



Control Number: 49494



Item Number: 484

Addendum StartPage: 0

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APPLICATION OF AEP TEXAS, INC. § BEFORE THE STATE OFFICE  
FOR AUTHORITY TO CHANGE § OF  
RATES § ADMINISTRATIVE HEARINGS

**SOUTH TEXAS ELECTRIC COOPERATIVE, INC.'S**  
**FINDINGS OF FACT AND CONCLUSIONS OF LAW**

South Texas Electric Cooperative, Inc. ("STEC") proposes the following findings of fact and conclusions of law. To the extent an issue in this proceeding is not specifically addressed below, STEC respectfully requests the entry of findings of fact and conclusions of law that are consistent with STEC's positions in this proceeding.

**I. PROPOSED FINDINGS OF FACT**

**Rate Base [PO Issues 8, 9, 14, 15, 16, 17, 19, 20, 21, 22, 23]**

*Transmission and Distribution Capital Investment [PO Issues 8, 9, 14, 15, 16, 17]*

- AEP Texas seeks recovery of \$172,881,805 associated with a new Transmission Operations Center and multiple new service centers.<sup>1</sup>
- AEP Texas has a total of eleven transmission service centers throughout its service area. AEP Texas seeks recovery for replacement of five of those eleven facilities.
- The five service centers for which AEP Texas seeks recovery are located in Alice, Corpus Christi, Los Fresnos, San Benito, and San Angelo. AEP Texas' Transmission Operations Control Center was built in Corpus Christi.<sup>2</sup>
- These areas of the State of Texas are not known for their high cost infrastructure.<sup>3</sup>
- It is not reasonable or prudent for AEP Texas to replace a high percentage of its transmission service centers at once.

<sup>1</sup> Direct Testimony of Cory J. Allen, STEC Ex. 1 at 7:19-21 (Jul. 25, 2019).

<sup>2</sup> *Id.* at 7:17-19

<sup>3</sup> *Id.* at 7:19-20.

484

- Extra expense is required to build the facilities to withstand a Category 5 hurricane because three of the facilities are located in hurricane prone areas.<sup>4</sup>
- Hardening a service center that is put in harms' way only serves to drive up the costs of that center.<sup>5</sup>
- There is no record evidence to support the siting of AEP Texas' state-of-the-art Transmission Operations Center in the midst of a hurricane prone area.
- AEP Texas has not demonstrated that its mass replacement and expansion of service centers is reasonable or prudent.<sup>6</sup>
- AEP Texas requested recovery for \$14.4 million in costs associated with Electromagnetic Pulse ("EMP") protection that was installed at its Transmission Operations Center and that is not required by Commission rules or the Public Utility Regulatory Act ("PURA").<sup>7</sup>
- AEP Texas has not provided evidence sufficient to support the high costs associated with these projects, nor has AEP Texas provided evidence sufficient to demonstrate that the projects are necessary and reasonable for the provision of service.<sup>8</sup>

## **Rate of Return [PO Issues 8, 9, 11, 12, 13]**

### *Return on Equity [PO Issue 12]*

- AEP Texas proposes a return on equity (ROE) of 10.50%, a 5.42% increase from its current ROE of 9.96%.<sup>9</sup>
- AEP Texas' proposed ROE is not reasonable because AEP Texas' proposed ROE is higher than other similarly situated utilities both inside and outside of Texas.<sup>10</sup>
- AEP Texas' current return on equity for AEP Texas at 9.96% is higher than other similarly situated utilities both inside of Texas and outside of Texas.<sup>11</sup>

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<sup>4</sup> *Id.* at 8:4-5.

<sup>5</sup> *Id.* at 8:5-6.

<sup>6</sup> *Id.* at 7:12-14.

<sup>7</sup> *Id.* at 8:16-20.

<sup>8</sup> *Id.* at 7:3-14.

<sup>9</sup> Direct Testimony of Robert Hevert, AEP Texas Ex. 6 at 2:21-22 (May 1, 2019).

<sup>10</sup> STEC Ex. 1 at 14-5:6.

<sup>11</sup> *Id.* at 14:6-7.

- AEP Texas' proposed 10.5% return on equity would be higher than any other utility in ERCOT.<sup>12</sup>
- AEP Texas' proposed 10.5% return on equity would be higher than any other AEP affiliates including vertically integrated affiliates with generation that carries commodity risk.<sup>13</sup>
- A 9.00% ROE is the ROE that is consistent with AEP Texas' business and regulatory risk.

*Capital Structure [PO Issue 11]*

- AEP Texas proposes a capital structure of 55% debt and 45% equity.<sup>14</sup>
- In AEP Texas' last base-rate cases, the Commission approved a capital structure of 60% debt and 40% equity.<sup>15</sup>
- AEP Texas requests a higher amount of equity in its capital structure to maintain its current investment grade credit ratings from S&P and Moody's and to hedge against regulatory and business risks.<sup>16</sup>
- AEP Texas is still able to access, and recently has accessed, capital with its Commission-approved 60% debt to 40% equity capital structure.<sup>17</sup>
- AEP and AEP Texas have been issuing debt at reasonable terms, indicating that AEP Texas still has adequate access to capital with its current capital structure of 60% debt to 40% equity.<sup>18</sup>
- A capital structure composed of 60% long-term debt and 40% equity is reasonable and will enable AEP Texas to attract capital from investors.

