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SOAH DOCKET NO. 473-19-4421
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APPLICATION OF AEP TEXAS INC.
FOR AUTHORITY TO CHANGE
RATES

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BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS

DIRECT TESTIMONY

OF

KARL J. NALEPA

ON BEHALF OF

CITIES SERVED BY AEP TEXAS

JULY 25, 2019

322

TABLE OF CONTENTS

I.	INTRODUCTION AND QUALIFICATIONS	3
II.	PURPOSE AND SCOPE OF TESTIMONY	4
III.	SUMMARY OF RECOMMENDATIONS	5
IV.	RATE BASE ADJUSTMENTS	5
A.	AEP Texas' Change in Capitalization Policy	5
B.	Prudence of Plant Additions Since July 2006.....	10
1.	Third Party Facilities.....	14
2.	Third Party Damage	15
3.	Other Costs.....	17
C.	Capitalized Forestry Costs Since July 2006.....	19

ATTACHMENTS

- Attachment A – Statement of Qualifications
- Attachment B – List of Previously Filed Testimony
- Attachment C – Docket No. 48222, AEP Texas' Response to City of McAllen RFI No. 1-13
- Attachment D – AEP Texas' Response to Cities RFI No. 4-26, Attachment 1
- Attachment E – Docket No. 48222, AEP Texas' Response to City of McAllen RFI No. 1-4
- Attachment F – Docket No. 48222, AEP Texas' Response to City of McAllen RFI No. 1-8
- Attachment G – AEP Texas' Response to Cities RFI No. 13-5, Attachment 1

WORKPAPERS – Provided on CD

1 **I. INTRODUCTION AND QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND ADDRESS.**

3 A. My name is Karl J. Nalepa. I am the President of ReSolved Energy Consulting, LLC, an
4 independent utility consulting company. My business address is 11044 Research Blvd.,
5 Suite A-420, Austin, Texas 78759.

6 **Q. ON WHOSE BEHALF ARE YOU PRESENTING TESTIMONY IN THIS**
7 **PROCEEDING?**

8 A. I am presenting testimony on behalf of Cities Served by AEP Texas (Cities).

9 **Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND AND**
10 **PROFESSIONAL EXPERIENCE.**

11 A. I am a partner at ReSolved Energy Consulting (REC). REC was started in July 2011, but
12 I joined R.J. Covington Consulting (RJC), REC's predecessor firm, in June 2003. I lead
13 the firm's regulated market practice, where I represent the interests of clients in utility
14 regulatory proceedings, prepare client cost studies, and develop client regulatory filings.
15 Before joining RJC, I served for more than five years as an Assistant Director at the
16 Railroad Commission of Texas (RRC). In this position, I was responsible for overseeing
17 the economic regulation of natural gas utilities in Texas, which included supervising staff
18 casework, advising Commissioners on regulatory issues, and serving as a Technical Rate
19 Examiner in regulatory proceedings. Prior to joining the RRC, I spent five years as a
20 supervising consultant with Resource Management International, Inc., and then, I worked
21 as an independent consultant advising clients on a broad range of electric and natural gas
22 industry issues. I also served for four years as a Fuel Analyst at the Public Utility
23 Commission of Texas (Commission), where I evaluated fuel issues in electric utility rate
24 filings, participated in electric utility-related rulemaking proceedings, and participated in

1 the review of electric utility resource plans. My professional career began with eight years
2 in the reservoir engineering department of Transco Exploration Company, which was an
3 affiliate of Transco Gas Pipeline Company, a major interstate pipeline company.

4 I hold a Master of Science degree in Petroleum Engineering from the University of
5 Houston and a Bachelor of Science degree in Mineral Economics from the Pennsylvania
6 State University. I am also a certified mediator. My Statement of Qualifications is
7 included in Attachment A.

8 **Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?**

9 A. Yes. I have testified on many occasions before both the Commission and RRC on a variety
10 of regulatory issues. A summary of my previously filed testimony is included in
11 Attachment B. I have also provided analysis and recommendations in numerous local
12 regulatory proceedings that resulted in decisions without written testimony.

13 **II. PURPOSE AND SCOPE OF TESTIMONY**

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

15 A. The purpose of my testimony is to present recommendations regarding AEP Texas Inc.'s
16 (AEP Texas or Company) request to increase rates.

17 **Q. WHAT IS THE SCOPE OF YOUR TESTIMONY?**

18 A. The scope of my testimony is to address the prudence of plant additions since AEP Texas'
19 last comprehensive rate proceedings in Docket Nos. 33309 and 33310.¹ This scope covers
20 the period from July 2006 through December 2018.

¹ *Application of AEP Texas Central Company for Authority to Change Rates*, Docket No. 33309 (Mar. 4, 2008); *Application of AEP Texas North Company for Authority to Change Rates*, Docket No. 33310 (May 29, 2007).

1 **III. SUMMARY OF RECOMMENDATIONS**

2 **Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.**

3 A. I recommend that:

- 4 • The Company's decision to change its capitalization policy on a going-forward
5 basis is reasonable, but it was unreasonable for the Company to implement the
6 policy change between rate cases. As a result, \$38,380,661 in capitalized expenses
7 should be removed from plant accounts.
- 8 • The Company's plant additions since its last rate case should also be reduced by
9 \$27,404,886 for imprudent or unreasonable costs.
- 10 • The amount of capitalized vegetation management costs incurred since the
11 Company's last rate cases is \$25,612,338. I have provided these amounts to Cities
12 witness Lane Kollen, who will address recovery of these costs.

13 My recommended total adjustments to the Company's request for capitalized expenses and
14 imprudent or unreasonable costs reduce plant accounts by \$65,785,547. Cities witness
15 Lane Kollen is presenting the Cities' comprehensive adjusted revenue requirement.

16 **IV. RATE BASE ADJUSTMENTS**

17 A. **AEP Texas' Change in Capitalization Policy**

18 **Q. HAS AEP TEXAS CHANGED ITS CAPITALIZATION POLICY SINCE ITS LAST**
19 **RATE CASE?**

20 A. Yes. Since AEP Texas' last comprehensive rate proceedings in Docket Nos. 33309 and
21 33310, the Company has made changes to its capitalization policy for crossarm and
22 capacitor switch replacements.²

² *Application of AEP Texas Central for Approval of a Distribution Cost Recovery Factor*, Docket No. 45787, Direct Testimony of Randall Hamlett at 16 (Apr. 6, 2016); *Application of AEP Texas North for Approval of a Distribution Cost Recovery Factor*, Docket No. 45788, Direct Testimony of Randall Hamlett at 16 (Apr. 6, 2016).

1 **Q. WHAT WAS THE COMPANY'S BASIS FOR THIS CHANGE IN POLICY?**

2 A. In 2008, the Company created a retirement unit for crossarms and began capitalizing any
3 crossarms replacements into FERC account 364. At the same time, the Company created
4 a retirement unit for capacitor switches and began capitalizing switch replacements into
5 FERC account 368. The Company explained that it chose to create separate retirement
6 units for these items because they could be replaced independently of the associated pole
7 or capacitor.³

8 **Q. HOW WERE THESE COSTS TREATED BEFORE THE CHANGE IN**
9 **CAPITALIZATION POLICY?**

10 A. The costs of replacements were charged to Operation and Maintenance (O&M) expense.⁴

11 **Q. DID THIS CHANGE IN ACCOUNTING RULES OCCUR AFTER THE TEST**
12 **YEAR IN DOCKET NOS. 33309 AND 33310?**

13 A. Yes. The test year in Docket Nos. 33309 and 33310 was the twelve months ending June 30,
14 2006.⁵

15 **Q. HAS THE COMMISSION ADDRESSED THE COMPANY'S CAPITALIZATION**
16 **POLICY IN ANY PREVIOUS DOCKET?**

17 A. Yes. The Company's change in capitalization policy was addressed in its 2018 Distribution
18 Cost Recovery Factor (DCRF).⁶ In that case, Cities opposed the Company's policy change,

³ Docket No. 45787, Direct Testimony of Randall Hamlett at 16; Docket No. 45788, Direct Testimony of Randall Hamlett at 16.

