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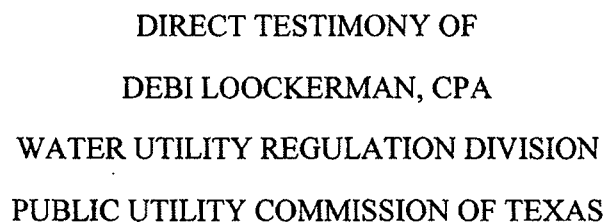
Item Number: 1044

Addendum StartPage: 0

SOAH DOCKET NO. 473-18-3006.WS
PUC DOCKET NO. 2019-0025 PM 2:07

PUBLIC UTILITY COMMISSION
FILING CLERK

BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS



October 26, 2018

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1044

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ATTACHMENTS

Attachment DL-1	Resume
Attachment DL-2	List of Previous Testimonies
Attachment DL-3	Staff ADFIT Calculation
Attachment DL-4	Response to OPUC RFI 1-1 (ADFIT calculation)
Attachment DL-5	Response to LRWA RFI 1-22 and OPUC RFI 4-6
Attachment DL-6	PUC Docket 33309 Order
Attachment DL-7	PUC Docket 33309 Direct Testimony of Candice J. Romines
Attachment DL-8	Bates LU000036-37 and LU000097-98 (application) ¹

¹ Includes a copy of Bates LU000037 which is increased in size for readability.

I. INTRODUCTION OF WITNESS

Q. Please state your name and business address.

A. Debi Loockerman, 1701 North Congress Avenue, Austin, Texas 78711.

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

A. I am employed by the Public Utility Commission of Texas (Commission) as manager of the financial analysis section in the Water Utility Regulation Division (Division).

Q. What are your principal responsibilities?

A. My responsibilities include managing the financial team for the water and sewer rates program, analyzing rate applications and annual reports, preparing written or oral testimony, making recommendations on regulatory issues, and managing new rules and forms creation in the Division.

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

A. I received a Bachelor of Business Administration degree with a major in Accounting from the University of Texas at Austin in 1984. I have worked in water and sewer rate regulation for over 25 years in Texas. I am a Certified Public Accountant (CPA) licensed in the State of Texas. I have accounting experience in public accounting, industry and state government. Attachment DL-1 is a copy of my resume.

Q. Have you previously testified before the Commission?

A. Yes. Attachment DL-2 is a list of my previous testimonies.

II. PURPOSE AND SCOPE OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to recommend amounts for accumulated deferred federal income tax (ADFIT) for Liberty Utilities LLC (Silverleaf) (hereafter referred to as Liberty Silverleaf or Company) for the determination of total invested capital as presented by Staff witness Fred Bednarski. I will also make a recommendation on a federal income tax expense with regard to a consolidated tax savings adjustment (CTSA). My recommendations address, in part, the following issues from the Preliminary Order:

29. Are any tax savings derived from liberalized depreciation and amortization, investment tax credits, or similar methods? If so, are such tax savings apportioned equitably between customers and the utility, and are the interests of present and future customers equitably balanced?

31. What is the reasonable and necessary amount for the utility's federal income tax expense?

a. Is the utility a member of an affiliated group that is eligible to file a consolidated income tax return? Texas Water Code (TWC) § 13.185(f).

b. If so, have income taxes been computed as through a consolidated return had been filed and the utility had realized its fair share of the savings resulting from the consolidated return? TWC § 13.185(f).

c. If not, has the utility demonstrated that it was reasonable not to consolidate returns? TWC § 13.185(f).

32. What is the reasonable and necessary amount of the utility's accumulated reserve for deferred federal income taxes, unamortized investment tax credits, contingency reserves, property insurance reserves, and contributions in aid of construction, customer deposits, and other sources of cost-free capital? What other items should be deducted from the utility's rate base?

33. Did the utility properly account for the effects of the Tax Cuts and Jobs Act of 2017, Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, Pub. L. No. 115-97, 131 Stat. 2054 (Dec. 22, 2017)?

Q. What is the scope of your review?

A. I reviewed the Company's rate filing package, the testimonies filed in this case that pertain to my recommendations, as well as the responses to Requests for Information (RFIs) pertaining to the ADFIT and CTSA. I also reviewed portions of Docket 33309,² which pertained to the consolidated tax savings adjustment.

III. ACCUMULATED DEFERRED FEDERAL INCOME TAX

Q. What is ADFIT and how does it affect the cost of service?

A. The difference in what the Company or its shareholders pay to the Internal Revenue Service and what the Company collects from its customers for normalized taxes (included in the cost of service) accumulates over the years and is called ADFIT. Rates are set using straight line depreciation, which normalizes the taxes collected from customers. However, the companies pass through the tax benefits of accelerated depreciation expense for income tax purposes to the shareholders, if a corporation, or directly to the owners as an accelerated expense that affects the individual's return. As is the case with customer deposits, the customers fund capital for tax liabilities prior to when the liabilities are paid and the customer funded capital is available for use by the Company. Other adjustments to ADFIT may occur due to various occurrences which include a change in the federal tax rate. Pursuant to 16 TAC § 24.41(c)(3)(A) (formerly 16 TAC §24.31(c)(3)(A)), accumulated reserves for deferred federal income tax will be deducted from rate base.

1 **Q. What is excess ADFIT and how does it affect the cost of service?**

2 A. Excess ADFIT results when, based on estimating normalized taxes in current and past
3 years, the ADFIT balance is over or under stated. A prime example of an over statement
4 results from the Tax Cuts and Jobs Act of 2017, Act to Provide for Reconciliation
5 Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year
6 2018, Pub. L. No. 115-97, 131 Stat. 2054 (Dec. 22, 2017), or the Tax Cuts and Jobs Act
7 of 2017 (the Act). The Act reduced the maximum tax rate, for corporations from 35% to
8 21%. As a result of past normalized taxes collected from customers in the water and
9 sewer rates at a tax rate of 35%, the ADFIT is over stated by the amount over collected
10 due to the 35% rate. As a result, a journal entry is made into the books of the utility
11 reclassifying the excess to excess ADFIT. This amount typically reduces rate base
12 because the dollars are collected from the customers and will not ever be paid as taxes
13 due to this tax rate change.

14 **Q. What is invested capital, or rate base?**

15 A. Invested capital, or rate base, is the prudent investment of owners of a utility. The
16 components of invested capital are listed in 16 TAC § 24.41(c)(2) (formerly TAC §
17 24.31(c)(2)). The list includes utility plant used and useful less accumulated depreciation,
18 reasonable working capital allowance or cash working capital, reasonable prepayments,
19 and ADFIT. Invested capital may also be adjusted for other reasons, such as for cost-free
20 capital obtained through customer or developer contributions or deposits.
21
22

² *Application of AEP Texas North Company for Authority to Change Rates.*

Q. Please summarize your recommended amounts for ADFIT and excess ADFIT.

A. Table 1 summarizes my recommendations and the Company's request. Attachment DL-3 provides the calculations made to determine these amounts, as reflected on page 2 in columns AC through AF. In Table 1 below, the amounts in the first column represents Staff recommended adjustments to rate base in Staff Schedule III as compared with the Company requested adjustments to rate base in the second column. The third column are the amounts I recommend for amortization of the excess ADFIT as compared with the Company requested amounts in the final column of Table 1.

Table 1. Staff Recommended Rate Base Reductions due to ADFIT³		Company requested Rate Base Reductions due to ADFIT⁴	Staff Annual Amortization of Excess ADFIT-Depreciation adjustment⁵	Company Amortization of Excess ADFIT-Depreciation adjustment⁶
Water ADFIT	\$435,050	\$649,483		
Water Excess ADFIT	\$269,316	\$402,061	(\$10,455)	(25,563.06)
Sewer ADFIT	\$297,339	\$383,783		
Sewer Excess ADFIT	\$184,067	\$237,580	(\$10,770)	(26,334.80)

Q. Please explain how your ADFIT calculations differ from the ones presented by the Company.

A. When Company witness Mr. Bourassa calculated net plant for the purposes of determining ADFIT,⁷ he included reductions due to customer deposits and provision for doubtful accounts. I recommend that these deductions not be included in the calculation

³ Attachment DL-3.

⁴ Attachment DL-4.

⁵ Attachment DL-3.

⁶ Attachment DL-8.

⁷ Attachment DL-4.

1 for estimated ADFIT, and have prepared my calculation accordingly. Mr. Bourassa did
2 not explain why these amounts were deducted. Moreover, I believe no legitimate
3 explanation exists. First, these amounts do not affect the actual tax liability of the
4 company. The adjustment for deposits is made to invested capital so that return will not
5 be calculated based on customer-funded capital. Paralleling the disallowance of return on
6 customer contributed capital, federal income tax would also not be allowed on customer
7 contributed capital. With regard to the provision for bad debts, there should be no
8 adjustment because the historical financial statements should include the provision. Mr.
9 Bourassa did not provide testimony as to why these amounts were used in his calculation.
10 My second difference in calculation results from Staff witness Patricia Garcia's
11 recommended reductions to plant. I have calculated a percentage reduction in rate base of
12 29% as reflected on Attachment DL-3, Columns J and K, lines 18-23. I used this
13 percentage to reduce ADFIT and excess ADFIT associated with the Staff's recommended
14 reduction to plant.

15 I also re-allocated ADFIT between water and sewer based on rate base before ADFIT as
16 reflected in the Attachment DL-3 at the beginning at line 32, column F. Mr. Bourassa's
17 schedule, which is shown in Attachment DL-4, reflects a water division rate base before
18 ADFIT that does not match the application at Bates LU000036, Schedule III-3 which is
19 included in Attachment DL-8. The number for water matches the application at Bates
20 LU000097, Schedule III-2. There was no explanation for this in Mr. Bourassa's
21 testimony, and it appears to be an error that my calculations correct.

IV. CONSOLIDATED TAX SAVINGS ADJUSTMENT – FEDERAL INCOME TAX

Q. What is a consolidated tax savings adjustment (CTSA)?

A. CTSA is an adjustment to federal income tax to recognize the utility's share of tax savings created by being part of an affiliated group that files a consolidated tax return. TWC § 13.185(f) states:

If the utility is a member of an affiliated group that is eligible to file a consolidated income tax return and if it is advantageous to the utility to do so, income taxes shall be computed as though a consolidated return had been filed and the utility had realized its fair share of the savings resulting from the consolidated return, unless it is shown to the satisfaction of the regulatory authority that it was reasonable to choose not to consolidate returns. The amounts of income taxes saved by a consolidated group of which a utility is a member due to the elimination in the consolidated return of the intercompany profit on purchases by the utility from an affiliate shall be applied to reduce the cost of those purchases.

Q. Is the utility a member of an affiliated group that is eligible to file a consolidated tax return?

A. Yes, and it has filed consolidated tax returns, according to the Company's response to Liberty Resorts Water Association's RFI no. 1-22 and Office of Public Interest Counsel's RFI no. 4-6⁸.

Q. Given that the Company files a consolidated return as a member of an affiliated group, did the Company calculate its federal income tax in compliance with TWC § 13.185(f) as a part of this application?

A. No. The Company indicates that there are no circumstances that cause a savings due to the second statement in 16 TWC § 13.185(f). The Company does not address the tax savings that occurs when an entity experiencing a net loss is combined for tax purposes

⁸ Attachment DL-5.

