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APPLICATION OF ENTERGY  
TEXAS, INC. FOR APPROVAL  
OF A TRANSMISSION COST  
RECOVERY FACTOR

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PUBLIC UTILITY COMMISSION  
BEFORE THE STATE OFFICE  
OF  
ADMINISTRATIVE HEARINGS  
CLERK

REBUTTAL TESTIMONY

OF

RICHARD LAIN

ON BEHALF OF

ENTERGY TEXAS, INC.

DECEMBER 2015

64

ENTERGY TEXAS, INC.  
REBUTTAL TESTIMONY OF RICHARD LAIN  
DOCKET NO. 45084

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EXHIBITS

Exhibit RL-R-1	Direct Testimony Staff witness William Abbott Filed in the SWEPCO TCRF Docket No. 42448 on July 31, 2014
Exhibit RL-R-2	Settlement Agreement in the FERC System Agreement Docket
Exhibit RL-R-3	Earnings Monitoring Report General Instructions
Exhibit RL-R-4	ETI Most Recent Earnings Monitoring Report
Exhibit RL-R-5	Excerpt from Docket No. 37247 Financing Order

I. NAME AND QUALIFICATIONS

Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Richard Lain. My business address is 919 Congress Avenue,  
Suite 740, Austin, Texas 78701.

Q2. ARE YOU THE RICHARD LAIN WHO FILED DIRECT TESTIMONY IN  
THIS TRANSMISSION COST RECOVERY FACTOR ("TCRF") CASE ON  
SEPTEMBER 11, 2015?

A. Yes, I am.

II. PURPOSE OF REBUTTAL TESTIMONY

Q3. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I provide Rebuttal Testimony on behalf of Entergy Texas, Inc. ("ETI" or the  
"Company") responding to intervenor and Commission Staff testimony on  
the subjects set forth below:

- TIEC witness Pollock's and Staff witness Abbott's inappropriate load growth adjustment, which is also addressed by Company witness Jess Totten;
- Cities witness Nalepa's inappropriate post-test year adjustment to remove ETI's transmission equalization (Entergy System Agreement Schedule MSS-2), which is also addressed by Company witnesses Margaret L. McCloskey and Jess Totten;

- 1 • TIEC witness Pollock's, Cities witness Nalepa's, and Staff witness  
2 Abbott's unsupported concerns regarding potential over-recovery;
- 3 • Cities witness Nalepa's proposal to eliminate ETI's Bad Debt  
4 Adjustment; and
- 5 • Cities witness Nalepa's testimony regarding ETI's request for  
6 temporary rates.

7  
8 Q4. PLEASE PROVIDE AN OVERVIEW OF THE OTHER REBUTTAL  
9 TESTIMONY IN THIS CASE.

10 A. The following is an overview of the Company's rebuttal testimony beyond  
11 the topics I cover as described above:

- 12 • Company witness Jess Totten explains that Cities witness Nalepa and  
13 Staff witness Filarowicz have incorrectly applied the TCRF rule with  
14 regard to the tax rate used to calculate the Texas margin tax expense.  
15 He also addresses Mr. Nalepa's testimony regarding spare  
16 transformers and MSS-2 costs, and he addresses the load growth  
17 adjustments proposed by TIEC witness Pollock and Staff witness  
18 Abbott.
- 19 • Company witness Khamsune Vongkhamchanh addresses intervenor  
20 and Staff proposals to exclude certain transmission investment project  
21 costs by explaining in detail the activities captured in the challenged  
22 project codes and/or work orders, and he supports ETI's position that

1           there will not be an over-recovery of transmission-related costs in light  
2           of ETI's anticipated transmission investment.

- 3           • Company witness Margaret L. McCloskey explains that the Company  
4           has properly accounted for the project costs included in its requested  
5           TCRF and how the requested incremental costs are consistent with the  
6           baselines set in Docket No. 41791. She also identifies deficiencies in  
7           the calculation of the revenue requirement impacts of the exclusions  
8           proposed by Cities witness Nalepa and Staff witness Murphy, as well  
9           as errors in Mr. Murphy's claims regarding ETI's presentation of MISO  
10          revenues. She also explains how Cities witness Nalepa and Staff  
11          witness Filarowicz incorrectly calculated the TCRF with regard to the  
12          Texas margin tax expense.
- 13          • Company witness Patrick J. Stack provides additional detail regarding  
14          how the costs presented in this case have been properly capitalized  
15          and assigned to proper FERC accounts and thus are recoverable in  
16          the TCRF.

17  
18          III.   RESPONSE REGARDING LOAD GROWTH ADJUSTMENT

19   Q5.   TIEC WITNESS POLLOCK AND STAFF WITNESS ABBOTT DEVOTE  
20          ALL OF THEIR TESTIMONY TO THEIR PROPOSAL THAT ETI'S TCRF  
21          BASELINE REVENUE VALUE SHOULD BE INCREASED BY  
22          \$3.4 MILLION TO ACCOUNT FOR THEIR PROJECTED GROWTH IN

1       LOAD SINCE IT WAS APPROVED IN 2013 IN ETI DOCKET NO. 41791.

2       WHAT IS THE COMPANY'S RESPONSE TO THEIR PROPOSAL?

3   A.   There are several reasons why Messrs. Pollock's and Abbott's  
4       recommendation is inappropriate and should be rejected. These reasons  
5       are: (1) the Commission specifically rejected a TCRF load growth  
6       adjustment in its November 2014 decision in Docket No. 42448, which is  
7       the docket that considered and approved Southwestern Electric Power  
8       Company's ("SWEPCO's") 2014 TCRF application; (2) the Commission  
9       rejected proposals to include a load growth adjustment in the non-ERCOT  
10      TCRF rule ("TCRF Rule"), concluding that the Rule "properly accounts for  
11      load growth for the purpose of the TCRF"; and (3) adjusting baseline  
12      values as proposed by TIEC and Staff inappropriately turns the baselines  
13      into moving and contentious targets, likely to be litigated in every TCRF,  
14      undermining the purpose of the TCRF as a streamlined proceeding  
15      envisioned by the Commission. Mr. Totten also addresses this issue in  
16      his rebuttal testimony.

17           I also understand that all parties, including TIEC and Staff, agreed  
18      to the settlement in ETI's last completed base rate case, Docket  
19      No. 41791, including the TCRF baseline values set in that docket. The  
20      Commission approved those baseline amounts as part of the settlement.<sup>1</sup>

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<sup>1</sup> The TCRF baselines were attached to the direct testimony of Company witness McCloskey as Exhibit MLM-2. The Staff workbook used in developing the baselines was included in the workpapers to Ms. McCloskey's direct testimony.

1 TIEC and Staff are now proposing to adjust those agreed baselines,  
2 contrary to the Docket No. 41791 settlement and Commission order.

3  
4 Q6. PLEASE EXPLAIN THE COMMISSION'S RULING REGARDING LOAD  
5 GROWTH IN THE 2014 SWEPCO TCRF CASE.

6 A. In Docket No. 42448, both Commission Staff and Cities Advocating for  
7 Reasonable Deregulation ("CARD") witnesses proposed in testimony a  
8 load growth adjustment that would increase the SWEPCO TCRF baseline  
9 revenue requirement to recognize a change in billing determinants since  
10 the baseline was approved by the Commission. TIEC did not file  
11 testimony in that docket, but instead filed a Statement of Position on  
12 August 13, 2014 that argued, in part, on page 3:

13 The TCRF rule is designed to allow a utility to recover  
14 transmission costs that it has not yet recovered. However,  
15 by failing to update the baseline values established in  
16 SWEPCO's last rate case, which was based on a 2011 test  
17 year, SWEPCO's proposed TCRF fails to account for the  
18 fact that it has experienced increased load growth and is  
19 thus recovering more transmission costs than reflected in  
20 these baselines. Consequently allowing SWEPCO to  
21 recover the difference between the baseline amounts and its  
22 test year expenses would result in a prohibited over-  
23 recovery. The billing determinants should be updated to  
24 match the TCRF test year.

25 What CARD and Staff argued, and what TIEC proposed in its Statement  
26 of Position, is exactly what TIEC witness Pollock and Staff witness Abbott  
27 are arguing in this case. Staff, CARD, and TIEC argued in their briefs to  
28 the ALJ that a load growth adjustment should be made. The ALJ,



1        however, at pages 20-21 of his October 14, 2014 PFD, rejected those  
2        arguments, concluding that “the Commission considered and explicitly  
3        rejected such an adjustment” when it adopted the TCRF Rule. The  
4        Commission affirmed the ALJ on this point without change, including  
5        Findings of Fact 53 through 56 and Conclusions of Law (“CoL”) 22 and 23  
6        in its Final Order issued on November 24, 2014. CoL 22 states: “Neither  
7        PURA § 36.209(b) nor P.U.C. SUBST. R. 25.239 require the use of a load-  
8        growth adjustment to baseline TCRF values. The Commission rejected  
9        just such an adjustment in its order adopting P.U.C. SUBST. R. 25.239.”  
10       CoL 23 states: “SWEPCO used the correct baseline costs established in  
11       its most recent case to calculate its TCRF.”