⁴ Docket No. 45787, Direct Testimony of Randall Hamlett at 16; Docket No. 45788, Direct Testimony of Randall Hamlett at 16.

⁵ Docket No. 33309, Application at 2 (Oct. 4, 2006), and Docket No. 33310, Application at 2 (Oct. 4, 2006).

⁶ *Application of AEP Texas Inc. to Amend its Distribution Cost Recovery Factors*, Docket No. 48222, Direct Testimony of Peter K. Kimani at 16 (Apr. 3, 2018).

1 but the case settled and deferred consideration of the Company's change in capitalization
2 policy to this base rate proceeding.

3 **Q. WHAT WAS THE BASIS FOR CITIES' OPPOSITION TO THE COMPANY'S**
4 **CHANGE IN POLICY IN THE DCRF PROCEEDINGS?**

5 A. The primary basis for Cities' opposition was that the change in capitalization policy
6 resulted in potential double counting of costs that were expensed in the Company's last
7 rate cases but then were capitalized since those rate cases.⁷

8 **Q. CAN YOU EXPLAIN HOW DOUBLE COUNTING COULD OCCUR?**

9 A. Yes. As I discussed earlier, AEP Texas began capitalizing crossarm replacements into
10 FERC account 364 and capacitor switch replacements into FERC account 368 beginning
11 in 2008. Prior to that time, these replacements were charged to expense. So, we need to
12 look back at what was approved in Docket Nos. 33309 and 33310 to determine if the
13 Company was already recovering expenses that included crossarm and capacitor switch
14 replacements.

15 In Docket No. 33309, the Company requested \$14.2 million in FERC account 593,
16 Maintenance of Overhead Lines (which includes crossarm replacements) and \$3.5 million
17 in FERC account 595, Maintenance of Line Transformers (which includes capacitor switch
18 replacements).⁸ Similarly, in Docket No. 33310, the Company requested \$3.8 million in
19 FERC account 593, Maintenance of Overhead Lines (which includes crossarm
20 replacements) and \$0.7 million in FERC account 595, Maintenance of Line Transformers
21 (which includes capacitor switch replacements).⁹ Thus, each year AEP Texas was already

⁷ Docket No. 48222, Direct Testimony of Karl J. Nalepa at 8 (May 14, 2018).

⁸ Docket No. 33309, Application Schedule II-D-1 at 2.

⁹ Docket No. 33310, Application Schedule II-D-1 at 2.

1 recovering in rates more than \$22 million¹⁰ for expenses that included crossarm and
2 capacitor switch replacements.

3 **Q. WHY IS THIS SIGNIFICANT?**

4 A. Because after the Company began to capitalize these costs, base rates still reflected a level
5 of costs as though these costs were still being expensed, which is why double counting
6 occurs.

7 Since the Company changed its accounting rules, it has capitalized crossarms to
8 plant in service in the amount of \$23.5 million for the Central Division and \$12.5 million
9 for the North Division.¹¹ The amount capitalized to plant in service for capacitor switches
10 has been \$2.1 million for the Central Division and \$0.3 million for the North Division.¹²
11 These amounts average \$3.3 million per year of crossarm replacements and \$0.2 million
12 per year of capacitor switch replacements over the eleven years since the change in policy.
13 Note that the amount of 2018 capitalized crossarm replacements and capacitor switches
14 additions were estimated based on the average of the 2015 through 2017 additions.

15 AEP Texas replaces crossarms and capacitor switches every year, and since these
16 costs were previously expensed, it is likely that the test year expense amounts for FERC
17 accounts 593 and 595, identified above, included expenses for crossarm and capacitor
18 switch replacements. In other words, even after the Company began to capitalize these
19 costs, base rates still reflected a level of costs as though these costs were still being
20 expensed. That is why double counting occurs.

¹⁰ \$14.2 million + \$3.5 million + \$3.8 million + \$0.7 million = \$22.2 million.

¹¹ Docket No. 48222, AEP Texas' Response to City of McAllen RFI No. 1-13 (May 8, 2018). See Attachment C (The amount of 2018 capitalized crossarm replacements and capacitor switches additions were estimated based on the average of 2015 through 2017 additions.).

¹² *Id.*

1 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THE COMPANY'S**
2 **PROPOSED CHANGE IN CAPITALIZATION POLICY?**

3 A. I do not oppose the change in capitalization policy for the rates set in this rate case
4 proceeding on a going-forward basis. The Company now has the opportunity to adjust its
5 FERC expense-related accounts to remove previously expensed crossarms and capacitor
6 switches. However, I have to conclude that many of the expenses that AEP Texas began
7 to capitalize since its last rate case filings were reflected in the rates set in those cases.
8 Therefore, the Company's capitalized expenses duplicated costs were already being
9 recovered in its rates. Thus, I recommend that any costs capitalized under the Company's
10 change in capitalization policy since its last rate case be disallowed from plant in service.

11 **Q. WHAT COSTS WERE CAPITALIZED UNDER THE POLICY CHANGE SINCE**
12 **AEP TEXAS' LAST RATE CASES IN DOCKET NOS. 33309 AND 33310?**

13 A. The total amount capitalized was \$38.4 million. Table 1 summarizes the costs by program:

14 Table 1
15 Capitalized Expenses Due to Change in Policy

Division	Total
<u>Crossarms</u>	
Texas Central	\$23,472,520
Texas North	\$12,527,238
Total	\$35,999,758
<u>Capacitor Switches</u>	
Texas Central	\$2,123,744
Texas North	\$257,158
Total	\$2,380,903

1 For the reasons discussed above, the entire amount should be removed from the Company's
2 rate base. And as explained earlier, the crossarm costs should be removed from FERC
3 account 364 while the capacitor switches should be removed from FERC account 368.

4 **Q. ARE CITIES DEVELOPING A COMPREHENSIVE ADJUSTED REVENUE**
5 **REQUIREMENT?**

6 A. Yes. I have provided my plant adjustments to Cities witness Lane Kollen, who is
7 presenting the Cities' comprehensive adjusted revenue requirement.

8 **B. Prudence of Plant Additions Since July 2006**

9 **Q. IS AEP TEXAS REQUESTING A PRUDENCE DETERMINATION IN THIS**
10 **PROCEEDING?**

11 A. Yes. The Company is requesting approval of its capital additions since its previous rate
12 reviews.¹³ During that twelve and one-half year period, the Company added \$3.02 billion
13 of distribution plant¹⁴ and \$2.92 billion of transmission plant.¹⁵

14 **Q. WHAT ARE AEP TEXAS' MAJOR CATEGORIES OF PLANT ADDITIONS?**

15 A. The Company's major categories of plant additions are summarized in Tables 2 and 3:

¹³ Direct Testimony of Leigh Anne Strahler at 5.

¹⁴ Direct Testimony of Thomas M. Coad at 42.

¹⁵ Direct Testimony of Wayman L. Smith at 14.