1 with an entity experiencing taxable net income, resulting in a decrease in actual Federal
2 income tax paid.

3 **Q. What adjustment do you recommend to federal income tax in light of the apparent**
4 **non-compliance with TWC § 13.185(f)?**

5 A. The Company should have performed a calculation to determine if a CTSA is necessary.
6 Had they done so, the likely result would have been a lower tax expense included in the
7 cost of service. The Company's proposed federal tax calculation is not in compliance
8 with TWC § 13.185(f). I do not have the data necessary to calculate the CTSA. Therefore,
9 I recommend federal income tax expense included in the cost of service be adjusted to
10 zero. Should the Company file a tax calculation in compliance with TWC § 13.185(f) as
11 reflected in Commission precedent,⁹ I would recommend that federal income tax be
12 allowed on a normalized basis as adjusted for the CTSA. Commission precedent is no
13 longer available for electric utilities due to the change to Public Utility Regulatory Act §
14 36.060(a), however, TWC § 13.185(f) did not change.

15 **Q. Does this conclude your direct testimony?**

16 A. Yes. I reserve the right to supplement this testimony during the course of the proceeding
17 as new evidence is presented.

18

⁹ *Application of AEP Texas North Company for Authority to Change Rates*, Final Order (Attachment DL-6), FOF 120 Docket No. 33309, (December 13, 2007). Also see Direct Testimony of Candice J. Romines, page 6-9 (Attachment DL-7).

ATTACHMENT DL-1
SOAH DOCKET NO. 473-18-3006.WS
PUC DOCKET NO. 47976

Loockerman Resume

Attachment DL-1
SOAH Docket 473-18-3006.WS
PUC Docket 47976

Debi Loockerman, CPA
Professional Experience

Manager, Financial Analysis Team (5/1/15 to current)

Public Utility Commission of Texas

- Manage programs and activities related to water and sewer rate program. Oversee staff engaged in rulemaking projects and contested cases.
- Recommend changes to program area and develop procedures for new law and rule implementation.
- Perform highly advanced rate making, financial, and managerial work including reviews of rate and tariff change applications, rate appeals, and financial and managerial reviews of water and sewer utility providers.
- Managed rule making projects and revise forms for rate case submissions.
- Review applications and provide expert witness testimony in rate cases, and certificate of convenience and necessity cases.

Financial Examiner IV

Public Utility Commission of Texas (1/14-5/15)

- Provided expert witness testimony for electric utility rate making proceedings.
- Reviewed, analyze, and make recommendations on cost of service issues and rate treatment issues in electric rate proceedings.
- Provided guidance and knowledge for the transfer of water utility rate regulation from the TCEQ to the PUC.

Auditor V – Financial Review and Rate Analysis

Texas Commission on Environmental Quality (6/10-12/13)

- Reviewed, analyzed and prepared comprehensive reports of complex business plans and/or financial, managerial and technical capacity information for public water systems and retail public water or sewer utilities.
- Provided customer service and utility assistance for public water systems and retail public water or sewer utilities in developing business plans; financial, managerial, and technical information; and in following the strategies set forth in the plans.
- Assisted in the development of program policies, procedures, and rules for the review of complex business plans or financial and managerial information submitted by public water systems and/or retail public water or sewer utilities.
- Provided assistance, gave professional advice and/or review and process rate/tariff change applications submitted by utilities for approval.
- Assisted with staff training, staff development and coordination of work assignments regarding business plans and financial, managerial and technical review for public water systems and/or retail water or sewer utilities.
- Provided expert oral and written testimony and present information on cost of providing water service and the financial and managerial position of utilities.

Auditor V

Texas Commission on Environmental Quality (11/08 through 6/10)

- Reviewed and analyzed audited financial statements of Districts for regulatory compliance and preparation in accordance with generally accepted accounting principles.
- Prepared and implemented procedures for audit processing.
- Special projects, including assistance with legislative questions and analysis in the districts arena.

Attachment DL-1
SOAH Docket 473-18-3006.WS
PUC Docket 47976

Owner, Debi Loockerman CPA dba Debi Carlson CPA (7/97 through 6/08)

- Provided consulting services and expert witness testimony in the rate making arena.
- Implemented accounting systems, including utility billing systems for privately owned water systems in Texas.
- Reviewed and analyzed financial statements of water utility companies to determine internal control issues and sufficiency of accounting procedures and ratemaking procedures.
- Income tax and monthly accounting services.

B & D Environmental, Inc. (7/97 through 06/08)

Partner/Controller

- Prepared and defended costs of service for clients through the regulatory process for privately owned utilities.
- Worked with clients to negotiate the regulatory process to successfully obtain rate increases.
- Provided expert witness testimony in several cases and assisted in negotiation settlements for rate cases throughout this period.
- Prepared internal financial statements and tax returns.
- Managed cash flow and all tax reporting requirements including payroll.
- Provided billing, monthly statements, internal accounting and reports, accounts payable and receivable for water systems.

Senior Rate Analyst, Texas Natural Resource Conservation Commission (11/89 through 7/97)

- Analyzed rate filings by private and publicly owned utilities to determine the cost of providing retail and wholesale water and sewer service.
- Prepared written and oral expert witness testimonies on wholesale and retail water and sewer rate methodologies in administrative hearings proceedings.
- Assisted in mediating informal rate hearings using effective oral and written communication skills, and negotiated agreements. Most agreements included utility rate increases and improved utility service issues.
- Designed a regulatory accounting system for small public water and wastewater utilities to enhance uniformity in accounting, viability determination, and compliance with regulatory requirements.

Accounting Manager, Service Life and Casualty Insurance (11/87 through 8/89)

- Assisted the chief financial officer in the supervision of four staff members.
- Interviewed, selected and trained new personnel.
- Prepared reconciliations between cash accounts, payroll accounts, and pension plan accounts and the general ledger.
- Prepared month end adjusting entries and year end adjusting entries for general ledger.
- Prepared and analyzed internal financial statements under supervision of the chief financial officer.
- Reviewed annual regulatory filings.

Senior Accountant, Eugene McCartt, C.P.A. (3/85 through 11/87)

- Prepared monthly financial statements for all write up clients.
- Prepared individual, corporate, not for profit, and partnership tax returns.
- Communicated extensively with clients during all phases of work.

Education

Bachelor of Business Administration issued from the University of Texas at Austin in 1984, major in Accounting.

ATTACHMENT DL-2
SOAH DOCKET NO. 473-18-3006.WS
PUC DOCKET NO. 47976

Loockerman
List of Previous Testimonies

Attachment DL-2
SOAH Docket 473-18-3006.WS
PUC Docket 47976

Debi Loockerman CPA
Public Utility Commission of Texas (PUC)
List of Previous Testimonies and filings

Written Testimony

<u>Docket</u>	<u>Company</u>	<u>Subject</u>
PUC Docket 47182	Ratepayer appeal of Kempner WSC ¹	Prudence of board decision
PUC Docket 47312	Joseph Lanter complaint	Allocated billing
PUC Docket 46245	Double Diamond Utility Co. Inc.	ADFIT ²
PUC Docket 45720	Rio Concho Aviation	Cost of service
PUC Docket 45570	Monarch Utilities I, L.P.	Revenues, Gain on Sale
PUC Docket 44809	Quadvest, LP	Cost of Service
PUC Docket 44657	Interim La Ventana	Financial/Managerial ability
PUC Docket 43695	Southwestern Public Service Company	Property tax
PUC Docket 42469	Lone Star Transmission	Support of Stipulation
SOAH 582-12-6250	BFE Water Company	Cost of Service
SOAH 582-08-2863	Lower Colorado River Authority	Cost of Service
SOAH 582-08-4353	Interim-La Ventana acquisition	Financial/Managerial ability
TCEQ 30077-R	Highsaw Water Corp	Cost of Service
TCEQ 30089-R	Technology/Hydraulics	Cost of Service
TCEQ 9152-A	City of Point Blank	Cost of Service
TCEQ 8819-R	Oakridge Water Co.	Cost of Service
TCEQ 9271-A	City of Lewisville,	Cost of Service
TCEQ 9300-W	Evant Water Supply Corp	Cost of Service
TCEQ 8496-W	City of Winters	Cost of Service
TCEQ 8479-R	Engel Utility Company	Cost of Service

Memoranda in Lieu of Testimony

<u>PUC Docket</u>	<u>Company</u>	<u>Subject</u>
42104	AEP Texas Central Company	Interim Wholesale Trans. Rate
42133	Sharyland Utilities	Interim Wholesale Trans. Rate
42134	Electric Transmission Texas	Interim Wholesale Trans. Rate
42181	Texas-New Mexico Power	Interim Wholesale Trans. Rate
42200	Cross Texas Transmission	Interim Wholesale Trans. Rate

Other testimony and applications

While affiliated with B & D Environmental, Inc. I prepared cost of service studies and revenue requirements for the following entities to the TCEQ or predecessor agencies:

- Patrick C. King, Receiver for Lamar Water Supply Corp
- Greenwood Water Corporation (written testimony)
- Brighton Water Systems, Inc. dba Wise Service Company
- Country Terrace Water Company, Inc.
- Midway Water Utilities, Inc.
- Cindy Riley
- North Orange Water & Sewer, LLC (written testimony)
- Tapatio Springs Services Company & Kendall County Utility Company

¹ Water Supply Corporation

² Accumulated deferred federal income tax

Attachment DL-2
SOAH Docket 473-18-3006.WS
PUC Docket 47976

- P & B Water Corporation
- Decker Utilities (written testimony)
- Bret W. Fenner, Receiver for Twin Creek Park Water System
- Bret W. Fenner, Receiver for Bertram Woods Water System
- Bret Fenner, Receiver for High Sierra Water System

ATTACHMENT DL-3
SOAH DOCKET NO. 473-18-3006.WS
PUC DOCKET NO. 47976

ADFIT and Excess ADFIT
Staff Calculations

	E	F	G	J	K	L	M	N	O	P
1	Liberty Utilities (Silverleaf) Corp.									
2	Calculation of Accumulated Deferred Federal Income Tax (ADFIT)									
3	SOAH Docket No. 473-16-3006 WIS									
4	PUC Docket No. 47876	Page 1 of 2								
5										
6										
7										
8										
9										
10	Property, Plant, and Equipment	Adjusted Book Basis, net	Intentionally Left Blank	Intentionally Left Blank	Adjusted Book Basis	2016 Taxable on 2016 and prior Tax Assets	2017 Tax Deprec. Tax Addn	2017 Capital Repairs Deduction	2017 Bonus Depreciation	Adjustments
11	MAC	12,136,614			12,136,614	6,567,250	(426,619)	2,567,856	(448,789)	(1,068,043)
12	Water Deposits									
13	Allowance for doubtful accounts									
14	Deferred Regulatory Assets									
15	Deferred Regulatory Liabilities									
16	NOL									
17					12,136,614	100%				
18	Effects of Staff disabled assets - Original Cost-water				(2,982,769)	(Staff Schedule III-water)				
19	Effects of Staff disabled assets - Original Cost-sewer				(746,494)	(Staff Schedule III-sewer)				
20	Accumulated Depreciation - water				218,907	(Staff Schedule III-water)				
21	Accumulated Depreciation - sewer				(32,085)	(Staff Schedule III-sewer)				
22	Net change				(3,562,440)	28%				
23					8,616,259					
24										
25										
26										
27	Net balances of ADFIT									
28										
29										
30										
31										
32	Staff recalculation of percentage allocation to water and sewer									
33	Water Division Rate Base Before ADFIT				\$ 7,376,376				59.40%	
34	Sewer Division Rate Base before ADFIT				\$ 5,040,777				40.60%	
35	Total				\$ 12,416,152				100.00%	
36										
37										
38	Staff correction of Sewer Rate Base number									
39	(From Application, Base LU000036 and LU000097				4,419,414					
40	ADFIT				363,783				435,050	
41	Excuse ADFIT				237,590				269,316	
42	Applicant Rate Base before ADFIT				5,040,777				7,028,186	
43										
44										
45	Water									
46	12,772,661	\$ 10,592,396								
47	(6,497,824)	\$ (6,366,624)								
48	7,275,067	\$ 5,223,772								
49	(25,427)	\$ (265,893)								
50	7,300,494	\$ 5,509,465								
51										

