

Shared Services, Information Technology and General Services

Mr. William D'Onofrio provided testimony supporting approximately \$17.0 million in TCC affiliate costs for shared services, information technology and general services. Mr. D'Onofrio is Vice President – Shared Services Strategy for AEPSC. Mr. D'Onofrio testified concerning the organization of AEP's shared services organization and the services performed for operating companies such as TCC. He pointed out that the primary role of a shared services organization is to provide a wide array of products and services for the operating companies such as facility management, fleet services, land management, office services, association and business planning and analysis.

Mr. D'Onofrio explained AEP's philosophy regarding outsourcing, which he stated is done by AEP when it makes better business sense than providing the service through internal resources. Among the areas outsourced by the shared services organization are administration of employee benefit plans, building cleaning and security services, travel services, and numerous other functions.

Mr. D'Onofrio pointed out that organizing these shared services in a centralized manner provides significant opportunities for negotiation of favorable deals from outside suppliers. He described in detail the various types of services provided by shared services to operating companies such as TCC. He discussed the cost control procedures that are in place at AEP shared services. He further discussed that the overall trend for AEP shared services costs for the AEP operating companies has been downward. He provided significant detail by budget category and by department.

Mr. D'Onofrio then described the particular affiliated costs TCC incurred during the test year from the shared services organization including general services, human resources, information technology, supply chain, and shared services strategy. He justified the allocation factors for these costs and described the benefits received by TCC from the provision of these services by the shared services organization.

Corporate Relations and Business Development

Mr. Calvin Crowder, Managing Director, External Affairs, of AEP's energy delivery organization, provided testimony supporting affiliate costs in the areas of corporate relations and business development. Approximately \$1.8 million of these costs were incurred by TCC during the test year. Mr. Crowder described the nature of the economic development costs incurred by TCC during the test year and provided a description of how economic development costs benefit TCC and its customers. He further discussed how these costs are allocated using a "number of commercial customers" allocation factor.

Mr. Crowder also discussed the nature of corporate communications services provided to TCC including media relations, community relations, educational services, video and desktop services, employee communications and customer communications. He discussed how these services are essential to communicating with TCC's customers, communities, and community leaders. He further described the allocation factors used for corporate communications services which are primarily total assets, number of retail electric customers, and number of employees.¹

¹ TCC Exh. 12, Direct Testimony of Calvin Crowder, at 7, line 7 through 23, line 10.

Telecommunications

Mr. David Trego, Vice President – Telecommunications of AEPSC, sponsored testimony supporting approximately \$2.1 million in affiliate costs related to telecommunications. Mr. Trego described in detail the organization and functions of the AEPSC telecommunications organization along with the activities which are performed for the benefit of operating companies such as TCC. He further discussed the savings and cost efficiencies which have been achieved by the AEPSC telecommunications organization in the areas of personnel, facilities and equipment, processes and systems, and network quality and performance. He also discussed how telecommunications is an area which lends itself to centralization, which in turn leads to far greater efficiencies than if the services were provided by each operating company. He also described a benchmarking study which indicates that telecommunications service costs in 2002 for AEP were lower than for comparable companies. In particular, he noted that AEP's costs were 41 percent lower than the average telephone network managed service costs.

Mr. Trego further described the ongoing cost control process that the AEPSC telecommunications group has in place.

He further discussed and justified the various allocation factors used to allocate costs to TCC.¹

¹ TCC Exh. 13, Direct Testimony of David Trego, at 13, line 8 through 20, line 8.

Regulatory, Governmental and Legal Services

Mr. David Carpenter, Director of Texas Regulatory Services for AEPSC, testified about TCC's affiliate regulatory, governmental and legal costs. These costs amounted to \$4.0 million in distribution costs and \$1.2 million in transmission costs. Mr. Carpenter testified at length about the functions related to these costs, which generally involve all regulatory activities at the state and federal level, all in-house and outside legal costs, all costs related to environmental regulatory, and governmental costs not related to federal or state legislative lobbying. He explained how these functions have been organized under AEPSC to achieve employee reductions wherever possible. He also discussed how centralizing these costs is significantly more cost effective than providing them within each individual operating company.