Table 2
Distribution Capital Investments by Category (\$) ¹⁶

Project Category	Total
Asset Improvement	675,904,873
Customer Service	1,149,306,910
Forestry	25,612,339
Other	7,100,270
Planning Capacity	209,153,144
Reliability	291,095,385
System Restoration	214,430,659
Distribution Total	2,572,603,579
Intangible Total	179,041,958
General Total	270,234,819
Grand Total	3,021,880,356

Table 3
Transmission Capital Investments by Category (\$) ¹⁷

Project Category	Total
IPP	294,873,484
Reliability	706,876,080
RTO	780,397,632
System Rehabilitation	556,886,716
System Restoration	103,768,811
Distribution Driven	137,922,281
Capital Software	56,140,373
Customer Service & Other	286,634,155
Grand Total	2,923,499,532

As shown above, four categories of project costs comprise 75% of the capital investments since AEP Texas' last rate cases: costs related to customer service, system improvement/rehabilitation, reliability, and Regional Transmission Organizations (RTO).

¹⁶ Direct Testimony of Thomas M. Coad at 44; AEP Texas' Response to Cities RFI No. 4-26. See Attachment D.

¹⁷ Direct Testimony of Wayman L. Smith at 14.

1 **Q. PLEASE BRIEFLY DESCRIBE THESE CATEGORIES.**

2 A. According to AEP Texas witnesses, Thomas M. Coad and Wayman L. Smith:

- 3 • Customer service-related costs include installation of service for new residential
4 and commercial distribution customers¹⁸ and construction of facilities such as new
5 service and operations centers.¹⁹
- 6 • System improvement/rehabilitation-related costs include replacement of aging
7 distribution infrastructure approaching the end of its useful life²⁰ and projects
8 targeting transmission assets that need to be updated due to their condition,
9 performance, or design.²¹
- 10 • Reliability-related costs include distribution programs that target known reliability
11 issues affecting groups of customers or whole circuits experiencing reliability
12 issues²² and upgrade or replacement of transmission equipment to mitigate potential
13 problems that could cause an interruption of service, corrective actions to maintain
14 the reliable operation of the transmission system, projects to expand or upgrade the
15 communications systems and major equipment spares.²³
- 16 • RTO-related costs include projects needed to address potential North American
17 Electric Reliability Corporation (NERC), Electric Reliability Council of Texas
18 (ERCOT) and/or AEP Texas reliability criterion violations and are required to be
19 submitted through the ERCOT Regional Planning Group (RPG) process.²⁴

20 **Q. HAVE YOU REVIEWED THE COMPANY'S PLANT INVESTMENT**
21 **SCHEDULES AND RELATED RESPONSES TO DATA REQUESTS?**

22 A. Yes.

¹⁸ Direct Testimony of Thomas M. Coad at 43.

¹⁹ Direct Testimony of Wayman L. Smith at 25.

²⁰ Direct Testimony of Thomas M. Coad at 43.

²¹ Direct Testimony of Wayman L. Smith at 13.

²² Direct Testimony of Thomas M. Coad at 44.

²³ Direct Testimony of Wayman L. Smith at 13.

²⁴ *Id.*

1 **Q. BY WHAT STANDARD SHOULD AEP TEXAS' PLANT INVESTMENTS BE**
2 **EVALUATED?**

3 A. Pursuant to 16 Tex. Admin. Code (TAC) § 25.231(c)(2), plant investments must be used
4 and useful in providing service to the public.²⁵ In addition, expenses included in a utility's
5 cost of service must be reasonable and necessary,²⁶ thus plant investments that yield
6 expenses reflected in the cost of service must be reasonable and necessary as well.

7 Furthermore, the Commission has applied a prudence standard which was affirmed
8 by the Austin Court of Appeals in *Gulf States Utilities Co. v. Public Utility Commission of*
9 *Texas*.²⁷ The Court recognized the following definition of "prudence":

10 Prudence is the exercise of that judgment and the choosing of that
11 select range of options which a reasonable utility manager would
12 exercise or choose in the same or similar circumstances given the
13 information or alternatives at the point in time such judgment is
14 exercised or option is chosen.²⁸

15 **Q. WHAT HAVE YOU CONCLUDED REGARDING THE COMPANY'S PLANT**
16 **ADDITIONS?**

17 A. I have identified instances where the Company is seeking to recover certain plant costs that
18 were not caused by or on behalf of ratepayers, so it would be unreasonable and imprudent
19 to allow these costs to be recovered from ratepayers. These plant costs do not meet the
20 *Gulf States* prudence standard described above. Based on my review, I recommend three
21 adjustments, as discussed below.

²⁵ 16 Tex. Admin. Code § 25.231(c)(2) (TAC).

²⁶ 16 TAC § 25.231(b).

²⁷ *Gulf States Utils. Co. v. Pub. Util. Comm'n of Tex.*, 841 S.W.2d 459 (Tex. App.—Austin 1992, writ denied).

²⁸ *Id.* at 475-76.

1 **1. Third Party Facilities**

2 **Q. WHAT IS THE FIRST PROJECT WITH WHICH YOU HAVE AN ISSUE?**

3 A. The Company seeks to recover costs from ratepayers to replace or install overhead
4 distribution facilities to accommodate third party facilities on AEP Texas' poles.²⁹

5 **Q. WHAT IS YOUR CONCERN REGARDING THIS PROJECT?**

6 A. AEP Texas' poles are paid for by AEP Texas' customers through wires charges on a retail
7 electric provider's (REP) bill for use by those customers. Any costs incurred to serve third
8 parties should be borne by the third parties that caused the costs to be incurred and not by
9 AEP Texas' customers.

10 **Q. DID AEP TEXAS ATTEMPT TO COLLECT PAYMENT OF THESE COSTS**
11 **FROM THIRD PARTIES?**

12 A. Yes. The Company asserts it sought and received reimbursement for the cost to modify its
13 poles to accommodate third party facilities to the extent it was allowed by tariff, regulation,
14 law or contract. The amount included in the AEP Texas' request is the net of any
15 reimbursement.³⁰

16 **Q. DOES THAT MEAN THAT AEP TEXAS' CUSTOMERS SHOULD BEAR THE**
17 **UNRECOVERED COSTS?**

18 A. No. AEP Texas controls whether it will allow third parties use of its poles, so it should
19 bear the risk if the costs are not reimbursed.

²⁹ Docket No. 48222, Application Exhibits TMC_2 and TMC_4, Project EDN100088 and Exhibits TMC_3 and TMC_5, Project EDN100086 (Apr. 3, 2018).

³⁰ Docket No. 48222, AEP Texas' Response to City of McAllen RFI No. 1-4. See Attachment E.

1 **Q. HOW MUCH DID AEP TEXAS INCLUDE IN ITS PLANT BALANCES RELATED**
2 **TO THIRD PARTY FACILITIES?**

3 A. Table 4 summarizes these costs by division:³¹

4 Table 4
5 Third Party Facilities Costs

Division	Total
Texas Central	\$1,734,298
Texas North	\$317,272
Total	\$2,051,570

6
7 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THESE COSTS?**

8 A. For the reasons discussed above, the entire amount should be removed from the Company's
9 rate base. These costs are described as overhead distribution facilities, so they should be
10 removed from FERC account 364. And as with my recommendation regarding change in
11 capitalization policy, I have provided my plant adjustments to Cities witness Lane Kollen,
12 who is presenting the Cities' comprehensive adjusted revenue requirement.

13 **2. Third Party Damage**

14 **Q. WHAT IS THE SECOND PROJECT WITH WHICH YOU HAVE AN ISSUE?**

15 A. The Company seeks to recover costs from ratepayers for third party damage to overhead
16 and underground facilities that were damaged by the public and not reimbursed.³²

17 **Q. WHAT IS YOUR CONCERN REGARDING THIS PROJECT?**

18 A. Third party damage was not caused by AEP Texas' customers in providing service and
19 should not be borne by AEP Texas' customers.