12  
13    Q7.   HOW DOES STAFF WITNESS ABBOTT’S TESTIMONY IN THIS TCRF  
14       DOCKET COMPARE TO THE TESTIMONY THAT HE FILED IN THE  
15       SWEPCO TCRF DOCKET NO. 42448?

16    A.    In substance, it is the same. The figures are different; his testimony in this  
17       docket, of course, refers to ETI rather than SWEPCO; and he has  
18       included some additional discussion in this docket addressing the  
19       SWEPCO TCRF docket and other rules, but many of the passages are  
20       verbatim between the two pieces of testimony, and in particular those  
21       passages that lay out his recommendation. I have included a copy of  
22       Mr. Abbott’s testimony, with his attachments, as my Exhibit RL-R-1. For  
23       example, on page 5 of his SWEPCO testimony, Mr. Abbott states:

1           **Q8. Is SWEPCO'S use of the baseline level of**  
2           **transmission costs appropriate?**

3           A. No. The baseline amount of transmission costs  
4           represents the level of costs used to *set* base rates;  
5           however, that level of costs may not be representative of the  
6           actual amounts being *recovered* via base rates at any point  
7           in time. While the baseline amount of transmission costs is  
8           the proper starting point, a consideration of the actual  
9           amount of transmission costs being recovered is necessary  
10          for proper calculation of the TCRF revenue requirement.

11           **Q9. Why is it necessary to consider the actual amount**  
12           **of transmission costs that SWEPCO is recovering in**  
13           **base rates?**

14           A. A consideration of the actual amount of transmission  
15           costs being recovered in base rates is necessary in order for  
16           the calculated TCRF rates to comply with PURA § 36.209  
17           and with P.U.C. SUBST. R. 25.239 ("TCRF Rule"). [quotation  
18           of PURA § 36.209(b) omitted] The plain language of the  
19           statute suggests to me that the *actual* amount of  
20           transmission cost *recovery* must be considered in setting a  
21           TCRF, .... (Emphasis in original)

22  
23          Now compare that language to Mr. Abbott's testimony in this docket, also

24          on page 5:

25           **Q10. Is ETI's use of the rate case test year baseline**  
26           **level of transmission costs appropriate?**

27           A. No. The baseline amount of transmission costs,  
28           \$93,587,407, represents the level of costs from the rate case  
29           test year used to *set* base rates; however, that level of costs  
30           is not representative of the actual amounts being *recovered*  
31           via base rates in the TCRF test year. While the rate case  
32           baseline amount of transmission costs is the proper starting  
33           point, a consideration of the actual amount of transmission  
34           costs being recovered is necessary for proper calculation of  
35           the TCRF revenue requirement.

36           **Q11. Why is it necessary to consider the actual amount**  
37           **of transmission costs that ETI is recovering in base**  
38           **rates?**

39           A. A consideration of the actual amount of transmission  
40           costs being recovered in base rates is necessary in order for  
41           the calculated TCRF rates to comply with PURA § 36.209  
42

1 and with 16 TAC § 25.239. [quotation of PURA § 36.209(b)  
2 omitted] The plain language of the statute suggests to me  
3 that the *actual* amount of transmission cost *recovery* must be  
4 considered in setting a TCRF, .... (Emphasis in original)

5 Q8. WHY IS THE SIMILARITY BETWEEN MR. ABBOTT'S SWEPCO TCRF  
6 TESTIMONY AND HIS TESTIMONY IN THIS CASE IMPORTANT?

7 A. Because Mr. Abbott states on page 16 of his testimony in this docket that  
8 his recommendation in this docket is "substantially different from the one  
9 rejected by the Commission" in the SWEPCO docket. But, as shown  
10 above and by comparing other passages of his testimony in this and the  
11 SWEPCO docket, that is not accurate. His recommendation in both  
12 dockets is the same; he even emphasizes the same words in both pieces  
13 of testimony. The ALJ and Commission rejected Mr. Abbott's identical  
14 recommendation in the SWEPCO docket and the same result should  
15 apply in this case.

16  
17 Q9. HOW DID THE COMMISSION ADDRESS THE PROPOSAL FOR A  
18 LOAD GROWTH ADJUSTMENT IN ITS RULEMAKING PRIOR TO  
19 ADOPTING P.U.C. SUBST. R. 25.239?

20 A. In its Proposal for Publication for the TCRF Rule filed on August 16, 2007  
21 in Project No. 33253, the Commission specifically asked for comments on  
22 whether load growth should be considered in determining whether the  
23 electric utility is recovering its transmission costs. On October 1, 2007,  
24 TIEC filed comments in that project responding on pages 3-4 as follows:

1 [T]he mere fact that a utility invests in additional transmission  
2 does not necessarily mean that a utility's base rates must be  
3 increased. Thus, it is essential that the rule provide that  
4 recovery through the TCRF mechanism can be granted only  
5 to the extent that the additional investment is not offset  
6 through load growth."

7 The Commission, in its December 14, 2007 Order adopting the  
8 TCRF Rule at page 14, rejected the load growth adjustment proposals put  
9 forth by TIEC, CARD and others:

10 The commission finds that the proposed calculation properly  
11 accounts for load growth for the purpose of the TCRF. The  
12 commission concludes that it is not necessary or appropriate  
13 to require that the calculation of the TCRF account for  
14 growth in overall revenue as a means to reduce the amount  
15 of transmission costs eligible for recovery through the TCRF.  
16 To do so would undermine the underlying purpose of HB 989  
17 to encourage timely investment in non-ERCOT transmission  
18 infrastructure. In addition, such an approach would not  
19 recognize that non-transmission costs could be growing  
20 faster than the increased revenues. Increases in load,  
21 revenue, and non-transmission costs should be addressed  
22 through a general rate case.

1 Q10. MR. POLLOCK CONTENDS ON PAGES 13-14 OF HIS TESTIMONY  
2 THAT THERE IS NO CONFLICT BETWEEN THE ADJUSTMENT HE  
3 PROPOSES AND THE COMMISSION'S RULING IN THE TCRF  
4 RULEMAKING QUOTED ABOVE, BECAUSE HE IS PROPOSING AN  
5 ADJUSTMENT ONLY TO THE TRANSMISSION BASELINE REVENUES,  
6 AND NOT TO "OVERALL REVENUE" REFERENCED IN THE TCRF  
7 RULEMAKING ORDER. STAFF WITNESS ABBOTT MAKES A SIMILAR  
8 CLAIM ON PAGES 13-14 OF HIS TESTIMONY. DO YOU AGREE?

9 A. No. First, the leading sentence in the quotation above states that "The  
10 commission finds that the proposed calculation properly accounts for load  
11 growth for the purpose of the TCRF." Whether the adjustment is focused  
12 on overall revenues or on the TCRF baseline revenue is of no  
13 consequence because the TCRF rule already properly accounts for load  
14 growth. Second, as explained above and by Mr. Totten, Mr. Pollock's  
15 adjustment to the TCRF baseline is the same adjustment proposed by  
16 Staff and CARD, and supported by TIEC, in the SWEPCO docket, which  
17 was rejected by the ALJ and Commission based on the Commission's  
18 ruling in the TCRF Rulemaking project quoted above.

19  
20 Q11. ON PAGES 12-13, MR. POLLOCK SUGGESTS THAT HIS LOAD  
21 GROWTH ADJUSTMENT SHOULD BE ADOPTED BECAUSE IT IS  
22 SIMILAR TO THE LOAD GROWTH ADJUSTMENT REQUIRED IN THE  
23 DCRF RULE, AND THAT THERE ARE SIMILARITIES AMONG THE

1 TCRF, DCRF, AND PCRF MECHANISMS. MR. ABBOTT MAKES  
2 SIMILAR CLAIMS ON HIS PAGES 9-11. HOW DO YOU RESPOND?

3 A. As noted above, in the TCRF rulemaking, the Commission explicitly  
4 considered and rejected a load growth adjustment to the TCRF revenue  
5 requirement numerator in the approved TCRF formula. In that  
6 proceeding, AXM and CARD (two cities groups) declared that the  
7 Commission must determine whether the utility is recovering costs through  
8 any other means, including reviewing the utility's sales to determine if the  
9 utility is producing sufficient revenue to recover costs incurred to build  
10 transmission infrastructure. Those parties further argued to ensure the  
11 utility is not otherwise recovering any incremental increases in costs,  
12 consideration be given to the concept that increases in cost may be  
13 accompanied by an increase in revenue from increased sales, either in  
14 terms of greater sales to existing customers, or an increase in the number  
15 of customers served, or both. The Office of Public Utility Counsel ("OPC")  
16 similarly claimed because the level of sales is increased by load growth,  
17 failing to account for these excess revenues would result in an over-  
18 recovery of the utility's costs.<sup>2</sup> Similar to the positions of Messrs. Pollock  
19 and Abbott in this case, OPC, in written reply and oral comments on the  
20 issue of the true-up provision in the TCRF Rule, highlighted the distinction  
21 between the TCRF revenue requirement and rate design, and that the

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<sup>2</sup> See Project No. 33253, Order at p. 10.

