

Control Number: 41527



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DOCKET NO. 41527

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FILING CLERK

APPLICATION OF SOUTH TEXAS
ELECTRIC COOPERATIVE, INC. TO
CHANGE RATES FOR WHOLESALE
TRANSMISSION SERVICE (NON-IOU)

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PUBLIC UTILITY COMMISSION
OF TEXAS

COMMISSION STAFF'S FINAL RECOMMENDATION

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

I. BACKGROUND

On May 30, 2013, South Texas Electric Cooperative, Inc. (STEC) filed a statement of intent and petition to change its rate for wholesale transmission service within the Electric Reliability Council of Texas (ERCOT) in accordance with PURA Chapter 35, Subchapter A.¹ STEC requests a total Transmission Cost of Service (TCOS) in the amount of \$47,681,204, an increase of \$13,113,641 over the amount previously approved in Docket 38569.² STEC also seeks approval to change its Wholesale Transmission Service schedule; change its Distribution Level Wholesale Transmission Service schedule and decrease the associated rate; and replace Sections I and III of its tariff due to changes made to STEC and its rules and regulations.³

STEC provided notice of its application to all transmission and distribution service providers listed in the Commission's transmission matrix in Docket No. 40946.⁴ Order No. 2, filed on June 13, 2013, established July 15, 2013 as the deadline for intervention in this proceeding.⁵ No party has intervened in this matter. Pursuant to Order No. 2, Staff is required to

¹ *Statement of Intent and Petition to Change South Texas Electric Cooperative, Inc.'s Rate for Wholesale Transmission Service* (hereinafter, STEC's Application) at 5-6 (May 30, 2013).

² STEC's Application at 24; *Application of South Texas Electric Cooperative, Inc. for Interim Update of Wholesale Transmission Rates Pursuant to P.U.C. Subst. R. 25.192(g)(1)*, Docket No. 38569, Order at 4 (Nov. 12, 2010).

³ *Id.* at 85-86.

⁴ STEC's Affidavit of Completion of Notice (Jun. 26, 2013). *Commission Staff's Application to Set 2013 Wholesale Transmission Charges for the Electric Reliability of Texas*, Docket No. 40946.

⁵ Order No. 2 at 1 (Jun. 13, 2013).

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file a recommendation regarding STEC's Application, or in the alternative request a hearing, no later than August 6, 2013.⁶ Therefore, this recommendation is timely filed.

II. RECOMMENDATION

Staff has reviewed STEC's Application. Based on the attached memoranda of Julie Black, Joe Luna, Jolie Mathis, Mark Sullivan, and Anjuli Winker, Staff recommends that the proposed transmission cost of service (TCOS) rate filing package and tariffs that were originally noticed should be approved.

STEC is a not-for-profit cooperative corporation that provides wholesale generation and transmission services for eight member cooperatives.⁷ STEC states its member cooperatives provide distribution service in 42 south Texas counties, an area of approximately 32,000 square miles.⁸

STEC's Application is based on a test year of January 2012 through December 2012.⁹ Staff has reviewed the proposed TCOS, including all aspects of the request, such as STEC's proposed net plant in service, operation and maintenance (O&M) expense, transmission depreciation expense, functionalization of costs, and the calculated return on invested capital for transmission service, and finds these requests to be reasonable.

STEC's net transmission plant in service has increased to \$261,565,565 as of December 31, 2012.¹⁰ STEC's general plant with communication that is functionalized to transmission is \$15,015,842. STEC requests \$5,645,405 of allocated transmission operating expenses and \$5,924,039 of allocated transmission maintenance expenses as recorded for the test year and reported in Schedule D-1. STEC's requested net plant in service and O&M expenses are reasonable and should be approved.¹¹

The TCOS rate filing package and PUC Substantive Rule §25.192 provide the method for calculating rate of return for a cooperative. STEC used the Debt Service Coverage (DSC) method to calculate its rate of return. For the test year ending December 31, 2012, STEC

⁶ *Id.*

⁷ STEC's Application, Direct Testimony of Cory J. Allen at 86.

⁸ *Id.* at 87.

⁹ STEC's Application, Direct Testimony of Frances J. Nitschmann at 23.

¹⁰ STEC's Application, Schedule B-1.

reported a Debt Service Requirement of \$53,797,346. Staff recommends that based on STEC's filing, a rate of return of 8.0799% and a dollar amount of return of \$21,773,427 on transmission rate base are reasonable and appropriate for STEC.¹²

Pursuant to P.U.C. SUBST. R. 25.192(c), the transmission cost of service for each transmission service provider 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 recommends that the total annual transmission depreciation expense of \$10,080,499 as found in Schedule E-1 and the total electric transmission accumulated depreciation of \$96,264,382 as found in Schedule B-5 are reasonable.¹³

STEC's proposed increase in its TCOS would result in an annual Wholesale Transmission Service rate of \$.722285/kW, which is a 27.16% increase. Based on standard Commission practice of calculating the annual \$/kW rate to six decimal places, Staff recommends that the Commission **approve** an annual wholesale transmission rate of **\$0.722285**, with an effective date consistent with the final order in this proceeding. Staff further recommends that the Commission require STEC to file a clean copy of its new wholesale transmission rate schedule, with the appropriate effective date, and that the Commission's Central Records Division stamp "Approved" the clean copy to be retained for future reference.¹⁴

III. CONCLUSION

Staff recommends approval of STEC's Application. Specifically, Staff recommends approval of STEC's requested: 1) total TCOS in the amount of \$47,681,204; 2) change to its Wholesale Transmission Service schedule; 3) change to its Distribution Level Wholesale Transmission Service schedule and decrease to the associated rate; and 4) replacement of Sections I and III of its tariff.

