to be incurred by SWEPCO during the period rates requested in this proceeding will be in effect.[838]

W. VEMCO Legal Fees

In its November 9, 2012 Errata filing (SWEPCO Ex. 23), SWEPCO removed from its requested cost of service a $19,899 invoice from Stone Pigman Walters Wittmann, which is associated with the VEMCO acquisition and was inadvertently included in SWEPCO's requested cost of service. Consequently, SWEPCO does not oppose Staff's recommended adjustment of $19,899 to SWEPCO's requested cost of service for this item.

X. Customer Choice Costs

Consistent with its response to Staff RFI 33-6, SWEPCO does not oppose Staff's recommended adjustment of $14,179 to SWEPCO's requested cost of service.

Y. Intangible Asset Amortization Expense

FERC Account 303 – Miscellaneous Intangible Plant – consists of the cost of patent rights, licenses, privileges, and other intangible property necessary or valuable in the conduct of utility operations.[839] SWEPCO's intangible plant and associated amortization is comprised of computer software costs such as its customer billing system.[840] Due to the growth in computer applications, investment in computer software grew significantly since FERC established Account 303 in 1989.[841] Consistent with the Commission's rate filing package for generating utilities, SWEPCO's amortization ("depreciation") of Account 303 is shown on Schedule D-4, line 3.[842] This amortization is properly captured in FERC Account 404 – Amortization of limited term electric plant, which includes amortization of licenses and patent rights.[843] SWEPCO's amount of intangible plant is in line with that of other utilities.[844]

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838 *See* Rebuttal Testimony of Jeffrey W. Hoersdig, SWEPCO Ex. 72 at 24.

839 18 CFR pt. 101.

840 Rebuttal Testimony of Randall W. Hamlett, SWEPCO Ex. 73 at 64.

841 Rebuttal Testimony of Randall W. Hamlett, SWEPCO Ex. 73, Exhibit RWH-5R at 4.

842 Schedules A through G, SWEPCO Ex. 2 at Schedule D-4.

843 18 CFR pt. 101 at FERC Account 404.

844 *See* Rebuttal Testimony of Randall W. Hamlett, SWEPCO Ex. 73 at 65.

Mr. Luna recommended disallowance on the sole rationale that SWEPCO did not "answer all his questions" and "satisfy his concerns."[845] What Mr. Luna requested and what SWEPCO provided is outlined below:

- "reconciliation of the intangible account:" Staff RFI 29-8 requested a reconciliation of the $56,870,667 of intangible plant (miscellaneous intangible plant) and the $59,259,842 of total intangible plant. SWEPCO responded that the $56,870,667 is associated with Electric Plant in Service (FERC Account 101 and shown on line 3 of Schedule C-2) and, when combined with the intangible plant of $2,389,182 associated with Completed Plant Not Classified (FERC Account 106 and shown on line 78 of Schedule C-2), makes up the total intangible plant requested in SWEPCO's filing.[846]
- "date that the intangible account was established:" Staff RFI 29-8 requested, "With each sub-account, please provide the date the account was established and what caused it to be created." SWEPCO responded, "SWEPCO does not use any subaccounts to Electric Plant Account 303. SWEPCO first recorded intangible assets in Electric Plant Account 303 in the year 1989. The FERC had established this account prior to 1989."[847]
- any PUCT order "approving the intangible" or "approving the amortization:" Staff RFI 29-8 requested PUCT orders approving the amounts that make up the intangible plant requested. SWEPCO responded that the AEP West operating companies (including SWEPCO, AEP Texas Central Company, AEP Texas North Company, and Public Service of Oklahoma) have all included amounts in FERC Account 303 in their rate filings. And, while the final orders provided in that discovery response do not specifically address the Account 303 balance, those orders would generally address specific accounts only if the regulatory body were making an adjustment to the amounts requested.[848]

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[845] Redacted Direct Testimony of Joe Luna, Staff Ex. 3 at 36.

[846] Rebuttal Testimony of Randall W. Hamlett, SWEPCO Ex. 73, Exhibit RWH-5R (SWEPCO's response to Staff RFI 29-8 subpart a).

[847] Rebuttal Testimony of Randall W. Hamlett, SWEPCO Ex. 73, Exhibit RWH-5R (SWEPCO's response to Staff RFI 29-8 subpart b).

[848] Rebuttal Testimony of Randall W. Hamlett, SWEPCO Ex. 73, Exhibit RWH-5R (SWEPCO's response to Staff RFI 29-8 subparts d & e).

- and "the number of years the company is amortizing the intangible:" Staff RFI 29-8 requested the number of years SWEPCO "was planning on amortizing the intangible assets." SWEPCO responded, "The intangible plant costs in Account 303 are depreciated over a 5-year life," the same life SWEPCO requested in its previous rate case, PUCT Docket No. 37364.[849]

In each instance, SWEPCO provided the information requested by Staff. There is simply no basis on which to arbitrarily reduce by half SWEPCO's requested amortization of its intangible plant.

V. Weather Normalization [PO Issue 34]

SWEPCO used a 30-year normalization period in computing the weather adjustment to test year sales.[850] Cities witness Johnson's primary recommendation is that no weather adjustment be made because the use of 30-year normal weather *likely* understates the impact of climactic trends on SWEPCO's service area.[851] His primary recommendation reduces SWEPCO's base revenue requirement by $7.13 million.[852] In the alternative, Mr. Johnson recommends a reduction to base revenue and fuel revenues of $3.8 million and $2.9 million, respectively, based on his general estimate using 10 years as the benchmark, which he admits is not calculated on a monthly level.[853] Staff witness Abbott did not agree to eliminate the weather adjustment altogether, but instead recommended the Commission use a 10-year normal for the weather adjustment.[854] He recommended adoption of Mr. Johnson's 10-year adjustment but recommended the adjustment be applied to kWh billing determinants instead of reducing revenue requirement.[855]

SWEPCO witness Chad Burnett disagreed with Mr. Johnson's primary recommendation, showing that the summer of the 2011 test year was the second hottest summer in Texarkana's

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[849] Rebuttal Testimony of Randall W. Hamlett, SWEPCO Ex. 73, Exhibit RWH-5R (SWEPCO's response to Staff RFI 29-8 subpart d).

[850] Rebuttal Testimony of Chad M. Burnett, SWEPCO Ex. 86 at 4.

[851] Direct Testimony of Clarence Johnson, Cities Ex. 5 at 6.

[852] Direct Testimony of Clarence Johnson, Cities Ex. 5 at 6.

[853] Direct Testimony of Clarence Johnson, Cities Ex. 5 at 16; Tr. at 1059-1060.

[854] Direct Testimony of William Abbott, Staff Ex. 1 at 14.

[855] Direct Testimony of William Abbott, Staff Ex. 1 at 14.

historical record.[856] Mr. Burnett also disagreed with the proposed use of a 10-year normalization period, stating that no statistical evidence was provided that showed a warming trend within SWEPCO's service territory.[857] Mr. Burnett pointed out that Mr. Johnson's conclusion that a warming trend exists is based on *mathematical* differences, while the appropriate analysis would compare *statistical* differences.[858] Mr. Burnett pointed to a study conducted in 2008 for all the weather stations in American Electric Power Company, Inc. (AEP's) service territory, which tested to see if the 10-year normal was statistically different from a 30-year normal in 1980, 1990, 2000, 2005, and 2007. In each of those periods tested, there was no statistical difference between using a 10-year normal and a 30-year normal. That study was recently updated using the years ending in 2010[859] and, while the 10-year normal was mathematically different than the 30-year normal, it was *not statistically different.* Mr. Burnett concluded there has been no evidence of a systematic warming trend within SWEPCO's service territory.[860] Therefore, there is no basis for rejecting SWEPCO's 30-year normalization.

Mr. Burnett computed the monthly weather adjustments for the test year using a 20-year, 15-year, 10-year, and 5-year normal, so that the ALJs could see the actual impact on the test year if they choose to use a different normal definition than has previously been used in SWEPCO base rate proceedings. His calculations produced the following adjustments, none of which approach the magnitude of Mr. Johnson's "estimate":

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856 Rebuttal Testimony of Chad M. Burnett, SWEPCO Ex. 86 at 5.

857 Rebuttal Testimony of Chad M. Burnett, SWEPCO Ex. 86 at 6-7.

858 Rebuttal Testimony of Chad M. Burnett, SWEPCO Ex. 86 at 6-7.

859 Rebuttal Testimony of Chad M. Burnett, SWEPCO Ex. 86 at 7-8, Exhibit CMB-1R.

860 Rebuttal Testimony of Chad M. Burnett, SWEPCO Ex. 86 at 7-8, Exhibit CMB-1R.

SWEPCO Texas Weather Adjustments

	kWh Weather Impact	Weather Adjustment $	Difference from 30-Year
30-Year Normal	206,833,610	$7,133,257	
20-Year Normal	204,665,794	$6,970,370	$ (162,887)
15-Year Normal	187,664,503	$6,373,681	$ (759,576)
10-Year Normal	184,528,993	$6,304,912	$ (828,345)
5-Year Normal	194,365,579	$6,748,444	$ (384,813)

The Company continues to support the weather adjustment that was originally filed in this case based on the 30-year normal as appropriate. However, as the table shows,[861] if the Company had used a 10-year normal, the weather adjustment would only be $828,345 less than what was filed using the 30-year normal. Had the Company used a 20-year, 15-year, or even a 5-year definition of normal, the difference in the weather impact from what was ultimately filed would be even smaller.

