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PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF

AEP TEXAS CENTRAL COMPANY

FOR AUTHORITY TO CHANGE RATES

REBUTTAL TESTIMONY OF

DAVID L. HOOPER

FOR

AEP TEXAS CENTRAL COMPANY

APRIL 2007

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EXHIBITS

EXHIBIT DLH-1R	Comparison of Late Charges for the Test Year
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1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION IN THE
3 COMPANY.

4 A. My name is David L. Hooper. I am employed by AEP Texas Central Company (TCC
5 or Company), a unit of American Electric Power Company, Inc. (AEP). My business
6 address is 539 N. Carancahua, Corpus Christi, Texas 78478. I am Director of
7 Customer Services for AEP Texas, which includes AEP Texas North Company
8 service areas.

9 Q. ARE YOU THE SAME DAVID L. HOOPER WHO FILED DIRECT TESTIMONY
10 IN THIS CASE?

11 A. Yes, I am.
12

13 II. PURPOSE OF TESTIMONY

14 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

15 A. The purpose of my testimony is to rebut the claim of Cities witness Gerald Tucker
16 that TCC failed to properly apply late payment fees to its Retail Electric Provider
17 (REP) customers during the test year and therefore should credit uncollected late
18 payment fees of \$ 3,693,081 against its revenue requirement. Mr. Tucker makes two
19 claims: 1) that the Company did not collect all the late payment charges (LPCs) it
20 was entitled to during the test year; and 2) that the Company did not properly and
21 consistently apply its tariff in collecting the LPCs. My rebuttal testimony
22 demonstrates, to the contrary, that the Company collected LPCs consistent with the

1 tariff actually applicable during the test year and according to a reasonable and
2 consistent policy that fairly applied the tariff to REPs. Mr. Tucker discusses this issue
3 on pages 11-14 of his testimony.
4

5 III. SUMMARY OF LATE PAYMENT CHARGE ISSUES

6 Q. WHAT IS MR. TUCKER'S POSITION REGARDING THIS ISSUE?

7 A. Mr. Tucker contends that TCC could have collected \$3,852,325 in LPCs from its
8 customers, but actually collected only \$159,244 in such fees. He then concludes that
9 TCC's revenue requirement should be reduced by the difference in these two
10 amounts, \$3,693,081.

11 Q. DO YOU AGREE WITH MR. TUCKER?

12 A. No. As I discuss below, Mr. Tucker's calculation of \$3,852,325 in available late
13 payment charges is based on a tariff provision that was not in effect during the test
14 year and his calculation of available late payment charges is based on a number of
15 flawed assumptions. As shown on EXHIBIT DLH-1R, utilizing the correct tariff
16 against the correct revenue population and consistently applying the LPC process,
17 produces an amount of available late payment charges during the test year of
18 \$459,042. In that same period TCC actually recorded \$568,172 in late payment
19 charges, but properly reversed \$355,894 of these charges (Mr. Moncrief addresses
20 \$53,034 in Transition Charge LPC Credits which occurred during the test year but
21 were not related to transmission and distribution charges). Thus, no adjustment to
22 TCC's revenue requirement should be made on this basis.

1 Q. WHAT IS TCC'S POLICY REGARDING THE COLLECTION OF LATE
2 PAYMENT CHARGES?

3 A. TCC assesses late payment charges to all REPs when such charges can be fairly
4 assessed under its tariff. If Mr. Tucker is suggesting that TCC has simply foregone
5 assessment and collection of most of those charges, he is wrong.

6 Q. DESCRIBE THE ADJUSTMENTS THAT SHOULD BE MADE TO CORRECT
7 MR. TUCKER'S INACCURATE ASSUMPTIONS.

8 A. I have made the corrections as demonstrated in EXHIBIT DLH-1R, which presents a
9 full reconciliation of test year LPCs. I have placed the corrections into three
10 categories: 1) corrected revenue calculations; 2) tariff and LPC application issues;
11 and 3) LPC reversal issues. I will describe the three categories below in detail to
12 explain why Mr. Tucker's conclusions are wrong.

