

Control Number: 39638



Item Number: 6

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DOCKET NO. 39638

11 SEP 15 2011  
PUBLIC UTILITY COMMISSION  
FILING CLERK

<b>APPLICATION OF AEP TEXAS CENTRAL COMPANY FOR INTERIM UPDATE OF WHOLESALE TRANSMISSION RATES PURSUANT TO P.U.C. SUBST. R. 25.192(h)(1)</b>	§ § § § § § § §	<b>PUBLIC UTILITY COMMISSION 15 OF TEXAS</b>
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**COMMISSION STAFF'S RECOMMENDATION ON FINAL DISPOSITION**

COMES NOW the staff (Staff) of the Public Utility Commission of Texas (Commission), representing the public interest and files this Recommendation of Final Disposition and would show the following:

**I. BACKGROUND**

On August 2, 2011, AEP Texas Central Company (TCC) filed an application with the Commission for an interim update of wholesale transmission rates pursuant to P.U.C. SUBST. R. 25.192(h)(1). TCC requests an interim revision to its previously-approved transmission cost of service (TCOS) and wholesale transmission rate.

TCC's application compares the actual June 30, 2011, transmission net plant balances with the December 31, 2009, transmission net balances established in Docket No. 38026.<sup>1</sup> The difference between these two balances provides the basis for the increase in transmission invested capital for TCC in this proceeding. The requested increase in total transmission invested capital in this filing is \$52,391,090, with a total revenue requirement increase of \$7,066,772. TCC further requests that the Commission approve an interim wholesale transmission rate of \$2.035760/kW, effective September 6, 2011.

Order No. 2 required Staff to request a hearing or file a recommendation on final disposition (if no hearing is requested) by September 15, 2011; therefore, this pleading is timely filed.

<sup>1</sup> Application of AEP Texas Central Company for Interim Update of Wholesale Transmission Rates Pursuant to P.U.C. Subst. R. 25.192(h)(1), Docket No. 38026, Order (May 4, 2010).

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## **II. RECOMMENDATION**

Staff has reviewed TCC's application and, based on the attached memoranda of Mary Jacobs, Anjuli Winker, Jolie Mathis, and Brian Murphy, recommends approval of the application. Staff also recommends that TCC be required to revise its tariffs to reflect the changes in wholesale transmission rates.

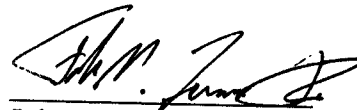
**Date: September 15, 2011**

Respectfully Submitted,

Margaret Uhlig Pemberton  
Division Director  
Legal Division

Keith Rogas  
Deputy Division Director  
Legal Division

Karen S. Hubbard  
Managing Attorney  
Legal Division

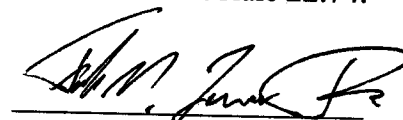


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**DOCKET NO. 39638**

**CERTIFICATE OF SERVICE**

I certify that a copy of this document will be served on all parties of record on this the 15th day of September, 2011, in accordance with P.U.C. Procedural Rule 22.74.



John M. Zerwas, Jr.

# Public Utility Commission of Texas

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## Memorandum

To: John M. Zerwas, Jr., Legal  
From: Mary Jacobs, Rate Regulation, Accounting *mj*  
Date: September 15, 2011  
Re: **Docket No. 39638** – Application of AEP Texas Central Company for Interim Update of Wholesale Transmission rates Pursuant to SUBST. R. 25.192(h)(1)

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On August 2, 2011, AEP Texas Central Company (TCC or Company), filed for an interim update of its wholesale transmission rates pursuant to PUC Substantive Rule §25.192(h)(1). The requested increase in total rate base in this filing is \$52,391,090 with a total revenue requirement increase of \$7,066,772.

Rule §25.192(h)(1) states that each TSP in the ERCOT region may apply to update its transmission rates on an interim basis not more than twice per calendar year to reflect changes in its invested capital. The new rates should reflect the addition and retirement of transmission facilities and include appropriate depreciation, federal income tax and other associated taxes, and the commission-allowed rate of return on such facilities as well as changes in load Rule §25.192(h)(2) states that the commission shall review whether the cost of transmission plant additions are reasonable and necessary at the next complete review of the TSP's transmission cost of service.

This memo represents Staff's accounting recommendation relating to TCC's request. I have reviewed the application and determined that the difference between the December 31, 2009 transmission net plant balances established in Docket No. 38026 and the actual June 30, 2011 net plant balance used in this docket provide the basis for the increase in transmission invested capital. I have reviewed TCC's schedules that provide the increase in rate base and return on rate base; increases in depreciation expense; increases in taxes other than income taxes; and increases in income taxes associated with the increase in return on rate base occurring during the period January 1, 2010 through June 3, 2011. My review of the Company's application is limited in this interim filing and shall be subject to reconciliation at the next complete review of TCC's transmission cost of service, at which time the commission shall review the costs of the interim transmission plant additions to determine if they were reasonable and necessary.

I recommend that TCC's application be approved as filed with the updated transmission rate and underlying transmission facilities additions subject to reconciliation at the next complete review of TCC's transmission cost of service pursuant to PUC Substantive Rule §25.192(h)(2).

