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APPLICATION OF EL PASO
ELECTRIC COMPANY FOR
APPROVAL OF TRANSMISSION
COST RECOVERY FACTOR

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PUBLIC UTILITY COMMISSION
BEFORE THE PUBLIC UTILITY
COMMISSION OF TEXAS

SECOND ERRATA TESTIMONY

OF

JENNIFER I. BORDEN

FOR

EL PASO ELECTRIC COMPANY

MAY 2019

SECOND ERRATA TESTIMONY OF
JENNIFER I. BORDEN

1 the scheduling, preparation, and review of jurisdictional regulatory accounting and
2 reporting, such as the Company's monthly fuel accounting and reporting, and other
3 regulatory filings before the Public Utility Commission of Texas ("PUCT" or
4 "Commission"), the New Mexico Public Regulation Commission ("NMPRC"), and the
5 Federal Energy Regulatory Commission ("FERC").

6

7 Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY BEFORE UTILITY
8 REGULATORY BODIES?

9 A. Yes, I have previously filed testimony with the PUCT and the NMPRC.

10

11 II. PURPOSE OF TESTIMONY

12 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

13 A. The purpose of my testimony is to support the updated Transmission Cost Recovery Factor
14 revenue requirement ("TCRF RR") calculation as of September 30, 2018, for EPE, under
15 16 Tex. Admin. Code ("TAC") § 25.239 ("TCRF Rule") and Public Utility Regulatory Act
16 ("PURA") § 36.209.

17

18 III. SUMMARY OF TCRF REVENUE REQUIREMENT

19 Q. WHAT IS THE UPDATED TEXAS JURISDICTIONAL TCRF REVENUE
20 REQUIREMENT?

21 A. The updated Texas jurisdictional TCRF revenue requirement is \$15,015,240~~94,248~~, as
22 reflected on Exhibit JIB-1-E2, line 21. This amount is used to determine EPE's TCRF
23 tariff, sponsored by EPE witness James Schichtl. The following table summarizes the
24 Texas jurisdictional TCRF revenue requirement by component:

25 /

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Table JIB-1-E2

TCRF Revenue Requirement by Component

<u>Component</u>	<u>Updated TCRF RR</u>
Return on Transmission Invested Costs	\$13,361,325
Depreciation Expense	5,666,395
Income Tax Expense	2,617,830
Other Associated Taxes	2,164,557
Revenue Credits	(14,367,786)
Transmission revenue requirements	9,442,321
Plus, ATC	5,572,918
TCRF Revenue Requirement	\$15,015,240

IV. TRANSMISSION COST RECOVERY FACTOR REVENUE
REQUIREMENT CALCULATION

A. TCRF RR Formula and Source of Information

Q. WHAT DOES THE TCRF RULE PRESCRIBE FOR CALCULATING THE TCRF REVENUE REQUIREMENT THAT YOU SPONSOR?

A. The TCRF Rule includes two formulas that are used in calculating the TCRF. I sponsor the part of that formula for determining the TCRF RR prescribed in section 25.239(e) of the TCRF Rule, which is the following:

$$RR = [revreq + ATC] * ALLOC$$

Where:

- Revreq = the sum of the return on TIC, net of accumulated depreciation and associated accumulated deferred income taxes, plus investment-related expenses such as income taxes, other associated taxes, depreciation, and transmission-related miscellaneous revenue credits, but not including operation and maintenance expenses or administrative expenses. The return on TIC shall be calculated by multiplying the TIC by the utility's weighted-

1 of service model reflecting the TCRF baseline settlement in Docket No. 46831, with
2 adjustments as discussed by EPE witness Schichtl, updated for FERC account balances as
3 of September 30, 2018.

4 First, the TIC net of accumulated deferred income taxes ("net TIC") for the Update
5 Period was determined. The weighted average cost of capital approved in Docket
6 No. 46831 of 7.725% was then applied to the net TIC, which resulted in a total company
7 return of $\$16,593,350\cancel{667.75} + (\$13,361,325\cancel{+20.867} - \text{Texas jurisdiction})$, as shown on
8 Exhibit JIB-1-E2, line 8.

9 Next, transmission investment-related expenses for the twelve months ended
10 September 30, 2018, including income taxes, other associated taxes, depreciation, and
11 transmission-related miscellaneous revenue credits were determined. This resulted in total
12 company investment-related negative expenses of $\$3,947,382\cancel{23.344}$ (negative
13 $\$3,919,004\cancel{899.537} - \text{Texas jurisdiction}$), as shown on Exhibit JIB-1-E2, line 14. These
14 investment-related expenses were then added to the return associated with net TIC resulting
15 in a "Revreqt" of $\$12,645,967\cancel{744.438}$ ($\$9,442,321\cancel{524.330} - \text{Texas jurisdiction}$), as shown
16 on Exhibit JIB-1-E2, line 15.

