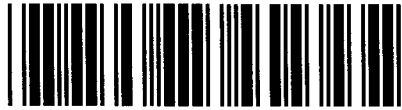




Control Number: 4769



Item Number: 1

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APPEAL OF SOUTHWESTERN ELECTRIC  
POWER COMPANY FROM THE RATE-  
MAKING DECISIONS OF VARIOUS CITIESPUBLIC UTILITY COMMISSION  
OF TEXAS

## EXAMINER'S REPORT

## I. Procedural History

On October 7, 1982, Southwestern Electric Power Company (SWEPCO) filed its petitions for review of the ratemaking decisions of the cities of Atlanta, Pittsburg, Gilmer, Mount Pleasant, and Wake Village. On October 8, 1982, SWEPCO filed its appeal from the ratemaking decisions of the cities of Alba and New Boston. On October 13, 1982, SWEPCO filed its appeal from the ratemaking decision of the city of Linden. A prehearing conference was held on November 5, 1982, at which time a schedule for future proceedings was set out, and interim rates for customers within the cities listed above were set at the level approved by the Commission in Application of Southwestern Electric Power Company, Docket No. 4628, (November 4, 1982), to be effective on November 15, 1982. The hearing on the merits was conducted on February 7, 1983, at which the cities were represented by Mr. Don Butler, SWEPCO was represented by Mr. Joe Pratt, and Ms. Marianne Carroll appeared on behalf of the Commission staff.

## II. Opinion

The rate applications filed with the cities were identical to the one filed by SWEPCO with the Commission in its environs case, Docket No. 4628. Official notice was taken at the hearing on the merits in this case of the record, Examiner's Report, Exhibits, and final Order in Docket No. 4628. The only documents presented in this docket but not considered in Docket No. 4628 were copies of the ratemaking ordinances of the following cities from which appeals have here been filed:

<u>City</u>	<u>Date of Ordinance</u>
Alba	October 4, 1982
Atlanta	October 7, 1982
Gilmer	October 5, 1982
Linden	October 12, 1982
Mount Pleasant	October 5, 1982
New Boston	October 7, 1982
Pittsburg	October 4, 1982
Wake Village	October 6, 1982

All eight cities passed ordinances granting an identical increase in SWEPCO's base rate revenue requirement of \$9,011,657 on a system-wide basis, somewhat below the \$13,200,000 base rate revenue requirement increase subsequently granted by the Commission in Docket No. 4628.

SWEPCO presented no additional witnesses at the hearing on the merits in this docket; instead it relied on the environs case record, including the stipulation agreed to by all parties, to support its request that the Commission set as rates for customers within the cities appealed from those rates established in Docket No. 4628. It is SWEPCO's position that in Docket No. 4628, in which the Commission had original jurisdiction over the rates SWEPCO charges customers in unincorporated areas, the Commission set rates on a system-wide basis, looking at total company revenues and total cost of service. SWEPCO contends that the Commission decision herein should be the same as it was in Docket No. 4628 since the issues and evidence pertaining to the merits of the two dockets are identical.

While all parties in this docket were given the opportunity to cross-examine the witnesses whose testimony was part of the record in Docket No. 4628, none of them chose to do so. The general counsel and the cities presented no additional evidence of any kind, urging their positions only through argument. The general counsel's position is that in this case the Commission should follow its earlier decision in Docket No. 4628. The cities urged that their ratemaking decisions should be affirmed, but recognized the Commission's practice of setting system-wide rates.

In the examiner's opinion, during the consideration of Docket No. 4628, the Commission reviewed the evidence and stipulation presented therein concerning SWEPCO's need for additional revenues, and the Order in that docket established appropriate system-wide rates for the company. While the record now reflects the actions taken by the municipalities of Alba, Atlanta, Gilmer, Linden, Mount Pleasant, New Boston, Pittsburg, and Wake Village, the examiner concludes that the evidence does not support a change in the Commission's earlier findings. It should be noted that all eight of the cities whose action is the subject of this docket participated as intervenors in Docket No. 4628 and through their representative Mr. Don Butler signed the settlement which was approved by the Commission in that docket. No evidence was presented in this docket that the rates to customers within the municipalities of Alba, Atlanta, Gilmer, Linden, Mount Pleasant, New Boston, Pittsburg, and Wake Village should differ from those established in Docket No. 4628. Accordingly, the examiner recommends that the rates ordered by the Commission in Docket No. 4628 be established as permanent rates for SWEPCO's service within the municipal boundaries of the cities listed above.