¹¹ See Attached Staff Recommendation of Mark Sullivan.

¹² See Attached Staff Recommendation of Anjuli Winker.

¹³ See Attached Staff Recommendation of Jolie Mathis.

¹⁴ See Attached Staff Recommendation of Julie Black.

Dated: August 6, 2013

Respectfully Submitted,

Joseph Younger
Division Director
Legal Division

Karen S. Hubbard
Managing Attorney
Legal Division



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CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record today, August 6, 2013, in accordance with P.U.C. Procedural Rule 22.74.



Davida Dwyer

Public Utility Commission of Texas

Memorandum

TO: Davida Dwyer, Legal Division

FROM: Julie Black, Tariff & Rate Analysis, Rate Regulation Division

RE: **Docket No. 41527** – *Application of South Texas Electric Cooperative, Inc. to Change Rates for Wholesale Transmission Service (Non-IOU).*

DATE: August 6, 2013

Background

On May 30, 2013, South Texas Electric Cooperative, Inc. ("STEC") filed an application for approval to increase its transmission cost of service (TCOS) and its resulting Wholesale Transmission Service (WTS) rate pursuant to P.U.C. SUBST. R. 25.192. The proposed rate increase would affect all distribution service providers (DSPs) in the ERCOT market who pay wholesale transmission charges. STEC's current WTS rate was approved in Docket No. 38569, which was an interim TCOS rate filing approved on November 12, 2010.¹ STEC's proposed WTS rate results in a total test year TCOS revenue requirement of \$47,681,204, which is an increase of \$13,113,641 over the \$34,567,563 revenue requirement amount approved in Docket No. 38569.² STEC's current annual WTS rate that it charges to DSPs operating in the ERCOT market is \$.568000/kW. STEC's proposed increase in its TCOS would result in an annual WTS rate of \$.7222852/kW, which is a 27.16% increase.

Review

The purpose of my review is to analyze STEC's proposed functionalization of its costs to the transmission function and determine whether they are appropriate. I also reviewed STEC's calculation of its proposed annual WTS rate of \$0.7222852, which STEC derived by dividing the TCOS revenue requirement referenced above, \$47,681,204, by the 2012 ERCOT Average 4-CP load of 66,014,376 kW.³

¹ *Application of South Texas Electric Cooperative, Inc. for Interim Update of Wholesale Transmission Rates Pursuant to Subst. R. 25.192(h)(1), P.U.C. Docket No. 38569 (November 12, 2010).*

² *Ibid.*

³ *Commission Staff's Application to Set 2013 Wholesale Transmission Service Charges for the Electric Reliability Council of Texas, P.U.C. Docket No. 40946.*

Recommendation

I have reviewed STEC's calculations and have determined that STEC's proposed transmission functionalization and WTS rate are appropriate. Based on standard Commission practice of calculating the annual \$/kW rate to six decimal places, I recommend that the Commission **approve** an annual wholesale transmission rate of **\$0.722285**, with an effective date consistent with the final order in this proceeding.

I further recommend that the Commission require STEC to file a clean copy of its new wholesale transmission rate schedule, with the appropriate effective date, and that the Commission's Central Records Division stamp "Approved" the clean copy to be retained for future reference.

Public Utility Commission of Texas

Memorandum

To: Davida Dwyer, Legal

From: Joe Luna, Rate Regulation - Accounting



Date: August 6, 2013

RE: Docket No. 41527 – Application of South Texas Electric Cooperative, Inc. to
Change Rates for Wholesale Transmission Service (Non-IOU)

On May 30, 2013, South Texas Electric Cooperative, Inc. (STEC) filed an application for approval to change its rates for wholesale transmission service. STEC previously revised its whole sale transmission rates in 2010 in Commission Docket 38569, an interim update. The current application is based on a test year ending December 31, 2012.


STEC's request for the test year period ending is \$47,681,204 and reflects an increase in revenue requirement of approximately \$13,113,641 when compared to the previously approved amount from Docket 38569. The Commission's order in Docket 38569 established a transmission cost of service (TCOS) for STEC in the amount of \$34,567,563. According to STEC's filing, the request for increase resulted from the following: net additions for transmission facilities that occurred after Docket 38569, updated accumulation of depreciation for all transmission facilities, depreciation expense on the net additions to the transmission facilities, property taxes on the net additions to transmission facilities, updated operations and maintenance expense required by the increased facilities primarily due to the assets transferred to STEC from Medina Electric Cooperative and Magic Valley Electric Cooperative.