The Commission should accept SWEPCO's weather adjustment as filed and reject the recommendations of Mr. Johnson and Mr. Abbott. But even if the Commission did decide to reject the Company's use of a 30-year normal, the 20-year, 15-year, 10-year, or 5-year normal set forth above should be used instead of an admittedly inaccurate estimate.

VI. Residential KWH Growth in the Post-Test Year Adjustment [PO Issues 3, 34]

Cities witness Johnson disputed SWEPCO's post-test year revenue adjustment because it projects a reduction in residential base revenues from the test year,[862] and recommended that the Commission compare actual 2012 revenues with the projected 2012 revenues to determine whether additional revenues should be recognized.[863]

SWEPCO witness Burnett explained that four major items caused the historical residential growth to be higher than the forecasted period: weather, the addition of the former Texas North Company (TNC) customers into SWEPCO's service territory, weakened economy,

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[861] Rebuttal Testimony of Chad M. Burnett, SWEPCO Ex. 86 at 17.

[862] Direct Testimony of Clarence Johnson, Cities Ex. 5 at 17.

[863] Direct Testimony of Clarence Johnson, Cities Ex. 5 at 18-19.

and changing energy efficiency standards and saturations.[864] Mr. Burnett testified that through the first eleven months of 2012, the weather normalized residential sales have come in 5% *below* the forecast that was used in the post-test year adjustment, and that SWEPCO is not opposed to replacing the forecasted residential sales post-test year adjustment with actual weather-adjusted 2012 sales.[865]

VII. Class Cost Allocation and Rate Design [PO Issues 32, 33]

A. Class Cost Allocation

1. Lighting Allocation

Cities witness Johnson and Staff witness Abbott pointed out that SWEPCO's lighting class production demand allocator (Average & Excess 4CP) is based on 4,000 hours rather than 8,760 hours, resulting in an increased allocation of production demand-related costs to the lighting class.[866] SWEPCO agrees with Messrs. Johnson and Abbott on this issue, and the rebuttal production demand allocator appropriately reflects 8,760 hours for all classes.[867]

2. Residential Customer Unit Costs

Cities witness Johnson recommended that general overhead costs should be excluded from the calculation of costs recovered through a customer charge.[868] SWEPCO's class cost-of-service study (CCOS) appropriately functionalizes and allocates all costs incurred by SWEPCO in support of its utility operations following established cost-causative factors and practices. A component of these costs includes general overhead costs, which are properly recorded in support of SWEPCO's overall utility operations.[869] Mr. Johnson's suggestion to isolate the customer charge from general overhead costs that are appropriately functionalized and allocated should be rejected.

3. Transmission Cost Allocation

In this filing, SWEPCO allocated transmission-related costs to jurisdictions and classes on a 12CP basis as opposed to the four coincident peak method used in previous filings. No

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[864] Rebuttal Testimony of Chad M. Burnett, SWEPCO Ex. 86 at 20-21.

[865] Rebuttal Testimony of Chad M. Burnett, SWEPCO Ex. 86 at 22.

[866] Direct Testimony of Clarence Johnson, Cities Ex. 5 at 20-25; Direct Testimony of William Abbott, Staff Ex. 1 at 17-19.

[867] Rebuttal Testimony of John O. Aaron, SWEPCO Ex. 87 at 5.

[868] Direct Testimony of Clarence Johnson, Cities Ex. 5 at 32-33.

[869] Rebuttal Testimony of John O. Aaron, SWEPCO Ex. 87 at 6.

party disputed the use of the 12CP method to allocate transmission costs to the jurisdictions, only the use of the 12CP in the CCOS.[870]

TIEC witness Pollock and Staff witness Abbott recommend the average and excess four coincident peak allocation (A&E/4CP) for transmission-related costs rather than the twelve monthly coincident peak (12CP) allocation utilized in SWEPCO's CCOS.[871] SWEPCO disagrees. The change is due to the billing to SWEPCO by the Southwest Power Pool (SPP) for transmission services.[872] SWEPCO is charged for the transmission services it receives from the SPP as a load serving entity for its retail and firm wholesale customers, and is also compensated for services it provides to the SPP as a transmission owner in the SPP.[873] The rates for the various SPP transmission services and charges incurred by SWEPCO for such services in the SPP are determined and billed to transmission customers based upon the 12CP load ratio share methodology pursuant to the SPP Open Access Transmission Tariff (OATT). SWEPCO's proposal synchronizes the allocation of SWEPCO's transmission-related costs with the method by which it is charged for those services by the SPP.[874] Therefore, a 12CP allocation of transmission-related costs is without a doubt consistent with the cost causation principles underlying the ratemaking process.

Mr. Abbott further claims that a 12CP allocator "inappropriately allocates a greater share of costs to customer classes which are not causing incremental transmission costs."[875] SWEPCO disagrees. The 12CP transmission allocation proposed by SWEPCO appropriately allocates to each customer class the loads that are used in the billing from SPP for transmission service. If a customer class is taking service at the time of the SPP 12CP, then that customer class is causing incremental transmission costs for SWEPCO.[876]

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[870] Rebuttal Testimony of John O. Aaron, SWEPCO Ex. 87 at 7.

[871] Redacted Direct Testimony of Jeffry Pollock, TIEC Ex. 1 at 69; Direct Testimony of William Abbott, Staff Ex. 1 at 21.

[872] Rebuttal Testimony of John O. Aaron, SWEPCO Ex. 87 at 8.

[873] Rebuttal Testimony of John O. Aaron, SWEPCO Ex. 87 at 8; Direct Testimony of John O. Aaron, SWEPCO Ex. 50 at 28.

[874] Rebuttal Testimony of John O. Aaron, SWEPCO Ex. 87 at 8; Tr. at 771.

[875] Direct Testimony of William Abbott, Staff Ex. 1 at 21.

[876] Rebuttal Testimony of John O. Aaron, SWEPCO Ex. 87 at 9.

Mr. Pollock and Mr. Abbott point to an Entergy Texas base rate case finding as support for their recommendation to reject SWEPCO's 12CP transmission-related cost allocation methodology.[877] As SWEPCO witness Aaron explained, the decision in the Entergy Texas case is irrelevant here. Entergy Texas is not a transmission owner or load-serving entity in SPP, only a transmission customer of SPP. While Entergy Texas may purchase transmission services from SPP from time to time for some amount of replacement power, Entergy Texas presumably plans and operates its transmission system to meet its own 4CP demand. On the other hand, SWEPCO purchases transmission services for its entire native load from the SPP.[878] Therefore, the allocation of costs to customer classes in the same manner as costs are billed to SWEPCO and allocated to its jurisdictions is reasonable and clearly follows cost causation.

4. Municipal Franchise Fees

Mr. Pollock and Mr. Abbott recommended that municipal franchise fees be allocated to customer classes based on in-city kWh sales.[879] Additionally, Mr. Pollock recommended that municipal franchise fees should be collected only from those customers located within the municipality that levies these charges.[880] SWEPCO agrees with Messrs. Pollock and Abbott regarding the allocation issue, and the allocation of the municipal franchise fees has been modified in the CCOS. Since the existing CCOS combined municipal franchise fees and miscellaneous gross receipts taxes with other revenue-related taxes, a weighted revenue tax allocator was developed to achieve the same result as if municipal franchise fees and miscellaneous gross receipts taxes were separately identified in the CCOS.[881]

SWEPCO does not agree that its request to collect municipal franchise fees should be modified so that collections are made from only those customers located in the municipality that levies these charges as recommended by Mr. Pollock. As Mr. Abbott and Mr. Aaron testified, Commission precedent supports the collection of these charges from all customers.[882]

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[877] Redacted Direct Testimony of Jeffry Pollock, TIEC Ex. 1 at 68; Direct Testimony of William Abbott, Staff Ex. 1 at 21.

[878] Rebuttal Testimony of John O. Aaron, SWEPCO Ex. 87 at 9.

[879] Redacted Direct Testimony of Jeffry Pollock, TIEC Ex. 1 at 76; Direct Testimony of William Abbott, Staff Ex. 1 at 23.

[880] Redacted Direct Testimony of Jeffry Pollock, TIEC Ex. 1 at 77.

[881] Rebuttal Testimony of John O. Aaron, SWEPCO Ex. 87 at 10-11.

[882] Direct Testimony of William Abbott, Staff Ex. 1 at 23-24; Rebuttal Testimony of John O. Aaron, SWEPCO Ex. 87 at 11.