1 most recent billing data needs to be used in both calculations because if  
2 not, it would result in an excessive revenue requirement for utilities.<sup>3</sup> After  
3 consideration of these positions, as I outline above, the Commission found  
4 that the TCRF calculation properly accounts for load growth. Hence,  
5 despite their efforts to retell the narrative in this case, the Commission has  
6 spoken, both in the TCRF rulemaking and the contested SWEPCO  
7 docket.

8  
9 Q12. PLEASE EXPLAIN HOW MESSRS. POLLOCK'S AND ABBOTT'S  
10 PROPOSED BASELINE REVENUE REQUIREMENT ADJUSTMENTS  
11 REDUCE ETI'S REQUESTED REVENUE REQUIREMENT IF  
12 CALCULATED USING THE TCRF RULE FORMULA.

13 A. Their proposed adjustments, in effect, reduce the Company's requested  
14 revenue requirement (outside of the confines of the Commission-approved  
15 TCRF formula components) by applying a \$3.4 million adjustment to ETI's  
16 requested \$13.06 million revenue requirement via an increase in the  
17 baseline revenue requirement of \$93.6 million approved in Docket  
18 No. 41791 to \$97.0 million. Subtracting their adjusted amount of  
19 \$97.0 million, premised on their calculated changes in billing determinants,  
20 from ETI's requested current period transmission revenue requirement,  
21 \$106.6 million, nets \$9.57 million as the starting point for the TCRF

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<sup>3</sup> See Project No. 33253, Order at p. 13.

1 revenue requirement, which Staff further adjusts downward with its other  
2 cost reductions. This methodology and the resulting adjustment is the  
3 same one the Commission rejected in the SWEPCO TCRF docket.

4  
5 Q13. ON PAGES 15-17, MR. POLLOCK ARGUES THAT ETI'S CALCULATION  
6 DOES NOT COMPORT WITH THE "MATCHING PRINCIPLE" AND THAT  
7 PROPER RATEMAKING PRINCIPLES MUST BE APPLIED IN A TCRF  
8 PROCEEDING. DO YOU AGREE?

9 A. No. ETI's calculation comports with the TCRF Rule, which disposes of  
10 any claims based on general arguments about matching in the context of  
11 setting base rates. Mr. Pollock does not contend that ETI has deviated  
12 from the TCRF Rule, but is in reality directing his criticism to the TCRF  
13 Rule itself in what appears to be an attempt to get the Commission to  
14 reverse its precedent in the TCRF Rulemaking project and the SWEPCO  
15 case.

16  
17 Q14. ON PAGES 16-17, MR. POLLOCK CONTENDS THAT THE TRUE-UP  
18 MECHANISM IN THE TCRF RULE DOES NOT ADDRESS HIS LOAD  
19 GROWTH ISSUE. MR. ABBOTT MAKES A SIMILAR CLAIM ON PAGE  
20 8 OF HIS TESTIMONY. HOW DO YOU RESPOND?

21 A. As outlined above, Mr. Pollock's position is the same TIEC argued in the  
22 TCRF rulemaking that the Commission already considered in approving



1 the rule.<sup>4</sup> The Commission determined then and reaffirmed in the  
2 SWEPCO TCRF docket that there shall be no adjustment in the formula  
3 for the TCRF as Mr. Pollock recommends. The same Commission  
4 consideration applies to Mr. Abbott's arguments in this docket that were  
5 rejected by the ALJ and Commission in the SWEPCO TCRF docket.  
6

7 Q15. ON PAGES 17-19, MR. POLLOCK QUESTIONS WHETHER ETI  
8 REQUIRES ANY RATE INCREASE BECAUSE, THIS SUMMER, THE  
9 COMPANY WITHDREW ITS BASE RATE INCREASE FILING IN  
10 DOCKET NUMBER 44704. HOW DO YOU RESPOND?

11 A. Mr. Pollock's claims are not relevant to the determination of whether ETI's  
12 filing is in compliance with the TCRF Rule, compliance with which  
13 Mr. Pollock does not take issue. Moreover, Mr. Pollock's speculation that  
14 the withdrawal of ETI's last base rate case (Docket No. 44704) raises a  
15 risk of over-recovery through the use of a TCRF case is not supported. In  
16 fact, ETI's most recent Earnings Monitoring Report shows that its current  
17 base rates are under-earning its authorized return on equity by almost 130  
18 basis points. The purpose of the rate case was primarily, but not  
19 exclusively, to address ETI's proposed acquisition of Union Power Station  
20 Power Block 1. The withdrawal of that case in no way suggests that ETI  
21 has not incurred significant TCRF-eligible costs since its last base-rate

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<sup>4</sup> See Project No. 33253, Order at p. 13.

1 case. For example, even if Mr. Pollock's load growth adjustment to the  
2 TCRF baseline were approved (which it should not be), his testimony still  
3 leaves to be recovered almost \$10 million of the \$13.06 million requested  
4 by ETI in this docket.

5  
6 Q16. ON PAGE 16, MR. ABBOTT STATES THAT THE COMMISSION FAILING  
7 TO ADOPT HIS \$3.4 MILLION ADJUSTMENT "ALMOST GUARANTEES  
8 THAT ETI WILL OVER-RECOVER ITS COSTS." DO YOU AGREE?

9 A. No, I do not. Mr. Abbott has it backwards. ETI's TCRF rates will be put in  
10 place and charged prospectively, and at a time when transmission  
11 invested capital and costs have increased, and are continuing to increase;  
12 thus, it is not accurate to say the over-recovery of costs is almost a  
13 guarantee if \$3.4 million is not eliminated from the Company's request. As  
14 I discuss in more detail below, ETI has consistently under-earned its  
15 authorized rate of return. Therefore, if the ALJ or Commission were to  
16 adopt Mr. Abbott's recommendation—thereby decreasing ETI's cost  
17 recovery for transmission investments as of June 30, 2015—the result  
18 would likely be that ETI is almost guaranteed to under-recover its costs  
19 during a time in which the Company is continuing to spend millions of  
20 dollars for transmission facilities (since the end of the test period in this  
21 filing), and plans to spend millions more over the near term. As I  
22 discussed above, Mr. Abbott's method for calculating a TCRF growth  
23 adjustment in this docket is identical to the method he proposed in the

1       SWEPCO TCRF docket. His difference now is not in the calculation.  
2       Instead he seems to suggest, without stating as such, that there should be  
3       some form of threshold test for a TCRF growth adjustment, such as, "If the  
4       load growth adjustment is less than X% of the requested revenue  
5       requirement, then no adjustment is applied as the Commission ruled in the  
6       SWEPCO TCRF docket, but if it is higher than X%, then the adjustment is  
7       applied." The Commission's rejection of a load growth adjustment,  
8       however, was in no way tied to its magnitude.

9  
10   Q17. ON PAGE 19, MR. POLLOCK, IN THE EVENT THE COMMISSION  
11       DOES NOT APPROVE HIS RECOMMENDATION, REQUESTS IN THE  
12       ALTERNATIVE THAT THE TCRF RULE BE RE-OPENED TO  
13       INCORPORATE HIS PREFERRED APPROACH TO ACCOUNTING FOR  
14       LOAD GROWTH. IS HIS REQUEST REASONABLE?

15   A.   No, it is not. The Commission is charged with the oversight of a large  
16       amount of responsibilities and duties while there are limitations to the  
17       resources of Staff as well as other parties. It is unreasonable to ask the  
18       Commission to re-open the Rule to deal with this issue it so definitively  
19       decided in the first rulemaking (with significant expenditure of time and  
20       resources) and further confirmed in the SWEPCO contested TCRF  
21       proceeding.

IV. RESPONSE REGARDING MSS-2

Q18. CITIES WITNESS NALEPA RECOMMENDS ON HIS PAGES 6 AND 16-19 THAT THE COMMISSION SHOULD IMPOSE A POST-TEST YEAR ADJUSTMENT FOR THE ATC PORTION OF THE REQUEST, WHICH WOULD REMOVE \$10.35 MILLION FROM ETI'S \$13.06 MILLION TCRF ANNUAL REVENUE REQUIREMENT, BASED ON HIS EXPECTATION THAT ETI WILL EXIT THE ENTERGY SYSTEM AGREEMENT AS OF SEPTEMBER 2016 AND THEREBY NO LONGER INCUR \$10.35 MILLION IN TRANSMISSION EQUALIZATION ("MSS-2") EXPENSES THAT IT INCURRED DURING THE TEST PERIOD IN THIS CASE. DO YOU AGREE WITH THIS RECOMMENDATION?