17 Based upon the definition prescribed in 16 TAC § 25.239(b)(1), the ATC were
18 determined to be $\$6,963,712$ ($\$5,572,918 - \text{Texas jurisdiction}$) for the twelve months ended
19 September 30, 2018, as shown on Exhibit JIB-1-E2, line 20. These charges consist of
20 expenses paid by EPE for using transmission facilities of other utilities charged to FERC
21 Account 565, Transmission of Electricity by Others, adjusted for ancillary services. The
22 ATC amount was added to the Revreqt resulting in a total company revenue requirement
23 of $\$19,609,680\cancel{708.450}$ ($\$15,015,240\cancel{94.248} - \text{Texas jurisdiction}$), as shown on Exhibit
24 JIB-1-E2, line 21.¹

25
26 Q. PLEASE DESCRIBE IN MORE DETAIL THE CALCULATION OF TIC.

27 A. First, TIC was based on the per book balances as of the end of the Update Period, for FERC
28 Accounts 350 through 359 as specified in 16 TAC § 25.239(b)(2). These balances

¹ The total company revenue requirement includes Income Tax Expense and Other Associated Taxes that are not explicitly calculated or referenced in the Staff model. See Exhibit JIB-1-E2. Specific references are also noted below.

1 recognize plant additions and retirements made since the September 30, 2016, test year end
2 used in Docket No. 46831. The plant additions, retirements, and adjustments for the
3 Update Period are summarized by FERC plant account in Exhibit JIB-3. The TIC for the
4 Update Period was adjusted to reflect the removal of financially-based capitalized incentive
5 compensation ("CIC") consistent with the transmission baseline data. In addition, the TIC
6 was reduced by \$861,899 to account for transmission investments costs that EPE has
7 incurred but will be reimbursed by Public Service Company of New Mexico. The resulting
8 total company transmission plant in service was ~~\$503,506,982 + 74,444~~
9 (~~\$402,946,446 + 77,244~~ – Texas jurisdiction), which is shown in Exhibit JIB-1-E2, line
10 2.²

11 The same calculation and CIC adjustment were performed for the transmission
12 accumulated depreciation for the Update Period and those same FERC accounts.

13 This resulted in transmission accumulated depreciation of \$226,537,882
14 (\$181,293,681 – Texas jurisdiction), as shown in Exhibit JIB-1-E2, line 3.
15

16 Q. HOW WAS ADIT CALCULATED FOR THE UPDATE PERIOD?

17 A. First, the ADIT was based on the per book balances as of the end of the Update Period, for
18 FERC Accounts 190, 282, 283, 182.3, and 254.3. On December 31, 2017, the ADIT
19 balances were adjusted to reflect the reduction in the federal income tax rate from 35% to
20 21% due to the Tax Cuts and Jobs Act of 2017 ("TCJA"). However, in accordance with
21 the Final Order in Docket No. 46831, no adjustment should be made to ADIT related to
22 the TCJA because ADIT in excess of amounts reflecting the new statutory tax rate under
23 the TCJA were deferred as regulatory assets and liabilities.³ Amortization of this "excess
24 ADIT" included in regulatory assets and liabilities will be addressed in the next base rate
25 case. Therefore, the ADIT for the Update Period was adjusted to add back the reduction
26 at December 31, 2017 due to the TCJA.

² Please refer to EPE witness Clay Doyle's rebuttal testimony for a list of transmission infrastructure plant additions for the Update Period. The cost information in EPE witness Doyle's rebuttal testimony was taken from the Company's books and records and kept in compliance with FERC Uniform System of Accounts. I support the FERC account information in his rebuttal testimony.

³ *Application of El Paso Electric Company to Change Rates*, Docket No. 46831, Findings of Fact No. 29 and Ordering Paragraph No. 9 (Dec. 18, 2017).

1 (\$5,666,395 – Texas jurisdiction) as reflected in Exhibit JIB-1-E2, line 10.

2 The next step was to calculate the income tax expense. The income tax expense
3 increase, as reflected on Exhibit JIB-1-E2, line 11, results from the increase in net TIC.
4 The increased TIC produces an increase in the return on net TIC, which in turn increases
5 EPE's income tax expense. The interest synchronization in the income tax calculation is
6 updated to provide the proper tax deduction for interest expense by determining how much
7 interest expense is required to support the updated rate base. This is calculated by
8 multiplying the net TIC by the weighted cost of debt approved in Docket No. 46831. All
9 other components of the income tax calculation remain unchanged, except for the change
10 in the federal income tax rate from 35% to 21%, which results in a tax factor of 0.2941,
11 due to the TCJA as described by EPE witness Schichtl. The total company income tax
12 expense resulting from this calculation was $\$3,252,608^{+5.711}$ ($\$2,617,830^{+5.711}$ – Texas
13 jurisdiction)⁴ as reflected in Exhibit JIB-1-E2, line 11.