Mr. Carpenter pointed out that since the AEP merger, the company has consolidated and reduced professional services by such initiatives as performing more legal work in-house, by undertaking cost reduction initiatives with outside counsel such as competitive bidding, volume discounts, and freezes on hourly rates.

He also discussed how governmental and environmental affairs sections have essentially eliminated outside consulting contracts because of the technical expertise of AEPSC employees who can be utilized at far less cost.

Mr. Carpenter noted that public policy and regulatory services has reduced staff and use of outside consultants. He also noted that a significant portion of outside consulting costs for public policy and regulatory services is beyond the control of TCC, since it must pay the costs of cities to participate in rate proceedings.

He then described the allocation process for all of these activities, which ensures that TCC pays no more than any other AEP affiliate for these services.¹

¹ TCC Exh. 4, Direct Testimony of David Carpenter, at 38, line 8 through 53, line 15.

Customer Choice Service Costs

Jeffrey Laine, Director of Customer Choice Operations, supported TCC's request for approval of \$2.8 million for services related to implementation of customer choice in Texas. Mr. Laine explained that these costs are related to required policies, systems, procedures and processes which are necessary to facilitate end-use customers' ability to select competitive providers. These costs also ensure that the operation of AEP's information technology systems meet all customer choice requirements, that interfaces with ERCOT and other market participants are successful, and that technical problems and market model issues are resolved. Mr. Laine further noted that AEP has outsourced numerous customer choice information technology functions to the Market Data Clearing House. He provided a detailed description of the specific activities performed in this area by AEPSC and described why these services are absolutely essential for the current competitive retail market in Texas.

Mr. Laine further explained how AEP has relied on a small, dedicated staff of the customer choice operations organization to direct the work of others scattered throughout the company to achieve synergies in processes whenever possible. He noted that customer choice expenses in the foreseeable future are not likely to decrease because of the fact that the retail market in Texas continues to evolve and new issues which must be resolved are continually arising.

Mr. Laine also testified about the validity of the allocation factors used to allocate costs to TCC and all other AEP distribution companies which are involved with end-user customer choice activities. In his direct testimony, Mr. Laine noted that there are no appropriate benchmarks available to establish cost standards for customer choice functionality but that AEPSC personnel achieve economies by working on activities involving multiple AEP jurisdictions, thus ensuring that any one company is only responsible for a portion of the effort needed to address various issues. He also noted that additional economies are realized due to use of the Market Data Clearing House system as a common transaction processing center.¹

¹ TCC Exh. 14, Direct Testimony of Jeffrey Laine, at 7, line 3 through 15, line 11.

Financial and Accounting Services

Ms. Sandra Bennett, Assistant Controller, Regulated Accounting, for AEPSC, sponsored testimony supporting approximately \$8.2 million in affiliate costs for TCC related to financial and accounting services. These services include general accounting and financial reporting services, tax services, internal audit services, and planning and budgeting services. She discussed each of these functions in some detail, describing how the centralization of these functions operates to the significant benefit of TCC and its customers. As explained by her, all of these services are provided to all AEP electric utilities, and it only makes sense to thus provide them on a centralized basis. This saves TCC a substantial amount of money.

Ms. Bennett pointed out that prior to the merger of AEP and CSW, both companies had substantially reduced the size of their accounting and financial sections from over 1,000 employees to 547 employees. Ms. Bennett noted that after the merger, there was substantial consolidation of the accounting and financial groups, which resulted in a 28 percent reduction in the two previously consolidated staffs.

With respect to tax services, Ms. Bennett pointed out that the merger resulted in a 23 percent reduction in tax staff. Internal audit services experienced a reduction of 48 percent in the number of employees, while planning and budgeting experienced a reduction of 63 percent.

Ms. Bennett also explained the basis for the allocation factors used for these costs.¹

¹ TCC Exh. 7, Direct Testimony of Sandra Bennett, at 34, line 14 through 44, line 2.

Treasury, Cash Management, Investor Relations

Ms. Pamela Sutton-Hall, Managing Director in the AEP Corporate Finance Department, provided testimony supporting approximately \$760,000 in affiliate costs related to treasury, cash management, and investor relations. Ms. Sutton-Hall described the nature and necessity of these services and the reasons why they are performed on a centralized basis.