### III. Findings of Fact and Conclusions of Law

The examiner further recommends adoption of the following Findings of Fact and Conclusions of Law.

#### A. Findings of Fact

1. On October 7, 1982, Southwestern Electric Power Company (SWEPCO) filed petitions seeking review of the ratemaking ordinances of the cities of Atlanta, Pittsburg, Gilmer, Mount Pleasant, and Wake Village.

2. On October 8, 1982, SWEPCO filed petitions seeking review of the ratemaking ordinances of the cities of Alba and New Boston.
3. On October 13, 1982, SWEPCO filed a petition seeking review of the ratemaking ordinance of the city of Linden.
4. The eight petitions were assigned to Docket No. 4769.
5. On November 4, 1982, the Commission entered a final Order in Application of Southwestern Electric Power Company, Docket No. 4628, making findings of fact and conclusions of law regarding appropriate rates for SWEPCO based on an analysis of its system-wide operations, revenues, and cost of service, as set out in the stipulation entered into by all parties to that docket.
6. All eight municipalities listed in Findings of Fact Nos. 1 through 3 granted SWEPCO an identical rate increase, with such increase being less than that granted by the Commission in Docket No. 4628.
7. The final Order Docket No. 4628 was based on data identical to those considered herein, except that in this case copies of city ordinances from which SWEPCO has herein appealed were presented.
8. SWEPCO is an investor-owned electric utility providing service within 19 counties in the State of Texas pursuant to a Certificate of Convenience and Necessity issued by the Public Utility Commission of Texas.
9. On July 30, 1982, SWEPCO filed with the Commission an application to increase its rates within the unincorporated areas it serves and those cities which have heretofore ceded their original jurisdiction. Contemporaneously, similar applications to increase rates within the cities served by SWEPCO were filed by SWEPCO. The rate changes proposed by SWEPCO would have increased Texas retail jurisdictional adjusted test year revenues alleged by SWEPCO in its applications by approximately \$24,190,657 or approximately 13.58%.
10. Notice of the appeals and the hearing was given in accordance with the Public Utility Regulatory Act, and with the Rules of Practice and Procedure of the Public Utility Commission of Texas.
11. A hearing on the merits was held on February 7, 1983. Official notice was taken of the record, Examiner's Report, Exhibits, and final Order in Docket No. 4628, including a final written agreement with attached Findings of Fact and Conclusions of Law which had been entered into by all parties to that proceeding.

12. The depreciation rates currently being used by SWEPCO are reasonable; their application results in a system-wide composite rate of 3.27%. The Company's depreciation and amortization expense is \$16,101,975.

13. In Docket No. 4628, the Commission found it necessary to the financial integrity of SWEPCO to include \$31,301,550 of the test year level of construction work in progress as adjusted in both invested capital and the adjusted value of invested capital.

14. SWEPCO has a plan for the use of certain lignite and coal leases and projects held by it and the same are used and useful in the provision of utility service and therefore included as Electric Plant Held for Future Use in the amount of \$12,082,429 in both invested capital and the adjusted value of invested capital.

15. The net current cost of SWEPCO's plant is \$766,013,291.

16. SWEPCO's invested capital is \$405,915,452, and includes the components shown on Schedule I, attached. The components of SWEPCO's capital structure are:

<u>Component</u>	<u>Amount (000)</u>	<u>Percent of Total</u>	<u>Component Percentage Cost</u>	<u>Weighted Average Cost</u>
Long-term Debt	\$ 519,903	45.93%	10.44%	4.79%
Preferred Stock	105,777	9.34	8.37	0.78
Accumulated Deferred Investment Tax Credit	80,068	7.07	12.58	0.89
Common Equity	<u>426,300</u>	37.66	16.25	<u>6.12</u>
TOTAL	<u>\$1,132,048</u>	<u>100.00%</u>		<u>12.58%</u>

17. A balance of 65.875% net original cost and 34.125% net current cost is reasonable for the purpose of calculating the adjusted value of SWEPCO's invested capital. Using these percentages, the adjusted value of SWEPCO's invested capital is \$532,099,708, and includes the components shown on Schedule II, attached.

