



Control Number: 51345



Item Number: 5

Addendum StartPage: 0



DOCKET NO. 51345

**APPLICATION OF DENTON §
MUNICIPAL ELECTRIC UTILITY FOR §
INTERIM UPDATE OF WHOLESALE §
TRANSMISSION RATES**

**PUBLIC UTILITY COMMISSION
OF TEXAS**

COMMISSION STAFF'S RECOMMENDATION ON FINAL DISPOSITION

COMES NOW the Staff (Staff) of the Public Utility Commission of Texas (Commission), representing the public interest, and files this Recommendation on Final Disposition. Staff recommends that the application be approved. In support thereof, Staff shows the following:

I. BACKGROUND

On October 5, 2020, Denton Municipal Electric Utility (Denton) filed an application requesting an interim update of its wholesale transmission rates. Denton requested an interim revision to its previously approved transmission cost of service (TCOS) and wholesale transmission rates. Denton's application requests an increase of \$1,741,880 to total transmission rate base and an increase of \$2,062,609 to total transmission revenue requirement to the baseline amounts approved in Denton's most recent comprehensive base-rate proceeding. Denton further requests that the Commission approve an interim wholesale transmission rate of \$757,852.89 per kilowatt.

On October 6, 2020, the administrative law judge (ALJ) issued Order No. 1, requiring Staff to file a recommendation on final disposition or request for hearing by November 9, 2020. Therefore, this pleading is timely filed.

II. FINAL RECOMMENDATION

As supported by the attached memoranda of Alicia Maloy of the Infrastructure Division, as well as Mark Filarowicz and David Hoard of the Rate Regulation Division, Staff recommends that Denton's application be approved. This approval should be subject to a more comprehensive analysis and reconciliation at the next complete review of Denton's cost of service pursuant to 16 Texas Administrative Code (TAC) § 25.192(h)(2). Staff also recommends that Denton be required to file a "clean" record copy of its Wholesale Transmission Service tariff consistent with the Commission's final order in this docket. This revised tariff should be stamped "Approved" by the Commission Central Records Division and retained for future reference.

III. CONCLUSION

For the reasons discussed above, Staff respectfully requests that Denton's application be approved pursuant to the recommendation above.

Dated: November 9, 2020

Respectfully submitted,

PUBLIC UTILITY COMMISSION OF TEXAS LEGAL DIVISION

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/s/ Megan Chalifoux
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DOCKET NO. 51345

CERTIFICATE OF SERVICE

I certify that, unless otherwise ordered by the presiding officer, notice of the filing of this document was provided to all parties of record via electronic mail on November 9, 2020, in accordance with the Order Suspending Rules, issued in Project No. 50664.

/s/ Megan Chalifoux
Megan Chalifoux

Public Utility Commission of Texas

Memorandum

TO: Megan Chalifoux, Attorney
Legal Division

FROM: Alicia Maloy, Senior Infrastructure Analyst
Infrastructure Division

DATE: November 9, 2020

RE: **Docket No. 51345** – *Application of Denton Municipal Electric Utility. for Interim Update of Wholesale Transmission Rates*

On October 5, 2020, Denton Municipal Electric Utility (Denton) filed for approval of an update of wholesale transmission rates based on interim revision to its previously approved transmission cost of service (TCOS) rates, under 16 Texas Administrative Code § 25.192(h)(1) (TAC).

Under 16 TAC § 25.192(h)(1), each transmission service provider (TSP) in the ERCOT region may apply to update its transmission rates on an interim basis not more than twice per calendar year to reflect changes in its invested capital. Further, if the TSP elects to update its transmission rates, the new rates shall reflect the addition and retirement of transmission facilities and include appropriate depreciation, federal income tax and other associated taxes, and the Commission-allowed rate of return on such facilities, as well as changes in loads.

The increase in transmission depreciation expense of \$1,574,058¹ and the total electric accumulated depreciation of \$30,969,508² are reasonable. Commission Staff's review of depreciation is only a conditional review and is not the final determination of its appropriateness. As 16 TAC § 25.192(h)(2) states, an update of transmission rates shall be subject to reconciliation at the next complete review of the TSPs' transmission cost of service.

¹ DME 2020 Interim TCOS Application Schedules and Workpapers, Schedule E-1 (October 5, 2020).

² DME 2020 Interim TCOS Application Schedules and Workpapers, Schedule B-5 (October 5, 2020).

Therefore, I recommend that Denton's application be approved, subject to a more comprehensive analysis and reconciliation at the next complete review of Denton's cost of service under 16 TAC § 25.192(h)(2).

