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PUC DOCKET NO. 32182

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PUC INVESTIGATION OF METHODS TO IMPROVE ELECTRIC AND TELECOM INFRASTRUCTURE THAT WILL MINIMIZE LONG TERM OUTAGES AND RESTORATION COSTS ASSOCIATED WITH GULF COAST HURRICANES O. 32182 PUBLIC UTILITY COMMISSION OF TEXAS

AEP'S COMMENTS ON STAFF'S DRAFT "STAFF REPORT"

NOW COME Southwestern Electric Power Company (SWEPCO), AEP Texas North Company (TNC) and AEP Texas Central Company (TCC) (hereinafter referred to as AEP or Companies) and file the following comments on the Public Utility Commission of Texas Staff's (Staff) draft "Staff Report" filed on July 3, 2006 in Project No. 32182 (*PUC Investigation of Methods to Improve Electric and Telecom Infrastructure that will minimize Long Term Outages and Restoration Costs Associated with Gulf Coast Hurricanes*). In support thereof, AEP respectfully shows as follows:

I. Introduction

On July 3, 2006, Staff filed its draft Staff Report outlining measures to be taken by Transmission and Distribution Utilities (TDUs) and Telecommunication Utilities (TUs) to minimize future outages and associated restoration costs related to hurricanes. AEP commends Staff for the refinements that they have incorporated in this draft. AEP also appreciates Staff providing parties with the opportunity to provide additional comments for further refinements, and looks forward to its continued participation in this process.

II. Cost Recovery

Throughout this project, AEP has emphasized that the current regulatory scheme does not support timely cost recovery and that such a regulatory scheme should be developed prior to making the significant investments suggested in Staff's Report.

In the draft Staff Report, Staff suggests that the expenditures incurred for transmission related "hardening" activities within ERCOT may be recovered through the current Transmission Cost of Service Rules (TCOS), and suggests that the PUC "may" develop a similar mechanism for non-ERCOT utilities, such as SWEPCO (*see* Section V. C, at p. 33). AEP urges that such

mechanisms be established prior to embarking on infrastructure hardening activities outside of ERCOT. As AEP stated in previous comments, the Texas Legislature adopted HB 989 granting the Commission the authority to establish such a mechanism and it is important for companies outside of ERCOT to have similar recovery rules in place prior to embarking on their infrastructure hardening efforts.

As noted in the draft Staff Report, TCOS rules provide only for the recovery of capital expenditures and do not address the operation and maintenance (O&M) expenses. AEP emphasizes that such O&M expenses may be significant, and therefore it is equally important to have a more streamlined process to also allow recovery of these expenses. The time and costs associated with existing rate case procedures do not allow timely recovery of the extensive investments associated with the TDU's compliance with the mandates recommended in the draft Staff Report.

Regarding distribution costs, AEP does not agree with the statement in the report that: "the hardening of the distribution systems do not require substantial capital expenditures. Therefore, staff does not believe a surcharge or rider is necessary and does not recommend this mechanism" (*see* Section V. C, at p. 33). AEP believes that it is difficult at this time to precisely determine what capital costs will be incurred by the distribution companies. AEP urges that the ultimate determination of cost recovery for expenditures associated with the hardening of electric distribution facilities should be deferred until such matters are more fully explored and developed in a rulemaking(s). Further, it is certain that the distribution companies will incur additional O&M costs through the implementation of the proposed recommendations. Accordingly, AEP re-urges the development of a streamlined process to recover distribution O&M costs.

III. Comments on Draft Staff Report

In the interest of brevity, AEP limits the following comments to recommendations 4, 5, 6 and 9; AEP, however, generally continues to support Staff's recommendations as modified in response to comments filed on June 23, 2006.

Recommendation 4: Require each electric utility to provide three annual reports to the Commission regarding any transmission lines built to pre-1977 NESC wind loading standards. For each identified line, the report should provide:

- a.) the length of the line;
- b.) a description of the types of structures used in the line; and
- c.) a reasonable estimate of the cost and time required to upgrade the line to current NESC standards.

For each identified line located within 10 miles of the Texas coastline, the report should include a reasonable estimate of the cost and time required to upgrade the line to the NESC required standards for a wind velocity of 140 miles-per-hour.