She pointed out that the financing activities conducted by Treasury Services include such essential functions as communications with financial institutions and rating agencies, negotiating financing agreements, providing documentation required by financial institutions and governmental agencies, monitoring of capital markets, financial modeling, analyzing financing alternatives and preparing securities filings. She stated that this group also manages investments for AEP systems employee benefit plans and performs other employee retirement activities.

She also discussed the nature and necessity of AEPSC's investor activities, which are critical to communicating with shareholders and the financial community.

The other activities she sponsored included cash management activities, which relate to the AEP corporate borrowing program and the utility money pool. She discussed the benefits TCC receives from these activities.

She also discussed the reasonableness of the allocation factors for each activity about which she testified.¹

¹ TCC Exh. 15, Direct Testimony of Pamela Sutton-Hall, at 21, line 9 through 30, line 16.

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Appendix H

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1 FERC accounts particular expenses should be charged to?

2 A I have not.

3 Q Okay. Now, would you generally describe what type
4 of expenses are included in the FERC administrative and
5 general or A&G accounts?

6 A Those expenses are salaries for people not directly
7 involved in the activity -- fringe benefits, insurance,
8 maintenance of general plant, damage awards. That's
9 probably not a complete list, but those are some of the
10 items.

11 Q Okay. Are those expenses that you just mentioned
12 generally necessary to provide good distribution service
13 just like it is -- just like it was necessary to provide
14 good transmission service?

15 A Well, some overhead expenses are, of course,
16 necessary. No company can operate without some overhead.
17 It's just a question of how much.

18 Q Now, as I read your testimony, Dr. Patton, the
19 basis for your recommendation for the \$13.8 million
20 disallowance is that TCC's A&G expenses are higher than what
21 you state are the A&G expenses of TXU and Reliant. Is that
22 correct?

23 A That is correct.

24 Q And the basis for the TXU and Reliant A&G expenses
25 are from the UCOS dockets -- is that correct? -- for both of

1 decision. So those numbers have been scrubbed. They were
2 numbers that the ALJ felt appropriate. Later, of course,
3 whenever the Commission ruled, the numbers changed somewhat,
4 but not a whole lot.

5 Q Okay. Why did you not compare actual TXU and
6 Reliant A&G costs with TCC's actual A&G costs?

7 A I'm sorry. Say that again.

8 Q Why did you not compare TXU and Reliant's actual
9 A&G cost with TCC's actual A&G cost?

10 A You mean in their 1999 --

11 Q Well, no. TXU and Reliant have current actual A&G
12 costs, do they not?

13 A At the time the UCOS cases were filed, is that what
14 you mean?

15 Q No, today --

16 A Oh, today?

17 Q -- currently.

18 A Well, I don't know them today.

19 Q Okay. Is that why you didn't use them, because you
20 don't know them?

21 A Well, suppose that I did know them. All utilities
22 have been playing the same game that I'm concerned that AEP
23 is playing. So that whether they would be judged
24 appropriate or relevant or not is another matter, but I used
25 the numbers that had been scrubbed, and those were the

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1 those companies?

2 A That is correct.

3 Q Okay. Did you do anything more -- or can you
4 direct me to any point in your testimony where you state
5 that you did anything more than simply compare TCC's A&G
6 expenses to those of TXU and Reliant, from their UCOS
7 dockets?

8 A That's what I did.

9 Q Okay. Now, were the dollars that you looked at
10 taken from a proposal for a decision in that case?

11 A The ones that are in my filed testimony, that is
12 correct.

13 Q Not from the Final Order in those cases?

14 A I have since done that, and I'll be glad to share
15 those with you if you like.

16 Q Okay. Now, are you aware that the UCOS dockets
17 contained projected future test years based on a 1999
18 historical year?

19 A Yes, sir, I'm aware of that.

20 Q Now, why did you compare TXU and Reliant's
21 projected A&G cost based on a historical test year with
22 TCC's current actual costs?

23 A Well, it seemed like a valid comparison to me.
24 These were in the numbers that are contained in my testimony
25 that you have before you, based on the proposal for a

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1 numbers that were in the proposal for a decision. And
2 ultimately the numbers that are in the final decision, of
3 course, I have those, you have those, you know what they
4 are.

5 Q Did you make an inquiry into the accounting
6 practices of TXU with respect to what expenses are included
7 in A&G rather than in operations and maintenance?

