SOAH DOCKET NO. 473-19-6862
PUC DOCKET NO. 49737

2020 JAN -8 PM 3:00

APPLICATION OF SOUTHWESTERN ELECTRIC POWER COMPANY FOR CERTIFICATE OF CONVENIENCE AND NECESSITY AUTHORIZATION AND RELATED RELIEF FOR THE ACQUISITION OF WIND GENERATION FACILITIES	§ § § § § § §	**BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS**

FILING CLERK

SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION STAFF'S THIRD REQUEST FOR INFORMATION

JANUARY 8, 2020

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Question No. Staff 3-1:

Please refer to Issue No. 19(a) of the Preliminary Order issued in this proceeding which states: *What is the timing of receipt of the production tax credit?*
Based on all scenarios prepared by the Company, what is SWEPCO's best estimate of the most likely timing of receipt of the production tax credit by year? Please include the dollar amounts most likely to be received each year in the response. If the information is available by individual project, please provide it by project and in aggregate.

Response No. Staff 3-1:

See the Company's response to Staff 3-3.

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Question No. Staff 3-2:

Please refer to Issue No. 19(b) of the Preliminary Order issued in this proceeding which states: *Over what time period will SWEPCO be eligible for the production tax credit? How long can any unused production tax credits be carried forward?*
Based on all scenarios prepared by the Company, what is SWEPCO's best estimate of the most likely time period that it will be eligible for the production tax credit and how long can any unused production tax credits be carried forward? If the information is available by individual project, please provide it by project and in aggregate.

Response No. Staff 3-2:

SWEPCO expects to be eligible for PTC's from these three facilities for 10 years starting on the in service dates of each facility. For Sundance this is expected to be during December, 2020 and Traverse and Maverick this is expected to be during December, 2021. Unused PTC's can be carried forward up to 20 years, as discussed on page 7 of Company witness Multer's direct testimony.

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Question No. Staff 3-3:

Please refer to Issue No. 19(c) of the Preliminary Order issued in this proceeding which states: *Will the benefits of the production tax credits flow to customers? If so, how? If not, then why not?*
Based on all scenarios prepared by the Company, what is SWEPCO's best estimate of how the benefits of the production tax credits will flow to customers by year? In addition to a detailed explanation and discussion, please provide your dollar amounts in tabular form by year and reconcile the amounts of benefits provided to customers by year with the Company's estimate of the timing of receipt of production tax credits by year provided in response to Staff 3-1. If the information is available by individual project, please provide it by project and in aggregate.

Response No. Staff 3-3:

As described in Company witness Aaron's direct testimony pages 8 and 9, the Company proposes to request PTC's be included in a new rider in a future filing. The estimates of PTC benefits by year are provided on line 4 of page 1 of Company witness Torpey's Errata Exhibit JFT-3. The amounts flowed to customers are the amounts earned in each year, grossed up for taxes, so there is no reconciliation needed between the year PTC's are earned and when they are flowed through. The amount of PTC's by project excluding the tax gross up are calculated on the Inputs worksheet of the file "Torpey Errata Benefits Model Final" included in Supplemental Attachment 1 to the Company's supplemental response to TIEC 1-19. The Company only prepared the tax gross up on the aggregate total of the PTC's, so grossed up PTC's are not available at the individual project level.

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Question No. Staff 3-4:

Please refer to the response to TIEC 9-15 and provide the date SWEPCO expects to file its request for a Generation Investment Recovery Rider pursuant to PURA § 36.213. What is SWEPCO's best estimate of the test year that will be used in that proceeding?

Response No. Staff 3-4:

The timing and nature of the referenced Generation Cost Recovery Factor request is not currently known.

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Question No. Staff 3-5:

Is it SWEPCO's position that the Staff strawman (as filed in Project No. 50031 related to the rulemaking for the generation cost recovery factor) requires or permits inclusion of applicable production tax credits in setting a GCRF? If the answer is no, what changes to the proposed strawman does SWEPCO believe are necessary to ensure applicable production tax credits are required or permitted to be included in setting a GCRF?