5. Miscellaneous Gross Receipts Taxes

Mr. Pollock and Mr. Abbott recommended that miscellaneous gross receipts taxes be allocated to customer classes based on in-city revenues.[883] Additionally, Mr. Pollock recommended that miscellaneous gross receipts taxes should be collected only from those customers located within the municipality that levies these charges.[884] On rebuttal, SWEPCO agreed with Messrs. Pollock and Abbott regarding the allocation issue, and the allocation of the miscellaneous gross receipts taxes has been modified in the CCOS. Since the existing CCOS combined municipal franchise fees and miscellaneous gross receipts taxes with other revenue-related taxes, a weighted revenue tax allocator was developed to achieve the same result as if municipal franchise fees and miscellaneous gross receipts taxes were separately identified in the CCOS.[885]

SWEPCO does not agree that its request to collect miscellaneous gross receipts taxes should be modified so that collections are made from only those customers located in the municipality that levies these charges as recommended by Mr. Pollock. As Mr. Abbott and Mr. Aaron testified, Commission precedent supports the collection of these charges from all customers.[886]

6. Primary Distribution Substation and Line Services

Mr. Pollock noted that SWEPCO's CCOS does not separate Primary Substation service from other Primary Distribution services.[887] This results in the allocation of certain distribution investments such as poles, overhead and underground conductors, and line transformers to distribution primary substation customers who impose no such cost on SWEPCO's distribution system. Mr. Abbott agreed with Mr. Pollock.[888]

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[883] Redacted Direct Testimony of Jeffry Pollock, TIEC Ex. 1 at 77; Direct Testimony of William Abbott, Staff Ex. 1 at 24.

[884] Redacted Direct Testimony of Jeffry Pollock, TIEC Ex. 1 at 77.

[885] Rebuttal Testimony of John O. Aaron, SWEPCO Ex. 87 at 10-11.

[886] Direct Testimony of William Abbott, Staff Ex. 1 at 23-24; Rebuttal Testimony of John O. Aaron, SWEPCO Ex. 87 at 11.

[887] Redacted Direct Testimony of Jeffry Pollock, TIEC Ex. 1 at 71.

[888] Direct Testimony of William Abbott, Staff Ex. 1 at 29-31.

On rebuttal, Mr. Aaron agreed with these witnesses. Primary distribution substation customers take service at the substation bus and do not use SWEPCO's distribution lines.[889] Thus, in SWEPCO's rebuttal CCOS, primary distribution substation demands associated with the customers taking such service were removed from the allocation factors related to the distribution investments that should not be allocated to primary distribution substation customers.[890] This modification ensures that primary line costs are not allocated to primary distribution substation customers.[891]

7. Appropriate Load Factor for Use in Average Component of A&E/4CP

SWEPCO allocated production costs to customer classes using the A&E/4CP method.[892] In calculating the average component of the A&E/4CP, Mr. Aaron used the Texas load factor of 65%. On cross-rebuttal, Mr. Pollock made a "correction" to the Company's load factor calculation. In his opinion, the load factor should be that of the entire SWEPCO system, which he calculates to be 58%.[893]

What Mr. Pollock describes as a "correction" is in fact a difference of opinion. The appropriate load factor for use in allocating Texas jurisdictional production costs to Texas customers is the Texas load factor because that factor reflects the consumption patterns of the Texas customers.

B. Revenue Distribution [PO Issues 35, 36]

Revenue distribution is the mechanism by which the revenue increase is assigned to the classes of customers, and it determines the revenue requirement targets for each rate class. While the CCOS is the basis for the revenue distribution, factors other than the cost-of-service results were taken into consideration and presented in the target base rate increases for each class.[894] SWEPCO's proposed revenue distribution followed the settlement positions in its previous rate case in an attempt to limit contested revenue distribution issues. The Company's goal for the revenue distribution was to use it as a basis to develop a rate design that does not produce wide

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889 Tr. at 770.

890 Tr. at 770.

891 Rebuttal Testimony of John O. Aaron, SWEPCO Ex. 87 at 14.

892 Direct Testimony of John O. Aaron, SWEPCO Ex. 50 at 31-32.

893 Cross-Rebuttal Testimony of Jeffry Pollock, TIEC Ex. 2 at 17-18.

894 Direct Testimony of Jennifer Jackson, SWEPCO Ex. 51 at 11.

variations in customer impact while introducing two generating plants into rate base.[895] In its rebuttal case, SWEPCO provided a revised revenue distribution that incorporated the changes made to the revised CCOS filed by Mr. Aaron with his rebuttal testimony.[896]

As shown below, the proposed system average increase is 33.81%. Several rate classes show greater than system average increases at an equalized return and some rate classes show less than system average increases.[897]

Table 1

Class	**Percentage Change @ an Equalized Return**
Residential	25.34%
General Service	21.87%
Lighting & Power Secondary	41.45%
Lighting & Power Primary	52.78%
Large Lighting & Power Primary	90.54%
Large Lighting & Power Transmission	13.69%
Oilfield Service	31.43%
Electric Furnace Sec	-8.19%
Metal Melting Primary	72.22%
Metal Melting Transmission	17.10%
Cotton Gin	192.39%
Municipal Pumping	40.45%
Municipal Service	-0.60%
Municipal Street Lighting	41.18%
Public Street & Hwy Lighting	465.66%
Private, Outdoor, & Area Lighting	31.16%
Customer-Owned Lighting	81.21%
Total Retail	**33.81%**

[895] Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 4.

[896] Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 6; Exhibit JLJ-1R.

[897] Direct Testimony of Jennifer Jackson, SWEPCO Ex. 51 at 10.

For revenue distribution purposes, in order to mitigate the large increases and large impacts to certain rate classes, classes with similarly-situated customers were combined into a major class and the combined change in class revenue requirement at an equalized rate of return was applied to the individual rate classes within the major class.[898] The results of the proposed revenue distribution show that all major classes of customers have either achieved an equalized return (a rate of return of 8.55% or a relative rate of return of 1.0) at the requested level of increase, or have made movement toward an equalized return.

While the equalized return for each rate class is ideal, making the move to the equalized return would lead to excessive impacts on certain groups of customers. SWEPCO's proposed revenue distribution appropriately considers both the equalized return and moderation. For example, the Large Lighting and Power classes have been combined with several specialty industrial rate classes including the Metal Melting rate class, the Oil Field Industrial rate class, and the Cotton Gin rate class to form the industrial major class. There are very few customers included in each of the industrial rate classes and combining them into the industrial major class provides stability and moderation in the individual customer impacts. The percentage changes at an equalized return for individual industrial rate classes range from a 14% increase up to a 192% increase. The proposed revenue distribution for the combined industrial major class indicates that a 40.39% increase is needed for the class as a whole to achieve an equalized rate of return at the major class level, as shown below.[899]

Table 2

Rate Class	Equalized Percentage Change	Proposed Percentage Change
Residential	25.34%	25.34%
General Service	21.87%	21.87%
Lighting & Power Secondary	41.45%	43.60%
Lighting & Power Primary	52.78%	43.60%
Large Lighting & Power Primary	90.54%	40.39%

[898] Direct Testimony of Jennifer Jackson, SWEPCO Ex. 51 at 12; Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at Exhibit JLJ-1R.

[899] Direct Testimony of Jennifer Jackson, SWEPCO Ex. 51 at 12, 14; Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at Exhibit JLJ-1R.

Rate Class	Equalized Percentage Change	Proposed Percentage Change
Large Lighting & Power Transmission	13.69%	40.39%
Oilfield Service	31.43%	40.39%
Electric Furnace Secondary	-8.19%	0.00%
Metal Melting Primary	72.22%	40.39%
Metal Melting Transmission	17.10%	40.39%
Cotton Gin	192.39%	40.39%
Municipal Pumping	40.45%	40.45%
Municipal Service	-0.60%	1.0%
Municipal Street Lighting	41.18%	47.50%
Public Street & Hwy Lighting	465.66%	47.50%
Private, Outdoor, & Area Lighting	31.16%	32.25%
Customer-Owned Lighting	81.21%	32.25%
Total Retail	**33.81%**	**33.81%**

Staff witness Brian Murphy disagreed with SWEPCO's proposed major class groupings because in Staff's opinion grouping rate classes into major classes for revenue distribution arbitrarily shifts costs among the rate classes within the major class groupings. Mr. Murphy argued that rates for each rate class must be increased or decreased until the sum of rate class's proposed revenues equals the sum of the rate class's cost of service. However, he also acknowledged that revenue allocation can present tradeoffs between maintaining inappropriate cross-subsidies and imposing rate shock and therefore proposed a 1.6 times system average increase ceiling.[900] As a result of the ceiling, his proposal shifts recovery of additional revenues to the residential class, thereby forcing customers in that class to pay more than the cost to serve them.[901]

SWEPCO disagrees with Staff's proposal. Ms. Jackson testified that there are some rate classes in the revenue distribution that exactly match the cost-of-service allocation while other

[900] Direct Testimony of Brian Murphy, Staff Ex. 5 at 13, 22.