Reconciliation from response to OPUIC 1-1 to application
Net Plant per III-2 of app include cnc net

Total
\$ 12,167,719
\$ 48,106
\$ 12,130,614
(reconciled to schedule)

Line #	R	W	X	Y	Z	AA	AC	AD	AE	AF
2	Liberty Utilities (Silverleaf) Corp.									
3	Calculation of ADFIT									
4	SOAH Docket No. 473-18-3006.WS									
5	PUC Docket No. 47978			Page 2 of 2						
				Tax Rate	Tax Rate	Excess	Water	Water	Sewer	Sewer
				34%	21%			Excess		Excess
	2017 Tax Deprec	2017		Accumulated	Accumulated	Accumulated	Accumulated	Accumulated	Accumulated	Accumulated
8	On 2017	Adjusted	Book-Tax	Deferred	Deferred	Deferred	Deferred	Deferred	Deferred	Deferred
9	Net Tax Adds	Tax Basis	Difference	Income Tax	Income Tax	Income Tax	Income Tax	Income Tax	Income Tax	Income Tax
10	(21,381)	7,208,104	(4,830,510)	(1,676,373)	(1,035,407)	(640,986)	(615,047)	(380,743)	(420,360)	(260,223)
11										
12										
13										
14										
15										
16										
17		7,208,104	(4,830,510)	(1,676,373)	(1,035,407)	(640,986)	(615,047)	(380,743)	(420,360)	(260,223)
18	Affects of									
19	Staff reduction									
20	To plant	(K22*W17)	X10/W10*W22	(X22*Y6)	(X22*Z6)	(+Y22-Z22)				reference
21										
22	29%	2,109,496	(1,442,944)	490,601	303,016.27	187,583				
23										
24										
25										
26							(Z27*G33)	(AA27*G33)	(Z27*G34)	(aa27*G34) reference
27	Totals			(1,185,772)	(732,389)	(453,384)	(436,048.66)	(269,316.45)	(297,339.22)	(184,087.14)
28										
29										
30	Amortization period						25.76		17.09	
31	Annual amortization						(10,454.83)		(10,770.46)	
32										
33										
34										
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36										
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0000019

ATTACHMENT DL-4
SOAH DOCKET NO. 473-18-3006.WS
PUC DOCKET NO. 47976

ADFIT and Excess ADFIT
Liberty Response to OPUC 1-1

RESPONSE TO REQUEST FOR INFORMATION

OPUC RFI 1-1 Please provide applicable documents in the filing, as well as all related workpapers, in their native Excel format with all formulas and links intact.

RESPONSE: See attached schedules for the native Excel water and sewer rate applications, the water inverted tier, cost of capital, and ADIT supporting workpapers.

OPUC RFI 1-1_SL Application Water Final.xlsx
OPUC RFI 1-1_SL Application Sewer Final.xlsx
OPUC RFI 1-1_Rate Book SL Water17 Inverted Tier.xlsx
OPUC RFI 1-1_Rate Book SL Sewer17 Single Tier.xlsx
OPUC RFI 1-1_Cost of Capital Liberty Silverleaf.xlsx
OPUC RFI 1-1_SL ADIT Calc 2017.xlsx

Prepared by: Leticia Washington, Manager, Rates and Regulatory Affairs and Thomas Bourassa
– Certified Public Accountant on behalf of Liberty Utilities Silverleaf, LLC

Sponsored by: Thomas Bourassa – Certified Public Accountant on behalf of Liberty Utilities
Silverleaf, LLC

Liberty Utilities (Silverleaf Water and Sewer) Corp.

		<u>Adjustments</u>			
	<u>Adjusted Book Basis, net</u>	<u>Intentionally Left Blank</u>	<u>Intentionally Left Blank</u>	<u>Intentionally Left Blank</u>	<u>Intentionally Left Blank</u>
Property, Plant, and Equipment ¹	12,138,614				
AIAC	-				
Meter Deposits	(9,860)				
Allowance for doubtful accounts	(349)				
Deferred Regulatory Assets					
Deferred Regulatory Liabilities					
NOL					

¹ Net of CIAC and AA. Excludes Land. Also includes post-test year plant.

Water Division Rate Base Before ADIT	\$ 7,375,375	62.86%
Sewer Division Rate Base before ADIT	\$ 4,358,150	37.14%
Total	<u>\$ 11,733,525</u>	100.00%

Rate						
17.38%						
<u>Adjusted</u> <u>Book Basis</u>	<u>2016 Taxable</u> <u>Deprec Basis, Net</u>	<u>2017 Tax Deprec.</u> <u>on 2016 and</u> <u>prior Tax Asss</u>	<u>2017</u> <u>Tax Adds</u>	<u>2017</u> <u>Capital Repairs</u> <u>Deduction</u>	<u>2017</u> <u>Bonus</u> <u>Depreciation</u>	<u>2017 Tax Deprec.</u> <u>On 2017</u> <u>Net Tax Adds</u>
12,138,614	6,587,250	(428,819)	2,587,858	(449,769)	(1,069,043)	(21,381)
-	-	-	-	-	-	-
(9,860)	-	-	-	-	-	-
(349)	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>12,128,405</u>						

<u>Adjustments</u>						
<u>Intentionally Left Blank</u>	<u>Intentionally Left Blank</u>	<u>Intentionally Left Blank</u>	<u>Intentionally Left Blank</u>	<u>2017 Adjusted Tax Basis</u>	<u>Book-Tax Difference</u>	<u>Tax Rate 34% Accumulated Deferred Income Tax</u>
				7,208,094	(4,930,520)	(1,676,377)
				-	-	-
				-	9,860	3,352
				-	349	119
				-	-	-
				-	-	-
				7,208,094	(4,920,311)	(1,672,906)

Tax Rate 21%	Excess Accumulated Deferred Income Tax	Water Accumulated Deferred Income Tax	Water Excess Accumulated Deferred Income Tax	Sewer Accumulated Deferred Income Tax	Sewer Excess Accumulated Deferred Income Tax
(1,035,409)	(640,968)	(650,830)	(402,895)	(384,579)	(238,073)
-	-	-	-	-	-
2,071	1,282	1,302	806	769	476
73	45	46	29	27	17
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
(1,033,265)	(639,640)	(649,483)	(402,061)	(383,783)	(237,580)

ATTACHMENT DL-5
SOAH DOCKET NO. 473-18-3006.WS
PUC DOCKET NO. 47976

**Liberty Response to LRWA RFI 1-22 and OPUC RFI
4-6**

RESPONSE TO REQUEST FOR INFORMATION

LRWA RFI 1-22

With reference to Liberty Silverleaf's Response to OPUC RFI 1-1_SL Application Water Final Tab 2015SL, (the 2015 Trial Balance) the NARUC account number 2160-Retained Earnings shows a combined total of \$14,794,704.32. This would indicate that, since inception (2004), Liberty Silverleaf has had average annual (10 years) net earnings of \$1,479,470. With reference to your rate application Schedule W-I-1 Rev Req, TOTAL HISTORIC REVENUE for the test year was \$1,761,898.

- a. Explain how you can average nearly \$1.48 million per year in net income on historic revenues of about \$1.76 million.
- b. Provide a schedule by subdivision 8110-Holly Ranch, 8112-Big Eddy, 8114-Piney Shores, and 8116-Hill Country that shows the net income per year realized since inception from CCN 13131 reconciled to the above combined 2015 total Retained Earnings.
- c. With further reference to Liberty Silverleaf's Response to OPUC RFI 1-8, the Asset Purchase Agreement dated August 29, 2004 between SRI and Algonquin Water Resources of Texas, Inc. SCHEDULE 2.02 ALLOCATION OF PURCHASE PRICE, \$6,200,000.00 was allocated to the water systems now referred to as CCN 13131. From inception to 2015, Liberty Silverleaf accumulated \$14,794,704.32 in net earnings, per above. This equates to an average annual rate of return on initial investment of 23.86% ($1,479,470/6,200,000$). Please, reconcile this actual average annual rate of return to the rates of returns requested in the respective prior rate filings and include documentation in support of your reconciliation and conclusions.

RESPONSE:

- a. No. Liberty Silverleaf did not average net income of \$1.48 million per year since 2004. Not all costs associated with costs of providing service are booked directly on Liberty Silverleaf's book. The trial balance information included in rate applications does not include tax expense. Liberty Utilities records federal income taxes on a consolidated basis by a parent company and not directly by Liberty Silverleaf or any other local Texas utility. Federal and state tax laws allow a corporate holding company to file consolidated tax returns reflecting its full range of regulated operations. For ratemaking purposes, many states use the traditional "stand-alone" method for calculating the amount of income taxes to be incorporated into a regulated utility's rates. That method calculates taxes based on the regulated revenues and operating costs of the utility itself, without regard to the operations of the utility's parent and other affiliated companies. That "stand-alone" calculation is used so that taxes in

RESPONSE TO REQUEST FOR INFORMATION

utility rates are based on the costs of providing the regulated utility service. The Class B Utility rate filing package calls for a regulatory calculation of "normalized federal income tax in the cost of service...based on the utility's return dollars" with a "gross up" calculation.

Also, depreciation expenses were not recorded correctly on the regulated books of Liberty Silverleaf until 2016 as indicated in the Company's response to Silverleaf Resorts RFI 1-43.

- b. See the Liberty Silverleaf financial reports at LU 009335 – LU 009374. Please see the response above for the limitations of these reports.
- c. Liberty Silverleaf does not agree with the analysis above for the reasons stated above.

Prepared by: Alysia Maya, Manager, Finance and Leticia Washington, Manager, Rates and Regulatory Affairs

Sponsored by: Leticia Washington, Manager, Rates and Regulatory Affairs and Thomas Bourassa, Certified Public Accountant on behalf of Liberty Utilities (Silverleaf Water) LLC

RESPONSE TO REQUEST FOR INFORMATION

OPUC RFI 4-6 Referencing the Company's response to LRWA RFI 1-22, and specifically the statement that "Liberty Utilities records federal income taxes on a consolidated basis by a parent company," please provide the calculation of the Company's proposed consolidated tax savings adjustment as required under Texas Water Code §13.185(f). Please indicate where and how said consolidated tax savings adjustment is included within the Company's filing.