I have reviewed STEC's rate case filing, the prior Final Order in Docket No. 38569, and information supplied by STEC in response to formal and informal requests for information. The issues identified in the original filing were addressed and corrected by STEC. The corrections to STEC's filing were reasonable and supported by the information supplied. As a result, I recommend that STEC's request to increase its TCOS in the amount of \$13,113,641 be approved.

Public Utility Commission of Texas

Memorandum

TO: **Davida Dwyer**
 Attorney, Legal Division

FROM: Jolie Mathis 
 Utility Analyst
 Infrastructure & Reliability Division

DATE: August 2, 2013

**RE: Docket No. 41527 – Application of South Texas Electric Cooperative, Inc.
 (STEC) to Change Rates for Wholesale Transmission Service (Non-IOU)**

On, May 30, 2013, South Texas Electric Cooperative (STEC) filed an application to change rates for wholesale 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 \$10,080,499 as found in Schedule E-1 and the total electric transmission accumulated depreciation of \$96,264,382 as found in Schedule B-5 are reasonable.

Staff therefore recommends that TCOS be approved as filed on May 30, 2013. 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.

	Annual Depreciation Expense	Accumulated Depreciation
Transmission Plant	6,583,300	71,928,120
Distribution Plant	2,166,995	14,340,609
General Plant	1,330,204	9,995,653
Total	10,080,499	96,264,382

Public Utility Commission of Texas

Memorandum

TO: Davida Dwyer
Legal Division

FROM: Mark Sullivan
Infrastructure and Reliability Division

DATE: August 2, 2013

RE: **STAFF RECOMMENDATION**

Docket No. 41527: *Application of South Texas Electric Cooperative, Inc. to Change Rates for Wholesale Transmission Service and Transmission Cost of Service (TCOS) (Non-IOU)*

South Texas Electric Cooperative, Inc. (STEC) filed an application on May 30, 2013 for approval to increase its rate for transmission service within the Electric Reliability Council of Texas. The application is based on a test year ending December 31, 2012.

My review addresses the following two issues:

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

After a review of the STEC application and responses to request for Information, I conclude that the amounts for Net Plant in Service and Operation and Maintenance Expenses are reasonable. I recommend that the Commission approve STEC's request as it relates to these two items.

Net Plant in Service. Since its last TCOS rate case (Docket No. 37535), with a projected test year ending December 31, 2008, STEC has experienced load growth and upgraded substation facilities. In addition, STEC's transmission lines have increased by approximately 700 miles since the last rate case. Also reflected in this filing is the

transfer of assets from Medina Electric Cooperative (MEC) and Magic Valley Electric Cooperative (MVEC). STEC's net plant in service directly assigned and allocated to transmission has increased to \$261,565,565¹ as of December 31, 2012. The transmission net plant in service includes the MEC and MVEC assets. Staff has concluded that the net plant in service amount of \$261,565,565 is reasonable. Also, Staff has concluded the \$15,015,842 of general plant with communication that is functionalized to transmission is reasonable.

I recommend that the Commission approve:

- 1) a total net cost of cost of plant for transmission of \$261,565,565, and
- 2) general plant for transmission of \$15,015,842.

Operation and Maintenance Expense (O&M). STEC is requesting \$5,645,405 of allocated transmission operating expenses and \$5,924,039 of allocated transmission maintenance expenses as recorded for the test year and reported in Schedule D-1. I conclude that STEC's O&M request is reasonable, and I recommend that the Commission approve the allocated transmission O&M expenses in the amount of \$11,569,444²

Cc: William Abbott
Joseph Luna
Jolie Mathis
Larry Reed
Chris Roelse
Anjuli Winker

¹ Schedule B-1.

² Schedule D-1.

Public Utility Commission of Texas

Memorandum

TO: Davida Dwyer, Legal

FROM: Anjuli Winker, Rate Regulation – Financial Review

DATE: August 5, 2013 *Anjuli*

RE: Docket No. 41527 – Application of South Texas Electric Cooperative, Inc. to Change Rates for Wholesale Transmission Service (NON-IOU)

Recommendation

On May 30, 2013, South Texas Electric Cooperative, Inc. (STEC) filed an application for approval to change its rates for wholesale transmission service pursuant to PUC Substantive Rule §25.192. Based on STEC's filing, a rate of return of 8.0799% and a dollar amount of return of \$21,773,427 on transmission rate base are reasonable and appropriate for STEC. The filing complies with the current instructions and forms that the PUC has provided for this purpose.

Scope of Analysis

My analysis of STEC'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 service.

Analysis

STEC's TCOS rate filing package uses the historical test year ending December 31, 2012. STEC used the Debt Service Coverage (DSC) method to calculate its rate of return. The TCOS rate filing package and PUC Substantive Rule §25.192 provide the method for calculating rate of return for a cooperative.

For the test year ending December 31, 2012, STEC reported a Debt Service Requirement of \$53,797,346. STEC correctly used the cooperative's most recent debt covenant plus additional coverage of .50 and added or deducted expense and income as required by the prescribed forms and instructions.¹ STEC divided the resulting total net return of \$54,353,199 by its total rate base of \$672,699,871, and correctly determined the rate of return of 8.0799%.

¹ *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.