[901] *See* Table 2 above; Cross Rebuttal Testimony of Lacy Seybold, OPUC Ex. 4 at 5.

rate classes were combined for revenue distribution purposes into major rate classes.[902] SWEPCO's grouping of customer rate classes into major classes was used to mitigate large increases to certain rate classes to avoid undue "rate shock" and incorporate gradualism, two issues with which Staff shows concern. As noted above, the industrial major class of customers is made up of several customer rate classes that have few (some only one) customers. Having few customers can make the CCOS results for a particular class susceptible to unusual circumstances in a particular test year. Grouping rate classes together mitigates this situation. SWEPCO's proposed revenue distribution incorporates the major class groupings that were acceptable to parties to SWEPCO's last rate case settlement. SWEPCO's proposed major class groupings also isolate any rate class subsidies to *within* the major class groupings, whereas Staff's proposed revenue distribution recommendation spreads any subsidy to *all* customers.[903]

SWEPCO grouped lighting into two major classes for revenue distribution purposes—municipal lighting and other lighting. Cities witness Johnson recommended placing the municipal lighting and other lighting groups into one category.[904] SWEPCO continues to support its proposed grouping of the lighting classes. Some of the customers taking lighting service have customer-owned lighting facilities and others take service through Company-owned lighting facilities. The customer-owned lighting service is based on an energy-only rate and the equalized increases are significantly higher than those proposed for the Company-owned service. SWEPCO's proposal to group municipal lighting together and private and area lighting together mitigates the impact on the lighting customers while allowing for a more targeted increase to the customer-owned revenue requirement.[905]

TIEC witness Pollock recommends that the industrial group be treated as a single rate group for revenue allocation based on the unusual nature of the rate classes within the industrial group, which TIEC agrees is essentially the same approach SWEPCO is proposing.[906] Mr. Pollock also argues that the industrial rates move further from cost because SWEPCO has

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[902] Tr. at 829-830.

[903] Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 8.

[904] Direct Testimony of Clarence Johnson, Cities Ex. 5 at 36.

[905] Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 9.

[906] Redacted Direct Testimony of Jeffry Pollock, TIEC Ex. 1 at 84.

not justified its proposed increases in non-firm rates.[907] That issue is addressed in Section VII.C.3.d., below.

Wal-Mart witness Steve Chriss also expressed concern with the way SWEPCO aggregated the customer rate classes into major classes because in his opinion such grouping can introduce inequalities within major class groupings. Mr. Chriss recommended that the Commission introduce a bandwidth of plus or minus 2.5% around the average total base rate percentage increase approved in this docket for each of the non-residential classes.[908] Again, imposition of gradualism constraints on individual rate classes, rather than within larger class groupings, shifts cost recovery across all rate classes.

Because SWEPCO's revenue allocation limits subsidies to within particular major classes instead of spreading subsidies across all rate classes, it is the most reasonable revenue distribution and should be adopted.

C. Rate Design [PO Issue 32, 34]

In this case, the proposed rate design for all rate classes is based on the target level of base rate change shown in the revenue distribution. Each class's rate components, such as the customer charge, energy rate, demand rate, and minimum bill components, were adjusted based on the target percent change as shown on the proposed revenue distribution.[909]

In addition, SWEPCO has proposed several modifications that are uncontested, such as the Experimental Economic Development Rate; OLI rate restructuring; MP rate restructuring; updated fixed charge rate percentage rates that apply to facilities maintenance and rental, accounts requiring redundant service, and for monthly charges for a customer's contribution in aid of construction; and revised terms and conditions, Deposit Policy, and Collection and Disconnect Policy. These proposals are not discussed further in this brief.

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[907] Redacted Direct Testimony of Jeffry Pollock, TIEC Ex. 1 at 83.

[908] Direct Testimony of Steve Chriss, Wal-Mart Ex. 1 at 13.

[909] Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 10.

1. Residential

a. Customer Charge

As noted above, SWEPCO proposed to increase each component of the residential rate by the same percentage. OPUC witness Seybold recommended that the residential customer charge and net metering account charge should remain at their current levels.[910]

SWEPCO opposes Ms. Seybold's recommendations because the result is a wide disparity of customer increases, which SWEPCO proposes to avoid with its residential rate design. As can be seen in SWEPCO's filed rate design Schedule Q-8.9, customer usage at all levels will experience the same level of increase, approximately 25%. Ms. Seybold's recommendation results in a percentage increase range of 9.78% to 28%, as reflected by the same levels of customer usage.[911]

Cities witness Johnson argued that the proposed residential customer charge is excessive and contributes to inappropriate price signals, and that applying the overall base revenue percentage increase to the customer charge is inappropriate in this case because the customer charge level is unrelated to power generation cost changes. Based on those conclusions, Mr. Johnson recommended that the residential customer charge should be set no higher than the current $7.25 level.[912]

Mr. Johnson's contentions regarding recovery of allocated costs through the customer charge should be rejected for the reasons discussed in Section VII.A.2., above. While at some point a "high" or "excessive" customer charge may inhibit energy conservation if demand and energy related costs are recovered through a fixed customer charge, the definition of high or excessive is not clear. Further, neither demand nor energy-related costs are included in SWEPCO's proposed customer charge. Artificially lowering a customer charge as proposed by Mr. Johnson inhibits rates based on cost causation and in turn sends a distorted pricing signal. Further, while lower-usage (not necessarily lower-income) customers would see a lower percentage change in their total bills if the customer charge were left unchanged, SWEPCO's proposed residential customer charge is actually less than SWEPCO's proposed unit cost section

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[910] Direct Testimony of Lacy Seybold, OPUC Ex. 3 at 4.

[911] Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 11; Exhibit JLJ-2R.

[912] Direct Testimony of Clarence Johnson, Cities Ex. 5 at 29.

justifies and the increase proposed by SWEPCO achieves the goal of alleviating disparities of customer total bill impact within the residential class.[913]

Staff witness Murphy recommended that the increase to the residential customer charge be mitigated and that the charge be increased by ten percent and set to $8.00.[914] The Company's proposed residential customer charge is slightly less than the unit cost for the fixed, monthly cost of the billing service function. The customer service function also includes other costs such as metering and customer service, and allocated overheads. These costs are fixed and do not vary with customer usage. Staff's proposal again introduces unnecessary intra-class disparities in rate impacts to the residential class.[915] SWEPCO recommends that the residential customer charge be increased based on the percentage increase to the residential customer class, but that it be set no higher than the unit cost for the customer service function based on the final, compliance CCOS.

b. Energy Charge

Recommendations of the parties concerning the customer charge have a resulting impact on the energy charge.

c. Winter Declining Block Rate

OPUC witness Seybold recommended that the off-peak seasonal declining block differential should not be increased beyond its current amount on a cent-per-kWh basis.[916] Staff witness Murphy agreed with OPUC that the differential be decreased by 20% from the present level of 1.23 cents per kWh down to 0.98 cents per kWh.[917] As shown in Ms. Jackson's rebuttal testimony Exhibit JLJ-2R, SWEPCO's proposed cent-per-kWh differential between the first off-peak block and the second off-peak block is greater on a cent-per-kWh basis than the current off-peak differential between blocks, but the differential on a percentage basis is approximately the same, resulting in the elimination of the wide disparity in customer impact [current rates $0.0380 minus $0.0257 = $0.0123]. This is the differential that OPUC and Staff want to retain in the proposed rates; a per-kWh differential. SWEPCO's proposal using the same percent change to all

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913 Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 12.

914 Direct Testimony of Brian Murphy, Staff Ex. 5 at 55.

915 Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 13.

916 Direct Testimony of Lacy Seybold, OPUC Ex. 3 at 4.

917 Direct Testimony of Brian Murphy, Staff Ex. 5 at 54.

bill components results in a higher cent-per-kWh differential but the approximate same percentage change in the differential [$0.0123/$0.038 = 32.4% differential]. SWEPCO's proposed off-peak rate differential is $0.048 minus $0.03235 = $0.01565, a higher cent-per-kWh rate but a 32.6% differential. Maintaining the cent-per-kWh level based on the current off-peak blocked rates coupled with OPUC's proposal to maintain the customer charge at its current level and adjusting the rates to meet the revenue requirement contributes to the disparity in percentage rate impact to residential customers that SWEPCO has proposed to avoid.

SWEPCO has also proposed to maintain the net metering account charge at its current level.

d. Summer Inclining Block Rate

Mr. Murphy also recommended that SWEPCO modify its on-peak pricing structure to incorporate an inclining block at 900 kWh based on Staff's desire to promote energy-efficient price signals to customers,[918] and agreed with OPUC witness Seybold that the declining block rate differential be decreased. SWEPCO did not propose in its original filing to add an inclining block or change the basic structure of the residential rate schedule because: 1) the rates currently do provide a price signal that usage during the defined on-peak months is more costly and thereby encourages conservation, and 2) SWEPCO wanted to mitigate disparate impacts on customers with different usage patterns that would have been caused by a relatively large rate increase coupled with structural rate design changes. The current seasonal structure signals that all on-peak usage is more costly. The lack of an inclining block in the current residential rate structure does not presume to define the size of customer or the level of use that is specifically contributing to a higher cost.[919]

While an inclining block theoretically signals that increased usage above a certain level in the on-peak is more costly than a "base" level of usage, in reality it is very difficult for customers to determine how close they are to that increased block price or how to respond to the signal. Adding an inclining block structure may not produce any behavior change given the traditional metering prevalent at most residential premises in SWEPCO's service area. A customer would have to be extremely vigilant in reading his or her meter daily and monitor usage during the month in order to avoid usage beyond the lower price block. Another concern

[918] Direct Testimony of Brian Murphy, Staff Ex. 5 at 33.