18. For the purpose of computing a fair return for SWEPCO, the capital costs and capital structure shown above are appropriate.

19. A 16.25% return on common equity capital is reasonable for SWEPCO. An annual return of \$51,064,164 which constitutes a 9.60% return on the adjusted value of invested capital or a 12.58% return on SWEPCO's invested capital, is fair and reasonable, is adequate under efficient management to allow SWEPCO to maintain its current credit rating and to attract the capital necessary for the proper discharge of its duties as a public utility, and is sufficient to insure confidence in the financial integrity of SWEPCO.

20. SWEPCO's adjusted test period cost of service is \$239,931,570. A return in the amount of \$51,064,164 provides SWEPCO a reasonable return on its invested capital and is useful in rendering service to the public.

21. A Texas retail jurisdiction base rate revenue requirement of \$124,275,824 will permit SWEPCO to recover its operating expenses, together with a reasonable return on its invested capital.

22. It is fair and reasonable to allocate the system-wide base rate revenue requirement to classes as shown on Schedule III, attached; and rates designed in accordance with such allocation are just and reasonable and not unreasonably preferential, prejudicial, or discriminatory.

23. The rate and tariff changes shown on Exhibit D, attached to the Examiner's Report in Docket No. 4628, are just and reasonable and not unreasonably preferential, prejudicial, or discriminatory to SWEPCO's customers who reside within the municipalities whose rate-making ordinances have been appealed herein.

24. All parties to this proceeding have been afforded an opportunity for a full hearing herein.

#### B. Conclusions of Law

1. The Commission has jurisdiction over the matters considered herein pursuant to Tex. Rev. Civ. Stat. Ann art 1446c, §§ 16, 18, and 26 (1980) ("PURA"). The Commission has appellate jurisdiction over the areas inside the cities of Alba, Atlanta, Gilmer, Linden, Mount Pleasant, New Boston, Pittsburg, and Wake Village, since those cities have taken final action on SWEPCO's applications to increase rates, from which SWEPCO has taken timely appeal.

2. Pursuant to Section 40(b) of the PURA, SWEPCO bears the burden of proving that all of its proposed rates are just and reasonable.

3. The examiner's recommendations herein will allow SWEPCO to recover its reasonable and proper operating expenses together with a reasonable return on its invested capital pursuant to the requirements of PURA §39, but will not yield more than a fair return on adjusted value of invested capital, as required by PURA §40(a).

4. The rates and rate-design guidelines recommended by the examiner, if properly implemented, will produce rates that are just and reasonable; but are not unreasonably preferential, prejudicial, or discriminatory; and are sufficient and equitable if applied consistently to each class of customers; thus satisfying the requirements of PURA §38(a).

5. The present rates for service within the municipalities over which the Commission has herein exercised its appellate jurisdiction are insufficient to provide BARTCO with the revenues approved herein, and should therefore be adjusted to conform to the rates and revenue requirements established herein for each class of service, pursuant to PBA §26(e).

Respectfully submitted,

*Phillip Holder*

PHILLIP HOLDER  
HEARINGS EXAMINER

APPROVED on this 13<sup>th</sup> day of June, 1993.

*Rhonda Colbert Ryan*

RHONDA COLBERT RYAN  
DIRECTOR OF HEARINGS

**SCHEDULE 1**

**PUBLIC UTILITY COMMISSION OF TEXAS**  
**SOUTHWESTERN ELECTRIC POWER COMPANY - DOCKET 4620**  
**INVESTED CAPITAL AND RETURN**