³¹ Docket No. 48222, Application Exhibits TMC_2 and TMC_4, Project EDN100088 and Exhibits TMC_3 and TMC_5, Project EDN100086.

³² Docket No. 48222, Application Exhibits TMC_2 and TMC_4, Project EDN101625 and Exhibits TMC_3 and TMC_5, Project EDN101623.

1 **Q. DID AEP TEXAS ATTEMPT TO COLLECT PAYMENT OF THESE COSTS**
2 **FROM THE PARTIES CAUSING THE DAMAGE?**

3 A. Yes. The Company asserts it did request and receive reimbursements for some but not all
4 distribution facilities that were damaged by the public. In most cases, the Company claims
5 it is unaware who damaged the distribution facilities and is not able to request
6 reimbursement. For the facilities where reimbursements were received for damaged
7 facilities, these reimbursement amounts were applied to the capital expense of the
8 distribution facilities which results in a net amount.³³

9 **Q. DOES THAT MEAN THAT AEP TEXAS' CUSTOMERS SHOULD BEAR THE**
10 **UNREIMBURSED COSTS?**

11 A. No. It is unclear to what extent AEP Texas sought reimbursement. The Company admits
12 that it sought and received reimbursement for just some of the facilities damaged. Again,
13 AEP Texas controls how and to what extent it will seek reimbursement, so it should bear
14 the risk if the costs are not reimbursed.

15 **Q. HOW MUCH DID AEP TEXAS INCLUDE IN ITS PLANT BALANCES RELATED**
16 **TO THIRD PARTY DAMAGES?**

17 A. Table 5 summarizes these costs by division:³⁴

18 Table 5
19 Third Party Damage Costs

Division	Total
Texas Central	\$16,453,773
Texas North	\$4,207,626
Total	\$20,661,399

³³ Docket No. 48222, AEP Texas' Response to City of McAllen RFI No. 1-8. See Attachment F.

³⁴ Docket No. 48222, Application Exhibits TMC_2 and TMC_4, Project EDN101625 and Exhibits TMC_3 and TMC_5, Project EDN101623.

1 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THESE COSTS?**

2 A. For the reasons discussed above, the entire amount should be removed from the Company's
3 rate base. These costs are described as damage to overhead and underground facilities, so
4 I allocated the costs among the related FERC accounts, 60% to account 364, 30% to
5 account 365, and 10% to account 366. And as with my previous recommendations, I have
6 provided my plant adjustments to Cities witness Lane Kollen, who is presenting the Cities'
7 comprehensive adjusted revenue requirement.

8 **3. Other Costs**

9 **Q. WHAT IS THE THIRD PROJECT WITH WHICH YOU HAVE AN ISSUE?**

10 A. The Company has included in its capital project summary a category of "Other."³⁵ Cities
11 asked for a detailed description of the capital costs included in this category.³⁶ In response
12 the Company provided a table of miscellaneous projects that are included in its "Other"
13 category.³⁷ One project, EDN103174, was simply described as "TC ANDA (Activities Not
14 Directly Assigned)."³⁸

15 **Q. WHAT IS YOUR CONCERN REGARDING THIS PROJECT?**

16 A. I have two concerns. First, these project costs have absolutely no support. "Activities Not
17 Directly Assigned" is not sufficient support for costs to be recovered from AEP Texas'
18 customers. Second, the costs are not insignificant. The total amount is assigned entirely to
19 the Texas Central Division, and totals \$4,691,917.³⁹

³⁵ See Tables 2 and 3.

³⁶ Cities Thirteenth RFI to AEP Texas, Question No. 13-5.

³⁷ AEP Texas' Response to Cities RFI No. 13-5, Attachment 1. See Attachment G.

³⁸ *Id.*

³⁹ *Id.*

1 **Q. WHAT IS YOUR RECOMMENDATION REGARDING THESE COSTS?**

2 A. For the reasons discussed above, the entire amount should be removed from the Company's
3 rate base. As the description implies, these costs are not assigned to any FERC account.
4 Thus, for simplicity, I allocated the costs among the two largest FERC accounts, 50% to
5 account 364 and 50% to account 365. I have provided my plant adjustments to Cities
6 witness Lane Kollen, who is presenting the Cities' comprehensive adjusted revenue
7 requirement.

8 **Q. WHAT IS THE TOTAL OF YOUR RECOMMENDED ADJUSTMENTS FOR**
9 **UNREASONABLE PLANT COSTS?**

10 A. I recommend three adjustments related to imprudent plant amounts in rate base. These
11 adjustments are summarized in Table 6:

12 Table 6
13 Summary of Imprudent Plant Additions

Division	Total
<u>Third Party Facilities</u>	
Texas Central	\$1,734,298
Texas North	\$317,272
Total	\$2,051,570
<u>Third Party Damage</u>	
Texas Central	\$16,453,773
Texas North	\$4,207,626
Total	\$20,661,399
<u>Other Costs</u>	
Texas Central	\$4,691,917
Texas North	\$0
Total	\$4,691,917
Grand Total	\$27,404,886

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SOAH DOCKET NO. 473-19-4421
PUC DOCKET NO. 49494

KARL J. NALEPA

Mr. Nalepa is an energy economist with more than 35 years of private and public sector experience in the electric and natural gas industries. He has extensive experience analyzing utility rate filings and resource plans with particular focus on fuel and power supply requirements, quality of fuel supply management, and reasonableness of energy costs. Mr. Nalepa developed peak demand and energy forecasts for municipal and electric cooperative utilities and has forecast the price of natural gas in ratemaking and resource plan evaluations. He led a management and performance review of the Texas Public Utility Commission, and has conducted performance reviews and valuation studies of a number of municipal utility systems. Mr. Nalepa previously directed the Railroad Commission of Texas' Regulatory Analysis & Policy Section, with responsibility for preparing timely natural gas industry analysis, managing ratemaking proceedings, mediating informal complaints, and overseeing consumer complaint resolution. He has prepared and defended expert testimony in both administrative and civil proceedings, and has served as a technical examiner in natural gas rate proceedings.

EDUCATION

1998	Certificate of Mediation Dispute Resolution Center, Austin
1989	NARUC Regulatory Studies Program Michigan State University
1988	M.S. - Petroleum Engineering University of Houston
1980	B.S. - Mineral Economics Pennsylvania State University

PROFESSIONAL HISTORY

2003 -	ReSolved Energy Consulting President and Managing Director
1997 – 2003	Railroad Commission of Texas Asst. Director, Regulatory Analysis & Policy
1995 – 1997	Karl J. Nalepa Consulting Principal
1992 – 1995	Resource Management International, Inc. Supervising Consultant
1988 – 1992	Public Utility Commission of Texas Fuels Analyst
1980 – 1988	Transco Exploration Company Reservoir and Evaluation Engineer

AREAS OF EXPERTISE

Regulatory Analysis

Electric Power: Analyzed electric utility rate, certification, and resource forecast filings. Assessed the quality of fuel supply management, and reasonableness of fuel costs recovered from ratepayers. Projected the cost of fuel and purchased power. Estimated the impact of environmental costs on utility resource selection. Participated in regulatory rulemaking activities. Provided expert staff testimony in a number of proceedings before the Texas Public Utility Commission.

As consultant, represent interests of municipal clients intervening in large utility rate proceedings through analysis of filings and presentation of testimony before the Public Utility Commission. Also assist municipal utilities in preparing and defending requests to change rates and other regulatory matters before the Public Utility Commission.

