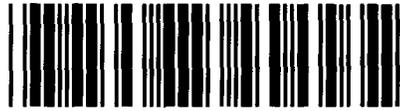


Control Number: 48507



Item Number: 9

Addendum StartPage: 0

DOCKET NO. 48507

RECEIVED

APPLICATION OF AEP TEXAS, INC.	§	PUBLIC UTILITY COMMISSION	2018 AUG 21 AM 11:06
FOR INTERIM UPDATE OF	§		
WHOLESALE TRANSMISSION RATES	§	OF TEXAS	PUBLIC UTILITY COMMISSION FILING CLERK

**COMMISSION STAFF’S FINAL RECOMMENDATION**

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

**I. BACKGROUND**

On July 3, 2018, AEP Texas, Inc., (AEP) filed an application for an interim update of its wholesale transmission rates (Application). AEP maintains two divisions: AEP Texas — Central Division and AEP Texas — North Division that have separate rates, riders, and separate tariffs. AEP requested an interim revision to its previously approved transmission cost of service (TCOS) and wholesale transmission rates.

On July 6, 2018, the Administrative Law Judge (ALJ) issued Order No. 1 requiring Staff to file a recommendation on final disposition by August 14, 2018. On August 14, 2018, AEP Texas and Staff (collectively “the Parties”) filed requests for an extension in order to allow AEP Texas to file an errata to its North Division’s Schedule E-1 filing and for Staff to review the information contained in that filing. The ALJ granted the requests for an extension, requiring Staff to file a recommendation on final disposition by August 21, 2018. Therefore, this pleading is timely filed.

**II. FINAL RECOMMENDATION**

Based on the attached memoranda of Mark Filarowicz and Nancy Palma of the Commission’s Rate Regulation Division and Reginald Tuvilla of the Commission’s Infrastructure and Reliability Division, Staff has concluded that AEP’s Application for an interim revision to its previously approved TCOS and wholesale transmission rates, as amended

on August 14, 2018, be approved. Staff further recommends that, upon Federal Energy Regulatory Commission (FERC) approval, AEP Texas be required to file a “clean” record copy of its Schedule K to the FERC AEP Open Access Transmission Tariff as well as Attachment K, Annual Transmission Revenue Requirement for ERCOT Regional Transmission Service, included as Exhibit B in AEP’s Application, consistent with the Commission's Final Order in this docket. Finally, Staff recommends that the “clean” schedule be stamped “Approved” with the appropriate effective date, and retained by the Commission's Central Records Division for future reference.

### **III. CONCLUSION**

Staff respectfully recommends that AEP’s Application for an interim revision to its wholesale transmission rates be approved.

Date: August 21, 2018

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF  
TEXAS LEGAL DIVISION**

Margaret Uhlig Pemberton  
Division Director

Stephen Mack  
Managing Attorney

---

Heath D. Armstrong  
State Bar No. 24105048  
1701 N. Congress Avenue  
P.O. Box 13326  
Austin, Texas 78711-3326  
(512) 936-7261  
(512) 936-7268 (facsimile)  
Heath.Armstrong@puc.texas.gov

**DOCKET NO. 48507**

**CERTIFICATE OF SERVICE**

I certify that a copy of this document will be served on all parties of record on this the August 21, 2018 in accordance with 16 TAC § 22.74.

---

Heath D. Armstrong

# *Public Utility Commission of Texas*

---

## **Memorandum**

TO: Heath Armstrong, Legal Division

FROM: Mark Filarowicz, Rate Regulation Division

DATE: August 21, 2018

SUBJECT: Docket No. 48507, *Application of AEP Texas, Inc. for Interim Update of Wholesale Transmission Rates*

### **SUMMARY AND RECOMMENDATION**

On July 3, 2018, AEP Texas, Inc. (“AEP”) filed for an interim update of its wholesale transmission rates pursuant to 16 Texas Administrative Code § 25.192(h)(1) (“TAC”). 16 TAC § 25.192(h)(1) provides that each transmission service provider (“TSP”) in the ERCOT region may update its transmission rates to reflect changes in its invested capital not more than twice per calendar year, and that the new rates should reflect the addition and retirement of transmission facilities and include appropriate depreciation, federal income tax and other associated taxes, and the Commission-authorized rate of return on such facilities, as well as changes in load. AEP presented information broken out by the two entities that make up AEP: AEP Texas – Central Division (“AEP Central”), and AEP Texas – North Division (“AEP North”). On August 14, 2018, AEP filed an amended application to reflect corrected depreciation expense on Schedule E-1 for AEP North. This memorandum presents Staff’s accounting recommendation concerning AEP’s application.

AEP’s amended application seeks increases of \$187,650,260 for AEP Central and \$168,896,371 for AEP North to total transmission invested capital, and increases of \$22,629,476 for AEP Central and \$22,822,634 for AEP North to total transmission revenue requirement to the amounts approved in Docket No. 48122, AEP’s most recent transmission cost of service proceeding.<sup>1</sup> Based on my review of AEP’s amended application, I recommend that the Commission approve AEP’s requests with the underlying transmission accounts subject to reconciliation at its next complete transmission cost of service proceeding.

