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DOCKET NO. 49192 RECEIVED

APPLICATION OF AEP TEXAS, INC. § PUBLIC UTILITY COMMISSION  
FOR INTERIM UPDATE OF §  
WHOLESALE TRANSMISSION RATES § PUBLIC UTILITY COMMISSION  
FILING OFFICE OF TEXAS

### COMMISSION STAFF'S FINAL RECOMMENDATION

**COMES NOW** the Staff (Staff) of the Public Utility Commission of Texas (Commission), representing the public interest, and files this Commission Staff's Final Recommendation. Staff recommends that the application be approved. In support thereof, Staff would show the following:

#### I. BACKGROUND

On February 7, 2019, AEP Texas Inc. (AEP Texas) filed an application for interim update of wholesale transmission service (WTS) rates pursuant to 16 Tex. Admin. Code (TAC) § 25.192(h). AEP Texas requested an update to both the Central and North Division's rates, consistent with the Commission's final order in Docket No. 46050. Along with the application, AEP Texas filed the direct testimony and exhibits of Frances K. Bourland, and schedules and workpapers for the North and Central Divisions.

In the application, AEP Texas requested a total annual revenue requirement of \$423,372,871 (\$280,015,561 for the Central Division and \$143,357,310 for the North Division) based upon an increase of \$325,161,346 (\$200,269,976 for the Central Division and \$124,891,370 for the North Division) in total transmission invested capital. Additionally, AEP Texas requested a total annual transmission depreciation expense of \$69,817,337 (\$37,886,829 for the Central Division and \$31,930,508 for the North Division) and the total electric accumulated depreciation of \$568,911,585 (\$326,865,388 for the Central Division and \$242,046,197 for the North Division).

On February 8, 2019, the Administrative Law Judge issued Order No. 1, setting a deadline of March 21, 2019 for Staff to request a hearing or file a recommendation on file disposition. This pleading is therefore timely filed.

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## **II. FINAL RECOMMENDATION**

Based on the attached memoranda of Frederick Quijano and Reginald Tuvilla of the Commission's Rate Regulation Division, Staff makes the following recommendations regarding the interim updates and revisions and the WTS tariff filing.

Staff recommends that AEP Texas' proposed interim update of rates be approved. This approval should be subject to a more comprehensive analysis and reconciliation at the next complete review of AEP's cost of service pursuant to 16 TAC § 25.192(h)(2).

Staff also recommends that AEP Texas be required to file a "clean" record copy of its Open Access Transmission tariff consistent with the Commission's final order in this docket. This revised tariff should be stamped "Approved" by the Commission Central Records Division and retained for future reference.

## **III. CONCLUSION**

For the reasons stated above, Staff respectfully recommends that AEP Texas' application be approved, subject to further review pursuant to 16 TAC § 25.192(h)(2).

**DATED:** March 21, 2019

Respectfully Submitted,

**PUBLIC UTILITY COMMISSION OF  
TEXAS LEGAL DIVISION**

Margaret Uhlig Pemberton  
Division Director

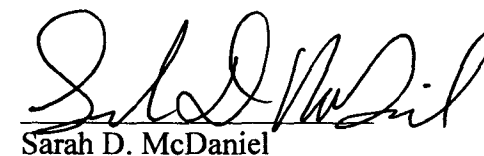
Katherine Lengieza Gross  
Managing Attorney



Sarah D. McDaniel  
State Bar No. 24092340  
1701 N. Congress Avenue  
P.O. Box 13326  
Austin, Texas 78711-3326  
(512) 936-7289  
(512) 936-7268 (facsimile)  
sarah.mcdaniel@puc.texas.gov

**CERTIFICATE OF SERVICE**

I certify that a copy of this document will be served on all parties of record on March 21, 2019, in accordance with 16 TAC § 22.74.



Sarah D. McDaniel

# *Public Utility Commission of Texas*

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## **Memorandum**

TO: Sarah McDaniel, Legal Division

FROM: Frederick Quijano, Rate Regulation Division

DATE: March 21, 2019

SUBJECT: Docket No. 49192, *Application of AEP Texas, Inc. for Interim Update of Wholesale Transmission Rates*

### **SUMMARY AND RECOMMENDATION**

On February 7, 2019, AEP Texas Inc. (AEP Texas or Company) filed for an interim update of its wholesale transmission rates pursuant to 16 Texas Administrative Code (TAC) § 25.192(h). 16 TAC §25.192(h)(1) states that 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. 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-allowed rate of return on such facilities as well as changes in load. 16 TAC §25.192(h)(2) states that the Commission shall review whether the cost of transmission plant additions are reasonable and necessary at the next complete review of the TSP's transmission cost of service.