Natural Gas: Directed the economic regulation of gas utilities in Texas for the Railroad Commission of Texas. Responsible for monitoring, analyzing and reporting on conditions and events in the natural gas industry. Managed Commission staff representing the public interest in contested rate proceedings before the Railroad Commission, and acted as technical examiner on behalf of the Commission. Mediated informal disputes between industry participants and directed handling of customer billing and service complaints. Oversaw utility compliance filings and staff rulemaking initiatives. Served as a policy advisor to the Commissioners.

As consultant, represent interests of municipal clients intervening in large utility rate proceedings through analysis of filings and presentation of testimony before the cities and Railroad Commission. Also assist small utilities in preparing and defending requests to change rates and other regulatory matters before the Railroad Commission.

Litigation Support

Retained to support litigation in natural gas contract disputes. Analyzed the results of contract negotiations and competitiveness of gas supply proposals considering gas market conditions contemporaneous with the period reviewed. Supported litigation related to alleged price discrimination related to natural gas sales for regulated customers. Provided analysis of regulatory and accounting issues related to ownership of certain natural gas distribution assets in support of litigation against a natural gas utility. Supported independent power supplier in binding arbitration regarding proper interpretation of a natural gas transportation contract. Provided expert witness testimony in administrative and civil court proceedings.

Utility System Assessment

Led a management and performance review of the Public Utility Commission. Conducted performance reviews and valuation studies of municipal utility systems. Assessed ability to compete in the marketplace, and recommended specific actions to improve the competitive position of the utilities. Provided comprehensive support in the potential sale of a municipal gas system, including preparation of a valuation study and all activities leading to negotiation of contract for sale and franchise agreements.

Energy Supply Analysis

Reviewed system requirements and prepared requests for proposals (RFPs) to obtain natural gas and power supplies for both utility and non-utility clients. Evaluated submittals under alternative demand and market conditions, and recommended cost-effective supply proposals. Assessed supply strategies to determine optimum mix of available resources.

Econometric Forecasting

Prepared econometric forecasts of peak demand and energy for municipal and electric cooperative utilities in support of system planning activities. Developed forecasts at the rate class and substation levels. Projected price of natural gas by individual supplier for Texas electric and natural gas utilities to support review of utility resource plans.

Reservoir Engineering

Managed certain reserves for a petroleum exploration and production company in Texas. Responsible for field surveillance of producing oil and natural gas properties, including reserve estimation, production forecasting, regulatory reporting, and performance optimization. Performed evaluations of oil and natural gas exploration prospects in Texas and Louisiana.

PROFESSIONAL MEMBERSHIPS

Society of Petroleum Engineers
International Association for Energy Economics
United States Association for Energy Economics

SELECT PUBLICATIONS, PRESENTATIONS, AND TESTIMONY

- “Summary of the USAEE Central Texas Chapter’s Workshop entitled ‘EPA’s Proposed Clean Power Plan Rules: Economic Modeling and Effects on the Electric Reliability of Texas Region,’” with Dr. Jay Zarnikau and Mr. Neil McAndrews, USAEE Dialogue, May 2015
- “Public Utility Ratemaking,” EBF 401: Strategic Corporate Finance, The Pennsylvania State University, September 2013
- “What You Should Know About Public Utilities,” EBF 401: Strategic Corporate Finance, The Pennsylvania State University, October 2011
- “Natural Gas Markets and the Impact on Electricity Prices in ERCOT,” Texas Coalition of Cities for Fair Utility Issues, Dallas, October 2008
- “Natural Gas Regulatory Policy in Texas,” Hungarian Oil and Gas Policy Business Colloquium, U.S. Trade and Development Agency, Houston, May 2003
- “Railroad Commission Update,” Texas Society of Certified Public Accountants, Austin, April 2003
- “Gas Utility Update,” Railroad Commission Regulatory Expo and Open House, October 2002
- “Deregulation: A Work in Progress,” Interview by Karen Stidger, *Gas Utility Manager*, October 2002
- “Regulatory Overview: An Industry Perspective,” Southern Gas Association’s Ratemaking Process Seminar, Houston, February 2001
- “Natural Gas Prices Could Get Squeezed,” with Commissioner Charles R. Matthews, *Natural Gas*, December 2000
- “Railroad Commission Update,” Texas Society of Certified Public Accountants, Austin, April 2000
- “A New Approach to Electronic Tariff Access,” Association of Texas Intrastate Natural Gas Pipeline Annual Meeting, Houston, January 1999
- “A Texas Natural Gas Model,” United States Association for Energy Economics North American Conference, Albuquerque, 1998
- “Texas Railroad Commission Aiding Gas Industry by Updated Systems, Regulations,” *Natural Gas*, July 1998
- “Current Trends in Texas Natural Gas Regulation,” Natural Gas Producers Association, Midland, 1998
- “An Overview of the American Petroleum Industry,” Institute of International Education Training Program, Austin, 1993
- Direct testimony in PUC Docket No. 10400 summarized in *Environmental Externality*, Energy Research Group for the Edison Electric Institute, 1992
- “God’s Fuel - Natural Gas Exploration, Production, Transportation and Regulation,” with Danny Bivens, Public Utility Commission of Texas Staff Seminar, 1992
- “A Summary of Utilities’ Positions Regarding the Clean Air Act Amendments of 1990,” Industrial Energy Technology Conference, Houston, 1992
- “The Clean Air Act Amendments of 1990,” Public Utility Commission of Texas Staff Seminar, 1992

**KARL J. NALEPA
TESTIMONY FILED**

DKT NO.	DATE	REPRESENTING	UTILITY	PHASE	ISSUES
<u>Before the Public Utility Commission of Texas</u>					
49594	Jul 19	Oncor Cities	Oncor Electric Delivery	EECRF	EECRF Methodology
49586	Jul 19	TNMP Cities	Texas-New Mexico Power	EECRF	EECRF Methodology
49496	Jun 19	City of El Paso	El Paso Electric	EECRF	EECRF Methodology
49421	Jun 19	Office of Public Counsel	CenterPoint Energy Houston	Cost of Service	Cost of Service
49395	May 19	City of El Paso	El Paso Electric	DCRF	DCRF Methodology
49148	Apr 19	City of El Paso	El Paso Electric	TCRF	TCRF Methodology
49042	Mar 19	Cities	SWEPCO	TCRF	TCRF Methodology
49041	Feb 19	Cities	SWEPCO	DCRF	DCRF Methodology
48973	May 19	Xcel Municipalities	Southwestern Public Service	Fuel Reconciliation	Fuel / Purch Power Costs
48963	Dec 18	Denton Municipal Electric	Denton Municipal Electric	Interim TCOS	Wholesale Transmission Rate
48420	Aug 18	Gulf Coast Coalition	CenterPoint Energy Houston	EECRF	EECRF Methodology
48404	Jul 18	Cities	Texas-New Mexico Power	EECRF	EECRF Methodology
48371	Aug 18	Cities	Entergy Texas Inc.	Cost of Service	Cost of Service
48231	May 18	Cities	Oncor Electric Delivery	DCRF	DCRF Methodology
48226	May 18	Gulf Coast Coalition	CenterPoint Energy Houston	DCRF	DCRF Methodology
48222	Apr 18	Cities	AEP Texas Inc.	DCRF	DCRF Methodology
47900	Dec 17	Denton Municipal Electric	Denton Municipal Electric	Interim TCOS	Wholesale Transmission Rate
47527	Apr 18	Xcel Municipalities	Southwestern Public Service	Cost of Service	Cost of Service

