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

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APPLICATION OF SOUTHWESTERN
ELECTRIC POWER COMPANY FOR
CERTIFICATE OF CONVENIENCE
AND NECESSITY AUTHORIZATION
AND RELATED RELIEF FOR THE
ACQUISITION OF WIND
GENERATION FACILITIES

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BEFORE THE STATE OFFICE

OF

ADMINISTRATIVE HEARINGS

UTILITY COMMISSION
FILING CLERK

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

SEPTEMBER 9, 2019

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Question No. Staff 1-1:

Refer to the testimony of Mr. Multer at page 9, lines 10-12, which states, "AEP has prepared projections of the generation and utilization of tax credits, including PTCs produced from the Selected Wind Facilities, based on AEP and its subsidiaries' forecasted consolidated tax liabilities." Provide all assumptions (including taxable income) separately by affiliate used to generate Exhibit JJM-2 to the testimony of Mr. Multer.

Response No. Staff 1-1:

Please reference Staff_1_1_Highly_Sensitive_Attachment_1 which provides further detail behind the taxable income, credit generation and credit utilization for the AEP consolidated group including separate identification of SWEPCO and PSO.

The information responsive to this request is HIGHLY SENSITIVE under the terms of the Protective Order. The Highly Sensitive information is available for review at the Austin offices of American Electric Power Company (AEP), 400 West 15th Street, Suite 1520, Austin, Texas, 78701, (512) 481-4562, during normal business hours.

Prepared By: David A. Hodgson

Title: Tax Mgr

Sponsored By: Joel J. Multer

Title: Dir Tax Acctg & Reg Support

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Question No. Staff 1-2:

Please reconcile the above-mentioned testimony of Mr. Multer (page 9 lines 10-12) with the following rebuttal testimony of Jeffrey B. Bartsch filed in Docket No. 40443 on behalf of SWEPCO:

As I explained, the federal income taxes in this proceeding should be based only on the revenues and expenses associated with providing electric service to customers. Since the costs that gave rise to the subsidiary losses were not included in cost of service and were not paid for by the customers, it is not appropriate to include the tax benefits or the time value of money related to these losses in cost of service by reducing federal income tax expense (Dkt. 40443 Bartsch rebuttal testimony at page 4, lines 16-22).

Specifically, if any of the PTCs are unutilized because of tax losses of SWEPCO's affiliates, why should deferred tax assets associated with those unutilized PTCs be used to increase SWEPCO's rate base?

Response No. Staff 1-2:

The Company's proposal to pass 100% of the PTCs earned by SWEPCO as a reduction to its federal income tax expense in cost of service, even if the PTCs are unable to be used on AEP's tax return to offset tax liabilities, does impact SWEPCO's retail cost of service. As a result, for the unused PTCs, customers are getting a cash benefit in the form of lower bills prior to the Company receiving the cash benefit in the form of a smaller tax payment. Thus, the Company should earn a return on the cash advanced to customers. This rate base treatment is no different than any other component of accumulated deferred income taxes which are included in rate base, some as a reduction and some as an increase, all of which are timing differences between tax return treatment and ratemaking treatment.

As noted in the Company's response to Staff 1-3, SWEPCO benefits through a more timely recognition of the cash tax benefits associated with PTCs when determined as a member of the AEP consolidated group. The sum of the AEP consolidated group's taxable income provides for the ability to utilize more PTCs than SWEPCO would be able to use based upon its stand-alone taxable income.

Prepared By: James F. Martin

Title: Regulatory Case Mgr

Sponsored By: John O. Aaron

Title: Dir Reg Pricing & Analysis

Sponsored By: Joel J. Multer

Title: Dir Tax Acctg & Reg Support

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Question No. Staff 1-3:

Refer to Exhibit JJM-2 to the testimony of Mr. Multer. What is the projected utilization of PTCs by year on a separate SWEPCO (stand-alone) basis? In other words, what is the projected utilization of PTCs by year assuming that SWEPCO does not file its federal income tax return as part of the consolidated group?

Response No. Staff 1-3:

Please reference Staff_1_3_Attachment_1 for a comparison of SWEPCO's tax credit utilization and deferral of cash tax benefits as both a member of the AEP consolidated group and on a stand-alone basis.

As a member of the AEP consolidated group the maximum deferral period is 4 years with a peak deferral of \$300 million. On a SWEPCO stand-alone basis, the maximum deferral period is 8 years with a peak deferral of \$460 million.

Therefore, SWEPCO would benefit through a more timely recognition of the cash tax benefits associated with PTCs when determined as a member of the AEP consolidated group as the sum of the group's taxable income provides for the ability to utilize more PTCs than SWEPCO would be able to use based upon its stand-alone taxable income.