A. No. First, as Mr. Totten explains, pro forma adjustments such as that proposed by Mr. Nalepa are not allowed in TCRF proceedings. As such, this MSS-2 adjustment should be rejected. Even erroneously assuming they were permissible, ETI's exit from the System Agreement is not currently a known and measurable event under the standards adopted by the Commission.

Q19. WHAT ARE MSS-2 EXPENSES AND HOW DO THEY FIT WITHIN THE COSTS ALLOWED BY THE TCRF RULE?

A. Service Schedule MSS-2 prescribes the method for equalizing the ownership costs associated with certain transmission systems facilities owned and operated by each Entergy Operating Company. Service

1       Schedule MSS-2 determines each Operating Company's Transmission  
2       Responsibility by summing the System's Net Inter-Transmission  
3       Investments and multiplying that total by each Operating Company's  
4       Responsibility Ratio. Each Operating Company's Net Inter-Transmission  
5       Investment is subtracted from its Transmission responsibility. The result is  
6       multiplied by the System Average Ownership Cost ("AOC") in order to  
7       calculate the amount that each Operating Company should pay or receive  
8       each month. For the test period at issue in this case, ETI paid, rather than  
9       received, \$10.35 million to other Operating Companies during the test  
10      period for this TCRF docket of which \$1.3 million were not included in the  
11      TCRF baseline amounts. This expense was included in the TCRF  
12      baselines and properly fits within the TCRF because Service Schedule  
13      MSS-2 is a Federal Energy Regulatory Commission-mandated system  
14      agreement payment. As such, it is includable in the TCRF, in accordance  
15      with PURA § 36.209(b) as "changes in wholesale transmission charges to  
16      the electric utility under a tariff approved by a federal regulatory authority  
17      to the extent that the costs or charges have not otherwise been  
18      recovered." Neither Cities nor any other party have challenged whether  
19      MSS-2-type expenses are properly includable in a TCRF calculation.

1 Q20. PLEASE DESCRIBE THE PARTICULAR NATURE OF MR. NALEPA'S  
2 PROPOSED ADJUSTMENT.

3 A. On his page 19, Mr. Nalepa proposes that the "current period transmission  
4 charges would be reduced by the amount of the Company's requested  
5 MSS-2 expenses, or \$10,351,179." Thus, Mr. Nalepa removed  
6 \$10.35 million from ETI's \$13.06 million TCRF request. He bases his  
7 recommendation on the fact that ETI and other Entergy Operating  
8 Companies are working towards terminating the Entergy System  
9 Agreement as of September 1, 2016. This has not yet happened. So, in  
10 effect, Mr. Nalepa is requesting a post-test year adjustment to the  
11 Company's TCRF. As discussed further by Company witness Totten,  
12 post-test year adjustments are not allowed for a TCRF. Moreover, even if  
13 post-test year adjustments were allowed, Mr. Nalepa has not shown how  
14 this adjustment is "known and measureable," much less taken into  
15 account any attendant impacts that must be considered for a known and  
16 measureable change to be allowed as a test period expense.

17  
18 Q21. WHY IS THE EXIT FROM THE SYSTEM AGREEMENT NOT KNOWN  
19 AND MEASUREABLE?

20 A. The exit from the System Agreement and the termination of Schedule  
21 MSS-2 is dependent on the approval of a settlement among various  
22 Entergy Operating Companies (including ETI) and retail regulators  
23 (including the Commission), as well as implementation of settlement terms

1       that are independently subject to regulatory review and approval. The  
2       FERC has not yet approved the Settlement that would allow ETI to exit the  
3       System Agreement. Even if the settlement is approved, other events have  
4       to happen before the exit can be consummated, including FERC approval  
5       of filings by Entergy New Orleans for its own Transmission Pricing Zone.  
6       The degree of intervention and controversy, and the potential course of  
7       such proceedings is not known at this point.

8             In addition, Mr. Nalepa has made no attempt to address the  
9       attendant monetary impacts of the exit. Mr. Nalepa does not address  
10      what additional transmission-related investment costs or ATCs ETI will  
11      incur by the time it exits the System Agreement, or whether, and to what  
12      extent, other issues of costs and revenues will arise. Simply removing the  
13      MSS-2 cost, either now or as of September 2016, does not account for  
14      potential attendant impacts and additional costs that could be incurred  
15      between the test period in this case and September 2016.

16  
17   Q22. PLEASE ADDRESS IN MORE DETAIL THE STATUS OF THE SYSTEM  
18       AGREEMENT SETTLEMENT.

19   A.   On August 14, 2015, Entergy Services, Inc. ("ESI") representing ETI,  
20       Entergy Louisiana, LLC; Entergy Gulf States Louisiana, L.L.C.; and  
21       Entergy New Orleans, Inc. ("ENO"), filed a settlement agreement at the  
22       FERC that addressed, among other matters, ETI's exit from the System  
23       Agreement. A copy of that Settlement Agreement is attached as my

1 Exhibit RL-R-2. The Settlement Agreement provides that the Entergy  
2 System Agreement will terminate effective August 31, 2016 at  
3 11:59:59 PM Central Standard Time for all Operating Companies  
4 remaining a party to the System Agreement as of that date. Section F of  
5 the Settlement Agreement (page 14) states that the Settlement is  
6 conditioned on timely approval of five specific actions filings by FERC, as  
7 well as the approval of the Settlement by the three state or municipal  
8 regulatory agencies: the PUC, the Louisiana Public Service Commission  
9 ("LPSC") and the City of New Orleans ("CNO"). It is my understanding  
10 that the PUC, LPSC, and CNO have approved the Settlement Agreement.  
11 The FERC, however, has not yet issued orders addressing the five  
12 conditions set out in Section F, including a ruling on the merits of the  
13 Settlement Agreement. Once the FERC approves the merits of the  
14 Settlement Agreement, ESI and the affected Operating Companies would  
15 plan to commence to file applications for approval of the remaining four  
16 conditions. For example, one of the five other four filings FERC conditions  
17 must approve is ENO's application for a separate Transmission Pricing  
18 Zone for ENO in MISO, to be effective on the date of the termination of the  
19 System Agreement. That application has not yet been filed at FERC and  
20 will not be filed until after the FERC has ruled on the merits of the  
21 Settlement. In summary, there are a number of contingencies yet to be  
22 fulfilled before ETI can exit the System Agreement, which prevent that



1 event from being reasonably known and measurable as that standard has  
2 been viewed by the Commission.

3  
4 Q23. ON PAGE 19, MR. NALEPA RECOMMENDS AN ALTERNATIVE TARIFF  
5 TO RECOGNIZE THE POSSIBILITY OF A CHANGE IN MSS-2 COSTS  
6 IN THE FUTURE. HOW DO YOU RESPOND?

7 A. First, there is no such provision for an alternative tariff in the terms or  
8 structure of the TCRF rule. Instead, in approving the TCRF Rule, the  
9 Commission provides a mechanism in Section 25.239(f) to periodically  
10 review a TCRF and order a refund if the TCRF results in an over-recovery.  
11 As I discuss more below, this provision for review of the TCRF will  
12 address the concerns articulated by Cities witness Nalepa. Ultimately, if  
13 the revenues from the TCRF are determined by the Commission to result  
14 in any previous over-recovery, the Commission may order a refund.

15  
16 Q24. HAS THE COMMISSION PREVIOUSLY ADDRESSED A TCRF OVER-  
17 RECOVERY REVIEW?

18 A. No, it has not. Nevertheless, the Commission has previously addressed  
19 over-recoveries in fuel reconciliations it approved. The concepts for  
20 judging whether a fuel cost over-recovery had occurred would be one  
21 possible way that the Commission could address the concerns of  
22 Mr. Nalepa and Cities regarding the MSS-2 expenses. In prior fuel  
23 reconciliation proceedings, the Commission made determinations of over-

1 and under-recoveries based on comparisons of the fuel-related revenues  
2 received by utilities to the eligible fuel-related costs the utilities actually  
3 incurred in the fuel reconciliation periods under review. In fuel  
4 reconciliations, revenues above the reasonable level of actual costs are  
5 flowed through rates to customers via a refund to the reconcilable fuel  
6 balance. A similar review of the results of the operation of the TCRF could  
7 compare actual historical TCRF revenues to the actual historical eligible  
8 transmission-related costs incurred during the period the TCRF in  
9 question was in place. Such a review could capture the actual changes in  
10 MSS-2 expense that occur after the conclusion of this case, as well as  
11 actual changes in other transmission-related costs and investment, such  
12 as the incremental investment ETI anticipates making going forward  
13 (discussed in the rebuttal testimony of Mr. Vongkhamchanh). In the event  
14 actual revenues are greater than actual costs, the Commission may order  
15 a refund to customers.