DKT NO.	DATE	REPRESENTING	UTILITY	PHASE	ISSUES
47461	Dec 17	Office of Public Counsel	SWEPSCO	CCN	Public Interest Review
47236	Jul 17	Cities	AEP Texas	EECRF	EECRF Methodology
47235	Jul 17	Cities	Oncor Electric Delivery	EECRF	EECRF Methodology
47217	Jul 17	Cities	Texas-New Mexico Power	EECRF	EECRF Methodology
47032	May 17	Gulf Coast Coalition	CenterPoint Energy Houston	DCRF	DCRF Methodology
46936	Oct 17	Xcel Municipalities	Southwestern Public Service	CCN	Public Interest Review
46449	Apr 17	Cities	SWEPSCO	Cost of Service	Cost of Service
46348	Sep 16	Denton Municipal Electric	Denton Municipal Electric	Interim TCOS	Wholesale Transmission Rate
46238	Jan 17	Office of Public Counsel	Oncor Electric Delivery	STM	Public Interest Review
46076	Dec 16	Cities	Entergy Texas Inc.	Fuel Reconciliation	Fuel Cost
46050	Aug 16	Cities	AEP Texas	STM	Public Interest Review
46014	Jul 16	Gulf Coast Coalition	CenterPoint Energy Houston	EECRF	EECRF Methodology
45788	May 16	Cities	AEP-TNC	DCRF	DCRF Methodology
45787	May 16	Cities	AEP-TCC	DCRF	DCRF Methodology
45747	May 16	Gulf Coast Coalition	CenterPoint Energy Houston	DCRF	DCRF Methodology
45712	Apr 16	Cities	SWEPSCO	DCRF	DCRF Methodology
45691	Jun 16	Cities	SWEPSCO	TCRF	TCRF Methodology
45414	Feb 17	Office of Public Counsel	Sharyland	Cost of Service	Cost of Service
45248	May 16	City of Fritch	City of Fritch	Cost of Service (water)	Cost of Service
45084	Nov 15	Cities	Entergy Texas Inc.	TCRF	TCRF Methodology
45083	Oct 15	Cities	Entergy Texas Inc.	DCRF	DCRF Methodology

DKT NO.	DATE	REPRESENTING	UTILITY	PHASE	ISSUES
45071	Aug 15	Denton Municipal Electric	Denton Municipal Electric	Interim TCOS	Wholesale Transmission Rate
44941	Dec 15	City of El Paso	El Paso Electric	Cost of Service	CEP Adjustments
44677	Jul 15	City of El Paso	El Paso Electric	EECRF	EECRF Methodology
44572	May 15	Gulf Coast Coalition	CenterPoint Energy Houston	DCRF	DCRF Methodology
44060	May 15	City of Frisco	Brazos Electric Coop	CCN	Transmission Cost Recovery
43695	May 15	Pioneer Natural Resources	Southwestern Public Service	Cost of Service	Cost Allocation
43111	Oct 14	Cities	Entergy Texas Inc.	DCRF	DCRF Methodology
42770	Aug 14	Denton Municipal Electric	Denton Municipal Electric	Interim TCOS	Wholesale Transmission Rate
42485	Jul 14	Cities	Entergy Texas Inc.	EECRF	EECRF Methodology
42449	Jul 14	City of El Paso	El Paso Electric	EECRF	EECRF Methodology
42448	Jul 14	Cities	SWEPCO	TCRF	Transmission Cost Recovery Factor
42370	Dec 14	Cities	SWEPCO	Rate Case Expenses	Rate Case Expenses
41791	Jan 14	Cities	Entergy Texas Inc.	Cost of Service	Cost of Service/Fuel
41539	Jul 13	Cities	AEP Texas North	EECRF	EECRF Methodology
41538	Jul 13	Cities	AEP Texas Central	EECRF	EECRF Methodology
41444	Jul 13	Cities	Entergy Texas Inc.	EECRF	EECRF Methodology
41223	Apr 13	Cities	Entergy Texas Inc.	ITC Transfer	Public Interest Review
40627	Nov 12	Austin Energy	Austin Energy	Cost of Service	General Fund Transfers
40443	Dec 12	Office of Public Counsel	SWEPCO	Cost of Service	Cost of Service/Fuel
40346	Jul 12	Cities	Entergy Texas Inc.	Join MISO	Public Interest Review

DKT NO.	DATE	REPRESENTING	UTILITY	PHASE	ISSUES
39896	Mar 12	Cities	Entergy Texas Inc.	Cost of Service/ Fuel Reconciliation	Cost of Service/ Nat Gas/ Purch Power
39366	Jul 11	Cities	Entergy Texas Inc.	EECRF	EECRF Methodology
38951	Feb 12	Cities	Entergy Texas Inc.	CGS Tariff	CGS Costs
38815	Sep 10	Denton Municipal Electric	Denton Municipal Electric	Interim TCOS	Wholesale Transmission Rate
38480	Nov 10	Cities	Texas-New Mexico Power	Cost of Service	Cost of Service/Rate Design
37744	Jun 10	Cities	Entergy Texas Inc.	Cost of Service/ Fuel Reconciliation	Cost of Service/ Nat Gas/ Purch Power/ Gen
37580	Dec 09	Cities	Entergy Texas Inc.	Fuel Refund	Fuel Refund Methodology
36956	Jul 09	Cities	Entergy Texas Inc.	EECRF	EECRF Methodology
36392	Nov 08	Texas Municipal Power	Texas Municipal Power	Interim TCOS	Wholesale Transmission Rate
35717	Nov 08	Cities Steering Committee	Oncor Electric Delivery	Cost of Service	Cost of Service/Rate Design
34800	Apr 08	Cities	Entergy Gulf States	Fuel Reconciliation	Natural Gas/Coal/Nuclear
16705	May 97	North Star Steel	Entergy Gulf States	Fuel Reconciliation	Natural Gas/Fuel Oil
10694	Jan 92	PUC Staff	Midwest Electric Coop	Revenue Requirements	Depreciation/ Quality of Service
10473	Sep 91	PUC Staff	HL&P	Notice of Intent	Environmental Costs
10400	Aug 91	PUC Staff	TU Electric	Notice of Intent	Environmental Costs
10092	Mar 91	PUC Staff	HL&P	Fuel Reconciliation	Natural Gas/Fuel Oil
10035	Jun 91	PUC Staff	West Texas Utilities	Fuel Reconciliation Fuel Factor	Natural Gas Natural Gas/Fuel Oil/Coal
9850	Feb 91	PUC Staff	HL&P	Revenue Req. Fuel Factor	Natural Gas/Fuel Oil/ETSI Natural Gas/Coal/Lignite

DKT NO.	DATE	REPRESENTING	UTILITY	PHASE	ISSUES
9561	Aug 90	PUC Staff	Central Power & Light	Fuel Reconciliation Revenue Requirements Fuel Factor	Natural Gas Natural Gas/Fuel Oil Natural Gas
9427	Jul 90	PUC Staff	LCRA	Fuel Factor	Natural Gas
9165	Feb 90	PUC Staff	El Paso Electric	Revenue Requirements Fuel Factor	Natural Gas/Fuel Oil Natural Gas
8900	Jan 90	PUC Staff	SWEPCO	Fuel Reconciliation Fuel Factor	Natural Gas Natural Gas
8702	Sep 89 Jul 89	PUC Staff	Gulf States Utilities	Fuel Reconciliation Revenue Requirements Fuel Factor	Natural Gas/Fuel Oil Natural Gas/Fuel Oil Natural Gas/Fuel Oil
8646	May 89 Jun 89	PUC Staff	Central Power & Light	Fuel Reconciliation Revenue Requirements Fuel Factor	Natural Gas Natural Gas/Fuel Oil Natural Gas
28 8588	Aug 89	PUC Staff	El Paso Electric	Fuel Reconciliation	Natural Gas