[919] Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 14.

is that customers with larger homes (and families) could also be adversely impacted due to the size of their "base load" - not their use of air conditioning. Also, lower-income customers may actually use more energy than the average residential customer and an inclining block may have an unintended greater-than-proposed impact on them.[920]

Staff also argued that SWEPCO's North customers are accustomed to an inclining block structure during the summer rate period.[921] Prior to the last docket, SWEPCO North customers did have an inclining rate structure in the on-peak season. SWEPCO has new rate structures in effect from its last case that introduced a new, consolidated residential rate structure where the inclining block structure was eliminated for the approximately 5,000 North residential customers in favor of a flat summer peak structure for all 145,000 residential customers. Declining block and "U" shaped structures were also revised in the process of the rate structure consolidation. In that docket, the base rate increase was 6.25%, allowing for some acceptable level of variation in customer impact within the class. While the North customers may have been accustomed to the inclining structure prior to the last case, the rates under which they are billed presently are flat in the on-peak season. Rate stability is another important tenet of rate design and re-setting the structure at this time will introduce unnecessary impacts to the residential customers.[922]

2. Commercial

As noted above, SWEPCO proposed to increase each component of the commercial rate by the same percentage. Staff recommended a separate energy charge be set for the General Service (GS) class of commercial customers listed without demand meters that are billed under rate codes 200, 205, 208, and 218.[923] That recommendation is based on Staff's misunderstanding of the operation of the GS rate design. All GS customers under any GS rate code are billed consistently based on the GS rate schedule. The GS rate schedule is available to all non-residential general service customers with a maximum demand that does not exceed 50 kilowatts. All GS customers having demand exceeding ten kilowatts are billed a demand charge for the demand *in excess* of ten kilowatts. The customers labeled as rate codes 200, 205, 208 and 218 do not avoid demand charges. They do not have demand exceeding ten kilowatts and are

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[920] Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 14-15.

[921] Direct Testimony of Brian Murphy, Staff Ex. 5 at 38.

[922] Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 15-16.

[923] Direct Testimony of Brian Murphy, Staff Ex. 5 at 44.

therefore treated as all GS customers are treated under the GS rate schedule. Historically, demand meters were not installed on premises where the demand usage was determined to be less than ten kW because the General Service (GS) tariff provided that the kW charge would apply only to all kW in excess of ten kW for all GS customers. Recent SWEPCO metering procedure has been to replace all existing non-residential kWh meters with demand meters as those meters need to be replaced and to install a demand meter on all new non-residential customers, except for single-phase commercial customers with extremely low kWh usage. As customers receive demand metering, the procedure is to migrate those accounts as soon as practicable to a rate code that is identified as demand metered, such as rate code 210.[924]

SWEPCO is reviewing all individual customer demand data for the GS rate codes and will work with Staff to identify any demand billing determinants that may have been inadvertently excluded from the test year data.[925] SWEPCO proposes to bill these customers as they have always been billed, and as approved in the last case.[926]

Staff's proposed tariff change is therefore unnecessary.

Staff also contended that SWEPCO did not provide any reason for the migration of the GS primary customers to the Lighting and Power (LP) primary rates. SWEPCO reasonably proposed to move those GS primary customers that no longer qualify for the GS rate based on kW load requirements to the LP rate schedule. There is a 50 kilowatt demand limitation on the GS rate schedule and these customers' demands exceed the 50 kilowatt limit.[927]

Staff recommended that a separate demand and energy charge be set for the LP primary and LP transmission class of customers and that a separate customer charge be set for each LP "subclass."[928] Staff has mischaracterized the LP secondary minimum demand charge as a customer charge. It appears that Staff has proposed fixed customer charges for the LP class where none existed prior to this recommendation. The introduction of rate structure changes in

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[924] SWEPCO's Response to Staff's RFI 38-3, Staff Ex. 9.

[925] SWEPCO's Response to Staff's RFI 38-2, Staff Ex. 9.

[926] Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 16.

[927] Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 17.

[928] Direct Testimony of Brian Murphy, Staff Ex. 5 at 48.

this case result in differing percent changes to customers within the LP class, which SWEPCO views as unnecessary at this time in light of the magnitude of the requested increase.[929]

3. Industrial

a. Primary Substation

As discussed in Section VII.A.6., above, SWEPCO witness Aaron has agreed with Mr. Pollock's recommendation to remove the loads of primary substation-defined customers from the distribution line CCOS study. The proposed rebuttal CCOS sponsored by Mr. Aaron reflects this change and the proposed rebuttal revenue distribution reflects this change.[930]

b. Large Lighting and Power Service

TIEC witness Pollock did not agree with SWEPCO's proposed equal percentage increases in both the demand and energy charges. Mr. Pollock recommended a revamping of the LLP rate structures by introducing an explicit customer charge recovering any increase in revenue requirement for the industrial class in the demand charge exclusively.[931] SWEPCO does not support introducing major rate structure changes at this time because even small changes in rate structure, coupled with the addition of two generating plants in rate base, can result in large swings to customer billing. These suggested changes produce bill impacts that will affect customers with different usage patterns in different ways and SWEPCO has not evaluated the winners and losers in this proposed scenario.[932] SWEPCO recommends a cautious approach to making any rate structure changes with the large increase proposed for the class.

c. Proposed Metal Melting Secondary Service

There is only one customer currently on the Electric Furnace (EFS) rate schedule. This customer currently operates under the time-of-day structure in place in the current rate schedule. However, SWEPCO has been informed that this customer would like to have the option of moving from the current time-of-day structure to a structure similar to the current MMS distribution primary voltage rate schedule. The EFS customer is served at secondary voltage and

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[929] Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 17.

[930] Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 18.

[931] Redacted Direct Testimony of Jeffry Pollock, TIEC Ex. 1 at 88.

[932] Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 19.

a rate for MMS service at secondary voltage does not currently exist. Therefore, SWEPCO proposed to introduce a secondary MMS rate.[933]

Mr. Murphy recommended that SWEPCO's request to add a Metal Melting Secondary Service rate schedule be denied on the grounds that it "regresses SWEPCO's rate design from a superior time-of-use structure to a more primitive structure that lacks a time-of-use signal."[934] Mr. Murphy's recommendation fails to recognize that the rate structure is not superior if the customer cannot respond to or operate under the structure. Appropriately pricing an optional rate structure is not "primitive" as Staff proclaims, but provides a useful structure for actual customers. Offering the proposed MMS secondary rate schedule allows the customer to make an economic decision to pay more based on its own operational conditions to consume during the on-peak window hours as currently defined by the EFS rate schedule. SWEPCO does consider customer responsiveness to be an important rate design objective when creating new tariff offerings and respectfully requests, on behalf of its customer, to be granted approval to offer an MMS secondary rate schedule.[935]

d. Non-Firm Rates

TIEC witness Pollock recommended that SWEPCO's non-firm rates be retained at the current levels because he believes that SWEPCO's current non-firm rate differentials are too low.[936] Staff seems to agree with Mr. Pollock's recommendation, stating as follows:[937]

> In the CPL case, the Commission found that non-firm rates must be justified based on an objective assessment of the value:
>
> > In this case, the Commission is adopting a new policy that requires that such rates be justified by more objective means, namely, a clear definition of the resource need that the service would meet and a market-based assessment of the value of interruptible service relative to the magnitude of the difference between the interruptible and firm rates. (footnote omitted)

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933 Direct Testimony of Jennifer Jackson, SWEPCO Ex. 51 at 26-27.

934 Direct Testimony of Brian Murphy, Staff Ex. 5 at 48.

935 Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 19-20.

936 Redacted Direct Testimony of Jeffry Pollock, TIEC Ex. 1 at 93.

937 Direct Testimony of Brian Murphy, Staff Ex. 5 at 51-52.

Because SWEPCO did not provide a market-based assessment, Mr. Murphy agreed with Mr. Pollock that non-firm rates should be held at their current levels, which results in an increase in the differential between firm and non-firm rates.

SWEPCO did not produce a separate market-based study specifically identifying interruptible costs, but SWEPCO designed the non-firm rates in conjunction with the firm industrial power rates that are also serving industrial loads and followed the methodology of updating its non-firm rates approved in its last rate case. SWEPCO updates its firm and interruptible/curtailable rates as a family of rates because they are used in conjunction with each other by SWEPCO's industrial customers. The original starting point for the interruptible curtailment pricing is SWEPCO's production cost for that class of customers (the LP and LLP demand charge).[938] Further, it would indeed be anomalous to reject a proposal to retain the existing differential because of the lack of a study when the result is an *increase* in the differential without a study. This proposal contradicts the holding of the case cited by Staff to support it.

SWEPCO continues to support the rate design for the Supplementary, Backup, Maintenance and As-Available service pricing as proposed in Class I and Class II (Mr. Pollock misidentifies all the Class I and Class II tariffs as non-firm), which are intertwined with the base rate LP and LLP rate schedules and are not part of Staff's recommendation for the interruptible rates.