8 A No, I did not.

9 Q Did you make an inquiry into the accounting
10 practice of Reliant with respect to what expenses are
11 included in A&G rather than in operations and maintenance?

12 A No, sir.

13 Q Did you make an inquiry into the accounting
14 practices of TCC with respect to what expenses are included
15 in A&G rather than operations and maintenance?

16 A No.

17 Q Isn't it true, Dr. Patton, that utilities have
18 different practices with respect to FERC accounts in which
19 they account for actual expenses?

20 A I'm sure there are variances, but the difference
21 here was so overwhelmingly big that it just in my mind could
22 not be accounted for by rational differences of opinion.

23 Q And that's why you decided not to even make an
24 inquiry into whether there were substantial differences
25 between the three companies with respect to their accounting

TCC

1.	Proof of Notice
2.1.	Schedules I-A through II-E-5 (Volume 6 of 13)
2.2.	Schedules II-F through V-K-7 (Volume 7 of 13)
2.3.	Schedules V-K-8 through V-K-12a (Volume 8 of 13)
2.4.	Schedules V-K-12b through VII (Volume 8 of 13 continued)
2A.	Voluminous Schedule II-D-3.10 – Attachment, Administration Fees
2B.	Voluminous Schedule III-A – Open Access Transmission Tariff
*2C.	Confidential Voluminous Schedule II-D-2.9 – Rents and Leases
2D.	Tariff Manual (Volume 9 of 13)
3.1.	Workpapers – WP/Testimony DGC through WP/Exhibits SSB (Volume 10 of 13)
3.2.	Workpapers – WP/Exhibit PM through WP/II-E (Volume 11 of 13)
3.3.	Workpapers – WP/II-F through WP/II-I (Volume 12 of 13)
3.4.	Workpapers – WP/IV-J through WP/V-K (Volume 13 of 13) and CD
3A.	Voluminous WP/Exhibit JEH-1 – Depreciation Study Results
3B.	Voluminous WP/II-B-9-D – Distribution Lead/Lag Study Results & CD
3C.	Voluminous WP/II-B-9-T – Transmission Lead/Lag Study Results & CD
3D.	WP/Exhibit SSB-3
4.	Direct Testimony & Exhibits of David Carpenter
5.	Direct Testimony & Exhibits of Randall Hamlett
6.	Direct Testimony & Exhibits of Michael Heyeck
7.	Direct Testimony of Sandra Bennett
7A.	Exhibit SSB-1
7B.	Exhibit SSB-2
7C.	Exhibit SSB-3
7D.	Exhibit SSB-4
7E.	Exhibit SSB-5
7F.	Exhibit SSB-6
7G.	Exhibit SSB-7
7H.	Exhibit SSB-8, SSB-9, and SSB-10
8.	Direct Testimony & Exhibits of Harry Gordon
9.	Direct Testimony & Exhibits of Mark Bailey
10.	Direct Testimony & Exhibits of David Hooper
11.	Direct Testimony & Exhibits of William D’Onofrio
12.	Direct Testimony & Exhibits of Calvin Crowder
13.	Direct Testimony & Exhibits of David Trego
14.	Direct Testimony & Exhibits of Jeffrey Laine
15.	Direct Testimony & Exhibits of Pamela Sutton-Hall
16.	Direct Testimony & Exhibits of Paul Moul
17.	Direct Testimony & Exhibits of James Henderson
18.	Direct Testimony & Exhibits of Steven Kiser
19.	Direct Testimony of David Jolley
20.	Direct Testimony & Exhibits of Michael Turk
21.	Direct Testimony & Exhibits of Jeffrey Bartsch
22.	Direct Testimony & Exhibits of Marshall Nadel
23.	Direct Testimony & Exhibits of Thomas LaGuardia
24.	Direct Testimony & Exhibits of Billy Berny
25.	Direct Testimony & Exhibits of Mark Gilbert
26.	Direct Testimony of Donald Moncrief