16  
17 Q25. COULD THE COMMISSION'S EECRF RULE ALSO PROVIDE A MODEL  
18 FOR THE TRUE-UP OF ACTUAL REVENUES AND ACTUAL COSTS  
19 THAT COULD BE FOLLOWED FOR THE TCRF AS WELL?

20 A. Yes. In particular, 16 TAC 25.181(f)(2) states that "For each rate class,  
21 the under- or over-recovery of the energy efficiency costs shall be the  
22 difference between actual EECRF revenues and actual costs for that class  
23 that comply with paragraph (12) of this subsection." The TCRF true-up

1       should similarly determine the difference between a utility's actual TCRF  
2       revenue and actual costs incurred over that same period to determine  
3       whether any over-recovery has occurred. Otherwise, there is a mismatch  
4       between the cost and revenue periods and a greater degree of regulatory  
5       lag is imposed.

6  
7   Q26. IS IT A MEANINGFUL DIFFERENCE THAT THE TCRF RATES ARE SET  
8       USING PAST COSTS BUT EECRF RATES ARE SET USING  
9       PROJECTED COSTS?

10   A.   No. The use of past costs to set the TCRF rates is simply a conservative  
11       means of developing a revenue requirement. It does not necessarily  
12       follow that the TCRF true-up must also look at those historical costs  
13       instead of the actual costs that are incurred contemporaneously with the  
14       TCRF revenues. In fact, to do so imposes a much greater degree of  
15       regulatory lag than is required by the TCRF statute, which was adopted in  
16       order to reduce regulatory lag with regard to the recovery of transmission  
17       investment costs. Although there may be other or additional formulations  
18       that address potential TCRF over-recovery, this example illustrates that  
19       the concerns expressed by Mr. Nalepa are misplaced.

20  
21           V.   INTERVENORS' OVER-RECOVERY CONCERNS

22   Q27. A PRINCIPAL CONCERN OF THE INTERVENORS AND STAFF IS THAT  
23       ETI'S PROPOSED TCRF WILL LEAD TO AN OVER-RECOVERY OF

1 REVENUES IF THEIR RECOMMENDATIONS ARE NOT APPROVED.

2 HOW DO YOU RESPOND?

3 A. As outlined above, the Commission has previously considered  
4 Messrs. Pollock's and Abbott's concern for utility over-recovery related to  
5 changes in sales in its decision adopting the TCRF Rule and in the  
6 SWEPCO TCRF docket. Mr. Nalepa's MSS-2 recommendation also  
7 centers on his concern with an over-recovery. Intervenors and Staff,  
8 however, are ignoring that any revenues ETI collects are subject to review  
9 by the Commission at least once every year based on the requirement  
10 that ETI annually report detailed information about its 12-month revenues  
11 and expenses through the Earnings Monitoring Report ("EMR") pursuant  
12 to 16 TAC § 25.73(b).<sup>5</sup> The Commission's EMR (the General Instructions  
13 are provided as Exhibit RL-R-3) is a comprehensive financial report that  
14 requires a detailed accounting of specific financial information, including  
15 the utility's revenues and expenses for the preceding 12-month calendar  
16 time period. Historically, the Rate Regulation Division of Commission  
17 Staff conducted in-depth analyses of the financial information through  
18 discussions and Requests for Information to determine whether it should

---

<sup>5</sup> § 25.73(b) Annual earnings report. Each electric utility not required to file an Annual Report pursuant to the Public Utility Regulatory Act ("PURA") §39.257 shall file with the commission, on commission-prescribed forms, an earnings report providing the information required to enable the commission to properly monitor electric utilities within the state. Each transmission service provider shall file with the commission a report that will permit the commission to monitor its transmission costs and revenues pursuant to §25.193(a)(5) of this title (relating to Procedures for Modifying Transmission Rates).

(1) Each electric utility shall report information related to the most recent calendar year as specified in the instructions to the report.

1 recommend that utilities are deemed to be over-recovering revenues and  
2 therefore should file a base-rate case to set rates lower. As demonstrated  
3 in this year's review, through its detailed analysis of Electric Transmission  
4 Texas's ("ETT") EMR, Staff recommended the Commission direct ETT to  
5 file an application for a base-rate case due to its belief the magnitude of  
6 ETT's apparent excess revenues was sufficient to warrant that action.<sup>6</sup> At  
7 its November 5<sup>th</sup> Open Meeting, the Commission agreed with Staff and  
8 ordered ETT to file a base-rate case. With this and the TCRF over-  
9 recovery review requirement already in place, in this proceeding  
10 intervenors and Staff would impose a requirement of disallowances on ETI  
11 that has either been rejected previously, or by the pre-emptive elimination  
12 of incurred transmission expenses at a time when the Company has spent  
13 millions of dollars for transmission facilities as of June 30, 2015, continues  
14 to spend millions, and plans to spend millions more over the near term.

---

<sup>6</sup> Project No. 44550, Staff Memo to Commissioners, November 5, 2015 Open Meeting, Agenda Item No. 14, October 28, 2015.

1 Q28. ABOVE YOU STATE IN ITS MOST RECENT EMR, ETI UNDER-  
2 EARNED ITS AUTHORIZED RETURN OF EQUITY BY  
3 APPROXIMATELY 130 BASIS POINTS. IS A UTILITY'S EMR A  
4 SATISFACTORY TOOL FOR THE COMMISSION TO DETERMINE THE  
5 OVER-RECOVERY OF REVENUES ON A YEARLY BASIS?

6 A. Yes, it is, and even more so in combination with the review contemplated  
7 by Section 25.239(f) of the TCRF Rule. Staff's annual review and  
8 analyses of electric utility EMRs has served the Commission well in  
9 determining the over-recovery of revenues and whether to require a utility  
10 to file a base-rate case for over-earning. Unlike other utilities the  
11 Commission has deemed to be over-recovering revenues and thus  
12 required them to file base-rate applications, since ETI's formation as a  
13 separate operating company of Entergy, it has never earned its authorized  
14 return on equity ("ROE"), including in the most recent EMR.  
15 Exhibit RL-R-4, shows that for calendar year 2014 ETI under-recovered  
16 revenues by approximately \$13.9 million.<sup>7</sup> Thus, the Commission's  
17 adoption of the recommendations by Messrs. Pollock and Abbott would  
18 likely further exacerbate ETI's under-earnings by \$3.4 million.  
19 Additionally, if the Commission approves Mr. Nalepa's recommendation to  
20 remove \$10.35 million in MSS-2 costs from base rates (and the

<sup>7</sup>  $\$1,735,829,575$  (2014 EMR Schedule III, Total Invested Capital)  $\times$  8.221713% (ETI's Authorized Rate of Return, Docket No. 41791) -  $\$128,818,031$  (EMR Schedule III, Weather-Adjusted Return) =  $\$13,896,895$ .

1 incremental MSS-2 portion in the TCRF) through ETI's TCRF in this case,  
2 the Company stands to be in a far worse position to earn its authorized  
3 rate of return.

4  
5 Q29. IS LIMITING ETI'S RECOVERY OF TRANSMISSION COSTS AS  
6 INTERVENORS AND STAFF PROPOSE CONSISTENT WITH THE  
7 LEGISLATIVE PURPOSE IN ADOPTING THE TCRF STATUTE?

8 A. No. The Legislature's over-arching objective in approving the non-ERCOT  
9 utility TCRF was to incentivize timely investment in transmission facilities  
10 in service areas outside of the ERCOT footprint, and to the extent those  
11 incentives are limited in ways such as using post-test-year adjustments to  
12 reduce the recovery of costs as recommended by Cities in this  
13 proceeding, or overturning the regulatory certainty that comes with  
14 established Commission precedent on addressing load growth as  
15 recommended by Messrs. Pollock and Abbott, that objective would be  
16 negatively impacted. As I discuss above, the Commission already has  
17 the EMR in place to sufficiently monitor the Company's revenues on an  
18 annual basis, and its approval of this TCRF will further allow it to  
19 determine any over-recovery of transmission-related revenues collected  
20 through the TCRF through a subsequent review. Hence, imposing a  
21 requirement of disallowances that has already been rejected by the  
22 Commission, or is pre-emptive, as Messrs. Pollock, Abbott, and Nalepa

1 recommend, undermines the purpose of incentivizing investments in  
2 transmission facilities and should be rejected.

3  
4 VI. RESPONSE REGARDING BAD DEBT ADJUSTMENT

5 Q30. WHAT IS YOUR RESPONSE TO CITIES' WITNESS NALEPA'S  
6 POSITION THAT ETI'S ADJUSTMENT FOR BAD DEBT EXPENSE IS  
7 OUTSIDE THE SCOPE OF THE TCRF FORMULA?

