



Control Number: 28840



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Addendum StartPage: 0

APPLICATION OF AEP TEXAS §  
CENTRAL COMPANY §  
FOR AUTHORITY TO §  
CHANGE RATES §

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BEFORE THE  
PUBLIC UTILITY COMMISSION  
OF TEXAS  
CLERK

**CITIES' FIRST REQUEST FOR INFORMATION TO  
AEP TEXAS CENTRAL COMPANY**

Cities served by AEP Texas Central Company (Cities) file this first information request to AEP Texas Central Company (AEP or Company) in the above styled docket. AEP is hereby requested to furnish one copy of all items of information enumerated on the attached sheets directly to the offices of Lloyd, Gosselink, Blevins, Rochelle, Baldwin & Townsend, P.C., 111 Congress Avenue, Suite 1800, Austin, Texas 78701, (512) 322-5800, the undersigned attorney, within twenty (20) working days or by order of the Judge. These requests shall be deemed continuing so as to require further and supplemental responses if AEP receives or generates additional information within the scope of these requests between the time of the original response and the time of the hearings. Also, where data is requested, provide it in hard copy and Lotus format.

Respectfully submitted,

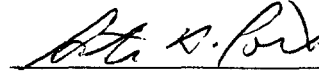
**LLOYD, GOSSELINK, BLEVINS,  
ROCHELLE, BALDWIN & TOWNSEND, P.C.**  
P. O. Box 1725  
Austin, Texas 78767  
(512) 322-5800  
(512) 472-0532 (Fax)

By: \_\_\_\_\_

STEVEN A. PORTER  
State Bar No. 16150700

## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document was transmitted by fax and/or regular, first class mail on this 12<sup>th</sup> day of November 2003 to the parties of record.



Steven A. Porter

### QUESTIONS FOR COMPANY WITNESS CARPENTER

1. (Carpenter, page 11, lines 5-7) Identify the portion of the rate increase request resulting from each of the four drivers listed on the referenced lines. Provide all supporting documents.
2. (Carpenter, page 16, lines 9-12) Identify any costs in the test year associated with the development of the retail market that will not be incurred in the rate year.
3. (Carpenter, page 17) Provide copies of Annual Reports filed pursuant to PURA § 39.257.
4. (Carpenter, page 45, line 19) Identify each of the “numerous duplicative activities” that have been eliminated by the Legal Department.
5. (Carpenter, page 46, lines 1-2) Provide the number of legal professionals prior to the merger and as of the end of the test year.
6. (Carpenter, page 46, lines 7-8) Provide all calculations and documents supporting the statement that “Generally, the cost of an in-house attorney, using fully-loaded figures, is approximately half that of a comparably experienced outside attorney.”
7. (Carpenter, page 46, lines 10-12) Identify and describe each of the outside counsel cost reduction initiatives undertaken by the Legal Department including the results of the initiative.
8. (Carpenter, page 46, lines 12-14) Provide all documents supporting the statement that “the Legal Department’s relative costs for outside legal counsel are less than before the merger.”
9. (Carpenter, page 46, lines 15-16) Provide all calculations and documents supporting the statement that “Governmental and Environmental Affairs has experienced significant post-merger cost reductions.”

10. (Carpenter, page 46, lines 15-16) Provide the amount of expenditures on outside consultants by the Public Policy and Regulatory Services groups in the two years calendar prior to the merger and in the test year.
11. (Carpenter, page 53, lines 8-13) Provide a description of each service provided by TCC to any non-affiliated company in the test year by Public Policy and Regulatory Services along with the amount charged and the profit component of the charge.
12. (Carpenter, page 53, lines 8-13) How is the profit charged to non-affiliate companies by TCC treated in the cost of service in this proceeding?
13. (Carpenter, page 54, lines 14-22) Provide a copy of the FERC order accepting the contested offer of settlement and conditionally authorizing the disposition of jurisdictional facilities.
14. (Carpenter, page 54, lines 14-22) Provide a copy of the contested offer of settlement if not provided in response to the previous question.