14 Next, other associated taxes were calculated following the methodology used in
15 Docket No. 46831. The total company ad valorem tax expense from Docket No. 46831
16 was divided by the net utility plant, which results in an ad valorem tax rate per dollar of
17 net utility plant. This rate from Docket No. 46831 is applied to the change in net
18 transmission utility plant to determine the change in ad valorem tax expense.

19 The total company gross receipts tax expense from Docket No. 46831 was divided
20 by total annualized operating revenues, which results in a system adjusted rate for gross
21 receipts taxes. This rate was applied to the increased revenue requirement resulting in the
22 change in gross receipts taxes under current rates. Then, the revenue adjustment factor and
23 effective tax rate for gross receipts taxes as calculated in Docket No. 46831 was applied to
24 the sum of the requested increase in return and requested increase in income taxes to
25 calculate the adjustment to gross receipts taxes for requested revenues.

⁴ The total company Income Tax Expense is not explicitly contained or calculated within the Staff model and is a calculated number based on Texas jurisdictional data. See Exhibit JIB-1-E2, lines 23 through 31.

1 As a result of these calculations, the total Company's other associated taxes
2 included in the TCRF RR amounted to ~~\$3,700,439~~ (~~\$2,164,557~~ – Texas
3 jurisdiction) as reflected on Exhibit JIB-1-E2, line 12.⁵

4 Finally, per-book transmission-related miscellaneous revenue credits for the
5 12 months ending September 30, 2018, are \$17,980,948, of which \$14,367,786 was
6 determined for the Texas jurisdiction as reflected in Exhibit JIB-1-E2, line 13.
7 Transmission-related revenue credits are revenues received by EPE for wheeling services
8 when other utilities use EPE's transmission system. EPE witness Schichtl addresses a
9 correction to the baseline miscellaneous revenue credits in his testimony. These
10 miscellaneous revenue credits reduce the revenue requirement used to calculate the TCRF.

11 Total company transmission-related revenue credits have decreased by \$3,477,927
12 from those considered for the revised baseline. The decrease is primarily the result of the
13 loss of revenues related to a customer contract which was not renewed.

14 In summary, the total company transmission investment-related expenses for the
15 twelve months ended September 30, 2018 were negative ~~\$3,947,382~~ (negative
16 ~~\$3,919,004~~ – Texas jurisdiction) as shown in Exhibit JIB-1-E2, line 14.

17
18 Q. DID THE COMPANY INCLUDE OPERATION AND MAINTENANCE EXPENSES
19 OR ADMINISTRATIVE EXPENSES IN THE CALCULATION OF REVREQ?

20 A. No. 16 TAC § 25.239(e) does not allow for the recovery of these types of expenses in the
21 TCRF formulas.

22
23 Q. WHAT ACTIVITY WAS INCLUDED IN THE UPDATE FOR THE WHEELING
24 EXPENSE COMPONENT OF ATC?

25 A. The ATC consists of transmission charges and fees incurred by EPE pursuant to tariffs
26 approved by the FERC and are recorded in FERC Account 565. EPE incurs these costs
27 and makes payments to its transmission service providers in order to provide electric
28 service to its Texas retail customers. The total Company ATC, for the twelve months ended

⁵ The total company component of Other Associated Taxes is not explicitly contained or calculated within the Staff model and is a calculated number based on Texas jurisdictional data.

1 September 30, 2018, was \$6,963,712 (\$5,572,918 – Texas jurisdiction) as reflected in
2 Exhibit JIB-1-E2, line 20.
3

4 Q. DID THE COMPANY INCLUDE DISPATCH FEES, CONGESTION CHARGES,
5 COSTS INCURRED TO HEDGE CONGESTION COSTS, OR ANCILLARY SERVICE
6 CHARGES IN THE ATC?