8 A. While it is accurate to say the formula does not expressly provide for a  
9 bad debt expense adjustment, allowing such adjustment is consistent with  
10 the objectives of the TCRF statute. Bad debts are an unavoidable aspect  
11 of utility service, and a provision for bad debt expense is routinely an  
12 element of base rates and other rate schedules designed to collect a  
13 utility's costs of service. Without such an adjustment, the rates will fall  
14 short of collecting the full cost. Collections under the TCRF will just as  
15 surely be subject to bad debts as any other rate charged by ETI, and the  
16 modest adjustment proposed as part of the TCRF will keep the Company  
17 as whole as possible and ensure that ETI's rates collect the full amount of  
18 the incremental TCRF costs it has incurred in the service of its customers.

19 Neither the TCRF Statute nor the Rule precludes the inclusion of a  
20 bad debt adjustment and, unlike the load growth adjustment I discussed  
21 above, there is no Commission precedent that I am aware of that  
22 precludes the use of a bad debt adjustment in a TCRF. PURA  
23 § 36.209(b), moreover, contemplates that the TCRF rate will be sufficient



1 to allow the utility to recover its reasonable and necessary expenditures  
2 for transmission infrastructure improvement costs (and its "ATC" costs) to  
3 the extent not otherwise recovered. This would not be the case absent a  
4 bad debt adjustment. In addition, in ETI's most recent completed base  
5 rate case, the allocation to customer classes expressly took account of  
6 bad debt expense by class, as it should in this case. The Commission has  
7 approved ETI's bad debt expense adjustments in a number of prior  
8 proceedings<sup>8</sup> and the Company's request here is consistent with the  
9 Commission's rulings. In addition to approving the bad debt factors in  
10 ETI's prior rate cases, it approved the collection of uncollectible expenses  
11 in Finding of Fact Nos. 78 and 82 in the financing order in Docket  
12 No. 37247 as provided in my Exhibit RL-R-5.

13  
14 VII. RESPONSE REGARDING TEMPORARY RATES

15 Q31. HOW DO YOU RESPOND TO CITIES' WITNESS NALEPA'S POSITION  
16 THAT ETI'S REQUEST FOR TEMPORARY RATES SHOULD BE  
17 REJECTED BY THE COMMISSION?

18 A. Mr. Nalepa contends that temporary rates, or even this TCRF filing, would  
19 not be needed if ETI had not withdrawn its base rate case filed in Docket  
20 No. 41791. I have already addressed why the withdrawal of that case has  
21 no bearing on this TCRF docket. What Mr. Nalepa overlooks is that a

---

<sup>8</sup> For example, Docket Nos. 42716, 42341, 41935, 41791, 41388, 41333, 41051, 40617, 40276, 39896, 39847, 39503, 39297, 38809, 38105, 37744, and 37247.

1 TCRF proceeding is intended to be a streamlined mechanism that reduces  
2 regulatory lag. Nevertheless, as Mr. Nalepa correctly notes on his  
3 page 24, the effective date of the rates in this docket has been suspended  
4 to March 14, 2016, which is 185 days after ETI filed its application in this  
5 docket. That is the same amount of time set out in PURA Chapter 36 to  
6 complete a full and comprehensive base-rate case in which there are  
7 usually a variety of issues addressed and litigated in contrast to a limited  
8 TCRF filing. Without temporary rates, the goal of reducing regulatory lag  
9 through use of a TCRF proceeding is impaired; therefore, Mr. Nalepa's  
10 position should not be adopted.

11  
12 VIII. CONCLUSION

13 Q32. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

14 A. Yes, it does.

SOAH DOCKET NO. 473-16-0581  
PUC DOCKET NO. 45084

2015 NOV 24 PM 1:03  
PUBLIC UTILITY COMMISSION  
FILING CLERK

APPLICATION OF ENTERGY TEXAS,  
INC. FOR APPROVAL OF A  
TRANSMISSION COST RECOVERY  
FACTOR

§  
§  
§  
§  
§

BEFORE THE STATE OFFICE

OF

ADMINISTRATIVE HEARINGS



DIRECT TESTIMONY AND WORKPAPERS OF

WILLIAM B. ABBOTT

RATE REGULATION DIVISION

PUBLIC UTILITY COMMISSION OF TEXAS

NOVEMBER 24, 2015

0000001

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## LIST OF ATTACHMENTS

Attachment WBA-1	Curriculum Vitae
Attachment WBA-2	Transmission-Only Load-Growth Adjustment
Attachment WBA-3	Project No. 33253 Load-Growth Adjustment
Workpapers	

**I. PROFESSIONAL QUALIFICATIONS**

**Q. Please state your name and business address.**

A. William B. Abbott, 1701 N. Congress Avenue, Austin, TX 78711-3326.

**Q. By whom are you employed and in what capacity?**

A. I am employed by the Public Utility Commission of Texas ("PUC" or "the Commission") as the Director of the Tariff and Rate Analysis Section of the Rate Regulation Division.

**Q. What are your principal responsibilities at the Commission?**

A. In addition to the management of the Tariff and Rate Analysis Section, my principal area of responsibility involves performing analyses of utility cost allocation, rate design, and tariff filings. My responsibilities include: analyzing cost allocation studies and rate design issues for regulated electric utilities; analyzing policy issues associated with the regulation of the electric industry; reviewing tariffs of regulated utilities to determine compliance with Commission requirements; preparing and presenting testimony as an expert witness on rate and related issues in docketed proceedings before the Commission and the State Office of Administrative Hearings ("SOAH"); and, working on or leading teams in contested cases, rulemaking projects, reports, and research concerning rates, pricing, and other Commission-related issues.

**Q. Please state your educational background and professional experience.**

A. I have provided a summary of my educational background and professional regulatory experience in Attachment WBA-1.

1 **Q. Have you previously testified before the Commission or SOAH?**

2 **A. Yes. A listing of my previously filed written testimony is also included in Attachment**  
3 **WBA-1.**  
4

5 **II. PURPOSE AND SCOPE OF TESTIMONY**

6 **Q. What is the purpose of your testimony in this case, P.U.C. Docket No. 45084,**  
7 ***Application of Entergy Texas, Inc. for Approval of a Transmission Cost Recovery***  
8 ***Factor?***

9 **A. My testimony regarding the application of Entergy Texas, Inc. ("ETI" or "Company") for**  
10 **approval of a Transmission Cost Recovery Factor ("TCRF") will address the amount of**  
11 **transmission costs being recovered in base rates. My testimony will directly address all,**  
12 **or a portion of, each of the following issues from the Commission's Preliminary Order**  
13 **(as numbered therein):**

14 1. Is ETI seeking to recover only reasonable and necessary costs for transmission  
15 infrastructure improvement and changes in wholesale transmission charges to  
16 ETI under a tariff approved by a federal regulatory authority that have not  
17 otherwise been recovered? 16 TAC § 25.239(c).

18 7. What amount of transmission infrastructure costs and wholesale transmission  
19 charges to ETI under a tariff approved by a federal regulatory authority are  
20 otherwise being recovered by ETI outside of the TCRF that ETI seeks to  
21 implement in this proceeding?

1 14. Would granting ETI's application for approval of its requested TCRF allow  
2 ETI to over-recover its costs as described in PURA § 36.209 and 16 TAC §  
3 25.239(f)?

4 Other Staff witnesses may also address aspects of the above issues.

5 **Q. What is your role in presenting Commission Staff's recommendation in this**  
6 **proceeding?**

7 A. Commission Staff's recommendation as to the proper rates that should be approved under  
8 ETI's application can be found in the direct testimony of Staff witness Brian T. Murphy.  
9 My recommended adjustment has been provided to Mr. Murphy, and is incorporated into  
10 his recommendations as to the proper TCRF rates.

11 **Q. What items did you review to arrive at your recommendations?**

12 A. In preparing my testimony, I reviewed ETI's application, certain discovery responses, the  
13 TCRF rulemaking order in Project No. 33253, prior Commission dockets, PURA  
14 § 36.209, and 16 TAC § 25.239 ("TCRF rule").  
15

16 **III. SUMMARY OF RECOMMENDATION**

17 **Q. What is your primary recommendation?**

18 A. ETI's requested TCRF rates include \$3,443,825 in transmission infrastructure costs and  
19 wholesale transmission charges that ETI is already recovering in base rates. Granting  
20 ETI's application as filed would allow ETI to over-recover its costs, in violation of  
21 PURA § 36.209 and 16 TAC § 25.239(f). I recommend that ETI's request be reduced by  
22 \$3,443,825.  
23

**IV. TCRF-RELATED COSTS RECOVERED IN BASE RATES**

**Q. What level of net TCRF-related transmission costs in base rates is ETI using to calculate its TCRF rates?**

A. ETI is using the "baseline" amount of TCRF-eligible net transmission costs ("transmission costs" subsequently, for brevity) from the test year associated with its last base rate case in the amount of \$93,587,407. ETI subtracts this amount from its proposed TCRF test year level of transmission costs, \$107,713,651, and makes an adjustment of \$1,099,914 for Interest Synchronization to arrive at its proposed TCRF revenue requirement amount of \$13,026,431.<sup>1</sup>

**Q. Is ETI's use of the rate case test year baseline level of transmission costs appropriate?**

A. No. The baseline amount of transmission costs, \$93,587,407, represents the level of costs from the rate case test year used to *set* base rates; however, that level of costs is not representative of the actual amounts being *recovered* via base rates in the TCRF test year. While the rate case baseline amount of transmission costs is the proper starting point, a consideration of the actual amount of transmission costs being recovered is necessary for proper calculation of the TCRF revenue requirement.