RESPONSE: As stated in responses to LRWA RFI 1-22, Liberty Utilities files a consolidated tax return for the group and income tax expenses are recorded at top consolidation level instead of entity level. Federal income tax returns are filed on a consolidation basis to allow the parent to take advantage of netting the operating gains and losses of various entities and minimizing cash tax payments for the group. Due to the nature of regulated business, each utility operates on a stand-alone basis with no intercompany transactions other than allocation of cost of services provided, therefore, there is no "income taxes saved by a consolidated group of which a utility is a member due to the elimination in the consolidated return of the intercompany profit on purchases by the utility from an affiliate shall be applied to reduce the cost of those purchases" as described in Texas Water Code §13.185(f). As such, there is no tax savings adjustment including the filing.

Prepared by: Hui Han, Senior Manager, US Tax, Finance

Sponsored by: Thomas Bourassa, Certified Public Accountant on behalf of Liberty Utilities
(Silverleaf Water) LLC

ATTACHMENT DL-6
SOAH DOCKET NO. 473-18-3006.WS
PUC DOCKET NO. 47976

PUC Docket 33309 Order

**PUC DOCKET NO. 33309
SOAH DOCKET NO. 473-07-0833**

**APPLICATION OF AEP TEXAS § PUBLIC UTILITY COMMISSION
CENTRAL COMPANY FOR §
AUTHORITY TO CHANGE RATES § OF TEXAS**

ORDER

On November 9, 2006, AEP Texas Central Company (TCC) filed an application for authority to change rates pursuant to PURA,¹ Chapter 36, requesting an increase in base rates that would produce an annual base revenue increase of \$62,709,174. During the course of this proceeding, TCC reduced this amount to approximately \$49,952,000.² TCC also seeks to terminate the merger savings and rate reduction riders implemented in Docket No. 19365,³ further increasing its revenues by \$19,988,359 annually. Therefore, the total revenue increase sought by TCC in this proceeding is \$69,940,359.

The administrative law judges (ALJs) filed a proposal for decision (PFD) on August 30, 2007. In their PFD, the ALJs recommend that the Commission approve TCC's application, including termination of the merger savings and rate reduction riders, subject to the adjustments recommended in the Proposal for Decision (PFD). The recommendations reduce TCC's adjusted test year total revenue requirements from \$581,127,359 to \$531,123,478, a reduction of \$50,004,479. TCC identified several number-run adjustments required to implement the ALJs' decision.⁴ The Commission ordered Commission Staff to incorporate TCC's number-run corrections, which resulted

¹ Public Utility Regulatory Act, TEX. UTIL. CODE ANN. §§ 11.001 - 64.158 (Vernon Supp. 2007) (PURA).

² TCC Ex. 78, RWH-1R.

³ See *Application of Central and Southwest Corporation and American Electric Power Company, Inc. Regarding Proposed Business Combination*, Docket No. 19365, Integrated Stipulation and Agreement (Nov. 18, 1999).

⁴ AEP Central Company's Exceptions to the Proposal for Decision and Request for Number Running Corrections, Attachment E at 87-91 (Sept. 20, 2007).

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in a revenue requirement of \$540,879,671 or a reduction of \$40,247,688⁵ from TCC's original request. The Commission adopts the PFD issued by the ALJs, including the findings of fact and conclusions of law, with the number run corrections recommended by TCC in its exceptions to the PFD.⁶ Finding of Fact No. 42 is modified to reflect Commission Staff's updated number runs.

I. Findings of Fact

Procedural History

1. AEP Texas Central Company (TCC or the Company) is an electric utility operating company and wholly owned subsidiary of American Electric Power Company (AEP), a public utility holding company.
2. TCC has been functionally unbundled, and its costs have been separated for accounting purposes among Transmission, Distribution, and Generation functions since the onset of retail competition in 2002.
3. TCC filed its application with the Public Utility Commission of Texas for authority to increase its transmission and distribution (T&D) rates on November 9, 2006, requesting an overall increase of approximately \$62.7 million.
4. As part of its application, TCC gave notice of its intent to terminate approximately \$20 million in credits to customers that are provided by separate riders implemented in connection with the Commission's approval of the AEP/CSW merger in *Application of Central and Southwest Corporation and American Electric Power Company, Inc. Regarding Proposed Business Combination*, Docket No. 19265 (Nov. 18, 1999).

⁵ See generally *Accounting and Depreciation Schedules and Related Workpapers* (Nov. 12, 2007).

⁶ See generally *Corrected Page to the Proposal for Decision and Request for Number Running* (Sept. 20, 2007).

5. Concurrent with its filing with the Commission, TCC filed a similar petition and statement of intent with each incorporated city in its service area that has original jurisdiction over its retail rates.
6. Notice of TCC's application was published once a week for four consecutive weeks in newspapers having general circulation in each county in TCC's service territory and was completed on December 14, 2006.
7. Individual notice of the TCC's application was provided on November 9, 2006, to the Commission Staff and the Office of Public Utility Counsel (OPC).
8. On October 4, 2006, TCC mailed notice to each municipality in TCC's service area of its intent to change rates charged to retail electric providers (REPs) and certain end-use customers.
9. On November 8, 2006, TCC mailed notice of its petition and statement of intent to each municipality within TCC's service area.
10. Individual notice of the TCC's application was provided and completed by November 9, 2006, to all REPs who have been certified by the Commission and who serve end-use customers in TCC's service area. Notice was provided to all certified REPs.
11. Individual notice of the Application was provided to each party that participated in *Application of AEP Texas Central Company for Authority to Change Rates*, Docket No. 28840 (Aug. 15, 2005), TCC's last T&D rate case.
12. The Commission referred this proceeding to the State Office of Administrative Hearings (SOAH) on November 14, 2006. The Commission issued its Preliminary Order setting forth the issues to be addressed in this proceeding on December 19, 2006.
13. The following parties were granted intervention: Alliance for Retail Markets (ARM); Cities served by TCC (Cities); City of Garland; Commercial Customer Group (CCG); CPL Retail Energy, L.P. (CPL); Efficiency Texas; Federal Executive Agencies (Department of the Navy); Occidental Power Marketing, L.P.; OPC; Reliant Energy Retail Services, LLC; South Texas Electric

Cooperative; Sharyland Utilities, L.P.; State of Texas; Texas Cotton Ginners' Association; Texas Industrial Energy Consumers (TIEC); Texas Legal Services Corporation (TLSC); Texas Ratepayers Organization to Save Energy (Texas ROSE); Texas State Association of Electrical Workers; Oncor Electric Delivery Company; TXU Energy, Wholesale and Power Companies; and Wal-Mart Stores Texas, L.P. and Texas Retail Energy LLC (Wal-Mart).

14. TCC timely filed appeals with the Commission of the rate ordinances of the municipalities exercising original jurisdiction within its service territory. All such appeals were consolidated for determination in this proceeding.
15. TCC's application is based on a test year ending June 30, 2006.
16. On January 26, 2007, TCC filed an update to its rate filing that reduced its overall rate increase request by approximately \$1.6 million.
17. When TCC filed its rebuttal case, it unilaterally decreased its total requested T&D base rate increase to approximately \$50 million, a reduction of approximately \$12 million from its initial request. This reduction included the impact of the January 26, 2007 update, as well as other reductions agreed to by the Company as a result of changed circumstances since its initial filing, or based on its review of Commission Staff and intervenor positions.
18. The hearing on the merits commenced on April 12, 2007 and lasted seventeen hearing days, concluding on May 4, 2007.
19. TCC proposed an effective date of December 14, 2006, for the proposed rates. The effective date was suspended for 150 days until May 13, 2007. The Company agreed to further extend the effective date in order to allow the ALJs and the Commission to process the case.
20. On April 17, 2007, TCC filed notice of its intent to put into effect, under bond, the rates set out in attached, filed tariff sheets. The rates will produce an annual base revenue increase of \$50,061,000. TCC stated its intent to implement such bonded rates on a system-wide basis on or after May 30, 2007, in order to maintain uniform system-wide rates throughout its service territory.

21. On May 15, 2007, the ALJs issued an interim order finding that a bonded rate is a changed rate under the ISA and PURA § 36.110; therefore, TCC is allowed to terminate the merger savings and the rate reduction riders ordered in Docket No. 19265, upon implementation of bonded rates.
22. On June 27, 2007, the Commission denied an interim appeal of the order identified in the above Finding of Fact No. 21, affirming the ALJs' ruling.

Rate Base

23. TCC's used and useful total transmission plant in service is \$944,552,252, and its used and useful transmission plant in service net of accumulated depreciation is \$661,911,522.
24. TCC's used and useful total distribution plant in service is \$1,719,634,015, and its used and useful distribution plant in service net of accumulated depreciation is \$1,135,195,148.
25. TCC included in rate base a pension prepayment asset of \$112.4 million.
26. The pension prepayment asset arises under Generally Accepted Accounting Principles (GAAP) in accordance with Statement of Financial Accounting Standards No. 87 (SFAS 87) and represents the amount by which the pension fund exceeds the accumulated pension obligations.
27. Investment income on the pension prepayment asset reduces pension cost calculated under SFAS 87.
28. Accounting in accordance with GAAP requires that both the balance sheet and income statement effects be taken into account.
29. The pension prepayment asset contains \$22.799 million included in construction work in progress (CWIP).
30. Only the non-CWIP portion of the income earned on the pension prepayment asset is reflected in the total pension expense and the revenue requirement.

31. The pension prepayment asset should not be included in TCC's rate base to the extent that TCC's pension cost is capitalized to CWIP.
32. The pension prepayment asset of \$112.4 million, less the \$22.799 million portion included in CWIP, should be included in rate base.
33. All of TCC's operations and maintenance (O&M) and administrative and general (A&G) expenses are included in its cash working capital calculation.
34. The leads and lags in paying these items, which give rise to the amounts recorded in Account 190, have been appropriately included in the calculation of rate base through this process.
35. Accumulated Deferred Federal Income Tax (ADFIT) of \$323.9 million is reasonable and should be included in rate base.
36. In arriving at its adjusted test-year-end rate base, TCC reclassified \$7.3 million in transmission projects that were classified as CWIP and that had not been closed out to plant-in-service as of June 30, 2006 but which were actually providing service to customers as of that date.
37. TCC also removed from rate base allowance for funds used during construction (AFUDC) of \$368,625 related to the transmission projects that were reclassified.
38. The \$7.3 million reclassification of these projects to plant-in-service is reasonable and should be adopted.
39. TCC's construction accounts payable were included in TCC's cash working capital calculation. Accordingly, the leads and lags associated with these construction accounts payable are appropriately included in the calculation of rate base.
40. Based on Findings of Fact Nos. 72 through 77, TCC's affiliate capital costs assigned to TCC Distribution should be reduced by \$2,454,762, and affiliate capital costs assigned to TCC Transmission should be increased by \$211,520.
41. TCC included in rate base \$10.2 million in debt restructuring costs related to business separation. TCC also included in cost of service an annual amortization

expense of \$914,892 for amortization of these debt restructuring costs over a 15-year period.

