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**SOAH DOCKET NO. 473-17-1764
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**APPLICATION OF SOUTHWESTERN
ELECTRIC POWER COMPANY FOR
AUTHORITY TO CHANGE RATES** §
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PUBLIC UTILITY COMMISSION
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**PUBLIC UTILITY COMMISSION
OF TEXAS**

**COMMISSION STAFF'S REQUEST FOR CLARIFICATION OF THE
COMMISSION'S ORDER**

COMES NOW the Staff (Staff) of the Public Utility Commission of Texas (Commission), representing the public interest, and files this Request for Clarification of the Commission's Order.

I. BACKGROUND

January 11, 2018, the Commission issued an order adopting in part and modifying in part the Proposal for Decision (PFD) in this proceeding.¹ Staff recommends that the Commission may wish to clarify two aspects of the Commission's order. Specifically, the Commission may wish to include in its order (1) a finding of fact reflecting the Commission's determination regarding the calculation of present revenues for revenues distribution purposes, and (2) the class allocation of capacity-related production and transmission costs.

This pleading is timely filed, consistent with the deadline for the filing of motions for rehearing.²

II. REQUEST FOR CLARIFICATION

A. Calculation of present revenues for revenue distribution purposes

At the December 14, 2017 open meeting, consistent with Chairman Walker's filed memorandum, the Commission determined that, for revenue distribution purposes, a class's

¹ Order (Jan. 11, 2018) (Order).

² Motions for rehearing are timely filed on or before February 5, 2018, which is the 25th day following the filing of the Commission's order. Administrative Procedure Act, Tex. Gov't Code § 2001.146 (West Supp. 2017).

present revenues should be evaluated inclusive—or “net of”—existing transmission cost recovery factor (TCRF) and distribution cost recovery factor (DCRF) revenues.³ This conclusion was contrary to the PFD’s recommendation⁴ and Southwestern Electric Power Company’s (SWEPCO’s) position⁵ that gradualism should be applied “gross of” existing TCRF and DCRF revenues. However, the Commission’s order does not appear to include a finding of fact reflecting this determination and instead states that SWEPCO’s proposed gradualism methodology should be adopted.⁶ Further, the order does not discuss that the PFD’s recommendation on this issue was not adopted. Staff recommends that the Commission may wish to modify the adopted findings of fact to reflect the Commission’s determination.

Staff recommends that the Commission may wish to modify Finding of Fact No. 314 to reflect that SWEPCO’s proposed gradualism methodology was not adopted in full. For example, Finding of Fact No. 314 could be revised to state:

314. SWEPCO's proposed gradualism methodology, which reduces the subsidization among individual rate classes, is reasonable and should be adopted, except that a class's present revenues should be evaluated inclusive of existing TCRF and DCRF revenues, which are base-rate related revenues.

B. Class allocation of capacity-related and other production and transmission costs

The Commission’s order could be interpreted to state that *all* production and transmission costs are allocated to the classes using an average and excess Demand-4 coincident peak (A&E-

³ Specifically, on December 13, 2017, Chairman Walker filed a memorandum proposing that the Commission adopt the above determination. Second Memorandum from Chairman Walker (Dec. 13, 2017). At the December 14, 2017 open meeting, the Commissioners appeared to be in agreement with the Chairman’s memorandum. Open Meeting Tr. at 90:5-15 (Dec. 14, 2017) (discussing the Chairman’s memorandum); *see also* Open Meeting Tr. at 93:12-19 (Dec. 14, 2017) (stating the Commissioners’ agreement regarding all of the issues in this proceeding). Consistent with this discussion, the number-running staff applied the gradualism constraints adopted in this proceeding using present revenues net of existing TCRF and DCRF revenues. *See* Commission Number Run Based on December 14, 2017 Open Meeting Discussion (Dec. 20, 2017) (including a memorandum of William Abbott discussing the revenue distribution procedure used to develop Attachment C to the Commission’s number-running schedules).

⁴ While this decision is not explicit in the text of the PFD, this decision was discussed in the correspondence between the ALJ and the number-running staff. Number Running Communications at 12, 33 (Sept. 22, 2017).

⁵ Rebuttal Testimony of John O. Aaron, SWEPCO Ex. 40 at 21 (disagreeing with Staff’s position regarding the calculation of a class’s present revenues for revenue distribution purposes).

⁶ Order at 48, Finding of Fact No. 314.

4CP) allocator—rather than just *capacity-related* production and transmission costs—because Finding of Fact Nos. 277 and 291–293 appear to discuss production and transmission costs generally.⁷ While capacity-related production and transmission costs are indeed allocated using the A&E-4CP allocator in this proceeding, various allocators are used for other production and transmission costs, which is shown in the workpapers supporting the Commission’s number-running process.⁸ Although Staff did not except to these findings of fact as proposed in the PFD, Staff recommends, after reviewing the number-running process, that additional clarity in the Commission’s order may be beneficial. As a result, the Commission may wish to modify these findings of facts to clarify that specifically capacity-related production and transmission costs are allocated using the A&E-4CP allocator.