**Q. Why is it necessary to consider the actual amount of transmission costs that ETI is recovering in base rates?**

A. A consideration of the actual amount of transmission costs being recovered in base rates is necessary in order for the calculated TCRF rates to comply with PURA § 36.209 and with 16 TAC § 25.239.

---

<sup>1</sup> Direct Testimony of Margaret L. McCloskey (McCloskey Direct) at MLM-3.



PURA § 36.209(b) states:

The commission, after notice and hearing, may allow an electric utility to recover on an annual basis its reasonable and necessary expenditures for transmission infrastructure improvement costs and changes in wholesale transmission charges to the electric utility under a tariff approved by a federal regulatory authority to the extent that the costs or charges have not otherwise been recovered. The commission may allow the electric utility to recover only the costs allocable to retail customers in the state and may not allow the electric utility to over-recover costs.  
(Emphasis added)

The plain language of the statute suggests to me that the *actual* amount of transmission cost *recovery* must be considered in setting a TCRF, and that the TCRF may not allow for an over-recovery of costs. Failure to properly account for the *actual recovery* of transmission costs when setting a TCRF revenue requirement is likely to increase the risk that a TCRF will lead to an over-recovery.

The PURA prohibition against over-recovery is reflected in 16 TAC § 25.239(b)(1), which defines the approved transmission charges that may be included in the TCRF revenue requirement:

**Approved transmission charges (ATC)** – Wholesale transmission charges approved by a federal regulatory authority that are not being recovered through the electric utility's other retail or wholesale rates and that are appropriately allocated to Texas retail customers.  
(Emphasis added)

The language of the TCRF rule speaks to amounts *recovered*, not to the baseline amounts from years ago that base rates were originally *set* to recover. The TCRF rule requires a consideration of the actual amounts being recovered in order to avoid allowing the utility to over-recover its costs. ETI's use of the unadjusted rate case test year baseline level of transmission costs does not properly reflect the actual amounts being recovered in base rates during the TCRF test year.

1 Q. Can you provide a hypothetical example of how failure to consider the actual  
2 transmission base rate recovery amounts could lead to an over-recovery in the  
3 TCRF?

4 A. Yes. Assume that base rates were set using \$100 million in annual transmission costs  
5 (the rate case test year baseline amount), but that in the TCRF test year the utility  
6 calculates that its transmission costs have increased to \$110 million. Under ETI's  
7 proposed calculation, it would be eligible for a TCRF revenue requirement of \$10 million  
8 (\$110 million in TCRF test year costs less \$100 million rate case test year baseline).

9 However, it would be extremely improbable that the actual billing units in the  
10 TCRF test year perfectly matched the billing units used to calculate base rates in the rate  
11 case. In our example, let us assume that TCRF test year load and sales on the utility's  
12 system have increased across the board by 6% compared to the billing determinants used  
13 to set base rates. This means that the utility is actually recovering transmission costs at a  
14 rate equal to 106% of the \$100 million used to set base rates, or \$106 million. To  
15 properly calculate the amount of transmission costs *not otherwise being recovered*, it is  
16 the \$106 million amount that reflects the actual amounts being recovered and that should  
17 be subtracted from the \$110 million in TCRF test year costs. This produces, in this  
18 example, a TCRF revenue requirement of \$4 million. In this hypothetical example,  
19 ETI's proposed method of calculating the TCRF revenue requirement using the  
20 unadjusted baseline amount of transmission costs that base rates were set in the past to  
21 recover would lead to a TCRF set to over-recover by \$6 million annually.<sup>2</sup>

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<sup>2</sup> The difference between the unadjusted TCRF revenue requirement of \$10 million and the proper amount of \$4 million.

1 **Q. Is it the case, as some parties may argue, that the use of more recent billing**  
2 **determinants to set the TCRF rates adequately addresses the problem of over-**  
3 **recovery?**

4 **A.** No, not entirely. There are two basic components used to calculate a rate: the numerator,  
5 reflecting the revenues to be recovered; and the denominator, reflecting the billing units  
6 that reasonably match the time period associated with the revenues. The use of more  
7 recent billing determinants in the denominator used to calculate the TCRF rates  
8 somewhat reflects in the denominator changes in load since the rate case, and therefore  
9 increases the likelihood that the resulting TCRF rates will collect the net revenue  
10 requirement that the TCRF is set to collect; it does not, however, address the problem of  
11 using stale estimates of transmission-related base rate revenues to determine the revenue  
12 requirement numerator. The Company would still be setting rates at a level that allows  
13 the Company to over-recover its costs.

14 **Q. Does the future true-up of the revenues collected under the TCRF adequately**  
15 **address the problem of potential over-recovery?**

16 **A.** No, it does not. If the net TCRF revenue requirement is set in a manner that ignores the  
17 transmission-related load-growth revenues otherwise being recovered since the last rate  
18 case, as requested by ETI, then a true-up to that revenue requirement will result in an  
19 over-recovery of costs. In the hypothetical scenario presented above, if the TCRF is set  
20 to collect \$10 million,<sup>3</sup> and then is later trued-up to ensure that it actually collects \$10  
21 million, the utility will have over-collected by \$6 million.

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<sup>3</sup> Instead of the \$4 million that properly reflects the amounts that are otherwise being recovered in base rates.

**Recent Commission Rulemakings**

**Q. Does your recommendation to incorporate the actual base rate transmission cost recovery into the calculation of the TCRF revenue requirement accord with recent Commission rules that are similar to the TCRF rule?**

A. Yes it does. In the past few years, and much more recently than the adoption of the TCRF rule in 2007, the Commission has adopted several cost recovery factor rules ("factor rules") similar to the TCRF that explicitly deal with the issue at hand in more detail. These rules relate to the Distribution Cost Recovery Factor ("DCRF"),<sup>4</sup> the Energy Efficiency Cost Recovery Factor ("EECRF"),<sup>5</sup> and the Purchased Power Capacity Cost Recovery Factor ("PCRF").<sup>6</sup> I was personally involved in all three of the rulemakings that produced the current versions of these rules, and was the lead Staff analyst involved in drafting the PCRF rule and much of the cost recovery portion of the EECRF rule. My recommendation on this issue is more consistent with the recent Commission policy as explicitly embodied in the factor rules than is ETI's proposed treatment.

**Q. How are the other factor rules similar to the TCRF rule?**

A. Each of the factor rules involve incremental cost recovery for certain categories of costs in excess of the amounts otherwise recovered in base rates. Like *transmission* costs in excess of base rate recovery under the TCRF, the DCRF rule allows for recovery of certain incremental *distribution* costs in excess of base rate recovery. The PCRF rule allows for recovery of certain incremental purchased capacity costs in excess of

<sup>4</sup> 16 TAC § 25.243 ("DCRF rule").

<sup>5</sup> 16 TAC § 25.181 ("EECRF rule").

<sup>6</sup> 16 TAC § 25.238 ("PCRF rule").

1 production capacity costs being recovered in base rates. The EECRF rule allows for  
2 recovery of energy efficiency program costs that are not being recovered via base rates.  
3 In fact, similar to the provision in PURA that authorizes the TCRF, the statute that  
4 authorizes the EECRF contains language prohibiting an over-recovery, stating "The  
5 energy efficiency cost recovery factor under Subsection (b)(1) may not result in an over-  
6 recovery of costs...."<sup>7</sup>

7 **Q. How is actual base rate recovery of the relevant costs treated in the other factor**  
8 **rules?**

9 **A.** All of the other factor rules include either formulae or language specifying that the  
10 relevant incremental costs (above those costs used to set base rates) under consideration  
11 must be reduced by any incremental revenues associated with actual base rate recovery of  
12 that type of cost. In other words, the DCRF includes a "distribution-related load-growth  
13 adjustment," the PCRF includes a "production-related load-growth adjustment," and the  
14 EECRF includes an "energy efficiency-related load-growth adjustment." For example,  
15 under the EECRF rule, for utilities that collect energy efficiency costs in base rates, the  
16 EECRF rates are to be set to collect "energy efficiency program expenditures in excess of  
17 the actual energy efficiency revenues collected from base rates...."<sup>8</sup> These revenues are  
18 then defined as:

19 actual energy efficiency revenues collected from base rates consist of the  
20 amount of energy efficiency costs expressly included in base rates,  
21 adjusted to account for changes in billing determinants from the test year  
22 billing determinants used to set rates in the last base rate proceeding.<sup>9</sup>  
23

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<sup>7</sup> PURA § 39.905(b-1).