The three annual reports should be required on the following timetable with the appropriate associated data:

- a.) The first report will be due on August 1, 2007, and must include the required data for all transmission lines, or portions thereof, located within 10-miles of the Texas coastline.
- b.) The second report will be due August 1, 2008, and must include the required data for all transmission lines, or portions thereof, located within 10-100 miles of the Texas coastline.
- c.) The third report will be due August 1, 2009, and must include the required data for all transmission lines, or portions thereof, located more than 100 miles from the Texas coastline.
- **AEP Response:** AEP re-urges that the phrase "reasonable estimate of the cost" in part 1, section "c" of the recommendation be replaced with the term "approximate cost." As stated in previous comments, estimated costs are produced by performing essentially all engineering details. This requires a significant investment in time and resources. Additionally, and importantly, prices for materials and labor may change considerably between the time the estimate was first developed and the start time of the actual construction. AEP suggests that for the purposes of the report, Staff require only the approximate cost of upgrading a transmission line. Providing an approximate cost figure for a particular upgrade would provide the Commission with sufficient information with which to understand the magnitude and scope of a particular transmission line upgrade.

Further, in part 1, section "c" AEP suggests that the term "wind loading" be inserted between NESC and standards to clarify which NESC standard(s) the electric utilities are to meet when upgrading a particular line. Finally, AEP would also note that the timeframe for upgrading a particular line to current NESC wind loading standards will be dependent on a number of factors including, but not limited to:

- future plans to upgrade, rebuild, replace or even abandon a line as part of AEP's ERCOT approved system transmission upgrade and expansion plans;
- available outage windows for construction given other on-going work;
- availability of materials;
- availability of engineering design resources; and,
- availability of crews.

Recommendation 5: Require all permanent new and replacement transmission structures installed after January 1, 2007, and within 50-miles of the Texas coastline, be preconstructed of pre-stressed concrete, steel, or other engineered products that are more resistant to high wind and deterioration than wood.

Require all designs for permanent new and replacement transmission structures after January 1, 2007, and within 10 miles of the Texas coastline, to withstand a maximum wind speed of 140 miles-per-hour.

- **AEP Response:** While changes to this provision appear to provide some flexibility to allow for the use of wood poles in limited circumstances, AEP would again note that the prohibition of the use of wood poles in certain areas of the state may also require the renegotiation of easements, adding additional time to the project, thereby increasing costs.
- **Recommendation 6:** Require electric utilities to design and construct all new substations after January 1, 2007, and located within a 100-year floodplain, so that the floor of the control house, and all water-sensitive components of the substation operating equipment, are above the elevation of the 100-year floodplain.
- AEP Response: AEP generally agrees that all new substations design and construction after January 1, 2007 take into consideration the 100 year flood plain as one of the criteria in designing and constructing substation facilities. AEP however, believes and urges that substations that are already under design and/or construction as of the time of the rulemaking should be exempt from this criterion. Further, the requirement that utilities design and construct all water sensitive components of the substation so that they are

above that flood plain is impractical. This requirement could result in the unintended consequences of requiring the elevation of facilities to impractical mounting heights. As AEP has previously suggested, it is a more realistic and cost effective requirement to have the utility's design resist damage during occurrences of the 100-year flood.

AEP's Recommended changes to Staff's proposal:

Require utilities to design and construct all future substations so that, water ingress to the extent of the 100-year floodplain as indicated on the current FEMA DFIRM (Digital Flood Insurance Rate Map) for that area be considered and steps taken to limit the damage to the control house and any electrical equipment in the substation so as to resist damage from accumulated water and facilitate restoration.

Recommendation 9: Staff recommends the initiation of rulemaking projects by the Commission, before January 1, 2007, to develop and adopt standards directing each electric and telecommunications utility to conduct inspections (during the utility's regular, ground-based inspection cycle) of its overhead facilities to determine whether the amount of equipment located on those facilities, but not owned by the utility, is causing an overload on those structures. These rulemakings should also determine reasonable timeframes for each utility to correct any identified overloading problems and institute practices to prevent future overloads on these facilities.

AEP Response: The requirement to begin conducting overhead inspections and studies will significantly increase the utilities' capital and operation and maintenance expenses while providing limited benefit to the customer. AEP believes that it will incur similar operation expenses as those TXU quantified and provided in its comments filed on June 23, 2006. If the Commission chooses to initiate a rule, AEP re-urges that cost recovery rules also be initiated to address the additional cost burden this, and other recommendations will have on the TDUs.

IV. CONCLUSION

AEP appreciates the opportunity to offer these comments to the draft Staff Report, and respectfully requests that the Commission consider and adopt the foregoing comments.

Dated: July 10, 2006

RESPECTFULLY SUBMITTED,

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ATTORNEY FOR AEP TEXAS CENTRAL COMPANY, AEP TEXAS NORTH COMPANY, and SOUTHWESTERN ELECTRIC POWER COMPANY

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document was served on the Staff of the Public Utility Commission of Texas in this proceeding by hand-delivery, overnight delivery, facsimile transmission, or U.S. first-class mail on the 10th day of July 2006.

Jerry N. Huerta