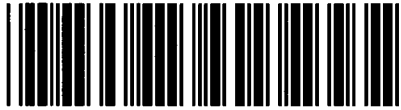




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Item Number: 18

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DOCKET NO. 39861

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APPLICATION OF TAYLOR ELECTRIC COOPERATIVE, INC. FOR APPROVAL OF WHOLESALE TRANSMISSION COST OF SERVICE AND WHOLESALE TRANSMISSION RATES	§ § § § § § §	PUBLIC UTILITY COMMISSION OF TEXAS
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**COMMISSION STAFF'S AMENDED RECOMMENDATION ON FINAL DISPOSITION**

COMES NOW the staff (Staff) of the Public Utility Commission of Texas (Commission), representing the public interest, to file this Amended Recommendation on Final Disposition.

**I. BACKGROUND**

On October 21, 2011, Taylor Electric Cooperative, Inc. (Taylor) filed an application for wholesale transmission cost of service (TCOS) and wholesale transmission service (WTS) rates pursuant to P.U.C. SUBST. R. 25.192(g).

Taylor is a wholesale customer of Golden Spread Electric Cooperative, Inc. Taylor is an electric distribution cooperative headquartered in Merkel, Texas, serving over 15,000 meters and owning and maintaining about 4,765 miles of power lines located within Taylor, Callahan, Jones, Nolan, Shackelford, Fisher, Coke, Eastland, Mitchell, Runnels, and Coleman Counties, Texas. Taylor also owns certain transmission facilities, as that term is defined in P.U.C. SUBST. R. 25.192(c)(1), that are located in the Electric Reliability Council of Texas (ERCOT).

Taylor requests authority to revise its previously-approved TCOS and wholesale transmission rate applicable for service within ERCOT pursuant to, and consistent with, the requirements of P.U.C. SUBST. R. 25.192(g) and the filing requirements for wholesale transmission rates pursuant to P.U.C. SUBST. R. 25.192(c)(4). The requested revenue requirement is an increase of \$439,637 or 210.94 percent over the currently-approved revenue requirement, based on a test year ending December 31, 2010. Taylor also requested a proposed Wholesale Transmission Service tariff and Rider EETS. The tariff and rider reflect an access fee

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of \$0.01056 per kilowatt (kW) of ERCOT CP demand based upon the customers' combined 2010 load responsibility of 61,368,962.6 kW from the 2011 net payment matrices.

Order No. 3 required Staff to file a request for a hearing on the merits or a recommendation on final disposition by December 19, 2011; therefore, this pleading is timely filed.

## **II. RECOMMENDATION**

Staff has reviewed Taylor's application and based on the attached memoranda from William Abbott, Anna Givens, Mark Sullivan, Jolie Mathis, and Anjuli Winker, Staff recommends approval of the application. Staff also recommends that Taylor be required to revise its tariffs to reflect the changes in wholesale transmission rates.

**Date: December 19, 2011**

Respectfully Submitted,  
Margaret Uhlig Pemberton  
Division Director  
Legal Division

Keith Rogas  
Deputy Division Director  
Legal Division

Karen S. Hubbard  
Managing Attorney  
Legal Division



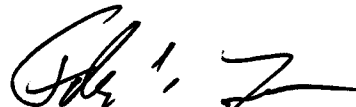
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Public Utility Commission of Texas  
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**DOCKET NO. 39861**

**CERTIFICATE OF SERVICE**

I certify that a copy of this document will be served on all parties of record on this the 19th day of December, 2011, in accordance with P.U.C. Procedural Rule 22.74.



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John M. Zerwas, Jr.

# *Public Utility Commission of Texas*

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## **Memorandum**

**TO:** John Zerwas, Legal Division  
**FROM:** Anna Givens, Rate Regulation Division AC<sub>7</sub>  
**DATE:** December 16, 2011  
**SUBJECT:** Docket No. 39861 Application of Taylor Electric Cooperative, Inc. for Approval of Transmission Cost of Service and Wholesale Transmission Rates

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On October 21, 2011, Taylor Electric Cooperative, Inc. ("Taylor") filed an application to change wholesale transmission rates and to revise the transmission cost of service ("TCOS"). Taylor is an electric distribution cooperative headquartered in Merkel, Texas which serves over 15,000 meters. Taylor also owns and maintains about 4,765 miles of power lines located within Taylor, Callahan, Jones, Nolan, Shackelford, Fisher, Coke, Eastland, Mitchell, Runnels, and Coleman Counties. Taylor's application is filed pursuant to P.U.C. Substantive Rules §25.191(g) and §25.192(c) and is based on a test year ending December 31, 2010.