Public Utility Commission of Texas

Memorandum

To: Megan Chalifoux, Legal Division

From: David Hoard, Tariff & Rate Analysis, Rate Regulation Division

Date: November 9, 2020

Re: **Docket No. 51345** – *Application of Denton Municipal Electric Utility for Interim Update of Wholesale Transmission Rates*

On October 5, 2020, Denton Municipal Electric Utility (Denton) filed for an interim update of its wholesale transmission rate under the provisions of 16 Tex. Admin. Code (TAC) § 25.192(h). In its application, Denton requested an interim transmission cost of service (TCOS) total revenue requirement of \$53,793,059, which represents a \$2,062,609 increase over the TCOS approved in its last TCOS filing, which was \$51,730,449.¹

Pursuant to 16 TAC § 25.192(h)(2), an interim update of transmission rates shall be subject to reconciliation at the next complete review of Denton's TCOS. The Commission will make a final determination of the appropriateness of Denton's plant additions in that proceeding.

I have reviewed Denton's request for an interim wholesale transmission rate of \$757.85289 per MW,² which is derived by dividing the interim TCOS referenced above, \$53,793,059, by the 2019 ERCOT Average 4-CP load of 70,980.8724 MW.³ Based upon the above revenue requirement and 4-CP load, and upon the recommendations of other Staff, I conclude that the requested interim annual wholesale transmission service rate and associated rates for the use of the transmission system in exporting power were correctly calculated.

¹ Application at Schedule A (Oct. 5, 2020).

² Application at 4 (Oct. 5, 2020).

³ *Commission Staff's Application to Set 2020 Wholesale Transmission Service Charges for the Electric Reliability Council of Texas*, Docket No. 50333, Commission Staff's Final Transmission Charge Matrix, Attachment A (Mar. 10, 2020).

In addition, I recommend that Denton be required to file a “clean” copy of its Wholesale Transmission Service Tariff consistent with the Commission's Final Order in this docket, and that this Wholesale Transmission Service Tariff be stamped “Approved” by the Commission's Central Records Division and retained for future reference.

Public Utility Commission of Texas

Memorandum

TO: Megan Chalifoux, Legal Division

FROM: Mark Filarowicz, Rate Regulation Division

DATE: November 9, 2020

SUBJECT: Docket No. 51345 – *Application of Denton Municipal Electric Utility for Interim Update of Wholesale Transmission Rates*

SUMMARY AND RECOMMENDATION

On October 5, 2020, Denton Municipal Electric Utility (Denton) filed for an interim update of its wholesale transmission rates under 16 Texas Administrative Code (TAC) § 25.192(h)(1). The provisions of 16 TAC § 25.192(h)(1) allow for each transmission service provider (TSP) in the ERCOT region to update its transmission rates to reflect changes in its invested capital not more than twice per calendar year, and specify that the new rates should reflect the addition and retirement of transmission facilities and include appropriate depreciation, federal income tax and other associated taxes, and the Commission-authorized rate of return on such facilities, as well as changes in load. This memorandum presents Staff's accounting and financial recommendation concerning Denton's application.

Denton's application seeks an increase of \$1,741,880 to total transmission rate base and an increase of \$2,062,609 to total transmission revenue requirement to the baseline amounts approved in Docket No. 50110, Denton's most recent interim transmission cost-of-service proceeding.¹ The revenue requirement of \$53,793,059 that Denton seeks in its application represents an increase of \$49,931,486 over the baseline transmission revenue requirement of \$3,861,573 established in 2005 in Docket No. 30358, Denton's most recent comprehensive base-rate proceeding.² Based on my review of Denton's application and the rule, I recommend that the Commission approve Denton's request in its application, with the underlying transmission accounts subject to reconciliation at Denton's next complete transmission cost-of-service proceeding.

Denton appropriately incorporated its net addition of facilities in the amount of \$1,741,880 into its cost of service in accordance with the rule. Denton's application applies to its increase in rate base the rate of return of 28.0474% imputed using the capital requirements method in Docket No. 30358, Denton's most recent comprehensive base-rate proceeding,³ consistent with the rule. Denton is a municipal utility and does not include federal income tax or other income taxes in its revenue requirement.

¹ *Application of Denton Municipal Electric Utility for Interim Update of Wholesale Transmission Rates*, Docket No. 50110 (Jul. 20, 2020).

² *Application of Denton Municipal Electric to Change Rates for Wholesale Transmission Service*, Docket No. 30358, Final Order (Jun. 16, 2005).

³ *Id*

Denton's application reflects a new interim transmission revenue requirement of \$53,793,059, specifically composed of the following items:

Description	Interim Revenue Requirement
Operation & Maintenance	1,041,900
Depreciation and Amortization	5,598,532
Capital Requirements (Return on Rate Base)	47,319,641
Other Revenues	(167,015)
Total Revenue Requirement	53,793,059

The standards of 16 TAC § 25.192(h)(2) provide that the Commission shall review whether the costs of transmission plant additions are reasonable and necessary at the next complete review of the TSP's transmission cost of service. Given 16 TAC § 25.192(h)(2), my review of Denton's application is only a conditional review and not the final determination as to the appropriateness of the new transmission facilities and the resulting wholesale transmission rate.

Based on my review, I recommend that the Commission approve Denton's application as filed, with the final determination of the recoverable amounts of these transmission facilities accounts to be made at the next complete review of Denton's cost of service.