It is consistent with Commission precedent to state that that an A&E-4CP allocator is used for class allocation of capacity-related production and transmission costs. For example, this conclusion is stated explicitly in the Commission’s final order in a recent rate case involving Southwestern Public Service Company.⁹ Similarly, the PFD in this proceeding notes that, “[i]n SWEPCO Docket No. 40443, the Commission approved the use of the A&E/4CP methodology for allocating capacity-related production costs.”¹⁰

Further, the evidence in this proceeding reflects that the PFD recommended and the Commission adopted the A&E-4CP allocator specifically for the portion of production and transmission costs that is capacity-related. Specifically, the PFD in this proceeding recommended that SWEPCO be ordered to “follow the precedent in SWEPCO Docket No. 40443 and SPS Docket No. 43695,”¹¹ which are the two precedents discussed above. Staff witness Adrian Narvaez’s

⁷ *Id.* at 45–46, Finding of Fact Nos. 277, 291–293.

⁸ In the Excel file titled “46449 Swebco Commission Number Run CCOSS Model,” included in native format with the Commission’s number-running workpapers, the “TRAN” and “GEN DEMAND” worksheets show that production plant and transmission plant are both allocated to the classes using the “DEMPROD” class allocation factor, while other allocators are used for other production and transmission costs. Row 886 of the “GEN DEMAND” worksheet and row 883 of the “TRAN” worksheet show that the “DEMPROD” class allocation factor is the same as the A&E-4CP allocator.

⁹ *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 43695, Order on Rehearing at 57, Finding of Fact No. 359 (Feb. 23, 2017).

¹⁰ Proposal for Decision at 312 (Sept. 21, 2017).

¹¹ *Id.* at 323.

testimony confirms this conclusion, as Mr. Narvaez recommended that the Commission follow its existing precedent and order that “SWEPCO’s transmission *plant-related costs* be allocated among the classes by using the A&E 4-CP allocator.”¹² Witnesses for other parties testified similarly.¹³

If the Commission wishes to modify Finding of Fact Nos. 277 and 291–293, those paragraphs could be restated as follows.

- 277. SWEPCO allocates capacity-related production costs to various classes under the average and excess Demand-4 coincident peak (A&E-4CP) methodology. This methodology allocates a percentage of costs, equal to the system load factor, based on average demand, and the remainder of those costs based on excess demand.
- 291. In Docket No. 40443, the Commission rejected SWEPCO’s proposal to allocate capacity-related transmission costs based on the 12CP methodology, and instead required SWEPCO to use the A&E/4CP methodology.
- 292. The A&E/4CP method for allocating capacity-related transmission costs to the retail classes is standard and the most reasonable methodology.
- 293. SWEPCO should use the A&E/4CP method for allocating capacity-related transmission costs to the retail classes.

III. CONCLUSION

For the reasons stated above, Staff recommends that the Commission may wish to clarify the finding of facts in the Commission’s order regarding the present revenues used for revenue distribution purposes and the class allocation of capacity-related production and transmission costs.

¹² Direct Testimony of Adrian Narvaez, Staff Ex. 2 at 17 (emphasis added). Similarly, when asked at the hearing if Mr. Narvaez recommended using the A&E-4CP allocator for all transmission plant, Mr. Narvaez testified that his recommendation applied only to “invested transmission plant.” Tr. at 1721:8–12 (Narvaez Re-Direct) (Jun. 13, 2017).

¹³ *E.g.*, Direct Testimony of Kit Pevoto, ETSWD Ex. 1 at 6 (“SWEPCO’s Texas retail transmission capacity-related costs should be allocated based on the [A&E-4CP] methodology.”); Direct Testimony of Jeffrey Pollock, TIEC Ex. 1 at 47 (“SWEPCO is proposing A&E/4CP for production plant and related costs. A&E/4CP should also be used to allocate transmission plant and related costs as ordered by the Commission in SWEPCO’s last rate case.”).

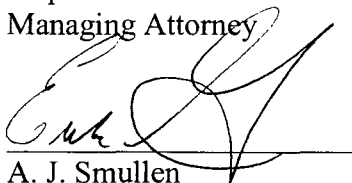
Date: February 5, 2018

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF TEXAS
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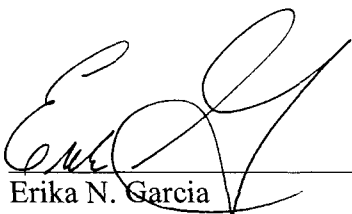
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CERTIFICATE OF SERVICE

I certify that a copy of this document will be served on all parties of record on February 5, 2018 in accordance with 16 TAC § 22.74.



Erika N. Garcia