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

**CARD’S REPLY POST-HEARING CLOSING BRIEF**

The Cities Advocating Reasonable Deregulation (“CARD”) hereby submit their Reply Post-Hearing Closing Brief and in support thereof, show as follows:<sup>1</sup>

CARD again urges the Administrative Law Judges (“ALJs”) to deny the Southwestern Electric Power Company’s (“SWEPCO”) proposal to acquire what it refers to as the “Selected Wind Facilities” (“Wind Project” or “Project”), unless SWEPCO’s proposed cost and performance guarantees are significantly enhanced.<sup>2</sup>

SWEPCO expends most of its initial brief trumpeting the merits of its economic analysis in support of its proposed Wind Project. But SWEPCO’s arguments underscore the concerns CARD noted in its Initial Post-Hearing Brief (“Initial Brief”). The extent to which ratepayers will experience any benefits from the Wind Project are dependent on SWEPCO’s projections of variables such as natural-gas prices, wind-energy production levels and transmission-congestion costs, which are highly uncertain, and that have a material impact on projected economic benefits

<sup>1</sup> Because of the brevity of CARD’s Reply Brief, and with the ALJs’ indulgence, CARD is not following the briefing outline agreed to by the parties for their post-hearing briefs. As with its Initial Brief, to the extent CARD does not provide briefing with regard to a particular heading, CARD’s lack of comment under a particular heading is not and should not be read as agreement with or acquiescence to SWEPCO’s or any other party’s contentions under such heading.

<sup>2</sup> CARD Exh. 1 – Direct Testimony of Scott Norwood (“Norwood Dir.”) at 21-25.

of the Project.<sup>3</sup> For example, in its initial brief, SWEPCO notes a swing from a low of \$236 million (net present value (“NPV”)) to a high of \$718 million (NPV) in savings, with savings of \$576 million (NPV) at the probability factor of “P50.”<sup>4</sup> It is axiomatic that the lower the price of natural gas goes, the lower the expected savings will be.

By comparison, irrespective of the level of production from the Wind Project, or the price of natural gas, or the effect of future carbon-mitigation measures, SWEPCO will stand to earn a near-constant and short of a certainty, return on and of the \$1.09 billion cost of the Wind Project,<sup>5</sup> with a concomitant revenue requirement of about \$3.233 billion in nominal dollars.<sup>6</sup>

Yet, SWEPCO to date, has declined to provide protections to ratepayers at the same level of production that it projects to be its base case,<sup>7</sup> or even at a marginally higher level as CARD’s witness, Mr. Scott Norwood proposed, at a capacity factor of only 39.6%,<sup>8</sup> or at the levels it proposed in other jurisdictions.

Instead, SWEPCO’s offer is based a “production level [that] has a probability of being exceeded 95% of the time, and a probability that production will fall below that level only 5% of the time.”<sup>9</sup> “Beginning in 2022, the Company guarantees a minimum production level in aggregate from the Selected Wind Facilities of an average of 87% (P95 Capacity Factor Case) of the expected

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<sup>3</sup> SWEPCO asserts that “[m]uch is known about the benefits” of the Wind Project, but in reality SWEPCO identifies only *two* “knowns,” the cost of the facilities and even then only “with reasonable certainty,” and that the Wind Project will incur no fuel costs. SWEPCO Initial Brief at 4.

<sup>4</sup> See SWEPCO Initial Brief at 31.

<sup>5</sup> CARD Exh. 1 – Norwood Dir. at 25; see also CARD Initial Brief at 4, 6, 11, 14.

<sup>6</sup> CARD Exh. 1 – Norwood Dir. at 9. A revenue requirement of \$3.233 billion, equates to about \$1.348 billion in NPV. See Hearing on the Merits Transcript (“HOM Tr.”) at 148; 466.

<sup>7</sup> CARD Exh. 1 – Norwood Dir. at 24.

<sup>8</sup> See CARD Initial Brief at 18.

<sup>9</sup> See SWEPCO Initial Brief at 31.

output of the Selected Wind Facilities over each five-year period for 10 years average across all facilities,”<sup>10</sup> but SWEPCO provides major exclusions from its “guarantee”: Undefined force-majeure events and curtailments directed by the Southwest Power Pool (“SPP”).<sup>11</sup> Moreover, SWEPCO refuses to offer a 10-year hold harmless provision to protect customers from economic risks of new wind facilities, similar to the provision AEP offered for the proposed Wind Catcher Project in regulatory hearings in Oklahoma, and similar to the hold-harmless settlement provisions that were adopted for Southwestern Public Service Company in PUC Docket No. 46936.

Ultimately, the risk of SWEPCO being wrong regarding the projected savings it attributes to the Wind Project is shouldered by its ratepayers. The only certain factor in SWEPCO’s proposal is that, if approved, SWEPCO’s Wind Project, at an estimated cost of \$1.09 billion in its Texas retail jurisdiction, will be added to its rate base and ratepayers will pay a return on and of that capital cost.<sup>12</sup>

Texas retail ratepayers may see a savings of from \$3.5 million to \$7.2 million per year, depending on the level of future natural gas prices, which equates to only 0.5% to 1.1%, respectively of the Company’s forecasted Texas retail revenue requirements in 2021.<sup>13</sup> Without stronger customer guarantees, the only sure winner would be SWEPCO’s shareholders, who would earn millions of dollars in return regardless of the level of energy savings, if any, that customers may realize.

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<sup>10</sup> See SWEPCO Initial Brief at 42.

<sup>11</sup> See *Id.*

<sup>12</sup> HOM Tr. at 149.

<sup>13</sup> CARD Exh. 1 – Norwood Dir. at 25.

Given these circumstances, absent sound protections to ratepayers that, to paraphrase a pedestrian saying, require SWEPCO to put its money where its projections are, CARD urges the ALJs to deny SWEPCO's application.

Respectfully submitted,


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**ATTORNEYS FOR CITIES ADVOCATING  
REASONABLE DEREGULATION**

**CERTIFICATE OF SERVICE**

I certify that I have served a copy of *CARD's Reply Post-Hearing Closing Brief* upon all known parties of record by fax and/or first-class mail on this the 17<sup>th</sup> day of March 2020.

  
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Leslie Lindsey