<sup>8</sup> 16 TAC § 25.181(f)(1)(B).

<sup>9</sup> 16 TAC § 25.181(f)(2).

1 This type of energy efficiency-related load-growth adjustment is calculated in the same  
2 manner as my recommended transmission-only load-growth adjustment. In adopting this  
3 language for the EECRF rule, the commission addressed the necessity of including such a  
4 load-growth adjustment in order to avoid the statutory prohibition against over-recovery:

5 OPUC recommended clarifying language to ensure that load growth is  
6 accounted for when setting the EECRF rates for utilities that collect energy  
7 efficiency costs in base rates. It stated that if load growth is not accounted for,  
8 the utility may over-earn if more kWhs were sold than when base rates were  
9 set. It proposed language to this effect under subsection (f)(2)(A).

10  
11 *Commission response*

12 The commission agrees with the comments provided by OPUC and  
13 adopts language in subsection (f)(2), with modifications, to state that the  
14 EECRF will recover costs in excess of "the amount of energy efficiency  
15 costs expressly included in base rates, adjusted to account for changes in  
16 billing determinants from the test year billing determinants used to set  
17 rates in the last base rate proceeding." The amount of energy efficiency  
18 costs expressly included in the calculation of base rates will be adjusted  
19 to account for changes in billing determinants from those used to set base  
20 rates to the actual billing determinants used to collect revenues. This  
21 adjustment will account for changes stemming from sources such as  
22 energy sales, load, and weather to determine the actual energy efficiency  
23 revenues recovered by the utility in its base rates. The commission now  
24 accounts for load growth in the Distribution Cost Recovery Factor  
25 (DCRF) rule, and PURA §39.905(b-1) states that the EECRF may not  
26 result in any over-recovery of costs but may be adjusted each year to  
27 change rates to enable utilities to match revenues against energy  
28 efficiency costs and any incentives to which they are granted. Therefore,  
29 load growth adjustment language in the rule is appropriate until all  
30 utilities collect energy efficiency costs solely through the EECRF.<sup>10</sup>  
31

32 Similarly calculated in order to avoid over-recovery, the DCRF rule includes a  
33 formula specifying that actual base rate recovery of distribution costs is to be considered.  
34 In the DCRF formula the cost-based distribution revenues from the base-rate proceeding

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<sup>10</sup> *Rulemaking Proceeding to Amend Energy Efficiency Rules*, Project No. 39674, Order at 98-99.

(DISTREV<sub>RC-CLASS</sub>) is multiplied by the growth in billing determinants (%GROWTH<sub>CLASS</sub>) and offsets the incremental distribution costs.<sup>11</sup>

**Q. In the other factor rules, what is the Commission's policy goal associated with requiring adjustments to offset incremental costs with incremental base rate recovery of those costs?**

**A.** As indicated above, the adjustments to offset incremental costs with associated incremental base rate revenues in the other factor rules is made to avoid calculating rates that are set to over-recover the incremental costs. As demonstrated in the hypothetical example provided on pages 7 above, failure to properly account for actual base rate recovery of the associated costs almost guarantees that the utility will over-recover costs.

**Q. Is your recommended adjustment to the TCRF appropriate and consistent with the similar treatment in the other factor rules?**

**A.** Yes. While the language of the TCRF rule is less detailed than the language of the other more recently adopted factor rules and does not address explicitly how to account for actual base rate recovery, my recommended adjustment is consistent with the TCRF rule and with how such adjustments are applied in the other factor rules. The treatment of the calculation of base rate recovery amounts in the other factor rules is necessary in order to avoid over-recovery, and thus, in its application to calculating TCRF rates, is consistent with the language of PURA § 36.209(b) and of 16 TAC § 25.239(b)(1) prohibiting over-recovery, as discussed above.

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<sup>11</sup> 16 TAC § 25.243(d).

**Calculation**

**Q. What is the actual level of transmission costs that ETI is recovering in base rates?**

**A.** Properly accounting for the changes in billing determinants by class from the base rate case test year to the TCRF test year produces an actual base rate recovery of transmission costs amount of \$97,031,232. This amount was calculated by:

1. Applying the stipulated baseline class allocation factors to the stipulated base rate case test year baseline amount of transmission costs to determine the transmission costs used to set base rates by class.
2. For each class, the above transmission cost amount in base rates was adjusted for changes in billing determinants from the billing determinants used to set base rates to the billing determinants that match the TCRF test year ending June 30, 2015. This produces the actual base rate recovery of transmission costs for each class during the TCRF test year.
3. The actual base-rate recovery of transmission costs by class were then summed to arrive at the total Texas retail amount of transmission cost recovery in the TCRF test year of \$97,031,232.

This amount compares to ETI's use of the base rate case test year baseline transmission costs from years ago in the amount of \$93,587,407, for a difference of \$3,443,825. See Attachment WBA-2 for the details of this calculation.

**Q. Why does your calculation only include incremental base rate recovery of transmission costs, instead of all incremental base rate revenues?**

**A.** It would be inappropriate to apply *all* incremental base rate recovery as an offset to transmission costs. Such an approach would fail to consider that non-transmission costs



1 might be increasing along with the non-transmission revenues, and might discourage  
2 investment in transmission infrastructure, undermining the purpose of the TCRF. The  
3 commission explicitly rejected such a “full base-rate load-growth adjustment” in its order  
4 adopting the TCRF rule in Project No. 33253:

5       **The commission concludes that it is not necessary or appropriate to**  
6       **require that the calculation of the TCRF account for growth in overall**  
7       **revenue as a means to reduce the amount of transmission costs eligible**  
8       **for recovery through the TCRF. To do so would undermine the**  
9       **underlying purpose of HB 989 to encourage timely investment in non-**  
10       **ERCOT transmission infrastructure. In addition, such an approach**  
11       **would not recognize that non-transmission costs could be growing**  
12       **faster than the increased revenues.<sup>12</sup>**  
13       **(Emphasis added)**

14       However, my proposed adjustment, reflecting the Commission policy of applying only  
15       the incremental base rate recovery of the *relevant category of costs* (instead of the *overall*  
16       costs used to set base rates) as an offset to cost increases in that category, as made more  
17       explicit in the other “factor rules,” was not proposed in Project No. 33253 and does not  
18       conflict with the Commission’s order in that project. Nor does my proposed adjustment  
19       undermine the purpose of the TCRF, but rather such a “transmission-only load-growth  
20       adjustment” is required in order to help ensure that TCRF rates comply with PURA in  
21       that they are not set to over-recover costs.

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<sup>12</sup> *Rulemaking Relating to Transmission Cost-Recovery Factor for Non-ERCOT Utilities*, Order at 14 (Dec. 11, 2007).

1 Q. What would be the magnitude of an "overall revenue," or "full base-rate load-  
2 growth adjustment," such as the load-growth adjustment rejected by the  
3 Commission in Project No. 33253?

4 A. The load-growth adjustment rejected in Project No. 33253 would, if applied in this  
5 proceeding, amount to a reduction of over \$20 million.<sup>13</sup>

6 Docket No. 42448

7 Q. Has a recommendation similar to your recommendation been proposed and rejected  
8 in a recent case?

9 A. Yes. In Docket No. 42448, a similar recommendation was made, and was rejected by the  
10 Commission. However, the facts in this proceeding are significantly different, and  
11 warrant adoption of my proposed adjustment.

12 Q. What were the relevant findings in Docket No. 42448?

13 A. In Docket No. 42448, the Commission found that "the load-growth adjustment  
14 recommended by Commission Staff, CARD, and TIEC is not substantially different from  
15 the adjustment rejected by the Commission in its Order adopting P.U.C. SUBST. R.  
16 25.239."<sup>14</sup> The Commission also found that the "potential for over-recovery of  
17 transmission costs does not necessitate the proposed load-growth adjustment."<sup>15</sup> These  
18 findings were the basis for rejecting the similar recommendation in that proceeding; they  
19 do not, however, hold in this proceeding.

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<sup>13</sup> See Attachment WBA-3. Note, the \$23,015,932 is an approximation based upon the changes in kWh or kW for the rate classes. A more precise calculation would involve incorporating the changes in number of customers, kWh, and kW for each class, as well as each individual rate that is charged to each class.

<sup>14</sup> *Application of Southwestern Electric Power Company for Approval of a Transmission Cost Recovery Factor*, Docket. No. 42448, Final Order at Findings of Fact 53-54 (Nov. 24, 2015).

<sup>15</sup> *Id.* at Findings of Fact 55-56.