# *Public Utility Commission of Texas*

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## **Memorandum**

**TO:** John Zerwas, Legal

**FROM:** Anjuli S. Winker, Rate Regulation, Financial Review <sup>a.s.w</sup>

**DATE:** September 14, 2011

**RE:** Docket No. 39638— Application of AEP Texas Central Company for Interim Update of Wholesale Transmission Rates Pursuant to Substantive Rule 25.192(h)(1)

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### **Recommendation**

I recommend application approval based on my analysis, which is limited to a review of the calculation of return on transmission rate base. This recommendation makes no assumptions concerning the reasonableness or prudence of rate base additions.

### **Analysis**

AEP Texas Central Company (AEP TCC) is requesting an interim update of its wholesale transmission rates pursuant to PUC Subst. R. §25.192(h)(1). A review of AEP TCC's requested return on wholesale transmission rate base indicates that the appropriate rate of return (ROR) was applied to rate base. Schedule B indicates that a 7.5% ROR was applied to rate base.


The 7.50% ROR was developed in AEP TCC's rate filing, Docket No. 33309. The return on transmission rate base is correctly calculated by applying the 7.50% rate of return to the updated transmission rate base. When applied to the updated transmission rate base of 770,983,894, the 7.5% ROR produces a return of \$57,820,417, which is an increase of \$3,929,332 compared to AEP TCC's most recent interim TCOS filing in Docket No. 38026.

# *Public Utility Commission of Texas*

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## **Memorandum**

**TO:** John Zerwas, Jr.  
Attorney, Legal Division

**FROM:** Jolie Mathis   
Utility Analyst  
Infrastructure & Reliability Division

**DATE:** September 15, 2011

**RE: Docket No. 39638 – AEP Texas Central Company (TCC) for Interim Update of Wholesale Transmission Rates Pursuant to P.U.C. Subst. R.25.192(h)(1)**

On, August 2, 2011, AEP Texas Central Company (TCC) filed for approval of an update of wholesale transmission rates based on interim revision to its previously-approved transmission cost of service (TCOS) rates. Section 25.192(h)(1) states that each transmission service provider (TSP) in the ERCOT region may update its transmission rates on an interim basis not more than twice per calendar year to reflect changes in its invested capital. Further, if the TSP elects to update its transmission rates, the new rates shall reflect the addition and retirement of transmission facilities and include appropriate depreciation, federal income tax and other associated taxes, and the commission-allowed rate of return on such facilities as well as changes in loads.

Staff finds that the total annual transmission depreciation expense of \$19,008,144 and the total electric accumulated depreciation of \$296,710,731 are reasonable. Commission Staff's review of depreciation is only a conditional review and is not the final determination of its appropriateness. As § 25.192(h)(2) states, an update of transmission rates shall be subject to reconciliation at the next complete review of the TSP's' transmission cost of service.

Staff therefore recommends that TCC's application be approved as filed on August 2, 2011 subject to a more comprehensive analysis and reconciliation at the next complete review of TCC's cost of service pursuant to 25.192(h)(2).




# PUBLIC UTILITY COMMISSION OF TEXAS

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## Memorandum

**TO:** John Zerwas, Jr.  
Legal Division

**FROM:** Brian Murphy  
Rate Regulation Division, Tariff & Rate Analysis 

**DATE:** September 15, 2011

**RE:** **Docket No. 39638**—*Application of AEP Texas Central Company for Interim Update of Wholesale Transmission Rates Pursuant to Substantive Rule 25.192(h)*

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On August 2, 2011, AEP Texas Central Company (TCC) filed for an interim update of its wholesale transmission rate for facilities used and useful as of June 30, 2011. PUC Subst. R. 25.192(h)(1) provides that not more than twice per calendar year, each transmission service provider (TSP) may update its transmission rate to reflect changes in invested capital, or rate base. The new rate resulting from an interim update should reflect the addition and retirement of transmission facilities, including appropriate depreciation, federal income tax and other associated taxes, the Commission-allowed rate of return on such facilities, and any changes in load. In its application, TCC requested an interim wholesale transmission cost of service (TCOS) of \$124,932,474, an increase of \$7,066,771 over amounts approved in Docket Nos. 33309, 35437, 36732, and 38026.<sup>1</sup>

I have reviewed TCC's requested interim wholesale transmission rate of \$2.035760 per kW, which was calculated by dividing the above-requested TCOS by the 2010 ERCOT Average 4-CP load of 61,368,962.6 kW, obtained from P.U.C. Docket No. 38900, *Commission Staff's Application to Set 2011 Wholesale Transmission Charges for the Electric Reliability Council of Texas*. Based on the above information and recommendations of assigned Staff, I conclude that TCC's requested interim wholesale transmission rate has been calculated correctly and should be approved, subject to a more comprehensive review of TCC's transmission cost of service pursuant to PUC Subst. R. 25.192(h)(2).

I further recommend that TCC be required to file a "clean" record copy of its revised Federal Energy Regulatory Commission (FERC) Open Access Transmission Tariff, rate schedule *Attachment K—Revenue Requirement for ERCOT Regional Transmission Service*, upon adoption by FERC, to be stamped "Approved" by the Commission's Central Records Division and retained for future reference.

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<sup>1</sup> \$101,053,573 (DN 33309) + \$6,544,815 (DN 35437) + \$7,940,045 (DN 36732) + \$2,327,270 (DN 38026) = \$117,865,703.