Response No. Staff 3-5:

The Staff strawman does not expressly address Production Tax Credits (PTCs), nor are PTCs properly recorded in FERC account nos. 303 through 347 that are identified in the strawman. Nonetheless, it is SWEPCO's intention to request that customers begin to be credited with PTCs at the same time that SWEPCO begins to recover its investment in the corresponding wind facility. If necessary, SWEPCO could request a good cause exception pursuant to 16 TAC § 22.5(b).

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Question No. Staff 3-6:

Please provide the filing dates and associated test years for each of SWEPCO's anticipated or planned base rate cases through the year 2036.

Response No. Staff 3-6:

The filing dates and associated test years for future base rate cases are not currently known. However, SWEPCO anticipates that such cases will be filed in accordance with the requirements of 16 TAC § 25.246(c)(1) and PURA § 36.212(b).

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Question No. Staff 3-7:

If the amount of production tax credits received by SWEPCO varies by year, in the absence of annual base rate cases, how does SWEPCO's request in this proceeding ensure that the benefits of all production tax credits flow to customers? If SWEPCO's request in this proceeding does not ensure that the benefits of all production tax credits flow to customers, why does it not do so?

Response No. Staff 3-7:

As noted in response to RFI Staff 3-5, it is SWEPCO's intention to request that customers begin to be credited with PTCs at the same time that SWEPCO begins to recover its investment in the corresponding wind facility. The exact method by which PTCs will be credited to customers will be determined in a future proceeding, such as a request for a Generation Cost Recovery Factor (GCRF) or base rate case. However, as noted in the Company's application, SWEPCO intends to credit these wind facilities' PTC benefits to customers through the GCRF, in effect reducing the facilities' revenue requirements. There are a number of options by which to credit the PTC benefits to SWEPCO's customers. For example, the PTCs could be credited through Fuel, or a regulatory liability could be established for the difference between the amount of PTCs in base rates and the actual amount realized.

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Question No. Staff 3-8:

Please refer to Issue No. 20 of the Preliminary Order issued in this proceeding which states:
To the extent SWEPCO does not receive its predicted amount of production tax credits, how will SWEPCO ensure that ratepayers are kept harmless for the shortfall? What additional mechanism, if any, should be implemented if production tax credits are terminated?
Please provide a detailed explanation and discussion as well as numerical examples of how SWEPCO's proposed production tax credit guarantee, minimum production guarantee, and other mechanisms work to ensure that ratepayers are kept harmless if the Company does not receive the levels of production tax credits identified in response to Staff 3-1. Does SWEPCO's request and proposed guarantees in this proceeding ensure that ratepayers are kept harmless if production credits are terminated? If so, provide a detailed explanation of how ratepayers are held harmless from any termination of production tax credits. If SWEPCO's request and proposed guarantees do not hold ratepayers harmless from any termination of production tax credits, why does it not do so?

Response No. Staff 3-8:

See Staff 3-8 Attachment 1 for a description of the expected mechanics of the guarantees.
Note that the Company's proposed PTC guarantee is subject to an exception for any change in law that affects the federal PTC, as discussed at page 16 of Company witness Brice's Errata testimony. The Company's guarantees related to PTC's are part of an overall package of guarantees that the Company believes represents a fair balancing of risks and benefits between shareholders and customers.

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This document provides the Company's proposed mechanics for its PTC Eligibility and minimum production (MPG) guarantees.

If a make-whole is due under the PTC eligibility guarantee then PTC's will not be included in the calculation of a make-whole under the MPG to avoid double counting.

The Company expects the MPG to operate as follows, subject to any adjustments due the force majeure and curtailment exclusions:

Energy Shortfall Calculation

The two five-year guarantee periods will be 1/1/22 through 12/31/26 and then 1/1/27 through 12/31/31. Any output from the facilities in prior to 2022 will not be considered in the guarantee.

Each facility's annual portion of the guaranteed energy will be computed by multiplying the MW acquired by SWEPCO by the expected 5-year P95 capacity factor percentage of each facility. Those are 37.28% for Traverse, 39.57% for Maverick, and 40.32% for Sundance. This annual number of GWh will then be multiplied by 5 to get the 5-year total energy guaranty for each facility, which will then be summed to get the 5 year total energy guaranty for the three facilities.