#### **QUESTIONS FOR COMPANY WITNESS SUTTON-HALL**

15. [Sutton-Hall Direct, page 6, lines 11-13]
  - a. Please provide copies of the analysis used to determine the capital structure associated with the Company's generation-related assets.
  - b. Please list those assets determined to be generation-related, and describe how the capital amounts associated with each was determined.
  - c. Please provide a balance sheet for AEP, AEP Texas Central and AEP's Generation Subsidiary (the entity into which the TCC generation assets are to be transferred) before and after the TCC generation asset transfer under the following scenarios:
    1. assets transferred at book value
    2. assets transferred at 1.5 times book value.
16. [Sutton-Hall Direct, page 6, line 16 though page 7, line 4] Please respond to the following questions regarding the Company's assumptions about the generation-related asset sale:
  - a. Please explain why book value is a reasonable assumed market price for generation assets.
  - b. Did the Company review the sale of other generation assets in determining a market value for its generation assets? If so, please provide the results of any such study and if not, please explain why not.
  - c. Please describe in detail the \$175 Million adjustment for "tax basis."

17. [Sutton-Hall Direct, page 7, lines 16 , 17] Ms. Sutton-Hall indicates that the projected sale proceeds were “allocated 55 percent to debt and 45 percent to equity.”
- Is it true that the Company elected to apply the projected sale proceeds, “55 percent to debt and 45 percent to equity” in order to maintain (approximately) the June 30, 2003 capital structure percentages? If not, please explain how that particular allocation of capital was determined.
  - Is it true that if the projected sale proceeds had been applied equally to debt and equity the resulting capital structure would have been much closer to a capital structure of 40% equity and 60% debt? If not, please explain why not.
18. [Sutton-Hall Direct, page 8]
- Please provide copies of the complete cost-benefit analysis undertaken to determine which debt series should be retired as a result of the projected asset sales.
  - Why is it reasonable to believe that the debt issues set out on page 8 of Ms. Sutton-Hall’s Direct are most closely associated with the Company’s generation assets?
  - Is it the Company’s intent to retire all of its First Mortgage Bond debt prior to the sale of its generation assets? If not, please explain how the Company intends to avoid leaving debt that was originally secured by generation property on the balance sheet of the T&D utility.
19. [Sutton-Hall Direct, page 10] Please published provide published balance sheet support for the historical capital structures shown.
20. [Sutton-Hall Direct, page 15] Please provide support for Ms. Sutton-Hall’s statement that S&P currently rates TCC’s business position as “2.”
21. [Sutton-Hall Direct, page 14] The electric utility industry data in Moody’s October 2002 Industry Outlook (Exhibit PLS-3) is from 2001. Please provide the most recent copy of Moody’s Electric Industry Outlook as soon as it becomes available.
22. [Sutton-Hall Direct, pages 14, 15] At lines 18-21 on page 14 of her Direct, the witness indicates that “any new debt we issue for TCC will be unsecured debt” in order that assets can be transferred in accordance with Texas law. Then, at page 15, lines 18-21, the witness indicates that \$400 Million of First Mortgage Bonds were issued in July of 2002 “in anticipation of corporate separation.”
- Please explain that apparent inconsistency in corporate financial policy.
  - Was the \$400 Million of FMBs issued in 2002 redeemed with the February issuance of \$800 Million of senior notes? If so, please explain how redeeming newly-issued debt was cost-effective.
  - Are TCC’s senior notes secured or unsecured?
  - Please provide a complete copy of the prospectus associated with the \$800 Million issuance of senior notes in February 2003.

23. [Sutton-Hall Direct, page 12, lines 3-6]
- a. Please provide support for the witness' statement that exclusion of short-term debt for ratemaking purposes is "consistent with Commission practice."
  - b. Is the Texas Commission prohibited from considering short-term debt for ratemaking purposes? Please explain why or why not.
  - c. Please provide support that S&P's debt-to-capital bond rating benchmarks contain short-term debt.
24. [Sutton-Hall Direct, page 13, lines 18, 19] At the cited portion of her testimony, the witness notes that Moody's stated, in 2000, that companies that divested generation assets were not risk-free. Assume for the purposes of this question only that T&D companies were risk-free. In Ms. Sutton-Hall's opinion what return would investors require on a risk-free investment, and why?
25. [Sutton-Hall Direct, page 16]
- a. If short-term debt is not included in the ratemaking capital structure, please explain how ratepayers benefit directly from AEP's Corporate Borrowing Program.
  - b. Does AEPSC lend short-term money to AEP subsidiaries at a rate higher than the rate at which AEP is able to secure those funds from investors? If so, what is that margin and how is it determined; if not, please explain why not. Provide support for your response.