42. TCC has a current cash working capital requirement of \$2,191,723 for distribution and (\$4,532,467) for transmission.
43. TCC's current working capital request reflects a modification of the monthly payment dates from TCC to American Electric Power Service Corporation (AEPSC) from the actual date of payment (usually the second or third working day after receipt) to the thirtieth day after receipt of the bill, as authorized by the TCC-AEPSC Service Agreement.
44. TCC must pay additional AEPSC financing costs for delaying payment of its bill from the second or third day until the thirtieth day after receipt.
45. TCC's own financing costs equal the financing costs charged to it by AEPSC. Thus, TCC will save the same amount of financing costs that AEPSC will charge it for delaying payments to AEPSC, so TCC will not incur any net increase in finance charges by delaying payment to AEPSC.
46. For TCC's cash working capital calculation, it is more appropriate to use the mid-point of the service period than the invoice date in the calculation of third-party expense lead days.
47. Cities' calculation of the third-party payment lead from samples of TCC's third-party invoices is reasonable and should be adopted, resulting in an additional third-party expense lead period of 2.26 days for distribution and an additional third-party expense lead period of 5.63 days for transmission.
48. The additional lead days for third-party expenses reduces TCC's request for cash working capital and rate base by \$9,314,603.
49. Beginning with calendar year 2005, TCC was required to implement for financial reporting purposes accounting for legal asset retirement obligations (AROs) associated with the cost of removal of asbestos from buildings in accordance with SFAS 143.

50. In its filing, TCC incorporated appropriate accounting changes for ratemaking purposes to account for the AROs associated with the cost of removal of asbestos from buildings in accordance with SFAS 143. This involved the establishment of offsetting ARO assets and liabilities, the inclusion of SFAS 143 depreciation and accretion in cost of service, and the exclusion of the cost of removal of asbestos from buildings from the net salvage component of the calculation of depreciation rates for Account 390.
51. TCC's use of SFAS 143 accounting for ratemaking purposes for the cost of removal of asbestos from buildings aligns the regulatory treatment with GAAP and should be approved.

Return on Equity and Capital Structure

52. A return on equity of 9.96% will allow TCC a reasonable opportunity to earn a reasonable return on its capital investment.
53. TCC's energy conservation efforts, the quality of its services, the efficiency of its operations, and the quality of its management support a 9.96% return on equity.
54. A 9.96% return on equity is consistent with the level of financial risk associated with TCC's capital structure.
55. A reasonable application of the discounted cash flow, risk premium, and capital asset pricing models supports a return on equity of 9.96%.
56. TCC presented a revised pro forma cost of debt of 5.8586% based on updated information resulting from the retirement and refunding of its debt using the proceeds of the securitization approved in *Application of AEP Texas Central Company for a Financing Order*, Docket No. 32475, Financing Order (June 21, 2006).
57. The \$1,669,612 in debt issuance costs related to Matagorda Navigation District No. 1 Pollution Control Bonds Series 2005 and B in 2005 were not incurred in connection with the issuance of transition bonds and are properly included in the cost of debt calculation in this docket.

58. TCC could not have included the \$1,669,612 in cost of debt in Docket No. 33541, because that docket was a proceeding expressly designed for addressing only qualified costs.
59. TCC's cost of debt for purpose of this docket is 5.8586%.
60. The appropriate capital structure for purposes of setting rates in this proceeding consists of 60% debt and 40% equity.
61. A 60/40 capital structure is consistent with existing Commission precedent for T&D utilities.
62. A 60/40 capital structure is consistent with current rating agency expectations for TCC.
63. TCC's overall rate of return is as follows:

Component	% of Total Capitalization	Cost of Capital Rate	WACC (%)
Long Term Debt	60.00%	5.8586%	3.5152%
Common Equity	40.00%	9.9600%	3.9840%
Total	100.00%		7.4992%

Cost of Service

64. AEPSC is the service company for the AEP System. It provides services to AEP's utility companies, including TCC.
65. TCC provided evidence supporting the primary allocation factors used to allocate costs and why such allocation factors are appropriate for the cost they support for fourteen classes of service involving affiliate transactions between AEPSC and TCC: customer service; distribution; transmission; external affairs; regulatory; Texas administration; information technology; business logistics; human resources; finance; accounting and strategic planning; internal support; safety and environmental; legal; and corporate communications.

66. TCC established cost trends, budget comparisons, benchmark studies, if available, or other proof suggested by the Commission's rate filing package Guiding Principles to support its level of requested affiliate costs.
67. TCC provided a schedule that shows how each allocator used by TCC is calculated and how often the calculation is updated.
68. The functions performed by AEPSC allow TCC to reduce its costs by capturing economies of scale.
69. AEPSC has been consistently reducing service company costs over the last several years, including costs to TCC.
70. The activities performed for TCC are necessary and provide direct benefits to TCC and its customers in terms of lower costs and reliable operations.
71. Of the approximately 90 discrete activities that define the full scope of AEPSC services, 19 activities were assessed to determine the potential for overlap of activities between AEPSC and TCC and other AEP utility subsidiaries. These 19 areas had activity descriptions that indicated potential similarity. Detailed assessment of these activities established that there was no duplication between AEPSC and TCC.
72. The manner in which AEPSC charges costs to TCC is properly designed to ensure that the equitable distribution and the allocation process are generally reasonable, except for the use of TCC's total assets allocator.
73. TCC uses a total assets factor to allocate the cost of certain services provided to itself and to other AEP affiliates by AEPSC.
74. After deregulation pursuant to Senate Bill 7, the Commission quantified TCC's stranded costs, and TCC chose to recover those costs through the securitization process rather than through a competition charge. The Commission issued financing orders allowing TCC to issue securitization bonds, providing TCC with the full amount of its stranded costs. Once the Commission issued the financing orders, TCC placed these regulatory assets on its books, assigned to TCC Distribution.

75. TCC included the regulatory assets noted in the above finding of fact and relating to stranded costs and securitization of generation assets in Allocator 58, its total assets allocator.
76. The inclusion of regulatory assets in Allocator 58 inflates the allocation of costs charged by AEPSC to the TCC distribution company.
77. Although TCC is required by accounting standards to include its regulatory assets on its balance sheet, these regulatory assets are not related to the provision of distribution service and should not be included in TCC's cost of service.
78. TCC adequately reviews and questions the monthly services bill that it receives from AEPSC.
79. Any corrections requested by TCC or by other AEP affiliates, which AEPSC adopts, are applied to bills for all affiliate companies. Thus, a correction requested by another affiliate can benefit TCC.
80. TCC's adjustment to account for the creation of a new affiliate, Electric Transmission Texas, LLC (ETT) is reasonable.
81. TCC's adjustment to Allocator 70, Non-Electric Other Accounts Receivable, is reasonable.
82. TCC's inclusion of annual and long-term incentive compensation related to financial incentives in cost of service is unreasonable because it is not necessary for the provision of T&D utility services.
83. TCC reasonably determined group life insurance expense using an annualized June 2006 amount, with proper adjustments to cost of service to eliminate the portion of capitalized costs.
84. TCC reasonably determined savings plan (401k) expense using an annualized June 2006 amount, with proper adjustments to cost of service to eliminate the portion of capitalized costs, as adjusted in its rebuttal testimony.

85. TCC's pension expense of \$1,627,376, which reflects a reduction of \$456,000 for negative pension expense under SFAS 87 related to former generation employees, is reasonable and necessary.
86. TCC's requested adjusted test-year amount of \$5,953,937 for postretirement benefits under SFAS 106, which included \$886,264 in SFAS 106 transition adjustment amortization related to former generation employees, is reasonable.
87. Additional SFAS 106 postretirement benefit costs of \$564,736 related to the former generation employees should be included in cost of service.
88. Total SFAS 106 postretirement benefit costs of \$6,518,673 are reasonable and necessary.
89. A catastrophic property damage loss self-insurance program with an annual accrual of \$1,300,000 and a target reserve amount of \$13 million is in the public interest.
90. TCC's distribution O&M expenses, with the removal of the payment to the Public Utilities Board of Brownsville from distribution station maintenance expense, are reasonable and necessary.
91. TCC's transmission O&M expenses are reasonable and necessary.
92. TCC's request to recover the amount of its calendar year 2006 energy efficiency costs is known and measurable because TCC has used the actual 2006 costs to calculate its energy efficiency goal to be achieved by January 1, 2008.
93. For energy efficiency cost recovery, it is more reasonable to use costs incurred in a calendar year because such recovery more closely tracks statutory and regulatory energy efficiency goals.
94. It is reasonable for TCC's cost of service to include \$6,334,949 in energy efficiency costs, as reflected in its calendar year 2006 costs.
95. TCC's proposed net salvage values for all FERC accounts are reasonable and appropriate estimates of future net salvage recoveries.

96. In its application, TCC submitted a depreciation study based on plant-in-service as of December 31, 2005. This study reduced TCC's depreciation rates relative to the rates adopted by the Commission in Docket No. 28840.
97. TCC accepted Cities' recommended service life and survivor curves for two FERC accounts and net salvage for one FERC account. Differences exist between TCC and Cities and/or Commission Staff with respect to service life and survivor curves for seven FERC accounts and with respect to net salvage for 20 FERC accounts.
98. TCC's service life and survivor curves, as modified by the above finding of fact, are reasonable and should be adopted for all FERC accounts, except FERC accounts 365, 368, 371, and 373.
99. Commission Staff's recommendations should be adopted regarding the survivor curves (but not its proposed net salvage values), and the resultant depreciation rate should be adopted for FERC accounts 365, 368, and 371.
100. Cities' recommendation regarding the survivor curve and depreciation rate for FERC account 373 is reasonable and should be adopted.
101. TCC properly removed net proceeds from 1999 and 2005 building sales from consideration of net salvage value regarding FERC Account 390, because the net salvage received from sales of various buildings in those years were not generated in the ordinary course of TCC's business.
102. The inflation embedded in TCC's historical information will likely be experienced in the future.
103. TCC's historical information regarding cost and retirements of its assets properly imposes costs on the customers who benefit from the use of those assets.
104. The depreciation rates requested by TCC as set forth in TCC Exhibit 66 are reasonable and should be approved for all FERC accounts except FERC accounts 365, 368, 371, and 373. TCC's depreciation rates should be applied to the adjusted plant-in-service as of June 30, 2006, in order to calculate the reasonable and necessary depreciation accrual expense for cost of service.

105. The survival curves and resultant depreciation rates recommended by Commission Staff (but not its net salvage values) are reasonable and should be approved for FERC accounts 365, 368, and 371. The depreciation rates resulting from the survival curve recommended by Commission Staff should be applied to the adjusted plant-in-service as of June 30, 2006, in order to calculate the reasonable and necessary depreciation accrual expense for cost of service in FERC accounts 365, 368, and 371.
106. The survival curve and resultant depreciation rate requested by Cities is reasonable and should be approved for FERC Account 373. The depreciation rate resulting from the survival curve requested by Cities as set forth in TCC Exhibit 66 should be applied to the adjusted plant-in-service as of June 30, 2006, in order to calculate the reasonable and necessary depreciation accrual expense for cost of service in FERC account 373.
107. Regarding sales of certain buildings in FERC Account 390, TCC removed from its depreciation study the proceeds from sales in 1999 and 2005, along with the associated costs of removal, and the original costs of the buildings.
108. The approach TCC used regarding sales of buildings in FERC Account 390 is reasonable, comports with the applicable accounting requirements, and provides the full benefit of the sale, including the gain, to customers, through reduction of rate base and associated reduction of the depreciation accrual.
109. TCC experienced 50% or higher net salvage results for FERC Account 390 in six of 22 years (1984-2005) included in its depreciation study.
110. After 1999, 2005 was the first year in which TCC received net gains from salvage of buildings in FERC Account 390 that exceeded 50%.
111. The last year that a net salvage rate of greater than 50% occurred for FERC Account 390 was 1994.
112. TCC's net salvage results for 1999 and 2005 from sales of buildings are not likely to recur regularly on the same scale.