The actual metered energy at the interconnection point will be accounted for in each hour and then summed for the 5-year total for each facility. SWEPCo's ownership share of the actual metered energy for the three facilities in total for the 5 years will be compared to the guaranteed energy, in order to determine the excess or shortfall energy. Over-performance by a facility will offset underperformance at other facilities.

Energy Value

If there is a shortfall in energy production vs the guaranteed level, that 5-year total shortfall will be multiplied by a generation-weighted market price to determine the dollar value of the shortfall energy. Each facility's hourly production will be multiplied by its interconnection point day-ahead hourly LMP for each hour of the five-year period. The resulting total energy revenue for the three facilities will then be summed and combined. This combined total revenue will then be divided by the actual energy MWh for the 5-year period for the three facilities combined, to arrive at a single generation-weighted average price applicable to the facilities for that 5-year period. That price will be multiplied by the shortfall energy quantity to compute the energy value portion of the MPG make-whole payment.

If there is an excess in energy production vs the guarantee level in the first 5-year period, the dollar value of the excess energy will be similarly computed. That value will then be used to offset any shortfall in the second 5-year period.

PTC Make Whole

The same two 5-year periods will be used for the PTC portion of the make-whole calculation. Note that the second 5-year period will have 5 years of PTC's for Traverse and Maverick and 4 years for Sundance, assuming Sundance goes in service in December of 2020. Over-performance by a facility will offset underperformance at other facilities.

Each facility's excess or shortfall amount of PTC's will be separately computed by first multiplying each facility's excess or shortfall energy over the 5-year period by 80% for Traverse and Maverick and by 100% for Sundance. Sundance will be excluded from the PTC calculation for the 2031 year, as its 10-year PTC period will end in 2030. These three amounts will be added together and the total will be total excess or shortfall in PTC's. This amount will then by multiplied by the average of the five actual IRS PTC credit rates applicable during the 5 year period. This total will be grossed up by the average federal and state effective tax rate during the five years. The grossed up total shall be the excess or shortfall PTC value.

The timing and manner of inclusion of payments due to customers under the MPG guarantee in the event of a shortfall in rates will be determined in a future proceeding.

PTC Eligibility guarantee:

This description of the PTC eligibility guarantee mechanics is subject to adjustments due to any change in law which impacts the federal production tax credit. If a make-whole is due under the PTC eligibility guarantee, that will be calculated separately. Any make-whole due under the MPG will be limited only to the energy value shortfall in that case to avoid double counting. The PTC eligibility make-whole will be separately computed for each facility based on the greater of 80% of the P95 guaranteed energy for Traverse and Maverick plus 100% of the P95 guaranteed energy for Sundance and the amount of PTC's earned on actual energy production for each facility, times the applicable PTC credit rate for each year.

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Question No. Staff 3-9:

Please refer to Issue No. 21 of the Preliminary Order issued in this proceeding which states: *Should the Commission approve SWEPCO's request to create a deferred tax asset relating to unused production tax credits and include it in a future ratemaking proceeding? What would be the anticipated amount in this account and how much would it affect rates?*
Based on all scenarios prepared by the Company, what is SWEPCO's best estimate of the most likely balance of the deferred tax asset by year? Based on all scenarios prepared by the Company, please provide SWEPCO's best estimate of the most likely revenue requirement associated with the deferred tax asset by year. Your answer should include detailed calculations and identify all assumptions. If the information is available by individual project, please provide it by project and in aggregate.

Response No. Staff 3-9:

See Company witness Multer's Exhibit JJM-2 for the Company's estimates of the DTA balance under two different capacity factor scenarios, P50 and P95. P50 is the Company's base case. The expected revenue requirements (i.e. carrying charges) for the P50 level of DTA in rate base is provided in line 5 of page 1 of Company witness Torpey's Errata Exhibit JFT-3. The P95 DTA carrying charges are shown on line 5 of page 5 of Errata Exhibit JFT-3. Company witness Torpey's workpapers for these carrying charge calculations were provided on the P50 DTA CC and P95 DTA CC worksheets in the file "Torpey Errata Benefits Model Final" provided in Attachment 1 to the Company's supplemental response to TIEC 1-19.

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