13

14 IV. CORRECTED REVENUE CALCULATION

15 Q. IS THE DATA USED BY MR. TUCKER TO CALCULATE POTENTIAL LATE
16 PAYMENT CHARGES APPROPRIATE?

17 A. No. Mr. Tucker based his calculation of revenue available for assessment of LPCs on
18 a document submitted by the Company as a workpaper supporting its lead/lag study.
19 Although this workpaper is titled "Rep Sales," it also contains non-REP revenues that
20 were appropriately considered in the context of a lead/lag study, but that are not
21 subject to LPCs under this tariff (the revenues were included in the workpaper to
22 calculate the lag days, which Mr. Randall Hamlett addresses in his testimony). This

1 workpaper was not represented by the Company to be appropriate basis for
2 determining assessment of LPCs because it does not contain a detailed breakdown of
3 revenues that are potentially subject to LPCs. Using the correct REP revenues and
4 applying the potential late fees to the amounts collected after 52.5 days (the
5 assumption Mr. Tucker utilized in his recommendation), the total amount of revenues
6 potentially subject to the 5% late fee is reduced from \$77,046,496 to \$27,798,988 for
7 TCC distribution. This reduces the total potential available late fees for TCC to
8 \$1,389,949 compared to \$3,852,325 per Mr. Tucker's testimony. Other necessary
9 corrections to Mr. Tucker's analysis, discussed below, further reduce the appropriate
10 test year level of LPCs.

11
12 V. TARIFF AND LATE PAYMENT CHARGE APPLICATION ISSUES

13 Q. WOULD IT HAVE BEEN PROPER TO APPLY LPCs TO ALL THE REP
14 PAYMENTS RECEIVED AFTER DAY 52.5, AS MR. TUCKER DID FOR
15 PURPOSES OF HIS ADJUSTMENT?

16 A. No. Mr. Tucker correctly quotes the current tariff provision (effective June 15, 2006)
17 which states:

18 Payment shall be considered received on the date Company's bank
19 receives the Electronic Funds Transfer (EFT) or Wires Transfer (WT)
20 *and the appropriate remittance advice is received by Company in*
21 *accordance with the requirements specified by Applicable Legal*
22 *Authorities.* Payments for Delivery Charges invoiced to Competitive
23 Retailer shall be considered delinquent if not received by 5:00 p.m.
24 Central Prevailing Time (CPT) of the due date stated on the Valid
25 Invoice.

1 However, as stated above, this tariff provision went into effect June 15, 2006, just two
2 weeks prior to the end of the test year. The previous version of the tariff which was
3 applicable during all but 15 days of the test year stated:

4 Payments will be considered received on the date Company's bank
5 receives the EFT or WT. Payment for Delivery Charges invoiced to
6 Competitive Retailer shall be considered delinquent if not received by
7 5:00 p.m. (Central Prevailing Time) of the due date stated in the
8 validated invoice.

9 The difference in these two tariff provisions is that under the new tariff TCC
10 can consider a payment late if the payment is not received on the due date and if the
11 appropriate "remittance advice" (i.e., detailed information that allows proper
12 application of the REP payment to various invoices) is not received by the Company
13 from the REP on the due date. Under the tariff in effect during the test year, the
14 payment could be considered late only if it was not received on the due date.

15 The practical effect of the difference in these tariffs is that payments that are
16 late under the new tariff could not have been considered late under the old tariff.
17 Mr. Tucker does not take this important fact into account and simply assumes that the
18 current rules for late payments were in effect during the test year.

19 Q. HOW DID THE COMPANY REVIEW AND ASSESS LATE PAYMENT
20 CHARGES UNDER THE OLD TARIFF?

21 A. Under the old tariff, any EFT or WT received by our bank by 5:00 p.m. on the due
22 date, regardless of receipt of the valid remittance advice or errors on the EFT or WT,
23 was considered timely. Therefore, the account was not delinquent. If the remittance
24 advice had not been received by the due date or the information on either the EFT/WT

1 or if the remittance advice was incorrect, requiring manual correction, TCC could not
2 assess LPCs under the old tariff.