113. As part of its implementation for ratemaking purposes of SFAS 143 ARO accounting for the legal obligations related to costs of removal of asbestos from buildings, TCC included an accretion expense of \$73,000, which substitutes for the cost of removal of asbestos previously included in the cost of removal for depreciation purposes.
114. Because it is reasonable to implement for ratemaking purposes SFAS 143 ARO accounting for the legal obligations related to costs of removal of asbestos from buildings, the related accretion amount is reasonable and necessary.
115. TCC appropriately collected late payment charges in compliance with the existing tariff, using reasonable accounting practices.
116. During the test year, TCC performed transmission-related construction services, engineering, procurement, and other related construction services for the Lower Colorado River Authority (LCRA) on lines that will be owned by LCRA.
117. TCC is exiting the third-party construction business; thus, it reduced its test year margins (revenues less expenses) of \$3.3 million down to \$789,714, as a known and measurable adjustment to miscellaneous revenues.
118. TCC's adjustment to miscellaneous revenues to account for the decrease in third-party margins is reasonable, known, and measurable.
119. TCC is a member of an affiliated group eligible to file a consolidated federal income tax return.
120. The amount of the fair share of consolidated federal income tax savings allocated to TCC is \$1,901,184 before gross up and \$2,924,898 after gross up.
121. Ad valorem property taxes in the amount of \$27,853,898 are reasonable and necessary expenses.
122. The transmission cost of service (TCOS) included in the final distribution cost of service should be synchronized with the transmission rates applied to the TCC distribution function based on the TCOS established for the TCC transmission function as a result of this case.

123. TCC's historical actual bad debt cost for the test year of \$138,776 should be included in cost of service.
124. TCC's proposal to include \$328,009 in rates for business and economic dues was unsupported by the preponderance of the evidence because some dues may have included legislative advocacy or lobbying expenses.
125. It is reasonable to sever from this proceeding issues related to Cities' and TCC's recovery of rate case expenses.

Load Research

126. In *Application of AEP Texas Central Texas Company for Authority to Change Rates*, Docket No. 28840 (Aug. 15, 2005), TCC was ordered to file TCC-specific load research data in its next rate case.
127. TCC filed company-specific load research data in this case.
128. TCC employed industry-accepted standard load research practices in developing the load research samples and demand estimates, which accurately represent the TCC rate class populations.
129. The overall result of TCC's load research study is a reasonable estimate of class demands for use in allocating costs in this case.
130. The changed load characteristics result from class usage changes.
131. The final numbers produced by TCC's load research study consistently represent the customers that moved from the non-interval data recorder (IDR) class to the IDR class as if they were members of the IDR class for the entire test year.

Cost-of-Service Study

132. In Docket No. 28840, the Commission's Order required TCC to perform a new distribution field study. TCC completed that study and used its results to allocate demand related distribution costs in the cost-of-service study used in this docket.

133. The cost-of-service studies performed by TCC were performed in a manner that is consistent with that used in TCC's most recent rate case, are reasonable, and should be approved.
134. It is appropriate to use a 100% demand allocator for distribution accounts 364 through 368.
135. The data in the cost-of-service study supporting the development of charges for IDR metered customers, the schedules, and workpapers collectively support the changes proposed by TCC for IDR metered customers.
136. All customers within a class pay the same metering charge, regardless of the type of meter they use.
137. IDR-metered customers receive a higher Customer Charge than non-IDR-metered customers in the same class, primarily due to the complexity of preparing the IDR-metered customer's bill.

Rate Design

138. TCC's rate design uses the same customer classes ordered by the Commission in Docket No. 22344, Order No. 40.
139. TCC's proposed textual changes and changes to the standard allowance values in the Facilities Extension Schedule are unopposed and are reasonable.
140. TCC's proposed pilot program for front-of-the-lot subdivisions, as modified by Commission Staff, is reasonable.
141. TCC's request to continue to provide facilities rental services under the Distribution Voltage Facilities Rental Service and System Integral Facilities Rental Service tariff schedules, as updated in this proceeding, until January 1, 2011, is unopposed and is reasonable.
142. The increases assigned to each of the generic rate classes are the result of moving each rate class to unity (i.e., an equalized rate of return or full recovery of allocated costs).

143. Applying an across-the-board increase when actual cost data is available is contrary to Commission precedent, unjustified, and should be rejected.
144. An adjustment to the revenue allocation for the intra-class functions is neither necessary nor appropriate.
145. Modification of the customer service, metering, and distribution function revenue requirements unjustifiably strays from the equalized cost-of-service study.
146. TCC's proposed changes to the customer charges are based on cost, are consistent with Commission precedent, and should be approved.

Riders

147. TCC's proposed Municipal Franchise Fee Adjustment-City (MFFA-C) rider would be used to reflect a change to a specific municipality's franchise fee.
148. Under the proposed MFFA-C rider, municipal franchise fee adjustment that applies to a specific municipality would be applied to bills of retail customers who are located within the specific city's municipal limits.
149. TCC's proposed Rider MFFA-C should be rejected as it would create confusion with potentially over 100 different rates.
150. Having different rates in each municipality in TCC's service territory is contrary to the Commission's desire for uniform, simple rates.
151. The Commission has a pending rulemaking to change the energy efficiency rules in *Amendments to Energy Efficiency Rules and Templates*, Project No. 33487, which was put on hold pending proposed legislation.
152. It is premature to adopt a new method of energy efficiency cost recovery, such as the rider TCC proposed in its application, until the Commission adopts new rules, as required by recent legislation.

Discretionary Service Fees

153. Discretionary service fees are billed to the REPs or distribution end-use retail customers for the cost of performing a specific distribution service requested by the REP or end-use retail customer.
154. Discretionary service fees are charged to the party that causes the cost to be incurred so that other parties not requiring the service do not have to pay for the cost through base rates.
155. All TDUs must offer the discretionary services defined in the Standardized Discretionary Services Section of the Tariff.
156. TCC's proposed discretionary service fees are based on the cost to perform each discretionary service.
157. TCC's proposed discretionary fees, including the disconnect and reconnect fees, are reasonable and should be approved.

Tariff Formatting and Language

158. Several areas in TCC's filed Standardized Discretionary Services portion of its tariff do not conform to the pro forma tariff approved in Project No. 29637.
159. The formatting changes recommended by Commission Staff should be made in order to comply with the Commission's rule.
160. Commission Staff's recommended changes to the proposed Broken Meter Seal and After Hours Temporary Removal fees should be made.
161. Commission Staff's recommended language changes to Section 6.2.3.3.7, Meter Enclosure Seal Breakage, should be approved.

Termination of the ISA Riders

162. Pursuant to the ISA entered in Docket No. 19265, the merger savings and rate reduction riders related to the merger of AEP and Central and Southwest Corporation (CSW) terminate with a change in TCC's rates.
163. TCC was allowed to terminate the Docket No. 19265 merger savings and rate reduction riders upon its filing of bonded rates, effective May 30, 2007.
164. TCC should continue to be allowed to terminate the Docket No. 19265 merger savings and rate reduction riders upon the entry of a final order in this proceeding that changes TCC's rates.

II. Conclusions of Law

1. TCC is an electric utility as defined by PURA § 31.002, and, therefore, it is subject to the Commission's jurisdiction under PURA §§ 32.001, 33.051, and 36.102.
2. TCC is a T&D utility as defined in PURA § 31.002(19).
3. SOAH has jurisdiction over all matters relating to the conduct of the hearing in this case, including the preparation of a Proposal for Decision, pursuant to PURA § 14.053 and TEX. GOV'T CODE ANN. § 2003.049(b).
4. TCC provided adequate notice of this proceeding in compliance with P.U.C. PROC. R. 22.51.
5. Pursuant to PURA § 33.001, each municipality in TCC's service area that has not ceded jurisdiction to the Commission has jurisdiction over the Company's application, which seeks to change rates for distribution services within each municipality.
6. The Commission has jurisdiction over an appeal from a municipality's rate proceeding pursuant to PURA § 33.051.

7. PURA § 36.110 authorizes a utility to put changed rates, not to exceed its proposed rates, into effect in all areas in which the utility sought to change its rates under bond if the Commission fails to make its final determination before the 151st day after the date that the proposed change would otherwise have gone into effect had the operation of the proposed rates not been suspended. TCC's proposed effective date for its proposed rates was December 14, 2006, because TCC was authorized to implement a changed rate under bond effective with usage beginning on May 14, 2007, subject to refund, because the Commission did not make its final determination of rates on or before May 13, 2007.
8. The effective date of the change in rates approved in this case was extended to be consistent with P.U.C. SUBST. R. 25.241(i) and by agreement of TCC, consistent with P.U.C. PROC. R. 22.33(c).
9. The rates approved in this proceeding are based on original cost, less depreciation, of property used and useful to TCC, consistent with PURA § 36.053.
10. TCC's treatment of its debt restructuring costs conforms to the determinations the Commission made regarding these costs in its orders in *Application of Central Power and Light Company for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and Commission Substantive Rule 25.344*, Docket No. 22352 (Oct. 5, 2001) and Docket No. 28840 (Aug. 15, 2005), should be approved.
11. PURA § 36.065(a) provides that electric utility rates shall include "expenses for pensions and other postemployment benefits, as determined by actuarial or other similar studies in accordance with generally accepted accounting principles, in an amount the regulatory authority finds reasonable."
12. TCC's requested pension expense, which accounts for negative pension expense under SFAS 87 related to former generation employees, is in accordance with PURA § 36.065.

13. TCC's requested adjusted test-year amount of postretirement benefits under SFAS 106, which included a transition adjustment amortization related to former generation employees, is in accordance with PURA § 36.065.
14. GAAP, with respect to pension cost, are determined in accordance with SFAS 87 and SFAS 88.
15. P.U.C. SUBST. R. 25.231(c)(2)(D) prohibits including in rate base the portion of TCC's pension prepayment asset capitalized to CWIP.
16. Inclusion in rate base of TCC's approved pension prepayment asset and offsetting accumulated deferred income taxes comports with GAAP and PURA § 36.065.
17. No modification would be proper to the rate base treatment or to the 15-year amortization to cost of service of the debt restructuring costs TCC incurred in connection with business separation ordered in Docket Nos. 22352 and 28840.
18. The return on equity and overall return authorized in this proceeding are consistent with the requirements of PURA §§ 36.051 and 36.052.
19. PURA § 39.302(4) allows "the costs of issuing, supporting, and servicing transition bonds and any costs of retiring and refunding the electric utility's debt and equity securities in connection with the issuance of transition bonds" to be included in qualified up-front costs of securitization. Costs in the amount of \$1,669,612 that TCC incurred in issuing Matagorda Navigation District No. 1 Pollution Control Bonds Series 2005 and B in 2005 were not incurred in "retiring and refunding . . . [TCC's] debt and equity securities in connection with the issuance of transition bonds," which occurred in late 2006.
20. The costs in the amount of \$1,669,612 initially incurred in issuing Matagorda Navigation District No. 1 Pollution Control Bonds Series 2005 and B in 2005 are properly included in TCC's cost of debt calculation. P.U.C. SUBST. R. 25.231(c)(1)(C)(i).
21. TCC's decisions to retire and refund debt using the proceeds of the securitization were prudent under the prudence standard articulated in *Application of Gulf States*

Utilities Company to Change Rates, Docket No. 7195, 14 P.U.C. Bull. 1943, 1969-1970, 2429 (CoL 14) (May 16, 1998).