SWEPCO believes that the parties' recommendation could upset the delicate balance between the firm and non-firm pricing and contends that it is appropriate that all loads share in the increase in rates.

4. Other

Staff witness Murphy states that SWEPCO should be required to provide a cost/benefit analysis of offering time-variant pricing, which Staff designates as an evolving approach to rate design. Mr. Murphy offers some guidelines for what the study should contain, including alternative pricing mechanisms such as time-of-day, critical peak pricing, and real time pricing (RTP).[939]

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[938] Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 21.

[939] Direct Testimony of Brian Murphy, Staff Ex. 5 at 40-44.

Mr. Murphy characterizes his study recommendation as an evolving approach to rate design, but the recommendation rather reveals the cyclical nature of rate design. Rate design recommendations vacillate back and forth over the years from the very simplistic, easy-to-understand rate structures to the complex, critical peak pricing and RTP. Back in the mid-1990s, SWEPCO and its sister companies CPL, WTU and PSO developed an RTP program and a Select Time-of-Use (STOU) program that were approved by the Commission. SWEPCO promoted and supported the programs, which were later discontinued due to lack of customer interest. RTP and STOU programs require more expensive metering and significantly more staff to support. Staff makes the comment that a time-of-use rate is superior rate design and should not be replaced with a "primitive" rate design. Time-of-use rates may be academically and theoretically "superior" to other rate structures, but if customers cannot or will not use them they are simply not practical.[940] SWEPCO does not object to another analysis of time-of-use type rate options but customer acceptance of rate structures must be part of the equation.

VIII. Fuel Reconciliation [PO Issues 40-51]

A. Dolet Hills Lignite Company Benchmark Price [PO Issue 41]

Because customers have received the agreed-to savings, SWEPCO is requesting the Commission allow it to recover actual Dolet Hills Lignite Company (DHLC) mining costs, as well as litigation costs, incurred over the life of the deferral mechanism adopted in Docket No. 28045. DHLC mines and delivers lignite to the Dolet Hills Power Station. DHLC acquired the mining rights from Dolet Hills Mining Venture (DHMV) as a result of a settlement resolving litigation between SWEPCO and DHMV.[941] The settlement also resulted in the termination of the DHMV Lignite Mining Agreement (LMA) and was the impetus for the adoption of the deferral mechanism at issue here.[942]

Issues concerning the DHMV litigation and cost recovery for DHLC were addressed in Docket No. 28045.[943] In that case, the parties agreed to establish a benchmark for cost recovery related to DHLC.[944] The purpose of the benchmark was to guarantee that Texas ratepayers

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[940] Rebuttal Testimony of Jennifer Jackson, SWEPCO Ex. 88 at 22-23.

[941] Direct Testimony of Gregory A. Wright, SWEPCO Exhibit No. 48 at 26.

[942] Direct Testimony of Gregory A. Wright, SWEPCO Exhibit No. 48 at 24.

[943] Direct Testimony of Gregory A. Wright, SWEPCO Exhibit No. 48 at 26.

[944] Direct Testimony of Gregory A. Wright, SWEPCO Exhibit No. 48 at 26.

received at least 2% savings on the fuel costs they would have paid with DHMV for the remainder of the DHMV-LMA.[945] The parties further agreed that the DHMV-benchmark price means 98% of the price that SWEPCO would have incurred under the DHMV-LMA had DHMV delivered the lignite.[946] If DHLC costs are above the benchmark, SWEPCO defers its allocated share and is allowed to recover that deferred cost (with interest) when the DHLC price falls below the benchmark.[947]

The initial DHMV-benchmark was set at 98% of what the actual average price for DHMV was for the period January 2001 through May 2001.[948] Future DHMV-benchmarks were calculated by escalating the actual 2001 DHMV price each year based on changes in the published Gross Domestic Product-Implicit Price Deflation (GDP-IPD) index, which measures inflation for wide array of goods and services.[949] SWEPCO witness Gregory Wright testified that the GDP-IPD was selected based on its ease of use and the mistaken belief that it would serve as an accurate proxy for what SWEPCO would have paid under the DHMV-LMA.[950]

The GDP-IPD escalator worked as intended until 2007.[951] It is clear that after June 2007 the GDP-IPD failed to capture certain costs drivers that have a significant impact on a coal mine.[952] For example, the GDP-IPD failed to account for the rising cost of diesel fuel – which is used to operate all of the heavy equipment at the mine and accounts for about 10% of total mine costs – during the period at issue.[953] Mr. Wright explained that beginning in 2007, the GDP-IPD escalated DHMV benchmark price failed to reflect, or even reasonably approximate, what SWEPCO would have paid under the DHMV-LMA.[954] Specifically, the actual DHLC cost

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945 Rebuttal Testimony of Gregory A. Wright, SWEPCO Exhibit No. 85 at 4.

946 Rebuttal Testimony of Gregory A. Wright, SWEPCO Exhibit No. 85 at 4-5.

947 Rebuttal Testimony of Gregory A. Wright, SWEPCO Exhibit No. 85 at 5.

948 Rebuttal Testimony of Gregory A. Wright, SWEPCO Exhibit No. 85 at 5.

949 Rebuttal Testimony of Gregory A. Wright, SWEPCO Exhibit No. 85 at 5.

950 Rebuttal Testimony of Gregory A. Wright, SWEPCO Exhibit No. 85 at 5.

951 Direct Testimony of Gregory A. Wright, SWEPCO Exhibit No. 48 at 28.

952 Direct Testimony of Gregory A. Wright, SWEPCO Exhibit No. 48 at 28; Rebuttal Testimony of Gregory A. Wright, SWEPCO Exhibit No. 85 at 5-6.

953 Rebuttal Testimony of Gregory A. Wright, SWEPCO Exhibit No. 85 at 6.

954 Rebuttal Testimony of Gregory A. Wright, SWEPCO Exhibit No. 85 at 6.

escalators averaged a 19.8% inflation rate per year for the period 2007 through 2011, while the GDP-IPD averaged 1.7% per year for the same period.[955]

No party disputes that:

- it is possible to calculate precisely what SWEPCO would have paid under the DHMV-LMA;[956]
- if SWEPCO recovers all costs incurred under the DHLC contract, as well as its litigation costs incurred to achieve the change in miners, customers will have received $757,682 of savings in addition to the guaranteed 2% cost savings, which results in total savings of $2,923,145;[957] or,
- DHLC's costs were prudently incurred.

SWEPCO's request in this case is not new. In fact, the LPSC previously approved a requested revision to the benchmarking formula after finding that the "the formula had failed to properly reflect the costs that would have been incurred under the old DHMV contract (particularly the cost of diesel fuel), thus causing [SWEPCO] to defer such large amounts of fuel costs that it was unlikely that those deferrals would ever be collected."[958] This case is no different. Texas customers have received the promised savings and more.[959] Accordingly, SWEPCO should be allowed to recover its prudently incurred expenses to achieve these savings.

B. CenterPoint Energy Gas Transmission Contract

SWEPCO enters into firm natural gas transportation arrangements when a SWEPCO plant is critical to maintaining the reliability of SWEPCO's electric power and transmission system, will operate at a high capacity factor, and/or when swing capability is critical to meeting peaking requirements. The CenterPoint Energy gas transmission contract is such a firm transportation agreement providing primary firm transportation to the Mattison peaking plant, with secondary firm transportation to the Lieberman, Lone Star, Wilkes, and Stall plants. This CenterPoint Energy transmission contract was approved by the Commission in SWEPCO's most

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[955] Rebuttal Testimony of Gregory A. Wright, SWEPCO Exhibit No. 85 at 6.

[956] The precise calculations are set out in Exhibit GAW-2R to Mr. Wright's rebuttal testimony.

[957] Rebuttal Testimony of Gregory A. Wright, SWEPCO Exhibit No. 85 at 8.

[958] SWEPCO's Response to TIEC's RFI 2-7, SWEPCO Exhibit 104, Attachment at 3.

[959] Rebuttal Testimony of Gregory A. Wright, SWEPCO Exhibit No. 85 at 8.

recent fuel reconciliation proceeding, PUCT Docket No. 37162.[960] At the time the Commission approved the contract, it found that the criticality of the Mattison plant to SWEPCO's system reliability was a relevant factor to consider in procuring natural gas transportation service to the plant.[961] At the hearing, SWEPCO witness Mr. Howsen explained that, any time SWEPCO has the opportunity, SWEPCO uses the contract's secondary firm feature to provide transportation to the Lone Star, Lieberman, Wilkes, and Stall plants.[962] No testimony questions the prudence of this Commission-approved contract or SWEPCO's continued reasonable administration of it.