3 Given these tariff requirements, TCC developed a weekly process to assess
4 LPCs. The Company selected the weekly time frame for several reasons. First,
5 during the test year the LPC process was very manually intensive. The American
6 Electric Power Service Corporation Information Technology group had to manually
7 create an LPC file and submit it for processing. Also, the volume of corrections
8 needed for erroneous EFT/WT information and/or remittance advice was significant.
9 Allowing a week between assessing LPCs provided time to review any EFT/WT or
10 remittance advices that did not process automatically and make the necessary
11 corrections before an LPC was assessed. It also allowed time for reversals of LPCs
12 that had been issued in error. This process, however, unavoidably extended the time
13 frame before a REP payment could be considered late. Mr. Tucker's calculation did
14 not take this into account.

15 Q. HAVE YOU ANALYZED THE AMOUNT OF LPCs THAT COULD
16 REASONABLY BE ASSESSED DURING THE TEST YEAR, IN LIGHT OF THE
17 TARIFF'S LIMITATIONS AND THE MANUALLY INTENSIVE WEEKLY LPC
18 PROCESS?

19 A. Yes. TCC did perform a reasonableness check based on the REP revenues during the
20 test year. However, the reasonableness check applied LPCs only to revenues
21 collected after 56.5 days. This longer timeframe is more reflective of the LPC process
22 used by TCC during the test year. The total available LPCs resulting from our

1 reasonableness check was \$459,042. This amount falls within a reasonable range
2 compared to the actual late payments fees assessed during the test year, which were
3 \$568,172 (Gross LPCs) for TCC.

4 Q. PLEASE EXPLAIN THE REASONING BEHIND USING REVENUES
5 COLLECTED AFTER 56.5 DAYS AS THE TRIGGER POINT FOR ASSESSING
6 LPCs IN PERFORMING YOUR REASONABLENESS CHECK.

7 A. Under TCC's LPC application process, using revenues collected after 56.5 days was
8 the quickest that TCC could assess an LPC in any given instance. In reality, the LPC
9 application issues I have discussed typically resulted in a delay in the assessment of
10 LPCs from between 57.5 and 61.5 days. In this respect, our reasonableness check is
11 quite conservative.

12 Q. DID MR. TUCKER MAKE ANY OTHER ERRONEOUS ASSUMPTIONS IN HIS
13 TESTIMONY?

14 A. Yes, Mr. Tucker incorrectly assumed that the payments by the REPs are instantly
15 posted to TCC records as complete. In reality, depending upon what time of day the
16 payment is received by the financial institution, it can take up to two working days
17 before TCC receives payment confirmation from the financial institution. Due to this
18 delay in payment information reaching TCC, we have a standard two-day review
19 period after the due date of the REP invoice in order to prevent the improper
20 assessment of LPCs. This practice prevents late fee assessment for accounts that have
21 been properly paid on the due date. This two-day review period has a significant
22 impact on the calculation of LPCs, since many REPs pay their invoices on the due

1 date and TCC is not usually aware of the payment for up to two days later. Mr.
2 Tucker did not take this fact into account in his calculation of potential LPCs that
3 could have been assessed and collected. Failure to take this fact into account is
4 another reason why Mr. Tucker's calculation of 52.5 days as the limit for assessment
5 of late charges is erroneous and overstates the amount of available LPCs.

6 Q. DID MR. TUCKER ACCOUNT FOR REJECTED INVOICES, DISPUTED
7 INVOICES, OR CANCELLED INVOICES WHEN CALCULATING POTENTIAL
8 LPCs?

9 A. No, Mr. Tucker acknowledges that under TCC's tariff, LPCs cannot be applied to
10 disputed invoices, but he makes no attempt to exclude disputed invoices from his
11 calculations. The tariff also states that LPCs can only be applied to validated
12 invoices. Therefore, if an invoice has been rejected or cancelled, then LPCs cannot be
13 assessed. Again, Mr. Tucker makes no attempt to exclude these invoices from his
14 calculations. The effect of these errors is to overstate the amount of LPCs that could
15 be assessed by TCC.