	COMPANY AMOUNT	STAFF ADJUSTMENTS	AS ADJUSTED
PLANT IN SERVICE	1506,530,283	0	1506,530,283
ACCUMULATED DEPRECIATION	110,287,705	0	110,287,705
NET PLANT	1396,242,578	0	1396,242,578
CONSTRUCTION WORK IN PROGRESS	41,755,304	(10,453,754)	31,301,550
PROPERTY HELD FOR FUTURE USE	12,082,429	0	12,082,429
OTHER LONG TERM ASSETS	125,141	(125,141)	0
WORKING CASH ALLOWANCE	3,128,803	(27,895)	3,100,908
MATERIALS AND SUPPLIES	2,528,107	0	2,528,107
PREPAYMENTS	2,067,256	(1,071,640)	995,616
FUEL INVENTORY	18,338,075	0	18,338,075
LESS			
DEFERRED TAXES	55,598,326	0	55,598,326
PRE1971 INVESTMENT TAX CREDITS	840,012	0	840,012
CUSTOMERS DEPOSITS	2,235,474	0	2,235,474
<b>TOTAL INVESTED CAPITAL</b>	<b>1417,593,981</b>	<b>1(11,678,429)</b>	<b>1405,915,452</b>
<b>RATE OF RETURN</b>	<b>.1359</b>	<b>(.010)</b>	<b>.1258</b>
<b>RETURN</b>	<b>156,751,008</b>	<b>1(5,686,844)</b>	<b>151,064,164</b>

000012



**SCHEDULE T1**

**PUBLIC UTILITY COMMISSION OF TEXAS**  
 .....

**SOUTHWESTERN ELECTRIC POWER COMPANY - DOCKET 4620**  
 .....

**ADJUSTED VALUE OF INVESTED CAPITAL**  
 .....

	<b>NIX COMPUTATION</b>	<b>ADJUSTED AMOUNT</b>
<b>NET PLANT AT ORIGINAL COST (A)</b>	<b>9396,242,578</b>	
<b>PERCENTAGE NIX (B)</b>	<b>.6588</b>	
	<b>-----</b>	
<b>ORIGINAL COST PLANT</b>		<b>6261,024,798</b>
<b>NET PLANT AT CURRENT COST (C)</b>	<b>9766,013,291</b>	
<b>PERCENTAGE NIX (D)</b>	<b>.3413</b>	
	<b>-----</b>	
<b>CURRENT COST PLANT</b>		<b>6261,402,036</b>
<b>CONSTRUCTION WORK IN PROGRESS</b>		<b>31,301,550</b>
<b>PROPERTY HELD FOR FUTURE USE</b>		<b>12,002,429</b>
<b>WORKING CASH ALLOWANCE</b>		<b>3,100,900</b>
<b>MATERIALS AND SUPPLIES</b>		<b>2,520,107</b>
<b>PREPAYMENTS</b>		<b>995,616</b>
<b>FUEL INVENTORY</b>		<b>18,330,075</b>
<b>LESS</b>		
<b>DEFERRED TAXES</b>		<b>55,590,326</b>
<b>PRE 1971 INVESTMENT TAX CREDITS</b>		<b>840,012</b>
<b>CUSTOMERS DEPOSITS</b>		<b>2,235,474</b>
		<b>-----</b>
<b>ADJUSTED VALUE OF INVESTED CAPITAL</b>		<b>532,099,708</b>
		<b>-----</b>
<b>RATE OF RETURN</b>		<b>9.0960</b>
		<b>-----</b>
<b>RETURN</b>		<b>951,044,164</b>
		<b>-----</b>

# SCHEDULE III

## Revenue Summary

Rate Schedule	Proposed Revenues	Revenue Increase	Percent Increase	Rate of Return	Relative Rate of Return
Residential	82,128,171	5,941,824	7.00	11.19	.89
General Service	14,356,120	1,168,731	8.06	17.07	1.36
Light & Power					
Secondary	62,145,174	3,580,275	6.11	14.22	1.13
Primary	15,780,362	377,573	2.45	12.15	.97
Total	77,925,536	3,957,848	5.35	13.81	1.10
Large Light & Power	23,789,829	698,447	3.04	13.32	1.06
Lone Star Steel	16,954,319	272,031	1.63	12.89	1.02
Metal Melting - Distribution	993,205	85,629	9.43	13.61	1.08
Metal Melting - Transmission	1,832,280	638	.03	14.63	1.16
Interuptible	3,137,788	91,375	3.00	11.44	.91
O&I	11,113,701	452,975	4.25	9.81	.78
Municipal Pumping	3,387,311	290,003	9.36	9.17	.73
Municipal Service	706,557	70,609	11.10	9.10	.72
Municipal Ltg.	1,840,151	162,920	9.77	7.69	.61
Area & Private Ltg.	1,661,653	6,266	.38	17.02	1.35
Total Sale Revenue	239,746,621	13,199,296	5.82	12.58	1.00
Other Revenue	184,233				
Total Texas Retail	239,930,854				