Taylor seeks approval of a total transmission cost of service revenue requirement of \$648,058. This represents a 210.94% increase over the amount of \$208,421 that was approved in its last full TCOS filing, Docket No. 29756. That case was based on a test year ending December 31, 2003. According to Taylor, the factors responsible for the rise in operating expenses are the load growth since 2003 and the addition of transmission and distribution facilities to ensure reliable service. Taylor's transmission invested capital has increased 208.26% since 2003 and is now \$3,425,417.

I have examined Taylor's application and responses to requests for information. Additionally, I have reviewed the recommendations of other Commission Staff members assigned to this docket. Based on my evaluation, I recommend that Taylor's TCOS request of \$648,058 be approved.

# Public Utility Commission of Texas

## Memorandum

**TO:** John Zerwas  
Legal Division

**FROM:** Mark Sullivan *MS*  
Infrastructure and Reliability Division

**DATE:** December 13, 2011

**RE:** **STAFF RECOMMENDATION**  
**Docket No. 39861:** *Taylor Electric Cooperative's, Inc.'s Application for Approval of Transmission Cost of Service and Wholesale Transmission Rates*

I have reviewed the application of Taylor Electric Cooperative, Inc. (Taylor) for approval for its transmission cost of service. The application is based on a test year ending December 31, 2010. My review covers the following two items:

- 1) Plant in Service, and
- 2) Operation and Maintenance Expense.

I recommend that the Commission approve Taylor's request as it relates to these two items.

**Plant in Service.** Since its last rate case (2004), Docket No. 29756, Taylor has energized three new 138 kV substations: Moore, McElmurray and Sandusky. These substations were added to serve load growth and to improve reliability. To further improve reliability, Taylor also added a portable substation, which is capable of accommodating any of the 69 kV and 138 kV substations on the Taylor system.

After reviewing Taylor's application and responses to request for information, I have concluded that the transmission plant in service value of \$2,300,662<sup>1</sup> is reasonable. I have also concluded the amounts of \$2,543,422<sup>2</sup> for general plant and \$719<sup>3</sup> for communication equipment that are functionalized to transmission are reasonable.

I recommend that the Commission approve:

- 1) cost of plant for transmission of \$2,300,662;
- 2) general plant for transmission of \$2,543,422; and
- 3) communication equipment for transmission of \$719.

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<sup>1</sup> Schedule B-1

<sup>2</sup> Schedule B-2

<sup>3</sup> Schedule B-3

**Operation and Maintenance Expense.** After a review of the Application and responses to requests for information, I conclude that Taylor's Operation and Maintenance Expense (O&M) request is reasonable. I recommend that the Commission approve the transmission O&M expenses allocated to transmission in the amount of \$16,276<sup>4</sup>.

Cc: William Abbott  
Anna Givens  
Jolie Mathis  
Anjuli Winkler

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<sup>4</sup> Schedule D-1

# *Public Utility Commission of Texas*

## **Memorandum**

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

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

**DATE:** December 15, 2011

**RE: Docket No. 39861 – Application of Taylor Electric Cooperative (Taylor) for Approval of Wholesale Transmission Cost of Service and Wholesale Transmission Rates**

On, October 21, 2011, Taylor Electric Cooperative (Taylor) filed an application for approval of transmission cost of service (TCOS) and wholesale transmission service tariffs, pursuant to P.U.C. Subst. R. 25.192. 25.192(c) states that the transmission cost of service for each TSP shall be based on FERC expense accounts plus the depreciation, federal income tax, and other associated taxes, and the commission-allowed rate of return based on FERC plant accounts less accumulated depreciation and accumulated deferred federal income taxes, as applicable.