AEP’s net additions of facilities in the amounts of \$187,650,260 for AEP Central and \$168,896,371 for AEP North have been appropriately incorporated into its cost of service pursuant to the rule. Furthermore, the increases to ad valorem property taxes in the amounts of \$3,338,214 for AEP Central and \$2,906,464 for AEP North, and the increases to Texas margins tax in the amounts of \$118,805 for AEP Central and \$119,819 for AEP North, have been appropriately incorporated into AEP’s cost of service pursuant to the rule. Finally, the increases

---

<sup>1</sup> *Application of AEP Texas, Inc. for Update of Wholesale Transmission Rates*, Docket No. 48122, (Jun. 29, 2018). *Nota bene*: because Schedules B, B-1, B-5 and E-1 did not change in Docket No. 48122, which was a reduction to wholesale transmission rates for tax changes alone, those schedules’ starting points in this docket are the ending schedules from Docket No. 47659, *Application of AEP Texas, Inc. for Interim Update of Wholesale Transmission Rates*.

to federal income taxes in the amounts of \$1,987,707 for AEP Central and \$1,788,677 for AEP North have been appropriately incorporated into AEP’s cost of service pursuant to the rule and use as an input the corporate tax rate of 21% per the Tax Cuts and Jobs Act of 2017.<sup>2</sup>

For AEP Central, AEP’s amended application reflects a new interim transmission revenue requirement of \$251,457,025, specifically composed of the following items:

Description	Interim Revenue Requirement
Operation & Maintenance	21,768,114
Depreciation	35,024,659
Other Amortization	2,061,108
Taxes Other Than Income Taxes	36,666,930
Federal Income Tax	18,570,136
Return on Rate Base	141,923,621
Other Revenues	(4,557,543)
<b>Total Revenue Requirement</b>	<b>251,457,025</b>

For AEP North, AEP’s amended application reflects a new interim transmission revenue requirement of \$114,173,929, specifically composed of the following items:

Description	Interim Revenue Requirement
Operation & Maintenance	12,497,520
Depreciation	27,886,132
Other Amortization	1,101,378
Taxes Other Than Income Taxes	13,239,774
Federal Income Tax	6,860,624
Settlement Adjust. TCOS Filing	(180,879)
Return on Rate Base	53,126,997
Other Revenues	(357,616)
<b>Total Revenue Requirement</b>	<b>114,173,929</b>

---

<sup>2</sup> 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, 113 Stat. 2054 (Dec. 22, 2017).

16 TAC § 25.192(h)(2) provides that the Commission shall review whether the costs of transmission plant additions are reasonable and necessary at the next complete review of the TSP's transmission cost of service. Given 16 TAC § 25.192(h)(2), my review of AEP's application is only a conditional review and not the final determination as to the appropriateness of the new transmission facilities and the resulting wholesale transmission rate.

Based on my review, I recommend that the Commission approve AEP's application, as amended on August 14, 2018, with the final determination of the recoverable amounts of these transmission facilities accounts to be made at the next complete review of AEP's cost of service.

# *Public Utility Commission of Texas*

---

## **Memorandum**

To: Heath Armstrong, Legal Division

From: Nancy Palma, Tariff & Rate Analysis, Rate Regulation Division

Date: August 21, 2018

Re: **Docket No. 48507** – *Application of AEP Texas Inc. for Interim Update of Wholesale Transmission Rates*

---

On July 3, 2018 AEP Texas Inc. (AEP) filed for an interim update of its wholesale transmission rate pursuant to 16 Texas Administrative Code (TAC) § 25.192(h)(1). As of December 31, 2016, AEP Texas Central Company (TCC) and AEP Texas North Company (TNC) were merged into their parent company, now called AEP Texas.<sup>1</sup> In that Docket, the Commission ordered AEP Texas to "maintain separate tariffs, unless and until such a time as the Commission may consider and approve consolidated rates and tariffs."<sup>2</sup> Consistent with that Order, AEP Texas has requested an update to both the Central and North Division's rates. On August 14, 2018, AEP filed an amended application to reflect corrected depreciation expense on Schedule E-1 for AEP North. In its application, AEP requested a \$356,546,631 increase in its transmission rate base, \$187,650,260 for the Central Division and \$168,896,371 for the North Division, and a \$45,452,110 increase in its revenue requirement, \$22,629,476 for the Central Division and \$22,822,634 for the North Division. AEP further requested approval to increase its interim annual wholesale transmission rates to \$3.737854/kW and \$1.697171/kW for the Central and North Divisions, respectively.

Pursuant to 16 TAC § 25.192(h)(1), AEP may apply to update its transmission rates on an interim basis not more than twice per calendar year to reflect changes in its invested capital. If it

---

<sup>1</sup> *Application of AEP Texas Central Company, AEP Texas North Company, and AEP Utilities, Inc. for Approval of Merger*, Docket No. 46050, Final Order (Dec 12, 2016).