IX. Other Issues

A. Request to Recover Purchased Capacity Through Fuel

SWEPCO will be required to purchase energy and capacity on a short-term basis as environmental retrofit projects are underway at SWEPCO power plants. The need and rationale for short-term capacity purchases is changing because of the need to manage environmental requirements at SWEPCO's power plants. SWEPCO is requesting that the Commission review its cost-recovery practices relative to new operational requirements and make the determination that timely and full recovery of these necessary expenses is warranted.[963]

Traditionally, a company would enter into a purchased power capacity contract for a relatively long period of time. For example, SWEPCO's only current contract in Texas rates is an 18 year contract with Louisiana Generating LLC (LA-Gen). However, a probable impact of complying with new EPA requirements is the potential need to procure capacity for relatively short periods of time, either as a means to make up for plants that are down for construction of the new pollution control equipment, or as a mitigation measure when plants are curtailed. Because purchased power capacity can be a significant amount, and due to its new potential for annual variability, the recovery method should shift from a base rate (*i.e.* stable) line item, to one that is reconciled as part of fuel costs, for capacity in excess of SWEPCO's existing long-term contract.[964]

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[960] Direct Testimony of Kenneth Howsen, SWEPCO Ex. 62 at 19-20; Tr. at 854.

[961] *Application of Southwestern Electric Power Company for Authority to Reconcile Fuel Costs,* Docket No. 37162, Order at FoF No. 16 (Jan. 27, 2011).

[962] Tr. at 872.

[963] Rebuttal Testimony of Venita McCellon-Allen, SWEPCO Ex. 65 at 32-34.

[964] Direct Testimony of Venita McCellon-Allen, SWEPCO Ex. 25 at 53-54.

B. Request to Recover Consumables and Allowances as Fuel [PO Issue 41]

The cost of the substances consumed in the control of emissions and emission allowances are currently recovered by SWEPCO as base rate costs under PUCT rules. However, these costs are directly related to and caused by the consumption of fuel. SWEPCO requests that the Commission issue an order in this base rate proceeding authorizing SWEPCO to recover these costs through fuel costs coincident with the effective date of the new base rates to be set in this proceeding. The Commission may make exceptions its rules for good cause.[965]

While the current fuel rule does not encompass the costs of consumables and emission allowances, the Commission has yet to specify a particular rate treatment for such costs. When considering significant amendments to the fuel rule, the Commission expressly asked stakeholders to address the question of "Should the commission incorporate into these regulations language to address the proper handling of sulfur dioxide (SO2) allowances?" In response to that question, Central and Southwest Corporation (CSW has since merged with AEP) "argued against language to specify a particular treatment for SO2 allowances, because different utilities may require different mixes of base and eligible fuel treatment of expenses and revenues associated with SO2 allowances." The Commission wrote, "The commission agrees with CSW that the commission should not incorporate such language at this time."[966] Now-existing environmental regulations, as applied to SWEPCO, provide the good cause to change the way SWEPCO recovers the costs of consumables and emission allowance.

As discussed by Mr. Hendricks, now-existing federal regulations will increase SWEPCO's cost of generating electricity. The Clean Air Interstate Rule (CAIR) was finalized by EPA in 2005, and established a cap and trade program to reduce emissions of NOx and SO2 in covered states. Phase I caps for NOx and SO2 were effective in 2009 and 2010, respectively, with further reductions required by a Phase II cap starting in 2015. Under CAIR, SWEPCO must comply with annual SO2 and NOx programs in Texas and Louisiana, and seasonal NOx programs in Arkansas and Louisiana.[967]

The environmental regulation that will drive an increase in the use of consumables is the Mercury and Air Toxics Standards Rule (MATS). The final MATS Rule became effective on

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[965] P.U.C. SUBST. R. 25.3(b).

[966] 24 Tex. Reg. 4998, 5001 (July 2, 1999), State Ex. 9.

[967] Direct Testimony of John C. Hendricks, SWEPCO Ex. 29 at 20.

April 16, 2012, with compliance required within three years of this date. This rule regulates emissions of hazardous air pollutants (HAPs) from coal and oil-fired electric generating units. HAPs regulated by this rule are: 1) mercury; 2) several non-mercury metals such as arsenic, lead, cadmium and selenium; 3) various acid gases including hydrochloric acid; and 4) many organic HAPs. The MATS rule includes stringent emission rate limits for several individual HAPs, including mercury. In addition, this rule contains stringent emission rate limits for "surrogates" representing two classes of HAPs, acid gases and non-mercury particulate metal HAPs. The surrogate for non-mercury particulate metal HAPs is filterable particulate matter, while hydrogen chloride (HCl) and/or SO2 (for units equipped with a scrubber) are the surrogates for acid gases.[968]

Because the cost of emissions allowances and consumables will likely be highly variable and correlated with the burning of fuel, these costs are more appropriately recovered through eligible fuel. Further, because these costs represent an incremental cost of generating electricity, they are more appropriately recovered as fuel where their varying costs can be signaled to customers through the periodic adjustment of SWEPCO's fuel factor. Finally, as an element of fuel, these costs can be tracked and reconciled, ensuring a more timely and accurate recovery of the costs than would be the case in base rates.[969] The question posed is not one of recoverability but, instead, whether it is more appropriate to recover such costs as an item of base rates or fuel.

The other investor-owned bundled utilities operating in Texas (non-Electric Reliability Council of Texas) already include emission allowance costs as an element of eligible fuel expense in conjunction with Commission approved settlements. These utilities include Southwest Public Service Company (Docket No. 38147 - Order at Finding of Fact No. 18(i)), El Paso Electric Company (Docket No. 37690 - Order at Finding of Fact Nos. 29(b) and 33), and Entergy Gulf States, Inc. (Docket No. 34800 - Order at Finding of Fact No. 43).[970]

SWEPCO's request is also consistent with the treatment of such costs in SWEPCO's other jurisdictions. In Arkansas, certain environmental consumables and allowances are recovered through fuel by means of the Energy Cost Recovery (ECR) tariff. The ECR allows recovery of SO2 and NOx allowances and limestone. In Louisiana, certain environmental

[968] Direct Testimony of John C. Hendricks, SWEPCO Ex. 29 at 21-22.

[969] Direct Testimony of Venita McCellon-Allen, SWEPCO Ex. 25 at 55.

[970] Rebuttal Testimony of Randall W. Hamlett, SWEPCO Ex. 73 at 48.

consumables and allowances are recovered through the Environmental Adjustment Clause (EAC), which is also adjusted for actual expenditures. The EAC allows recovery of SO2 and NOx allowances and limestone. For SWEPCO's FERC customers, environmental consumables and allowances are base rate components, which are recovered in full through formula rates. These rates are trued-up each year to include actual costs. The recovery under these agreements works much like a fuel adjustment clause with the true-up.[971] SWEPCO and other utilities have worked diligently with Commission staffs across SWEPCO's three-state service territory to modernize cost recovery mechanisms. SWEPCO asks the Commission to modernize cost recovery for the Company in Texas.

C. TCRF Baseline [PO Issue 39]

A Transmission Cost Recovery Factor (TCRF) is a rate mechanism approved by the Texas Legislature (PURA § 36.209) that allows an electric utility outside of ERCOT to periodically update its recovery of transmission costs. The Commission has adopted P.U.C. SUBST. R. 25.239 to implement PURA § 36.209. The rule provides that a non-ERCOT electric utility that has received a final base rate order after December 2005 is eligible to have a TCRF. SWEPCO's last base rate order was issued in April 2010 in PUCT Docket No. 37364. In order to reduce the burden on the participants to the subsequent filings that SWEPCO will make to implement the TCRF, the Commission's order in this case should clearly set forth the baseline values for the components that are used for subsequent implementation of the TCRF.

Exhibit JOA-6 to the direct testimony of SWEPCO witness Aaron sets forth a TCRF revenue requirements calculation template.[972] Column (D) provides the baseline amounts for the elements that will be used to compute the revenue requirement (RR) using the corresponding values from SWEPCO's initial filing in this case. These baseline values are from the accounting schedules sponsored by Mr. Hamlett and the cost allocation schedules sponsored by Mr. Aaron. The components of the template are described in Mr. Aaron's direct testimony.[973]

Wal-Mart witness Chriss testified that SWEPCO's requested TCRF and distribution cost recovery factor (DCRF) will "move the recovery of $69 million of SWEPCO's revenue

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[971] Rebuttal Testimony of Venita McCellon-Allen, SWEPCO Ex. 65 at 33.

[972] Direct Testimony of John O. Aaron, SWEPCO Ex. 50 at Exhibit JOA-6.

[973] Direct Testimony of John O. Aaron, SWEPCO Ex. 50 at 35-39.

requirement from base rates to exact recovery riders."[974] Staff witness Abbott stated that the timing of SWEPCO's request is wrong, that there is no requirement for baseline values as requested by SWEPCO to be set in a base-rate proceeding, that baseline values are not defined in the Commission rules and that SWEPCO has not provided updated baseline values.[975] Further, Mr. Abbott stated that "professional judgment on controversial issues" would be required to fulfill SWEPCO's request.[976]

Mr. Chriss is wrong. SWEPCO's request to establish baseline values for the TCRF and DCRF will in no way move the recovery of its existing transmission and distribution revenue requirements from base rates to a rider. The TCRF and DCRF as requested by SWEPCO and in compliance with the applicable Commission Substantive Rules will recover the applicable future *incremental* transmission or distribution revenue requirements that are not recovered in SWEPCO's existing base rates. For a TCRF, P.U.C. SUBST. R. 25.239 defines transmission charges included in a TCRF as the charges "not being recovered through the electric utility's other retail or wholesale rates" and defines the transmission investment included in a TCRF as the "net change in the electric utility's transmission investment costs." For a DCRF, P.U.C. SUBST. R. 25.243 sets forth a formula whereby the requested distribution invested capital and distribution-related costs such as depreciation, other taxes and income taxes are reduced by the same components as established in the last comprehensive base-rate proceeding.