#### **QUESTIONS FOR COMPANY WITNESS HAMLETT**

26. [Hamlett Direct, page 29]
- a. Please explain why GAAP requires that the present value of TCC's pension fund obligations be recognized on the company's balance sheet.
  - b. If the present value of TCC's pension fund obligations were less than the present value of TCC's pension plan trust assets, and common equity were increased by that amount, would Mr. Hamlett recommend, for ratemaking purposes a reduction in common equity? Has that ever occurred? (If yes, please provide support for your response.)
27. [Hamlett Direct, page 29]
- a. Please provide a copy of the pension fund present value analysis in a machine-readable spreadsheet format (formulas available and unlocked), with all assumptions (particularly the discount rates) outlined in detail.
  - b. Please also explain why there are two portions to the adjustment to common equity: Pension Fund Liability and Pension Fund Hedge.

28. [Hamlett Direct, page 29] Please list and provide cites to the other adjustments contained in Mr. Hamlett's testimony in which he recommends that GAAP accounting practice be ignored for ratemaking purposes.

#### QUESTIONS FOR COMPANY WITNESS MOUL

29. [Moul Direct, page 3] Is Mr. Moul currently appearing on behalf of AEP or AEP subsidiaries in any other regulatory jurisdictions? If so, please list them provide complete copies of any testimony that has been filed testimonies within the past year on behalf of AEP/AEP subsidiaries.
30. [Moul Direct, page 3]
- a. Please provide one electric utility cost of capital testimony prepared by Mr. Moul each year for the past 10 years. (If, in any one year, Mr. Moul did not file cost of capital testimony for an electric utility, please substitute a cost of capital testimony for a gas or water utility.)
31. [Moul Direct, page 4, lines 19-21] Mr. Moul indicates that the overall return he recommends (Exhibit PRM-1) "were made using the capital structure ratios and the cost rates for senior capital provided by Company witness...Sutton-Hall." The capital structure recommendation shown on page 6 of Ms. Sutton-Hall's Direct Testimony is different for every type of capital that that shown in Mr. Moul's Exhibit PRM-1. Also, the cost of long-term debt used by Mr. Moul is (6.58%) is 82 basis points higher than that shown in the Direct Testimony of Ms. Sutton-Hall (5.76%). Please explain the discrepancies and provide corrected Schedules (for Mr. Moul or Ms. Sutton-Hall and any other filing schedules which may be affected by this error.)
32. [Moul Direct, page 6, line 11]
- a. Please explain why Mr. Moul limited his sample group selection to a certain geographical region of the U.S.
  - b. Please provide any research available which indicates that investors value electric utilities differently in different parts of the U.S.
33. [Moul Direct, page 7, lines 2-4]
- a. Please provide the breakdown for each of Mr. Moul's integrated electric companies as to what percent of revenues are derived from "cost of service regulation."
  - b. Please provide copies of the source documents from which the responses to "a)," above, are obtained.
  - c. Please quantify the term "substantially" as used in the cited portion of Mr. Moul's testimony.
  - d. Does Mr. Moul generally agree or disagree that T&D electric utilities without supply or provider of last resort risk have less investment risk than fully-integrated electric utilities? Please explain your response and provide support from the available investment literature.

34. [Moul Direct, page 8, lines 12-15] Please list the 23 T&D electric companies and indicate which do not have stock that is traded.
35. [Moul Direct, page 9, lines 1-4]
- a. Please identify when Mr. Moul began to use average sample group data to estimate the cost of equity rather than estimating the cost of equity of each company, then averaging them.
  - b. If Mr. Moul had calculated the individual cost of equity for each company in his sample group, and averaged those results, would that average be different than the result he reaches by analyzing the average data? Please provide analytical support for your response.
  - c. If the average of the individual DCF equity cost estimates is different from the DCF result using aggregate data, please explain why the latter should be preferred.
36. [Moul Direct, page 12, lines 9-11] Please provide any available studies done by the Company relative to the anticipated loss of customers due to self-generation in Texas.
37. [Moul Direct, page 13, lines 4-6] Please provide any available studies done by the Company relative to the anticipated financial impact of, and requisite financial measures, related directly to “counter-party risk” in Texas.
38. [Moul Direct, page 13, lines 15-17] Provide any available support for Mr. Moul’s testimony that industrial customer are riskier to serve than residential customers.
39. [Moul Direct, page 14, lines 12-15]
- a. Please explain how an allowed return on equity, in and of itself, can provide an opportunity for the Company to achieve its cost of capital.
  - b. Is Mr. Moul suggesting that the Commission should allow the Company a return on common equity in excess of the cost of that type of capital with the expectation that the Company will actually earn less? If not, please explain why that is not his position.
40. [Moul Direct, page 16, line 22 through page 17, line 2] Please provide support for the statement that large construction projects associated with new generation do not take on the same negative connotation that existed in the past.
41. [Moul Direct, page 19, line 17] If Mr. Moul has provided cost of capital testimony for another utility with a S&P business rank of “2” (or less), please identify that company, and provide a complete copy of that testimony.