DKT NO.	DATE	REPRESENTING	UTILITY	PHASE	ISSUES
<u>Before the Railroad Commission of Texas</u>					
10737	Jun 18	T&L Gas Co.	T&L Gas Co.	Cost of Service	Cost of Service/Rate Design
10622	Apr 17	LDC, LLC	LDC, LLC	Cost of Service	Cost of Service/Rate Design
10617	Mar 17	Onalaska Water & Gas	Onalaska Water & Gas	Cost of Service	Cost of Service/Rate Design
10580	Mar 17	Cities Steering Committee	Atmos Pipeline Texas	Cost of Service	Cost of Service/Rate Design
10567	Feb 17	Gulf Coast Coalition	CenterPoint Energy Entex	Cost of Service	Cost of Service/Rate Design
10506	Jun 16	City of El Paso	Texas Gas Service	Cost of Service	Cost of Service/Energy Efficiency
10498	Feb 16	NatGas, Inc.	NatGas, Inc.	Cost of Service	Cost of Service/Rate Design
10359	Jul 14	Cities Steering Committee	Atmos Energy Mid Tex	Cost of Service	Cost of Service/Rate Design
10295	Oct 13	Cities Steering Committee	Atmos Pipeline Texas	Revenue Rider	Rider Renewal
10242	Jan 13	Onalaska Water & Gas	Onalaska Water & Gas	Cost of Service	Cost of Service/Rate Design
10196	Jul 12	Bluebonnet Natural Gas	Bluebonnet Natural Gas	Cost of Service	Cost of Service/Rate Design
10190	Jan 13	City of Magnolia, Texas	Hughes Natural Gas	Cost of Service	Cost of Service/Rate Design
10174	Aug 12	Steering Committee of Cities	Atmos Energy West Texas	Cost of Service	Cost of Service/Rate Design
10170	Aug 12	Cities Steering Committee	Atmos Energy Mid Tex	Cost of Service	Cost of Service/Rate Design
10106	Oct 11	Gulf Coast Coalition	CenterPoint Energy Entex	Cost of Service	Cost of Service/Rate Design
10083	Aug 11	City of Magnolia, Texas	Hughes Natural Gas	Cost of Service	Cost of Service/Rate Design
10038	Feb 11	Gulf Coast Coalition	CenterPoint Energy Entex	Cost of Service	Cost of Service/Rate Design
10021	Oct 10	AgriTex Gas, Inc.	AgriTex Gas, Inc.	Cost of Service	Cost of Service/Rate Design
10000	Dec 10	Cities Steering Committee	Atmos Pipeline Texas	Cost of Service	Cost of Service/Rate Design

29

ATTACHMENT B

DKT NO.	DATE	REPRESENTING	UTILITY	PHASE	ISSUES
9902	Oct 09	Gulf Coast Coalition	CenterPoint Energy Entex	Cost of Service	Cost of Service/Rate Design
9810	Jul 08	Bluebonnet Natural Gas	Bluebonnet Natural Gas	Cost of Service	Cost of Service/Rate Design
9797	Apr 08	Universal Natural Gas	Universal Natural Gas	Cost of Service	Cost of Service/Rate Design
9732	Jul 08	Cities Steering Committee	Atmos Energy Corp.	Gas Cost Review	Natural Gas Costs
9670	Oct 06	Cities Steering Committee	Atmos Energy Corp.	Cost of Service	Affiliate Transactions/ O&M Expenses/GRIP
9667	Nov 06	Oneok Westex Transmission	Oneok Westex Transmission	Abandonment	Abandonment
9598	Sep 05	Cities Steering Committee	Atmos Energy Corp.	GRIP Appeal	GRIP Calculation
9530	Apr 05	Cities Steering Committee	Atmos Energy Corp.	Gas Cost Review	Natural Gas Costs
9400	Dec 03	Cities Steering Committee	TXU Gas Company	Cost of Service O&M Expenses/Capital Costs	Affiliate Transactions/

DKT NO.	DATE	REPRESENTING	UTILITY	PHASE	ISSUES
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Before the Louisiana Public Service Commission

U-34344/ U-34717	Apr 18	PSC Staff	Dixie Electric Member Corporation	Formula Rate Plan	Stipulation
U-34344	Jan 18	PSC Staff	Dixie Electric Member Corporation	Formula Rate Plan	Adjusted Revenues
U-33633	Nov 15	PSC Staff	Entergy Louisiana, LLC/ Entergy Gulf States Louisiana	Resource Certification	Prudence
U-33033	Jul 14	PSC Staff	Entergy Louisiana, LLC/ Entergy Gulf States Louisiana	Resource Certification	Revenue Requirement
U-31971	Nov 11	PSC Staff	Entergy Louisiana, LLC/ Entergy Gulf States Louisiana	Resource Certification	Certification/Cost Recovery

Before the Arkansas Public Service Commission

31 07-105-U Mar 08 Arkansas Customers CenterPoint Energy, Inc.
& pipelines serving CenterPoint Gas Cost Complaint Prudence / Cost Recovery

Before the Colorado Public Utilities Commission

18A-0791E	Mar 19	Pueblo County	Black Hills Colorado Electric	Economic Development Rate	Tariff Issues
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**SOAH DOCKET NO. 473-18-3039
PUC DOCKET NO. 48222**

**AEP TEXAS INC.'S RESPONSE TO
CITY OF MCALLEN'S FIRST REQUEST FOR INFORMATION**

Question No. McAllen 1-13:

Refer to the Direct Testimony of Peter Kimani at 16. Please identify where in the filing (project number and/or schedules) can the referenced capitalized crossarm amounts of \$20.3 million for the Central Division and \$10.8 million for the North Division and capacitor switch amounts of \$1.9 million for the Central Division and \$0.22 million for the North Division be found.

Response No. McAllen 1-13:

As stated in Mr. Kimani's Direct Testimony (pages 16 and 17), replacement cross arms are included in FERC plant account 364 while replacement capacitor switches are in FERC plant account 368. Annual additions to these accounts are included in Schedule B-1 of the filing package for both of AEP Texas' divisions. Specifically, crossarms are included in lines 12 and 11 of Schedule B-1 for Central and North, respectively, while capacitor switches are in lines 16 and 15.

Annual amounts included are as shown below:

Year	Crossarms (FERC 364)		Capacitor Switches (FERC 368)	
	Central (Schedule B-1 line 12)	North (Schedule B-1 line 11)	Central (Schedule B-1 line 16)	North (Schedule B-1 line 15)
2008	670,289	421,159	125,557	13,511
2009	1,638,590	782,752	259,116	19,415
2010	1,037,575	611,302	212,375	25,927
2011	1,835,533	549,832	162,821	10,387
2012	1,282,571	647,596	137,173	13,553
2013	1,401,391	836,637	192,028	22,583
2014	2,936,431	1,847,424	318,985	20,133
2015	2,698,733	1,850,007	205,975	21,061
2016	4,591,271	1,762,989	232,175	33,521
2017	2,212,601	1,509,906	98,617	44,155
	<u>20,304,986</u>	<u>10,819,605</u>	<u>1,944,823</u>	<u>224,246</u>

Prepared By: Peter Kimani
Sponsored By: Peter Kimani

Title: Regulatory Acctg Case Mgr
Title: Regulatory Acctg Case Mgr

**SOAH DOCKET NO. 473-19-4421
PUC DOCKET NO. 49494**

**AEP TEXAS INC.'S RESPONSE TO CITIES SERVED BY AEP TEXAS'
FOURTH REQUEST FOR INFORMATION**

Question No. Cities 4-26:

Please refer to Figure 14 in Mr. Thomas Coad's Direct Testimony regarding capital additions by year and Figure 15 regarding capital additions by category. Please provide data in the format of Figure 15 for the years 2006 through 2015.