As to the arguments raised by Mr. Abbott, SWEPCO believes that the current proceeding is the best forum to establish the "baseline" values for its TCRF. As far as the involvement of professional judgment on controversial issues, the TCRF rule is very prescriptive in nature with the appropriate values easily determinable, as Mr. Aaron outlined in Exhibit JOA-6 of his direct testimony.[977] Further, Commission precedent supports SWEPCO's proposal to establish a TCRF baseline in this docket. In Entergy Texas PUCT Docket No. 39896, Final Order Findings of Fact 253 and 254 state that "baseline values should be set during the compliance phase of this docket" for the TCRF and DCRF requested by Entergy Texas.[978] SWEPCO will populate the TCRF and

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[974] Direct Testimony of Steve Chriss, Wal-Mart Ex. 1 at 9.

[975] Direct Testimony of William Abbott, Staff Ex. 1 at 26.

[976] Direct Testimony of William Abbott, Staff Ex. 1 at 28.

[977] Direct Testimony of John O. Aaron, SWEPCO Ex. 50 at Exhibit JOA-6.

[978] Docket No. 39896, Order on Rehearing at FoF Nos. 253 and 254.

template to reflect the appropriate values as reflected in the final order and calculated in its compliance CCOS.[979]

SWEPCO's request to establish a TCRF baseline in this docket should be approved.

D. DCRF Baseline [PO Issue 39]

Like the TCRF, a DCRF is a rate mechanism approved by the Texas Legislature (PURA § 36.210) that allows an electric utility to periodically adjust its rates for changes in certain distribution costs. The Commission has adopted P.U.C. SUBST. R. 25.243 to implement PURA § 36.210. The rule allows an electric utility not offering customer choice (*e.g.*, SWEPCO) to file an application for a DCRF at any time other than April and May. In order to reduce the burden on the participants to the subsequent filings that SWEPCO will make to implement the DCRF, SWEPCO requests that the Commission's order in this case clearly set forth the baseline values for the components that are used for subsequent implementation of the DCRF.

Exhibit JOA-9 to the direct testimony of SWEPCO witness Aaron sets forth a DCRF revenue requirement calculation. Exhibit JOA-9, page 1, column (D) summarizes the baseline amounts for the elements that will be used to compute the DCRF revenue requirement using the corresponding values from SWEPCO's filing in this case. Exhibit JOA-9, page 2, provides the detail supporting the amounts reflected in the DCRF revenue requirement calculation. These baseline values are from the accounting schedules sponsored by Mr. Hamlett and the cost allocation schedules sponsored by Mr. Aaron.[980] The components of the calculation are described in Mr. Aaron's direct testimony.[981]

Wal-Mart's Mr. Chriss and Staff witness Abbott opposed establishing a baseline for the DCRF on the same grounds as their opposition to establishing a baseline for the TCRF, and those arguments are addressed in Section IX.C., above. SWEPCO will populate the DCRF templates to reflect the appropriate values as reflected in the final order and calculated in its compliance CCOS.[982]

SWEPCO's request to establish a DCRF baseline in this docket should be approved.

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[979] Rebuttal Testimony of John O. Aaron, SWEPCO Ex. 87 at 13.

[980] Direct Testimony of John O. Aaron, SWEPCO Ex. 50 at Exhibit JOA-9.

[981] Direct Testimony of John O. Aaron, SWEPCO Ex. 50 at 40-43.

[982] Rebuttal Testimony of John O. Aaron, SWEPCO Ex. 87 at 13.

E. IBEW Staffing Issues

SWEPCO has a long history with the International Brotherhood of Electrical Workers (IBEW), having been partners in providing electricity to SWEPCO's customers since 1937, over seventy-five years. SWEPCO's linemen, trouble men, meter technicians, power plant maintenance mechanics and operators, and transmission station electricians are proud members of the union. SWEPCO respects its employees' dedication to their jobs and the critical nature of their work for SWEPCO. The Company and the IBEW work every single day to make sure that all SWEPCO employees serving customers do so safely. The Company believes that there is nothing more important than this, and its employees who are members of the IBEW perform some of the most dangerous jobs in the nation. SWEPCO collaborates on areas of safety and training, among others, and the Company and IBEW are both better for it.[983]

SWEPCO recognizes that the level of staffing is an important consideration with regards to providing safe and reliable service to its customers. The Company believes that its level of staffing has been and will continue to be sufficient to carry out its day-to-day activities to provide safe and reliable service to its customers. IBEW raises issues about the impact that the current and future level of SWEPCO's staffing may have on service reliability. However, IBEW fails to demonstrate through credible evidence that a reduction in staffing has in fact lead to deterioration in reliable service. Rather, as discussed in the direct testimony of Albert M. Smoak, SWEPCO has demonstrated that it has been committed to addressing staffing levels towards ensuring the Company's provision of safe and reliable service.[984]

SWEPCO appreciates its ongoing collaboration with IBEW and is open to working with the Commission to further discuss the Company's continued efforts towards its provision of safe and reliable service.

X. Conclusion

This is a critical case for SWEPCO and its customers. To meet customers' increasing demands for electricity while continuing its historically successful strategy of fuel diversity, SWEPCO embarked on a generation expansion plan that was approved in CCN cases and has culminated in the addition of the gas-fired Stall and Mattison and the coal-fired Turk power plants. The base rate increase that SWEPCO seeks includes $15.6 million for Stall,

[983] Rebuttal Testimony of Venita McCellon-Allen, SWEPCO Ex. 65 at 30.

[984] Rebuttal Testimony of Albert M. Smoak, SWEPCO Ex. 77 at 11.

$71.8 million for Turk, and $5.5 million as but a small step to manage the dense vegetation that poses reliability challenges to SWEPCO. These increases, however, have been partially offset by the approximately $10 million decrease in O&M expense that SWEPCO has achieved since its last rate case in PUCT Docket No. 37364.[985]

SWEPCO has done its part. It has not only supplied the investment necessary for continued reliable service, it has also controlled costs. Now SWEPCO's rates need to catch up with these investments. Even though the rate increase is large, in perspective SWEPCO's rates have not been and will not be high. SWEPCO has a history of low rates, having had just two other rate cases before this Commission in the last 29 years.[986] As stated at the outset, even with full implementation of all requested rate relief, SWEPCO's residential rates will remain the lowest of all non-ERCOT utilities operating in Texas and its commercial and industrial rates will remain below all but one.[987] And, that one utility is currently seeking an increase in rates from the Commission.[988]

Turk and Turk-related subjects have been highly contentious for some parties. Stall drew no fire. SWEPCO is confident that, when all the evidence is evaluated, the Commission will find that SWEPCO prudently implemented the plan presented and approved in the Turk CCN case in Docket No. 33891. Difficult challenges emerged sometimes. Sometimes, hard choices had to be made. But throughout, SWEPCO never wavered from its objective of supplying SWEPCO's customers with enough capacity while affording them the benefits of a fuel diverse generation portfolio. This is what history and common sense suggested SWEPCO continue to do.

Now this objective is being met through Stall and Turk, which are, respectively, the most efficient gas-fired and solid-fuel units in SWEPCO's vast generation fleet. SWEPCO fully expects that customers will enjoy the fruits of those resources for many years to come. In return, SWEPCO asks that it recover their costs, as the credible evidence shows it should.

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[985] Rebuttal Testimony of Venita McCellon-Allen, SWEPCO Ex. 65 at 6.

[986] Before Docket No. 40443, SWEPCO's last two rate cases were Docket No. 37364, which was decided in 2010, and the 1983-1984 rate case *Southwestern Electric Power Company*, Docket No. 5301, 14 P.U.C. BULL. 617 (1984)(mem.).

[987] Direct Testimony of Venita McCellon-Allen, SWEPCO Ex. 25 at 22-23.

[988] Southwestern Public Service Company is currently seeking a nearly $90 million increase in its Texas jurisdictional rates in Docket No. 40824.

Respectfully submitted,

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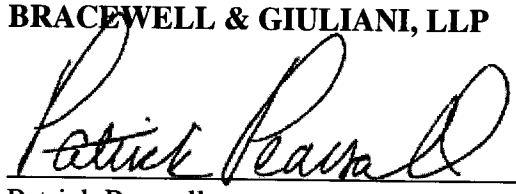

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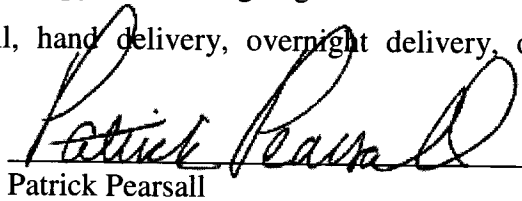
CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document was served on all parties of record via U.S. first-class mail, hand delivery, overnight delivery, or facsimile transmission on the 6th day of March, 2013.



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