**Operating and Maintenance Expenses [PO Issues 4, 5, 25, 26, 27, 31, 32, 34, 35, 39, 41, 44, 45]**

*Transmission and Distribution O&M Expenses [PO Issue 25]*

- AEP Texas' Test Year Operation and Maintenance ("O&M") expenses for its transmission and distribution expenses are substantially higher than AEP Texas' expenses in the three previous years.<sup>19</sup>

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<sup>12</sup> *Id.* at 14:7-8.

<sup>13</sup> *Id.* at 14:9-11.

<sup>14</sup> Direct Testimony of Renee V. Hawkins, AEP Texas Ex. 7 at 6:10-7:1 (May 1, 2019).

<sup>15</sup> *Id.* at 6:1-2.

<sup>16</sup> *Id.* at 7:10-12.

<sup>17</sup> Tr. at 633:15-636:15 (Hawkins Cross) (Aug. 22, 2019); Tr. at 636:25-637:2 (Aug. 22, 2019).

<sup>18</sup> Texas Industrial Energy Consumers' Initial Brief at 37 (Sept. 5, 2019).

- It is appropriate to normalize these expenses against previous years to adjust for actual O&M expenses in line with prior years.<sup>20</sup>
- AEP Texas' total 2017 O&M expenses are \$128,034,462 and its 2016 total O&M expenses are \$129,987,026.69.<sup>21</sup> The difference in the expenses for these two years is less than \$2,000,000.
- AEP Texas' total Test Year O&M expenses are \$159,936,003.<sup>22</sup> The difference between the Test Year expense and 2016 expenses is approximately \$30,000,000.
- Compared to 2017, AEP Texas' Test Year expenses reflect a 53.55% increase for transmission expenses and a 16.05% increase for distribution expenses.<sup>23</sup>
- It is appropriate to use the average of the three prior years for O&M expenses for each of transmission and distribution, \$36,496,990 and \$98,235,358 respectively.<sup>24</sup>

*Distribution Vegetation Management Expense [PO Issue 27]*

- AEP Texas only spent \$11.2 million for vegetation management during the test year.<sup>25</sup>
- It is not appropriate for AEP Texas to request recovery of \$5 million in pre-paid right-of-way maintenance expenses that is over and above the \$11.2 million that AEP actually spent on right of-way maintenance.<sup>26</sup>
- AEP Texas cannot point to any internal planning studies, reports, or other documents in support of its additional \$5 million in pre-paid right-of-way maintenance expenses or its asserted reasons for the expense increase.<sup>27</sup>
- AEP Texas' vegetation management expense request is speculative and is not supported by the record evidence.

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<sup>19</sup> STEC Ex. 1 at 9:6-10 (Jul. 25, 2019).

<sup>20</sup> *Id.* at 10:5-7.

<sup>21</sup> *Id.* at 9:6-11.

<sup>22</sup> *Id.*

<sup>23</sup> *Id.* at 9:12-13.

<sup>24</sup> *Id.* at 10:8-12.

<sup>25</sup> Rebuttal Testimony of Thomas M. Coad, AEP Ex. 45 at 23:4-5 (Aug. 13, 2019).

<sup>26</sup> STEC Ex. 1 at 10:21-11:1 (Jul. 25, 2019); Direct Testimony of David Bautista, PE, Commission Staff Ex. 5 at 8:5-11 (Aug. 1, 2019).

<sup>27</sup> Commission Staff Ex. 5 at 10:15-19 (Aug 1, 2019) (citing AEP's Response to OPUC 3-6 and 3-16).

## II. PROPOSED CONCLUSIONS OF LAW

### **Rate of Return [PO Issues 8, 9, 11, 12, 13]**

#### *Return on Equity [PO Issue 12]*

- A 9.00% ROE is the ROE that will allow AEP Texas a reasonable opportunity to earn a reasonable return on its invested capital in accordance with PURA § 36.051.

### **Operating and Maintenance Expenses [PO Issues 4, 5, 25, 26, 27, 31, 32, 34, 35, 39, 41, 44, 45]**

#### *Distribution Vegetation Management Expense [PO Issue 27]*

- Under 16 TAC § 25.231(b), only those expenses which are reasonable and necessary to provide service to the public shall be included in allowable expenses.
- Under 16 TAC § 25.231(b), only the electric utility's historical test year expenses as adjusted for known and measurable changes will be considered.
- AEP Texas requested recovery of \$5 million in pre-paid right-of-way maintenance expenses is speculative, is not an adjustment for a known and measurable change, and does not meet the requirements of 16 TAC § 25.231(b).

Date: September 13, 2019.

Respectfully Submitted,



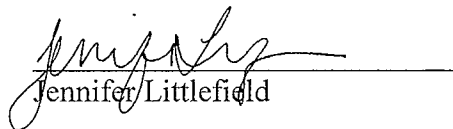
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ATTORNEYS FOR SOUTH TEXAS  
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**CERTIFICATE OF SERVICE**

I hereby certify that a true and correct copy of this document was served on counsel for the parties of record on September 13, 2019.



Jennifer Littlefield