Response No. Cities 4-26:

The Company's response to this request will be provided by June 17, 2019, per the agreement with Cities for an extension.

**SOAH DOCKET NO. 473-19-4421
PUC DOCKET NO. 49494**

**AEP TEXAS INC.'S RESPONSE TO CITIES SERVED BY AEP TEXAS'
FOURTH REQUEST FOR INFORMATION**

Question No. Cities 4-26:

Please refer to Figure 14 in Mr. Thomas Coad's Direct Testimony regarding capital additions by year and Figure 15 regarding capital additions by category. Please provide data in the format of Figure 15 for the years 2006 through 2015.

Response No. Cities 4-26:

Please see Cities 4-26 Attachment 1

Prepared By: Charles R. Brower
Prepared By: William M. Romine

Title: Dir Distr Engineering
Title: Regulatory Consultant Staff

Sponsored By: Thomas M. Coad

Title: VP Dist Region Ops

SOAH Docket No. 473-19-4421

PUC Docket No. 49494

Cities 4th, Q. # Cities 4-26

Attachment 1

Project Category	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Asset Improvement	8,314,079	24,195,611	30,062,362	26,346,275	62,278,219	75,027,206	66,139,942	77,778,573	48,495,037	57,575,685
Customer Service	37,975,377	76,550,778	89,704,783	62,752,933	57,595,831	71,786,022	95,253,702	114,704,378	113,750,111	108,755,343
Forestry	2,047,678	3,221,357	417,082	4,718,736	15,224	365,919	764,228	1,406,539	3,196,488	1,680,039
Other	99,554	3,379	(1,856)	0	4,354,383	0	532,681	736,446	85,581	23,744
Planning Capacity	5,871,625	12,161,258	10,279,006	15,169,931	2,721,191	3,724,808	7,838,890	21,280,613	31,598,573	36,801,315
Reliability	5,397,456	11,519,558	10,614,496	6,141,396	11,421,773	9,210,900	14,297,834	16,368,929	23,285,383	13,172,329
System Restoration	2,757,594	7,261,802	25,816,156	(3,100,020)	7,899,006	7,419,872	6,659,911	7,685,110	10,722,181	14,104,156
Distribution Total	62,463,364	134,913,743	166,892,030	112,029,251	146,285,629	167,534,726	191,487,187	239,960,588	231,133,353	232,112,610
Intangible Total	2,386,696	5,320,165	6,237,144	1,208,534	24,378,111	10,635,384	11,808,350	11,539,552	15,663,500	16,206,511
General Total	1,342,635	6,897,906	9,891,519	9,659,740	7,022,397	15,921,269	13,575,156	23,862,961	7,016,212	15,901,125
Grand Total	66,192,694	147,131,814	183,020,693	122,897,525	177,686,137	194,091,379	216,870,693	275,363,100	253,813,065	264,220,246

**SOAH DOCKET NO. 473-18-3039
PUC DOCKET NO. 48222**

**AEP TEXAS INC.'S RESPONSE TO
CITY OF MCALLEN'S FIRST REQUEST FOR INFORMATION**

Question No. McAllen 1-4:

Refer to the Direct Testimony of Thomas Coad, Exhibits TMC-2 through TMC-5. Regarding project EDN 100088, please explain the scope of this work and why third parties should not reimburse AEP instead of charging the work to ratepayers.

Response No. McAllen 1-4:

In order to accommodate Third Party facilities on AEP Texas poles, the company has to replace, relocate or upgrade overhead distribution facilities. These modifications are necessary to allow the customer to connect to the company's facilities and receive service. Examples of reasons why the company would need to modify distribution facilities are the existing facilities may be in the way of a proposed or ongoing construction project such as construction of a building, driveway, road, sidewalk, pool or sign.

The Company sought and received reimbursement for the cost to modify its poles to accommodate third party facilities to the extent it is allowed by tariff, regulation, law or contract. The amount included in the AEP Texas DCRF request is the net of any reimbursement.

Prepared By: Charles Brower
Sponsored By: Thomas Coad

Title: Dir Distr Engineering
Title: VP Dist Region Ops

**SOAH DOCKET NO. 473-18-3039
PUC DOCKET NO. 48222**

**AEP TEXAS INC.'S RESPONSE TO
CITY OF MCALLEN'S FIRST REQUEST FOR INFORMATION**

Question No. McAllen 1-8:

Refer to the Direct Testimony of Thomas Coad, Exhibits TMC-2 through TMC-5. Regarding projects EDN 101623 and EDN 101625, please explain whether the Company requested and received insurance reimbursement for these projects and whether the costs are net of any such reimbursements.

Response No. McAllen 1-8:

AEP Texas does not carry insurance that would be applicable to AEP Texas' request in this filing, the company is self-insured. For Projects EDN101623 and EDN101625, the capitalized amounts in Thomas Coad Exhibits TMC-2 through TMC-5 are net of any reimbursements. AEP Texas did request and receive reimbursements for some but not all distribution facilities that were damaged by the public. In most cases, AEP Texas is unaware who damaged the distribution facilities and is not able to request reimbursement. For the facilities where reimbursements were received for damaged facilities, these reimbursement amounts were applied to the capital expense of the distribution facilities which results in a net amount.

Prepared By: Charles Brower
Sponsored By: Thomas Coad

Title: Dir Distr Engineering
Title: VP Dist Region Opers

**SOAH DOCKET NO. 473-19-4421
PUC DOCKET NO. 49494**

**AEP TEXAS INC.'S RESPONSE TO CITIES SERVED BY AEP TEXAS'
THIRTEENTH REQUEST FOR INFORMATION**

Question No. Cities 13-5:

Please provide a detailed description of the capital costs included in the category "Other."

Response No. Cities 13-5:

Please see file attachment, Cities_13-5_Attachment_1.pdf.

Prepared By: William M. Romine

Title: Regulatory Consultant Staff

Sponsored By: Thomas M. Coad

Title: VP Dist Region Operers

Cities_13-5

Year	Project Category	Project ID	Project Description	COST
2006	Other	X00000322	For Property Acctg Use Only	3,496
2007	Other	X00000148	SS-CI-WTUCo-D GENERAL PLANT	14,015
2007	Other	EDN103174	TC ANDA (Activities Not Directly Assigned)	2,930
2007	Other	X00000322	For Property Acctg Use Only	5,263
2008	Other	X00000056	AEPTC-D Reliability Improvement Blanket	(1,856)
2010	Other	EDN103174	TC ANDA (Activities Not Directly Assigned)	4,354,383
2012	Other	000022132	Carrizo Springs Substation-R/C CB 860	391,631
2012	Other	000022198	Pearsall Reconductor to Chesapeake	4,601
2013	Other	000022132	Carrizo Springs Substation-R/C CB 860	169,223
2013	Other	000022198	Pearsall Reconductor to Chesapeake	567,223
2014	Other	000022198	Pearsall Reconductor to Chesapeake	85,581
2015	Other	X00000081	AEPTN-D Customer Service Blanket	23,744
2018	Other	000024702	000024702 San Benito Service Center(New)	330,745
2018	Other	000025207	000025207 Alice Distribution Service Center	601,017
2018	Other	EDN103174	TC ANDA (Activities Not Directly Assigned)	334,594