Staff finds that the total annual transmission depreciation expense of \$183,415 as found in Schedule E-1 and the total electric transmission accumulated depreciation of \$1,458,131 as found in Schedule B-5 are reasonable.

Staff therefore recommends that TCOS be approved as filed on October 21, 2011. The table below shows the annual depreciation accrual and the accumulated depreciation for Transmission plant, Distribution plant and the General plant that are attributable to transmission function.

	<b>Annual Depreciation Expense</b>	<b>Accumulated Depreciation</b>
Transmission Plant	31,722	423,830
Distribution Plant	36,421	366,743
General Plant	115,272	667,558
<b>Total</b>	<b>183,415</b>	<b>1,458,131</b>



# *Public Utility Commission of Texas*

## **Memorandum**

TO: John Zerwas, Legal Division

FROM: William Abbott, Rate Regulation Division – Tariff and Rate Analysis *WJ*

DATE: December 19, 2011

RE: **Docket No. 39861 – Application of Taylor Electric Cooperative, Inc. for Approval of Transmission Cost of Service and Wholesale Transmission Rates**

On October 21, 2011, Taylor Electric Cooperative, Inc. ("Taylor") filed for approval of its transmission cost of service ("TCOS") and corresponding wholesale transmission rates pursuant to P.U.C. Substantive Rule §25.192. The last comprehensive TCOS proceeding for Taylor was in 2004 in Docket No. 29756.

Taylor seeks Commission approval of a TCOS amount of \$648,058 based on the test year ending December 31, 2010, and a new annual wholesale transmission rate of **\$0.010560 per kW**. This represents an increase of \$439,637 from its previously approved TCOS amount of \$208,421.

The purpose of my analysis is to determine whether Taylor correctly functionalized its electric utility's costs to the transmission function for the test year. I also reviewed the calculations of Taylor's requested access charge. Taylor's annual wholesale transmission rate was calculated by dividing the above requested TCOS amount by the 2010 ERCOT Average 4-CP load responsibility amount, 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*.

Therefore, based on the information contained in its application and its responses to requests for information, and also upon the attached memoranda of P.U.C. Staff, Taylor's requested wholesale transmission access charge is reasonable and should be **approved**.

Finally, I recommend that Taylor be required to file a "clean" copy of its new wholesale transmission rate schedule, with an effective date consistent with the Commission's Final Order in this proceeding, to be stamped "Approved" by the Commission's Central Records Division and retained for future reference.

# *Public Utility Commission of Texas*

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## **Memorandum**

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

**FROM:** Anjali Winker, Rate Regulation – Financial Review <sup>a.w.</sup>

**DATE:** December 19, 2011

**RE:** Docket No. 39861– Application of Taylor Electric Cooperative, Inc. For Approval of Transmission Cost of Service and Wholesale Transmission Rates

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### **Recommendation**

A rate of return of 9.3108% and a return on transmission rate base of \$318,933 are reasonable and appropriate for Taylor Electric Cooperative, Inc. (Taylor). The filing complies with the current instructions and forms that the PUC has provided for this purpose.

### **Scope of Analysis**

My analysis of Taylor's Transmission Cost of Service (TCOS) is limited in scope to a review of the data, methods, and justifications leading to the calculation of return on invested capital for transmission rate base.

### **Analysis**

Taylor's TCOS rate filing package uses the historical test year ending December 31, 2010. Taylor used the modified times-interest-earned (TIER) method to calculate its rate of return. The TCOS rate filing package and P.U.C Subst. R. §25.192 provide the method for calculating rate of return for a cooperative.

For the test year ending December 31, 2010, Taylor reported an Interest Expense on Long-Term Debt of \$2,861,752. Taylor applied the 2.00 modified TIER level presumed reasonable in the Commission's rate filing package and added or deducted expense and income as required by the prescribed forms and instructions.<sup>1</sup> Taylor divided the resulting total net return of \$5,720,735 by its total rate base of \$61,442,148, and determined the rate of return of 9.3108%.

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<sup>1</sup> *Transmission Cost of Service Rate Filing Package For Non-Investor Owned Transmission Service Providers in the Electric Reliability Council of Texas*, Page 18, December 16, 1999.

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