16
17 VI. LATE PAYMENT CHARGE REVERSAL ISSUES

18 Q. DID THE COMPANY REVERSE LPCs DURING THE TEST YEAR?

19 A. Yes, LPCs were reversed for several billing disputes resolved in favor of the REP and
20 also to comply with the requirements of two bankruptcy proceedings.

21 Q. CAN YOU SUMMARIZE THE IMPACT OF THE REVERSED LATE PAYMENT
22 CHARGES?

1 A. Yes, I have provided a summary of the reversed LPCs in my EXHIBIT DLH-1R.
2 These reversed late payment charges totaled \$ 355,894 for TCC. It should be noted
3 that late payment reversals are only made for valid reasons and all such reversals
4 require management approval.

5

6 VII. TCC'S CURRENT LATE PAYMENT CHARGE PROCESS

7 Q. HAS TCC MADE ANY CHANGES TO THE LPC PROCESS AFTER THE TEST
8 YEAR?

9 A. Yes, effective July 2006, TCC upgraded its accounts receivable system to improve
10 functionality. The improved system enables the assessment of LPCs on a daily basis
11 after allowance has been given to the 2-day delay in receiving the bank information.
12 In addition, the Company is working with its bank to reduce the time needed to
13 transmit payment receipt information to its system.

14 Q. HAS THE CHANGE IN TCC'S SYSTEM IMPACTED LPC REVENUE?

15 A. During the test year, the net LPC revenue for TCC was \$159,244. The net LPC
16 revenue from July 2006 thru mid March 2007 was \$108,301 for TCC.

17 Q. PLEASE EXPLAIN HOW LPC REVENUE HAS REMAINED CONSISTENT
18 AFTER THE PROCESS WENT FROM WEEKLY TO DAILY ASSESSMENTS OF
19 LPCs.

20 A. The Company's collection activities as well as the information correction process
21 have been improved as a result of the new functionality added with the upgrade to its

1 accounts receivable system. It also appears that REPs have improved the timeliness
2 for submitting their payments when compared to the test year.

3
4 VIII. CONCLUSION

5 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

6 A. I have demonstrated that the factual assumptions that form the basis for Mr. Tucker's
7 calculation of LPCs are fundamentally flawed. He fails to apply the applicable tariff
8 rules that determined when a payment is considered late; he fails to take into account
9 the fact that TCC often does not receive notice of a REP's payment for up to two days
10 after payment is received by the bank; he fails to exclude disputed invoices from his
11 calculation of available LPCs; and he fails to take into account the effects of TCC's
12 LPC reversal policies and process. I have demonstrated that TCC acted appropriately
13 in all respects in the assessment and collection of LPCs during the test year. Thus,
14 Mr. Tucker's proposed imputation of additional LPC revenues to TCC should be
15 rejected.

16 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

17 A. Yes, it does.

**AEP Texas Central Company
David Hooper Rebuttal Testimony
PUC Docket NO. 33309
Exhibit DLH - 1R**

Comparison of Late Payment Charges Assessed for the Test Year

	LPC's Assessed
Corrected Revenue Calculation	
Late payment charges (LPCs) per Gerald Tucker's Testimony	\$ 3,852,325
LPCs using only REP revenues. Assumes LPCs were assessed on revenues in excess of 52.5 Days.	\$ 1,389,949
Tariff and Late Payment Charge Application Issues	
LPCs adjusted for Tariff and LPC Application Issues. Assumes LPCs were assessed on revenues in excess 56.5 Days	\$ 459,042
Late Payment Charge Reversal Issues	
Gross LPCs assessed during the test year	\$ 568,172
LPCs canceled during the test year	\$ (355,894)
Net LPCs assessed during the test year	\$ 212,278
Less: Transition Charge LPC Credits (Note 1)	\$ (53,034)
LPCs per response to Cities 21 RFI, Question GT21-1	\$ 159,244
Late Payments Assessed After the Test Year	
LPCs from 7/1/06 thru 3/20/07	\$ 108,301

Note 1: Rebuttal Testimony of Don Moncrief will address this issue.