Additionally, 16 TAC §25.192(c) states that transmission cost of service shall be based on the expenses in Federal Energy Regulatory Commission (FERC) expense accounts 560-573 plus the depreciation, federal income tax, and other associated taxes, and the Commission-allowed rate of return based on FERC plant accounts 350-359, less accumulated depreciation and accumulated deferred federal income taxes, as applicable.

The Company presented information broken out by the two operating divisions that make up AEP Texas: AEP Texas – Central Division (AEP Central) and AEP Texas – North Division (AEP North).

For the period ending December 31, 2018, AEP Texas requested a total annual revenue requirement of \$423,372,871 (\$280,015,561 for AEP Central and \$143,357,310 for AEP North) based upon an increase of \$325,161,346 (\$200,269,976 for AEP Central and \$124,891,370 for AEP North) in total transmission invested capital. The Company's request includes additions to and retirements of transmission investment subsequent to November 1, 2018.

The amounts included in AEP Central's annual interim revenue requirement are as follows:

<b>Description</b>	<b>Interim Revenue Requirement<sup>1</sup></b>
Operation and Maintenance	\$ 21,768,114
Depreciation	\$ 39,060,977
Other Amortization	\$ 2,061,108
Taxes Other Than Income Taxes	\$ 41,010,739
Federal Income Tax	\$ 21,067,339
Return on Rate Base	\$ 159,604,827
Other Revenues	\$ (4,557,543)
<b>Total Interim Revenue Requirement</b>	<b>\$ 280,015,561</b>

The amounts included in AEP North's annual interim revenue requirement are as follows:

<b>Description</b>	<b>Interim Revenue Requirement<sup>2</sup></b>
Operation and Maintenance	\$ 12,497,520
Depreciation	\$ 35,071,306
Other Amortization	\$ 1,101,378
Taxes Other Than Income Taxes	\$ 17,064,845
Federal Income Tax	\$ 9,120,335
Settlement Adjustment TCOS Filing	\$ (180,879)
Return on Rate Base	\$ 69,040,421
Other Revenues	\$ (357,616)
<b>Total Interim Revenue Requirement</b>	<b>\$ 143,357,310</b>

Under 16 TAC §25.192(h)(2), my review of AEP Texas' application is only a conditional review and not the final determination as to the appropriateness of the new transmission facilities and resulting wholesale transmission rate. I have completed my review of the application and recommend the inclusion of AEP Texas' operations and maintenance expense, federal income taxes, and taxes other than income taxes as shown above. The Company's resulting interim revenue requirement is \$423,372,871 which is an increase of \$41,184,241 to the revenue requirement approved in Docket No. 48931.<sup>3</sup>

<sup>1</sup> Application at 62, Schedule A at 1 (Feb. 7, 2019) (related to AEP Central).

<sup>2</sup> Application at 69, Schedule A at 1 (Feb. 7, 2019) (related to AEP North).

<sup>3</sup> *Application of AEP Texas Inc. to Revise Its Wholesale Transmission Rates*, Docket No. 48931, Notice of Approval (Feb. 5, 2019).

I recommend that the Commission approve AEP Texas' application as filed on February 7, 2019, with the final determination of the recoverable amounts of these transmission facilities additions being made at the next complete review of the Company's cost of service.

# *Public Utility Commission of Texas*

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## **Memorandum**

To: Sarah McDaniel, Legal

From: Reginald J. Tuvilla, Infrastructure & Reliability

Date: March 21, 2019

Re: Docket No. 49192, *Application of AEP Texas, Inc. for Interim Update of Wholesale Transmission Rates*

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On February 7, 2019, AEP Texas, Inc. (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 \$69,817,337 (\$37,886,829 for the Central Division and \$31,930,508 for the North Division) and the total electric accumulated depreciation of \$568,911,585 (\$326,865,388 for the Central Division and \$242,046,197 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).