Prepared By: David A. Hodgson

Title: Tax Mgr

Sponsored By: Joel J. Multer

Title: Dir Tax Acctg & Reg Support

AEP CONSOLIDATED - PTC UTILIZATION
(in millions)

Southwestern Electric Power Company			
Year	PTCs Generated	PTCs Utilized	PTC Carryforward
2021	11	0	11
2022	67	0	78
2023	70	8	140
2024	70	21	189
2025	72	40	221
2026	72	44	249
2027	75	55	269
2028	75	63	281
2029	78	67	292
2030	78	70	300
2031	67	70	297
2032	0	94	203
2033	0	119	84
2034	0	84	0

(in millions)

Year	PTCs Generated	PTCs Utilized													
		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
2021	11	0	0	8	3										
2022	67		0	18	40	9									
2023	70			0	0	35	35								
2024	70				0	0	20	50							
2025	72					0	13	59							
2026	72						0	0	8	64					
2027	75							0	0	6	69				
2028	75								0	0	1	74			
2029	78									0	0	20	58		
2030	78										0	0	61	17	
2031	67											0	0	0	67
2032	0												0	0	
2033	0													0	
2034	0														0
		0	0	8	21	40	44	55	63	67	70	70	94	119	84
PTC Carryforward		11	78	140	189	221	249	269	281	292	300	297	203	84	0

SWEPSCO STAND-ALONE - PTC UTILIZATION
(in millions)

Southwestern Electric Power Company			
Year	PTCs Generated	PTCs Utilized	PTC Carryforward
2021	11	0	11
2022	67	0	78
2023	70	0	148
2024	70	13	205
2025	72	16	261
2026	72	27	306
2027	75	40	341
2028	75	41	375
2029	78	43	410
2030	78	46	442
2031	67	49	460
2032	0	52	408
2033	0	55	353
2034	0	58	295
2035	0	61	234
2036	0	65	169
2037	0	69	100
2038	0	74	26
2039	0	27	0

(in millions)

Year	PTCs Generated	PTCs Utilized																		
		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039
2021	11	0	0	0	11															
2022	67		0	2	16	27	22													
2023	70			0	0	0	18	41	11											
2024	70				0	0	0	0	32	38										
2025	72					0	0	0	8	49	15									
2026	72						0	0	0	0	37	35								
2027	75							0	0	0	0	20	55							
2028	75								0	0	0	0	3	61	11					
2029	78									0	0	0	0	0	54	24				
2030	78										0	0	0	0	0	45	33			
2031	67											0	0	0	0	0	41	27		
2032	0												0	0	0	0	0	0	0	0
2033	0													0	0	0	0	0	0	0
2034	0														0	0	0	0	0	0
2035	0															0	0	0	0	0
2036	0																0	0	0	0
2037	0																	0	0	0
2038	0																		0	0
2039	0																			0
		0	0	0	13	16	27	40	41	43	46	49	52	55	58	61	65	69	74	27
PTC Carryforward		11	78	148	205	261	306	341	375	410	442	460	408	353	295	234	169	100	26	-1

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Question No. Staff 1-4:

Provide all instances (PUCT docket numbers) for which the Company is aware that the Commission has included (as deferred tax assets) the unutilized balance of tax credits (for example, the investment tax credit) in utility rate base. Provide separately those that were unutilized on a stand-alone basis and those that were unutilized because of the filing of a consolidated tax return. Please also note if a consolidated tax savings adjustment was included in each cited case for ratemaking purposes.

Response No. Staff 1-4:

At this time, SWEPCO has not performed the legal research into the publicly available PUCT decisions that are required to answer this request. However, the Company's proposed rate base treatment of the deferred tax asset is no different than any other component of accumulated deferred income taxes which are included in rate base, all of which are timing differences between tax return treatment and ratemaking treatment. Some are a reduction to rate base and some are an increase.

Prepared by: Counsel

Sponsored By: John O. Aaron
Sponsored by: Counsel

Title: Dir Reg Pricing & Analysis

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**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO
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Question No. Staff 1-5:

Admit or Deny: Is it SWEPCO's contention that the unutilized PTCs are provided by shareholders?

Response No. Staff 1-5:

PTCs are a tax credit provided by the federal government and passed through to the customer, regardless of the Company's ability to fully utilize the PTC in the year it is generated.

Prepared By: Christopher N. Martel

Title: Regulatory Consultant Sr

Sponsored By: Thomas P. Brice

Title: VP Regulatory & Finance

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Question No. Staff 1-6:

Please refer to the direct testimony of Mr. Multer at page 2, lines 16-19. Does the PTC that a taxpayer may claim for a given year equal the rate multiplied by the output of electricity "produced" or does the PTC equal the rate multiplied by the output of electricity "produced" and "sold"?

Response No. Staff 1-6:

The PTC a taxpayer may claim for a given year is equal to an inflation adjusted credit rate multiplied by the output of electricity produced by the taxpayer and sold to an unrelated party. The unrelated party in this transaction would be the SPP integrated market.

Prepared By: David A. Hodgson

Title: Tax Mgr

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Title: Dir Tax Acctg & Reg Support

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**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO
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Question No. Staff 1-7:

If SWEPCO uses the 30-year life method of depreciation for tax purposes for the wind facilities, how does the projected utilization of the PTC's change over the life of the project as compared to SWEPCO's plan to classify the wind facilities as five-year property under MACRS for income tax purposes? Do any IRS regulations preclude the Company from using the 30-year life method? If so, please identify.

Response No. Staff 1-7:

The Internal Revenue Code ("IRC") precludes the Company from using a 30-year life method for tax purposes.

In accordance with Internal Revenue Code Sections 167 and 168, wind generation assets are classified as 5-year MACRS property.

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