22. For ratemaking purposes, P.U.C. SUBST. R. 25.231(c)(1)(C)(i) requires the cost of debt to be “the actual cost of debt at the time of issuance, plus adjustments for premiums, discounts, and refinancing and issuance costs.”
23. The affiliate expenses included in TCC’s rates are consistent with the requirements of PURA § 36.058.
24. PURA § 36.065(a) authorizes an unbundled transmission and distribution utility to include in rates the “pension and other postemployment benefits” related to the employees of its predecessor’s generation function.
25. As used in PURA § 36.065(a), “pension and other postemployment benefits” (OPEB) includes pension costs under SFAS 87, postretirement benefits under SFAS 106, and postemployment benefits under SFAS 112.
26. Pursuant to P.U.C. SUBST. R. 25.231(b)(1)(H), OPEB shall be included in an electric utility’s cost of service for ratemaking purposes based on actual payments made.
27. PURA § 36.064 permits a utility to self-insure “potential liability or catastrophic property loss, including windstorm, fire, and explosion losses, that could not have been reasonably anticipated and included under operating and maintenance expenses.” The Commission shall approve a self-insurance plan under that section if it finds the coverage in the public interest, the plan, considering all of its costs, is a lower cost alternative to purchasing commercial insurance, and ratepayers receive the benefits of the savings.
28. A catastrophic property damage loss self-insurance program with an annual accrual of \$1,300,000 and a target reserve amount of \$13 million is in accordance with PURA § 36.064 and P.U.C. SUBST. R. 25.231(b)(1)(G).
29. PURA § 36.060 requires the use of a consolidated tax savings (CTS) adjustment when computing an electric utility’s federal income taxes.

30. PURA §§ 36.061 and 36.062 and P.U.C. SUBST. R. 25.231(b)(2)(A) disallow recovery of legislative advocacy expenses included in professional or trade association dues.
31. PURA § 39.903(g) no longer applies to TCC, which is subject to competition.
32. TCC's proposed level of energy efficiency funding complies with PURA § 39.905(f).
33. P.U.C. SUBST. R. 25.342(f)(1)(D)(ii)(III) requires a utility to "credit all revenues received . . . during the test year after known and measurable adjustments are made to lower the revenue requirement" of the T&D utility. TCC's proposal to make a known and measurable change to its test year margins of \$3.3 million and then reduce its revenue requirement by the adjusted margin of \$789,714 complies with this requirement.
34. TCC's proposed rate design and cost allocation are consistent with the requirements of PURA §§ 36.003 and 36.004.
35. Termination of the rider credits associated with the Commission's order in Docket No. 19265, contemporaneous with implementation of bonded rates in this proceeding, is consistent with the provisions of PURA § 36.110 and with the express language of the Integrated Stipulation and Agreement approved by the Commission in Docket No. 19265.

III. Ordering Paragraphs


The proposal for decision prepared by the SOAH ALJs is adopted to the extent consistent with this Order.

1. TCC's application is granted to the extent provided in this Order.
2. All issues relating to the recovery of Cities' and TCC's rate case expenses are severed from this proceeding and consolidated with Proceeding to Consider Rate Case Expenses Severed from Docket No. 33310 (*Application of AEP Texas North company for Authority to Change Rates*, Docket No. 34301 (pending)).

3. TCC shall file tariff sheets consistent with this Order no later than 20 days after receipt of this Order. The compliance tariff, and all filings related to it, shall be filed in Tariff Control Number 35093, and shall be styled: *Compliance Tariff of AEP Texas Central Company Pursuant to Final Order in P.U.C. Docket No. 33309, (Application of AEP Texas Central Company for Authority to Change Rates)*. The filing shall include a transmittal letter stating that the tariffs attached are in compliance with the order, giving the docket number, date of the order, a list of tariff sheets filed, and any other necessary information. No later than 10 days after the date of the tariff filings, Commission Staff shall file its comments recommending approval, modification, or rejection of the individual sheets of the tariff proposal. Responses to the Commission Staff's recommendation shall be filed no later than 15 days after the filing of the tariff. The Commission shall by letter approve, modify, or reject each tariff sheet, effective the date of the letter.
4. Pursuant to PURA § 36.110(d) TCC shall (1) refund or credit bills for money collected under the bonded rates put into effect on or after May 30, 2007 in excess of the base rate revenue increase ordered in this docket; and (2) include interest on that money at the current approved Commission approved interest rates. TCC shall file in Tariff Control Number 35093 calculations supporting the amounts and a tariff to implement the refund or credit.
5. The tariff sheets shall be deemed approved and shall become effective upon the expiration of 20 days from the date of filing, in the absence of written notification of modification or rejection by the Commission. If any sheets are modified or rejected, TCC shall file proposed revisions of those sheets in accordance with the Commission's letter within 10 days of the date of that letter, and the review procedure set out above shall apply to the revised sheets.
6. Copies of all tariff-related filings shall be served on all parties of record.
7. All other motions, requests for entry of specific findings of fact and conclusions of law, and any other requests for general or specific relief, if not expressly granted, are denied.

SIGNED AT AUSTIN, TEXAS the 13th day of December 2007.

PUBLIC UTILITY COMMISSION OF TEXAS


BARRY T. SMITHERMAN, CHAIRMAN


JULIE PARSLEY, COMMISSIONER


PAUL HUDSON, COMMISSIONER

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ATTACHMENT DL-7
SOAH DOCKET NO. 473-18-3006.WS
PUC DOCKET NO. 47976

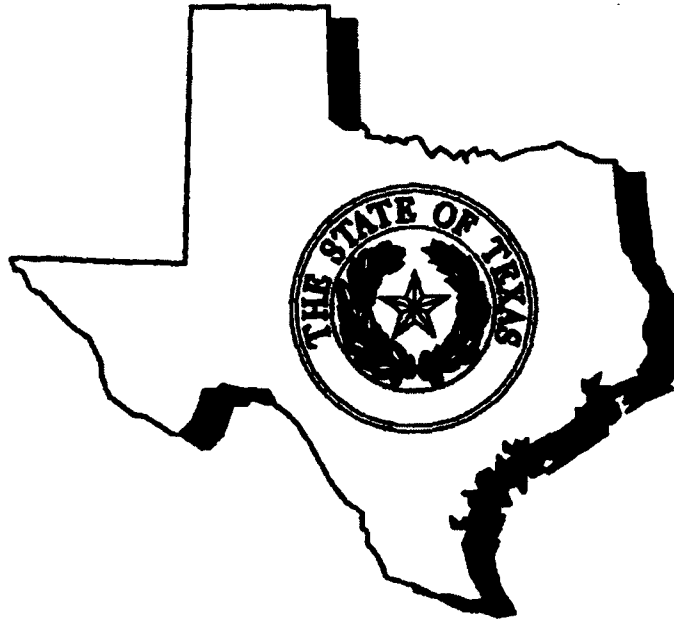
**PUC Docket 33309, Direct Testimony of Candice J.
Romines**

**SOAH DOCKET NO. 473-07-0833
DOCKET NO. 33309**

**APPLICATION OF AEP TEXAS
CENTRAL COMPANY FOR
AUTHORITY TO CHANGE RATES**

§
§
§

**BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS**



**DIRECT TESTIMONY OF
CANDICE J. ROMINES
ELECTRIC INDUSTRY OVERSIGHT DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS
MARCH 23, 2007**

*RECEIVED
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STATE OF TEXAS*

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LIST OF EXHIBITS

Exhibit CJR-1	- Resume
Exhibit CJR-2	- History of Expert Witness Testimony
Exhibit CJR-3	- Consolidated Tax Savings Adjustment
Exhibit CJR-4	- Modified Consolidated Tax Savings Adjustment
Exhibit CJR-5	- Summary of Affiliate Transaction Adjustments
Exhibit CJR-5A	- Response to Staff CR22-17
Exhibit CJR-5B-1	- Response to Cities GT37-2
Exhibit CJR-5B-2	- Responses to Cities GT3-17
Exhibit CJR-5B-3	- Response to Cities GT32-4
Exhibit CJR-5C	- Affiliate Transaction Adj. No. 3 - Bill Approval Process
Exhibit CJR-5C-1	- Response to Staff CR15-1
Exhibit CJR-5C-2	- Response to Staff CR15-2
Exhibit CJR-5C-3	- Response to OPUC 6-15

DIRECT TESTIMONY OF CANDICE J. ROMINES

I. STATEMENT OF QUALIFICATIONS

Q. Please state your name, business address and phone number.

A. Candice J. Romines, 1701 N. Congress Av, Austin, Texas 78701. My business phone number is 512-936-7463.

Q. By whom are you employed, and in what position?

A. I am employed by the Public Utility Commission of Texas ("PUC" or "Commission") as a regulatory accountant in the Electric Industry Oversight Division.

Q. What are your principal areas of responsibility?

A. My responsibilities include testifying as a witness on accounting and ratemaking issues and participating in the overall examination, review, and analysis of rate change applications.

Q. Please state your educational background, professional experience and qualifications.

A. I have a total of 15 years experience as a regulatory accountant and as an expert witness in a ratemaking environment. Last May, I resumed these PUC Staff responsibilities similar to those during my 1984-1998 tenure. During the period between my prior employment with the Commission and my current employment, I provided services to consumer groups as an outside consultant. I am a CPA licensed in Texas. My resume is attached as Exhibit CJR-1.

Q. What testimony have you filed in prior dockets?

A. Please see Exhibit CJR-2.

000 03

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. On behalf of the Commission Staff, I address consolidated tax savings and affiliate transactions. I sponsor Commission Staff ("Staff") recommendations and discussion regarding the failure of AEP Texas Central Company ("TCC" or "the Company") to include a consolidated tax savings adjustment ("CTSA") in the federal income tax component of its requested revenue requirement ("FIT"). Although the Preliminary Order, issued on December 19, 2006, does not specifically list the CTSA as an issue to be addressed, Issue Nos. 1 and 3 do apply:

1. What is TCC's reasonable and necessary cost of providing transmission and distribution service, calculated in accordance with statutory and Commission requirements?

3. Are TCC's revenue requirements for the test year reasonable?

I also sponsor Staff recommendations, including three adjustments to Operations and Maintenance Expense ("O&M"), based on my review of TCC's transactions with its affiliate service company, AEP Service Company ("AEPSC"). My recommendations fall under Preliminary Order Issue No. 2 which recognizes the standard under PURA for affiliate transactions commonly referred to as the "higher affiliate standard":

2. Are costs appropriately assigned to TCC and its affiliates? Has TCC met the standard for recovery of affiliate costs under PURA Section 36.058 and Commission requirements?