7 A. No. 16 TAC § 25.239(b)(1) does not allow for the recovery of these types of expenses in
8 the TCRF formulas. The charges adjusted out of per book ATC for the twelve months
9 ended September 30, 2018 were \$136,855.
10

11 Q. WAS ANY OTHER ACTIVITY INCLUDED IN THE UPDATE PERIOD FOR ATC?

12 A. No.
13

14 V. TEXAS RETAIL ALLOCATION (ALLOC)

15 Q. WHY DOES THE FORMULA REQUIRE TOTAL COMPANY COSTS TO BE
16 ALLOCATED TO JURISDICTIONS?

17 A. EPE provides electric service at retail in Texas and New Mexico and is also subject to
18 FERC jurisdiction. Since EPE incurs costs to provide service to these multi-jurisdictional
19 customers and the associated costs are recorded in EPE's books and records on a total-
20 company basis, the use of allocation factors ensures that Texas retail customers pay only
21 for their jurisdictional share of EPE's total-company TCRF RR.
22

23 Q. HOW WAS THE TEXAS RETAIL JURISDICTIONAL SHARE OF EPE'S
24 TOTAL-COMPANY TCRF RR DETERMINED?

25 A. The Texas retail jurisdictional share of EPE's total-company transmission revenue
26 requirement is based on the ALLOC component, which is defined in 16 TAC
27 § 25.239(e) as "the utility's Texas retail allocation of transmission revenue requirements,
28 as established in the utility's most recent base rate case." The ALLOC component in
29 Staff's model, as utilized for purposes of the settlement baseline, was applied by FERC
30 account rather than as one composite allocator.

El Paso Electric Company
TCRF Revenue Requirement Calculation
For the Period Ending September 30, 2018

Line No.	(A) Component	(B) (C) (D) Total Company Transmission			(E) (F) (G) Texas Retail Transmission		
		Total Company	Revised Total Company	Net Change (B - C)	Updated TCRF Revenue Requirement	Revised TCRF Baseline	Net Change (E - F)
1	TIC:						
2	Transmission Plant in Service	\$503,506,982	\$438,382,402	\$65,124,580	\$402,946,446	\$350,828,563	\$52,117,883
3	Accumulated Depreciation	(226,537,882)	(213,749,980)	(12,787,902)	(181,293,681)	(171,059,782)	(10,233,899)
4	Net Plant in Service	\$276,969,100	\$224,632,422	\$52,336,679	\$221,652,765	\$179,768,780	\$41,883,985
5	Accumulated Deferred Taxes	(62,168,457)	(50,438,255)	(11,730,202)	(48,690,630)	(39,553,139)	(9,137,491)
6	Total Net TIC	\$214,800,644	\$174,194,166	\$40,606,477	\$172,962,135	\$140,215,641	\$32,746,494
7	WACC	7.725%	7.725%		7.725%	7.725%	
8	Return on Net TIC	\$16,593,350	\$13,456,499	\$3,136,850	\$13,361,325	\$10,831,658	\$2,529,667
9	Investment-Related Expenses:						
10	Depreciation Expense	\$7,080,518	\$5,515,786	\$1,564,732	\$5,666,395	\$4,414,172	\$1,252,223
11	Income Tax Expense ^(Note 1)	3,252,608	2,700,186	552,422	2,617,830	2,172,337	445,493
12	Other Associated Taxes	3,700,439	3,056,121	644,318	2,164,557	1,628,110	536,447
13	Revenue Credits	(17,980,948)	(21,458,875)	3,477,927	(14,367,786)	(17,146,845)	2,779,059
14	Total Investment-Related Expenses	(\$3,947,382)	(\$10,186,782)	\$6,239,399	(\$3,919,004)	(\$8,932,226)	\$5,013,222
15	Revreqt (line 8 + line 14)	\$12,645,967	\$3,269,718	\$9,376,250	\$9,442,321	\$1,899,432	\$7,542,889
16	ATC:						
17	Charges and Fees	\$0	\$0	\$0	\$0	\$0	\$0
18	Wheeling Expense	6,963,712	6,379,520	584,193	5,572,918	5,105,400	467,518
19	Other Transmission Charges	0	0	0	0	0	0
20	Total ATC	\$6,963,712	\$6,379,520	\$584,193	\$5,572,918	\$5,105,400	\$467,518
21	RR (line 15 + line 20)	\$19,609,680	\$9,649,237	\$9,960,443	\$15,015,240	\$7,004,833	\$8,010,407
22	Note (1) Income Tax Expense is calculated for Total Company Transmission						
23	Return on Net TIC	\$16,593,350	Line 8				
24	Composite cost of debt	0.03059	Baseline				
25	Synchronized interest	\$6,570,752	Line 6 x Line 24				
26	Schedule M Items - Permanent	\$847,979	Baseline				
27	Calculated Federal Taxable Income Attributable to TIC	\$10,870,577	Line 23 - Line 25 + Line 26				
28	Tax Factor	0.291562	Baseline				
29	FIT before adjustments	\$3,169,447	Line 27 x Line 28				
30	Minus Adjustments	(\$83,161)	Baseline				
31	Total Transmission Related FIT	\$3,252,608	Line 29 + Line 30				