42. [Moul Direct, page 21, line 17 through page 22, line 2]
- a. Please provide the coefficients of variation for each of the companies in Mr. Moul's Electric and Gas groups.
  - b. Is it reasonable to believe that, with a group of companies, the observed volatility of return would be lower than that of one similar company? If not, why not?
43. [Moul Direct, page 26, lines 15-17] Please provide any available evidence from the literature of financial economics which indicates that one company can have two levels of financial risk, depending on the manner in which the capitalization is measured (i.e., market value or book value)
44. [Moul direct, page 26, lines 3, 4]. Regarding market capitalization versus book capitalization, please respond to the following questions:
- a. Please provide the first testimony proffered by Mr. Moul in which he compares market capitalization to book capitalization in order to adjust DCF or any other market-based cost of equity result.
  - b. Please cite to any seminal source for the DCF, CAPM or Risk Premium (e.g., Gordon, Sharpe, Litner, Mosin, Black, Fama) which discusses the differences between market capitalization and book capitalization and its impact on the measurement of the cost of equity.
  - c. Please provide any testimony presented by Mr. Moul on behalf of a firm which had a market price at or below book value and in which he discussed the differences between market capitalization and book capitalization in relation to a mis-statement of the market-based cost of equity.
45. [Moul Direct, page 31, lines 18-21] Please provide copies of the IBES, Zacks First Call and Market Guide source documents from which the projected growth rates of each of Mr. Moul's Electric and Gas sample group companies are drawn. Please also provide copies of each of the Value Line pages used by Mr. Moul for each of his sample Electric and Gas companies.
46. [Moul Direct, page 34, line 1] Please provide a complete copy of the Gordon article cited.
47. [Moul Direct, page 37, line 17] Please provide complete copies of the 1958 and 1963 Miller and Modigliani articles on capital structure and risk.
48. [Moul Direct, page 38, lines 19-20] Please provide the data to support the flotation cost percentages cited.
49. [Moul Direct, page 39, line 8] What is the annual rate impact to the Company's Texas ratepayers of a 23 basis point increase in the earned return on equity? Please provide supporting calculations.
50. [Moul Direct, page 48] Please provide complete copies of the Brigham, Fama/French and Public Utilities Fortnightly articles cited.

51. [Moul Direct, Appendix E, pages 6, 7]
- a. By how much does Mr. Moul's ex-dividend adjustment raise his DCF cost of capital (as opposed to not making that adjustment)? Please provide supporting calculations.
  - b. Has Mr. Moul always made this adjustment in estimating the DCF cost of equity capital? If not, when did he begin to make this adjustment, and why?
52. [Moul Direct, Appendix E, page 10, lines 11-13] Is it also true that since the traditional DCF assumes no change in the price-earnings multiple that the value of a firm's equity will grow at the same rate as dividends and book value? If not, please explain why not.
53. [Moul Direct, Appendix E, page 14, lines 7-10]
- a. Please provide the support from the literature of financial economics on which Mr. Moul relies to state that the divergence of market price and book value of one firm creates a financial risk difference for that firm.
  - b. If a firm has a common equity market price which exceeds its book value, does that firm have to reduce its use of borrowed funds in order to show a market-based capital structure that has less leverage than its book-value capital structure? If not, please explain why not and provide a numerical example.
54. [Moul Direct, Appendix E, page 14, lines 10-12] At the cited portion of his testimony, Mr. Moul states, "It is a well-accepted fact of financial theory that a relatively higher proportion of equity in the capitalization has less financial risk than another capital structure more heavily weighted with debt."
- a. Please provide support from the literature for the above statement.
  - b. Please define what is meant by the phrase "another capital structure."
55. [Moul direct, Appendix E, page 15] Please explain how Mr. Moul calculated the market-based capital structure of his sample companies. Provide supporting calculations for each company as well as the documentation for each.
56. [Moul Direct, Appendix E, pages 15, 16] Please provide the complete copies of the source documents from which Mr. Moul obtained the formulas to calculate the cost of equity for an unleveraged firm and a leveraged firm.
57. [Moul Direct, Appendix I, page 4, lines 9-14] Would Mr. Moul agree that the "Yield + Median Appreciation Potential" calculation is one form of a DCF analysis of the cost of equity? If not, please explain why not.
58. [Moul Direct, Appendix I, page 5] Does Ibbotson Associates recommend the use of a "Yeild + Median Appreciation Potential" calculation to estimate the market return in determining a market risk premium? Please provide support for your response.