DOCKET NO. 4769

APPEAL OF SOUTHWESTERN ELECTRIC  
POWER COMPANY FROM THE RATE  
MAKING DECISIONS OF VARIOUS CITIES

PUBLIC UTILITY COMMISSION  
OF TEXAS

ORDER

In public meeting at its offices in Austin, Texas, the Public Utility Commission of Texas finds that after statutory notice was provided to the public and to interested parties, a hearing in the above-styled cause was conducted by an examiner who issued a report containing Findings of Fact and Conclusions of Law, which report is adopted and made a part hereof. The Commission further issues the following Order:

1. The appeal of Southwestern Electric Power Company from the ratemaking decisions of the Cities of Alba, Atlanta, Gilmer, Linden, Mount Pleasant, New Boston, Pittsburg, and Wake Village is granted as set out in the attached Examiner's Report.
2. The present tariff for Southwestern Electric Power Company, which was approved as a result of the Commission's Order in Application of Southwestern Electric Power Company, Docket No. 4628, (November 4, 1962) is hereby made finally applicable to the cities of Alba, Atlanta, Gilmer, Linden, Mount Pleasant, New Boston, Pittsburg, and Wake Village, effective the date of this order.
3. This Order is deemed to be final upon the date of signing, and shall be read as superseding all interim rate orders previously in effect herein.
4. All motions and any other requests for relief, whether general or specific, if not expressly granted herein, are hereby denied for want of merit.

SIGNED AT AUSTIN, TEXAS on this \_\_\_\_\_ day of \_\_\_\_\_, 1983.

PUBLIC UTILITY COMMISSION OF TEXAS

SIGNED: \_\_\_\_\_  
ALAN R. ERWIN

SIGNED: \_\_\_\_\_  
PHILIP F. RICKETTS

SIGNED: \_\_\_\_\_  
PEGGY ROSSON

APPEAL OF SOUTHWESTERN ELECTRIC  
POWER COMPANY FROM THE RATE  
MAKING DECISIONS OF VARIOUS CITIES

DOCKET NO. 4628

PUBLIC UTILITY COMMISSION  
OF TEXAS

ORDER

In public meeting at its offices in Austin, Texas, the Public Utility Commission of Texas finds that after statutory notice was provided to the public and to interested parties, a hearing in the above-styled cause was conducted by an examiner who issued a report containing Findings of Fact and Conclusions of Law, which report is adopted and made a part hereof. The Commission further issues the following Order:

1. The appeal of Southwestern Electric Power Company from the ratemaking decisions of the Cities of Alba, Atlanta, Gilmer, Linden, Mount Pleasant, New Boston, Pittsburg, and Wake Village is granted as set out in the attached Examiner's Report.
2. The present tariff for Southwestern Electric Power Company, which was approved as a result of the Commission's Order in Application of Southwestern Electric Power Company, Docket No. 4628, (November 4, 1982) is hereby made finally applicable to the cities of Alba, Atlanta, Gilmer, Linden, Mount Pleasant, New Boston, Pittsburg, and Wake Village, effective the date of this order.
3. This Order is deemed to be final upon the date of signing, and shall be read as superseding all interim rate orders previously in effect herein.
4. All motions and any other requests for relief, whether general or specific, if not expressly granted herein, are hereby denied for want of merit.

SIGNED AT AUSTIN, TEXAS on this 24<sup>th</sup> day of JULY, 1983.