<sup>2</sup> *Id.*

elects to update its transmission rates, the new rates shall reflect the addition and retirement of transmission facilities and include appropriate depreciation, federal income tax and other associated taxes, the Commission authorized rate of return, as well as changes in loads. Additionally, 16 TAC § 25.192(h)(2) stipulates that an interim update of transmission rates shall be subject to reconciliation during the next complete review of AEP's transmission cost of service (TCOS), at which time the Commission will determine if the transmission plant additions were reasonable and necessary.

This memo represents Staff's financial review and rate analysis in response to AEP's request. Subsequent my review, I concluded that the updated return on rate base component, taking into consideration the requested increases to the Central and North Division's respective transmission rate base amounts, was appropriately calculated and incorporated into each Division's cost of service pursuant to 16 TAC § 25.192(h)(1). I further concluded that the updated interim annual wholesale transmission rates for the Central and North Divisions were properly calculated in accordance with 16 TAC § 25.192(b)(1) and 16 TAC § 25.192(e)(2).

By applying the AEP Central Division's authorized rate of return of 7.500%<sup>3</sup> against its updated transmission rate base of \$1,892,314,941, I calculated a return on rate base of \$141,923,621. I have confirmed that this result reconciles with the amount requested in AEP's application and reflects a \$14,073,769 increase in the return amount approved in the last interim update, Docket 48122. Additionally, by applying the 7.458% rate of return for the North Division, authorized in the stipulated agreement in Docket 33310, against its updated transmission rate base of \$712,349,112, I calculated a return on rate base of \$53,126,997. I have confirmed that this result also reconciles with the amount requested in AEP's application and reflects a \$12,596,291 increase in the return amount approved in the last interim update in Docket 48122.<sup>4</sup>

In accordance with an increase to its interim revenue requirement, AEP further seeks to update its interim wholesale transmission rates. Derived by dividing the updated revenue

---

<sup>3</sup> *Application of AEP Texas Central Company for Authority to Change Rates*, Docket 33309, Order on Rehearing, Schedule III Invested Capital (Mar 4, 2008).

<sup>4</sup> *Application of AEP Texas, Inc. for Update of Wholesale Transmission Rates*, Docket 48122.

requirements by the 2017 ERCOT Average 4-CP load of 67,273,101.1 kW, I confirmed that the Central and North Divisions' respective interim wholesale transmission rates of \$3.73 7854/kW and \$1.697171 /kW, and associated rates for the use of the transmission system in exporting power, were correctly calculated and I recommend that the interim updates be approved, subject to subsequent review in accordance with 16 TAC § 25.192(h)(2).<sup>5</sup>

I recommend that AEP be required to file a "clean" copy of its Attachment K, Annual Transmission Revenue Requirement for ERCOT Regional Transmission Service, included as Exhibit B in this application, consistent with the Commission's Final Order in this docket. I further recommend that it be stamped "Approved" by the Commission's Central Records Division and retained for future reference.

---

<sup>5</sup> *Commission Staff's Application to Set 2017 Wholesale Transmission Service Charges for the Electric Reliability Council of Texas*, Docket No. 47777.

# *Public Utility Commission of Texas*

---

## **Memorandum**

To: Heath Armstrong, Legal

From: Reginald J. Tuvilla, Infrastructure & Reliability

Date: August 21, 2018

Re: **Docket No. 48507** – *Application of AEP Texas Inc. for Interim Update of Wholesale Transmission Rates*

---

On July 3, 2018, AEP Texas filed for approval of an update of wholesale transmission rates based on interim revision to its previously-approved transmission cost of service (TCOS) rates, pursuant to 16 Texas Administrative Code § 25.192(h)(1) (TAC). Under 16 TAC § 25.192(h)(1), each transmission service provider (TSP) in the ERCOT region may apply to update its transmission rates on an interim basis not more than twice per calendar year to reflect changes in its invested capital. Further, if the TSP elects to update its transmission rates, the new rates shall reflect the addition and retirement of transmission facilities and include appropriate depreciation, federal income tax and other associated taxes, and the commission-allowed rate of return on such facilities, as well as changes in loads.

Staff concludes that the total annual transmission depreciation expense of \$64,336,941 (\$37,085,768 for the Central Division and \$27,251,173 for the North Division) and the total electric accumulated depreciation of \$553,398,032 (\$315,402,878 for the Central Division and \$237,995,154 for the North Division) are reasonable. Commission Staff's review of depreciation is only a conditional review and is not the final determination of its appropriateness. As 16 TAC § 25.192(h)(2) states, an update of transmission rates shall be subject to reconciliation at the next complete review of the TSPs' transmission cost of service.

Staff, therefore, recommends that AEP Texas' application be approved, subject to a more comprehensive analysis and reconciliation at the next complete review of AEP Texas' cost of service pursuant to 16 TAC § 25.192(h)(2).