59. [Moul Direct, Appendix J] Please provide complete copies, of which either Mr. Moul or the Company is aware, of any Texas P.U.C. Orders which have relied on Comparable Earnings to set the allowed rate of return for a utility under its purview.
60. Please provide complete copies of all Texas PUC Orders issued in the last 15 years in Mr. Moul's possession in which a "flotation cost" adjustment was made in setting the utility's return on equity. If such orders are not in witness Moul's possession, please identify all Texas PUC electric rate orders issued in the last 15 years, known to Mr. Moul, in which the Texas Commission adopted a "flotation cost" adjustment in calculating the return on equity.

## GENERAL QUESTIONS

61. Please provide the per books capital structures of American Electric Power Company (AEP, the parent company) and AEP Texas Central Company at June 30, September 30, December 31, 2002, and March 31, June 30 and September 30, 2003. For the purposes of this data request, please provide the information as follows:
- a. Long-term Debt (including that maturing within one year);
  - b. Short-term Debt;
  - c. Other Debt (specify);
  - d. Preferred or Preference Stock;
  - e. Common Stock;
  - f. Additional Paid-in Capital;
  - g. Retained Earnings; and
  - h. Total Common Equity

Note: If some portion of the common equity appearing on the books of AEP Texas Central Company is applicable to any unregulated operations, please quantify that amount.

62. For the same time periods referenced in the preceding interrogatory, please provide the following information for both AEP. and AEP Texas Central Company:
- a. Embedded cost rates for long-term debt, short-term debt, other debt and preferred or preference stock;
  - b. Computation of embedded cost rates of long-term debt;
  - c. Computation of embedded cost rates of short-term debt; and
  - d. Computation of embedded cost rates of preferred or preference stock.

Note: Schedules should include date of issue, maturity date, dollar amount, coupon rate, net proceeds, annual interest paid and balance of principal, where applicable.

63. Please provide published balance sheets for both AEP and AEP Texas Central Company at June 30, September 30, December 31, 2002, and March 31, June 30 and September 30, 2003. If there are inconsistencies between the capital amounts reported in the published balance sheets and those reported in Question No. 1, above, please explain them.
64. Please provide an annual income statement and a cash flow statement for AEP Texas Central Company each year from 1998 forward. Please also provide sufficient income statement detail, so that interest expense in each year can be identified.
65.
  - a. Please provide copies of AEP's 2002 S.E.C. Form 10-K and any 10-Qs issued since January 1, 2003.
  - b. Please provide copies of AEP Texas Central Company's 2002 S.E.C. Form 10-K and any 10-Qs issued since January 1, 2003.
  - c. Please provide a copy of AEP's most recent S.E.C. Form S-4.
  - d. Please provide a copy of AEP's most recent S.E.C. Form U5S.
66. Please provide the most recent annual report to shareholders published by AEP, as well as any statistical supplements that are available to shareholders.
67. Please provide a complete copy of the most recent written ratings presentation by AEP to a bond rating agency (e.g., Moody's, S&P, Fitch).
68. With regard to short-term debt:
  - a. Please provide the monthly short-term debt balances for AEP Texas Central Company for each month from January 2001 through the most recent month available.
  - b. Please provide the monthly short-term debt cost rate for AEP Texas Central Company for each month from January 2001 through the most recent month available.