PUBLIC UTILITY COMMISSION OF TEXAS

SIGNED:

  
ALAN R. ERWIN

SIGNED:

  
PHILIP F. BICKETTS

SIGNED:

  
PERCY RUSON

INTERIM RATE ORDER AND NOTICE OF HEARING

On November 5, 1982, a prehearing conference was held regarding the appeals of Southwestern Electric Power Company ("SWEPCO") from the ratemaking ordinances of the cities of Atlanta, Pittsburg, Gilmer, Mount Pleasant, Wake Village, New Boston, Alba, and Linden. Appearances were entered by Joe Pratt for SWEPCO and Denise Boyd for the Commission staff.

Official notice was taken of the record--including the Examiner's Report and Final Order--in Docket NO. 4628, rate proceedings in which a rate increase for other parts of SWEPCO's Texas service area was granted. On the basis of the record established at the prehearing conference herein and Commission policy in favor of systemwide rates, the motions for interim relief in the cities listed above are granted; effective November 15, 1982, the tariff approved pursuant to the stipulation and Final Order in Docket No. 4628 is approved for implementation on a temporary basis in the cities listed above. This order is issued pursuant to authority granted in Tex. Rev. Civ. Stat. Ann. art. 1446c, §§16, 17(d), 22, 26(a), 37, and 38 and in P.U.C. PROC. R. 052.01.00.062 and 052.01.00.067. These interim rates are subject to modification or rescission by further order of the Commission and are subject to refund if the rates ultimately set by the Commission in its final order are less than the temporary rates granted herein.

At the November 5, prehearing conference, the following timetable was established for further proceedings in this docket:

1. The hearing on the merits will be conducted on Monday, February 7, 1983, at the Commission offices, 7800 Shoal Creek Blvd., Austin, Texas, beginning at 10:00 a.m.
2. Direct Testimony of any witnesses not a part of the record in Docket No. 4628 shall be prefiled by noon on the following dates: cities' and any intervenors' witnesses by January 24, 1983, and the Commission staff by January 31, 1983. Any party wishing to cross examine other parties' witnesses who filed testimony in Docket No. 4628 shall file notice of such no later than January 24, 1983, so that parties will know what witnesses need to be present at the hearing. SWEPCO shall prefile any rebuttal testimony by 10:00 a.m. on February 7, 1983.

SIGNED at AUSTIN, TEXAS, on this the 8<sup>th</sup> day of November, 1982.

PUBLIC UTILITY COMMISSION OF TEXAS

Phillip Holder  
PHILLIP HOLDER  
HEARINGS EXAMINER

APPROVED on this 8<sup>th</sup> day of November, 1982.

Rhonda Colbert Ryan  
RHONDA COLBERT RYAN  
ACTING DIRECTOR OF HEARINGS

**NOTICE OF PREHEARING CONFERENCE**

On October 12, 1982, the appeals of Southwestern Electric Power Company ("SWEPCO") from the ratemaking ordinances of Alba, Atlanta, Gilmer, Mount Pleasant, New Boston, Pittsburg, and Wake Village were assigned this docket number by the Commission filing clerk. It later filed an appeal from the City of Linden. The appeals are from the cities' denials of the rate applications filed on July 30, 1982, filed simultaneously with the cities served by SWEPCO and with the Commission, for those unincorporated areas the utility serves in Texas (Docket No. 4628). Those appeals were accompanied by motions for interim rates in each of the cities appealed from.

Pursuant to Commission jurisdiction under Tex. Rev. Civ. Stat. Ann. art. 1446c, §17(d) and to P.U.C. PROC. R. 052.01.00.052, a prehearing conference will be held on Friday, November 5, 1982, at 9:00 a.m. at the Commission offices, 7800 Shoal Creek Blvd., Austin, Texas. The scope of the conference shall include consideration of the applicant's motions for interim rates, determination of a discovery and hearing schedule, and consideration of any other matters which may aid in the simplification of the proceedings and the disposition of the matters in controversy.

SIGNED AT AUSTIN, TEXAS, on this the 21<sup>st</sup> day of October, 1982.

PUBLIC UTILITY COMMISSION OF TEXAS

Phyllip Holder  
PHYLLIP HOLDER  
HEARINGS EXAMINER