		
	OUTSIDE CITY LIMITS		72,663,028		
	TOTAL		330,585,571	BUNDLED*	
PRIMARY IDR	INSIDE CITY LIMITS	PRI	1,609,341,880		
	OUTSIDE CITY LIMITS		507,317,803		
	TOTAL		2,116,659,683	BUNDLED*	
TRANSMISSION IDR	INSIDE CITY LIMITS	TRA	968,783,855	$	2,196,889
	OUTSIDE CITY LIMITS		3,008,058,302		1,037,544
	TOTAL		3,976,822,157	$	3,234,433
LIGHTING	INSIDE CITY LIMITS	SEC	210,348,911		
	OUTSIDE CITY LIMITS		39,172,165		
	TOTAL		249,521,076	BUNDLED*	
TOTAL RETAIL			20,807,824,321		

*MUNICIPAL FRANCHISE FEES FOR ALL RATE CLASSES EXCEPT TRANSMISSION ARE BUNDLED IN DISTRIBUTION RATES AND ARE NOT BILLED SEPARATELY.

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Prepared by Regulated Pricing and Analysis