27.	Direct testimony & Exhibits of Jennifer Jackson
27A.	Errata to the Direct Testimony of Jennifer Jackson
28.	Direct Testimony & Exhibits of Richard Byrne
29.	TCC's Amended Response to Cities' 7-39
30.	Cities' Response to TCC's 1-12
31.	AEP's 2002 Annual Report
32.	Revised 2001 Annual Report for CPL
33.	TCC's response to Cities' 18-8
34.	TCC's 2002 Earnings Report
35.	Schedule V Tax Calculation in Docket No. 14965
36.	Michael Arndt's pre-filed ECOM testimony in Docket No. 22349
37.	Michael Arndt's pre-filed T&D testimony in Docket No. 22349
38.	Michael Arndt's pre-filed ECOM testimony in Docket No. 22355
39.	Michael Arndt's pre-filed T&D testimony in Docket No. 22355
40.	TCC's Response to Cities' 7-40
41.	Cities' Partial Response to TCC's 1-11
42.	Standard & Poor's Ratings
43.	Sarah Goodfriend's pre-filed testimony in Docket No. 21664
44.	12/11/03 Minutes of Retail Market Subcommittee
45.	Update re Texas SET2 Workpapers 43-47
46.	REP survey responses
47.	REP Survey FasTrak
48.	Update re FasTrak Workpapers 75-82
49.	TCC's updated response to Cities' 17-14 Workpapers 1-3
50.	Docket No. 25157 Motion to Implement Settlement
51.	Excerpt from A.D. Patton's Direct Testimony in Docket No. 22352
52.	TNMP Tariff for Retail Delivery Service (9/1/03)
53.	Value Line Sheets
54.	Ordinance No. 10173 of Corpus Christi
55.	CCR's Response to AEP's 1 st RFI, No. TCC 1-1
56.	TCC's supplemental response to Cities' RFI, Question No. 72
57.	CPL's Retail Energy's response to Texas Central Company's Request for Information Three, Question 7
58.	AEP's Response to request for Comments on Load Profiling and Load Research Issues
59.	Pages 17-18 of Exhibit SSB-3
60.	Excerpts from Schedule V-K-12a Revised
61.	8/15/97 Docket No. 14965 memo from Stacie Collins, ORA, to Commissioners re Rehearing Number Run
62.	TCC's Response to Staff's 4 th RFI MJ4-63
63.	Staff's Response to TCC's 3-1, 3-2, 3-3, and 3-4
64.	Staff's Response to TCC's 1-1
65.	Staff's 3/12/04 letter re acceptance of Wendy Hargus' ROCE calculation
66.	Rebuttal Testimony of David Carpenter
67.	Rebuttal Testimony of Randall Hamlett
68.	Rebuttal Testimony of Sandra Bennett
68A.	Workpapers of Sandra Bennett
69.	Rebuttal Testimony of Paul Moul
69A.	Workpapers of Paul R. Moul
70.	Rebuttal Testimony of Harry Gordon
70A.	Revised Exhibit HRG-6R

71.	Rebuttal Testimony of Randal Roper
72.	Rebuttal Testimony of Mark Bailey
73.	Rebuttal Testimony of Calvin Crowder
74.	Rebuttal Testimony of David Hooper
74A.	Supplemental Rebuttal Testimony of David L. Hooper
75.	Rebuttal Testimony of Jeffrey Laine
76.	Rebuttal Testimony of Michael Turk
77.	Rebuttal Testimony of Marshall Nadel
78.	Rebuttal Testimony of Jeffrey Bartsch
79.	Rebuttal Testimony of James Warren
80.	Rebuttal Testimony of William D'Onofrio
81.	Rebuttal Testimony of Michael Heyeck
81A.	Workpapers of Michael Heyeck
82.	Rebuttal Testimony of Pamela L. Sutton-Hall
82A.	Workpapers of Pamela L. Sutton-Hall
83.	Rebuttal Testimony of Wendy Hargus
*83A.	Highly Sensitive Exhibit WGH-1R
83B.	Workpapers of Wnedy Hargus
84.	Rebuttal Testimony of Donald Moncrief
85.	Rebuttal Testimony of James Henderson
86.	Rebuttal Testimony of Steven Kiser
87.	Rebuttal Testimony of David Jolley
88.	Rebuttal Testimony of Billy Berny
89.	Rebuttal Testimony of Alan Graves
90.	Rebuttal Testimony of Jennifer Jackson
91.	Optional completeness to Cities' Ex. 113
92.	Optional completeness to TIEC Ex. 9