Q. Have you prepared other exhibits in connection with your testimony?

000 04

DIRECT TESTIMONY OF CANDICE J. ROMINES

- 1 A. Yes. I have prepared Exhibit CJR-3 through CJR-5, including sub-exhibits other
2 than discovery responses. These exhibits are attached to my testimony.
3

4 **III. SUMMARY OF RECOMMENDATIONS**

5 Q. Please summarize your recommendations.

6 A. I am recommending the following:

- 7 1. A consolidated tax savings adjustment ("CTSA") in the
8 amount of (\$1,862,384) included as a reduction to the federal
9 income tax component of cost of service. This adjustment is
10 consistent with the Commission's most recent 10-year history
11 of decisions regarding consolidated tax savings, including
12 decisions in two prior rate cases for this company. The effect
13 on FIT is (\$2,865,203), calculated as the tax gross-up factor
14 1.53846 times (\$1,862,384).
15
16 2. An adjustment of (\$1,981,025) to TCC's requested O&M to
17 remove affiliate transaction amounts related to incentive
18 compensation payments originally paid to reward the
19 achievement of financial measures. This adjustment is
20 consistent with the Commission's order in TCC's last rate
21 case.
22
23 3. An adjustment of (\$16,018,171) to TCC's requested O&M to
24 remove the requested amounts incurred by AEPSC and
25 allocated to TCC using Allocation Factor 58. These
26 allocated costs are overstated because TCC's Allocation
27 Factor 58 includes non-T&D assets.
28
29 4. An alternative to my recommendation in No. 3 above. My
30 CTSA recommendation in No. 1 above can be modified so
31 that the allocation factors in the CTSA are on the same total
32 company basis used in Allocation Factor 58. The
33 modification produces a CTSA of (\$14,244,061).
34
35 5. An adjustment of (\$348,053) to TCC's requested O&M.
36 This recommendation adds weight to the Company's reliance
37 on management oversight of AEPSC charges and eliminates
38 doubt that TCC's request meets the "no higher than" affiliate
39 standard.
40

DIRECT TESTIMONY OF CANDICE J. ROMINES

- 1
2 **Q. Did you provide your recommended disallowances to another Staff witness?**
3 **A. Yes. I provided my recommendations to Staff witness Mary Jacobs, the sponsor**
4 **of Staff revenue requirement schedules. My recommendations are reflected in**
5 **those schedules included in her testimony.**
6

7 **IV. CONSOLIDATED TAX SAVINGS ADJUSTMENT**

- 8 **Q. What are consolidated tax savings?**
9 **A. Consolidated tax savings are the savings realized when an affiliated group of**
10 **companies file one consolidated tax return instead of a separate return for each**
11 **member company. In the past, the most common savings have been associated**
12 **with the faster utilization of a member company's tax attributes such as**
13 **investment tax credits and net operating losses.**
14
15 **Q. What is the Consolidated Tax Savings Adjustment?**
16 **A. In Docket No. 14965, the Commission made a clear and definitive determination**
17 **to "give utility customers a share of the benefits that a utility holding company**
18 **enjoys when affiliates with tax losses file a consolidated tax return with a**
19 **profitable utility."¹ The rationale and the associated method of calculating the**
20 **utility's share is what I refer to as the CTSA. It represents the value of a "tax**
21 **shield" provided by the utility that allows affiliates to realize the tax advantages**
22 **of net operating losses without waiting until they earn a profit.²**

¹ *Application of Central Power and Light Company for Authority to Change Rates and to Reconcile Fuel Costs*, Docket No. 14965, Order on Rehearing, Page 12 of 112.

² Docket No. 14965, Second Order on Rehearing, FOF 111.

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DIRECT TESTIMONY OF CANDICE J. ROMINES

1

2 **Q. What is your recommendation regarding consolidated tax savings?**

3 **A. A CTSA should be made in this case consistent with the Commission's decision**
4 **in Docket No. 14965. The CTSA has been ordered in other cases, including**
5 **TCC's most recent rate case, Docket No. 28840.³ The Company's position that a**
6 **CTSA is inappropriate is contrary to the policy established by the Commission in**
7 **1996 and Commission findings in orders issued in its own rate cases.**

8

9 **Q. How did you determine your recommended CTSA?**

10 **A. Although TCC did not include consolidated tax savings in its request, the**
11 **Company did file a CTSA sponsored by TCC witness Jeffrey Bartsch. The only**
12 **difference between my calculation on Exhibit CJR-3 and the calculation found on**
13 **Mr. Bartsch's Exhibit JBB-2 is my use of 5.76% for the cost of long-term debt.**
14 **Using this rate is consistent with the recommendation made by Staff rate of return**
15 **witness Richard Lain, and results in a recommended CTSA of (\$1,862,384).**

16

17 **Q. Is your position consistent with your testimony filed in other cases since the**
18 **Docket 14965 Order?**

19 **A. Yes. In Docket No. 16705,⁴ as a Staff witness, and in Docket No. 22355,⁵ as a**
20 **consultant for the Office of Public Utility Council ("OPC"), I also recommended**
21 **the CTSA consistent with my understanding of the Docket 14965 methodology.**

³ Application of AEP Texas Central Company for Authority to Change Rates.

⁴ Application of Entergy Texas for Approval of its Transition to Competition Plan and the Tariffs Implementing the Plan, and for the Authority to Reconcile Fuel Costs, to Set Revised Fuel Factors, and to Recover a Surcharge for Under-recovered Fuel Costs.

⁵ Application of Reliant Energy HLP for Approval of Unbundled Cost of Service Rate Pursuant to PURA 39.201 and Public Utility Commission Substantive Rule §25.344.

DIRECT TESTIMONY OF CANDICE J. ROMINES

1

2 **Q. Does PURA require that consolidated tax savings be recognized in the cost of**
3 **service?**

4 **A. Yes, however, the Commission has the discretion to determine the utility's fair**
5 **share of savings according to PURA Section 36.060(a):**

6 (a) Unless it is shown to the satisfaction of the regulatory
7 authority that it was reasonable to choose not to consolidate
8 returns, an electric utility's income taxes shall be computed
9 as though a consolidated return had been filed and the
10 utility had realized its fair share of the savings resulting
11 from that return, if:

- 12
13 (1) the utility is a member of an affiliated group eligible
14 to file a consolidated income tax return; and
15 (2) it is advantageous to the utility to do so.
16

17
18 A long-standing disagreement hinges on which situations are "advantageous to
19 the utility" and how to determine the utility's "fair share of the savings." Before
20 Docket No. 14965, Staff supported the benefits and burdens test and agreed with
21 utilities that tax savings from the group's utilization of affiliate net operating
22 losses go beyond the benefits the utility enjoys from filing a consolidated income
23 tax return such as the faster utilization of the utility's own tax attributes.
24 However, in Docket No. 14965, the Commission relied on a different
25 interpretation and ordered the CTSA. With the consistent application of the "tax
26 shield" method over the past ten years, the CTSA has become Commission
27 policy.
28

29 **Q. Please explain the "tax shield" concept relied on by the Commission since**
30 **1996.**

DIRECT TESTIMONY OF CANDICE J. ROMINES

1 **A.** The CTSA represents the value of a "tax shield" provided by the utility when it is
2 a member of a consolidated group and its taxable income is used to offset tax
3 losses generated by its affiliates. Generally defined, the value of the tax shield is
4 the "amount of consolidated tax savings over the last fifteen years that would not
5 have been realized by affiliates as of the test year but for their affiliation with (the
6 utility), multiplied by the time-value of money."⁶ The Commission requires that
7 FIT be reduced by this value whether or not the affiliate actually compensates the
8 utility.

9
10 **Q.** Do you agree that the tax attributes of utility affiliates should not be used to
11 reduce the costs of service?

12 **A.** Yes, however, the "tax shield" method recognizes only the time value of the
13 affiliate's quicker utilization of net operating losses, not the tax benefit itself.
14 During the period before the Docket No. 14965 decision, most consolidated tax
15 savings adjustments recommended by consumers did not account for the fact that
16 the tax savings the affiliates receive from the consolidated tax return are reversed
17 in subsequent years.⁷ The CTSA is a reasonable method for recognizing the
18 "loan" that an affiliate receives when its operating loss is netted against the
19 taxable income of a utility. Use of the 15 year historical period recognizes the
20 opportunity for net operating losses to reverse, and the application of the cost of
21 long-term debt to the savings recognizes the time value of the savings.

22

⁶ Docket No. 14965, Second Order on Rehearing, FOF 112B.

⁷ The first rate base adjustment was not proposed until Docket No. 11735, *Application of Texas Utilities Company for Authority to Change Rates*.

DIRECT TESTIMONY OF CANDICE J. ROMINES

1 **Q. Mr. Bartsch states that his calculation reflects the "interest credit"**
2 **methodology adopted in Docket No. 14965 and applied in Docket No. 28840.**
3 **Is his reference to a different CTSA?**

4 **A. No. The methodology used to determine the value of the tax shield is known as**
5 **the "interest credit methodology," but the resulting adjustment is the FIT**
6 **adjustment conceived in PURA Section 36.060.**

7
8 **Q. What is the effect of your CTSA recommendation, including the FIT gross-**
9 **up?**

10 **A. My recommended CTSA is (\$1,862,384). When grossed up, its effect on FIT is**
11 **1.53846 times the CTSA, or (\$2,865,203).**

12
13 **Q. Please explain the CTSA modification you are providing as an alternative to**
14 **total disallowance of Allocation Factor 58 costs.**

15 **A. Later in the Affiliate Transaction section of my testimony, I discuss the**
16 **Company's use of Allocation Factor 58 to determine TCC's share of the cost of**
17 **affiliate services. If the Commission determines that the Company has not met**
18 **the affiliate standard with regard to its request for these costs, and if the**
19 **Commission determines that a reasonableness finding of zero is not allowed, my**
20 **modified CTSA is available to use for consistency purposes.**

21
22 **Q. How does your modified CTSA differ from your primary recommendation?**

23 **A. Please refer to my Exhibit CJR-4 where the T&D allocator for the years 2003-**
24 **2005 has been changed to 100%. The resulting CTSA is (\$14,244,061). The**

DIRECT TESTIMONY OF CANDICE J. ROMINES

1 T&D factor of 100% reflects T&D operations, as well as *non*-T&D operations
2 consistent with Factor No. 58.
3

4 **V. AFFILIATE TRANSACTIONS**

5 **Q. Please discuss your recommendations concerning TCC's affiliate**
6 **transactions.**

7 **A. I am recommending the three adjustments summarized on my Exhibit CJR-5:**
8

9 Adjustment No. 1 – Incentive Compensation	(\$ 1,981,025)
10 Adjustment No. 2 – Allocation Factor 58	(\$16,018,171)
11 Adjustment No. 3 – Bill Approval Process	(\$ <u>348,053</u>)
12 Total	(\$18,347,249)

13

14 **Adjustment No. 1 – Incentive Compensation**

15 **Q. What is the basis for your recommendation for Incentive Compensation.**

16 **A. Payments made by TCC to AEPSC include amounts that were incurred by**
17 **AEPSC for incentive compensation programs that include financial measures.**
18 **Payments for achievement of financial measures were disallowed in Docket No.**
19 **28840, TCC's last rate case. In that case, the Commission made the following**
20 **findings of fact:**

21 169. The financial measures are of more immediate benefit to
22 shareholders, and the operating measures are of more
23 immediate benefit to ratepayers.
24

ATTACHMENT DL-8
SOAH DOCKET NO. 473-18-3006.WS
PUC DOCKET NO. 47976

Workpapers of Debi Loockerman
LU 000036-37 and LU000097-98

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			Less 24
	Materials		Less
			Less 2
	Programs		Schedule III-1
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