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PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF
SOUTHWESTERN ELECTRIC POWER COMPANY
FOR AUTHORITY TO CHANGE RATES

REBUTTAL TESTIMONY OF
CHAD M. BURNETT
FOR
SOUTHWESTERN ELECTRIC POWER COMPANY

APRIL 23, 2021

TESTIMONY INDEX

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1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

3 A. My name is Chad Burnett, and I am the Director of Economic Forecasting for American
4 Electric Power Service Corporation (AEPSC), the service company affiliate of
5 Southwestern Electric Power Company (SWEPCO or the Company). My business
6 address is 212 East 6th Street, Tulsa, Oklahoma 74119.

7 Q. DID YOU FILE DIRECT TESTIMONY IN THIS CASE?

8 A. Yes.

9 II. PURPOSE OF REBUTTAL TESTIMONY

10 Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

11 A. The purpose of my rebuttal testimony is to respond to the direct testimony of East Texas
12 Salt Water Disposal and East Texas Oil and Gas Producers (ETSWD) witness Kit
13 Pevoto regarding certain pro forma adjustments SWEPCO has made to Test Year
14 billing determinants.¹ Specifically, I rebut Ms. Pevoto's suggestion that SWEPCO
15 failed to make adequate adjustments to its Test Year load and customer data to reflect
16 alleged known and measurable changes that have occurred since the filing of this case
17 and the effects of the COVID-19 pandemic.²

¹ The Test Year in this case is the historical period from April 1, 2019 through March 31, 2020.

² Direct Testimony of Kit Pevoto at 13:15 – 15:3.

1 III. PRO-FORMA ADJUSTMENTS TO TEST YEAR LOAD DATA

2 Q. PLEASE EXPLAIN THE PURPOSE OF A PRO-FORMA ADJUSTMENT TO TEST
3 YEAR DATA.

4 A. The intent of a pro-forma or “known and measurable” adjustment is to ensure that
5 historical test year data is as representative as possible of the situation that is apt to
6 prevail in the future.

7 Q. MS. PEVOTO STATES THAT IN ITS RESPONSE TO RFI QUESTION NO.
8 ETSWD 3-2, SWEPCO IDENTIFIED THE LOSS OF LOAD FOR A COMMERCIAL
9 CUSTOMER AND AN INDUSTRIAL CUSTOMER DUE TO BUSINESS
10 CLOSURE AFTER THE END OF THE TEST YEAR. GIVEN THIS RESPONSE,
11 MS. PEVOTO RECOMMENDS THAT SWEPCO INCLUDE A PRO-FORMA
12 ADJUSTMENT TO REFLECT THE LOSS OF LOAD FOR THESE TWO
13 CUSTOMERS WHEN IT REVISES ITS RATE CLASS COST ALLOCATION
14 STUDY.³ PLEASE RESPOND.

15 A. As to the Commercial customer referenced in SWEPCO’s response to ETSWD RFI
16 No. 3-2, Ms. Pevoto’s recommended pro-forma adjustment is inappropriate because
17 that customer has only temporarily idled its operations. As noted above, a pro-forma
18 adjustment is intended to ensure that test year data better represents a utility’s ongoing
19 operations. Consequently, you would not adjust for an item that is known but
20 temporary because doing so would not represent the expected ongoing operations for
21 the utility.

³ Direct Testimony of Kit Pevoto at 14:22 – 15:3.

1 As to the small Industrial customer, SWEPCO made no pro-forma adjustment
2 because the customer announced its plant shutdown after SWEPCO filed this case.
3 When the Company files a base rate case, significant effort is made to ensure that all
4 of the key assumptions and inputs are coordinated and provide a comprehensive
5 assessment of the need for the base rate adjustment. The Company does not, however,
6 continuously update these assumptions and inputs after the case has been filed.

7 Q. MS. PEVOTO NOTES THAT IN ITS RESPONSE TO ETSWD RFI NO 2-2,
8 SWEPCO STATED IT HAD FOUND THAT THE CUSTOMER ADJUSTMENTS
9 FOR THE LOSS OF THE THREE INDUSTRIAL CUSTOMERS WERE
10 INADVERTENTLY EXCLUDED FROM THE CALCULATION OF THE
11 JURISDICTIONAL PRODUCTION AND TRANSMISSION DEMAND
12 ALLOCATION FACTORS AND THAT THE COMPANY WOULD CORRECT
13 THIS IN SWEPCO'S COST OF SERVICE ALLOCATION STUDY WHEN IT FILES
14 REBUTTAL TESTIMONY.⁴ HAS SWEPCO NOW ACCOUNTED FOR THE LOSS
15 OF THESE THREE CUSTOMERS?

16 A. Yes. Company witness John O. Aaron discusses how these corrections affected the
17 jurisdictional cost allocation factors in his rebuttal testimony.

18 IV. PROPOSED COVID-19 PRO-FORMA ADJUSTMENTS

19 Q. ETSWD RECOMMENDS THAT SWEPCO'S RATE CLASS COST ALLOCATION
20 STUDIES AND UNDERLYING LOAD INFORMATION BE UPDATED TO

⁴ Direct Testimony of Kit Pevoto at 15:6-11.

1 INCLUDE ALL OF THE KNOWN AND MEASURABLE PRO-FORMA
2 ADJUSTMENTS RELATED TO COVID-19 PANDEMIC IMPACTS, INCLUDING
3 THE CHANGES TO ELECTRICITY USAGE.⁵ HOW DO YOU RESPOND?

4 A. First of all, the Company's initial filing did include pro-forma adjustments to the Test
5 Year billing determinants for all of the known and measureable items at the time of the
6 Company's filing. Second, Ms. Pevoto's recommendation implies that the impact and
7 duration of the COVID-19 pandemic on the SWEPCO-Texas service territory are likely
8 to continue going forward. As discussed below, SWEPCO disagrees with this position.

9 Q. HOW IS MS. PEVOTO'S ASSESSMENT OF THE COVID-19 PANDEMIC
10 DIFFERENT THAN THE COMPANY'S?

11 A. The difference is whether the pandemic should be treated as a temporary disruption or
12 a permanent alteration to the SWEPCO-Texas service territory. The Company's
13 position is that the pandemic did impact SWEPCO-Texas load in the months
14 immediately after the end of the Test Year, but the impacts were temporary in nature
15 and are not expected to continue indefinitely. As a result, there is no need to make a
16 specific pro-forma adjustment to the test year for the COVID-19 pandemic.

17 If the Company were to adjust the test year billing determinants for COVID-19,
18 as Ms. Pevoto suggests it should, you would have to assume that the SWEPCO-Texas
19 service territory will remain under the COVID-19 restrictions indefinitely, or at least
20 until the next base rate case. That assumption is simply not appropriate given what we
21 know today.

⁵ Direct Testimony of Kit Pevoto at 14:6-9.

1 Q. WHAT IS THE TIMELINE BETWEEN THE COMPANY'S FILED TEST YEAR
2 AND THE VARIOUS COVID-19 RESTRICTIONS THAT WERE IMPLEMENTED
3 IN THE STATE OF TEXAS?

4 A. The test year in this proceeding is the twelve-month period ending March 31, 2020. On
5 March 13, 2020, Texas Governor Greg Abbott issued a disaster declaration that the
6 novel coronavirus (COVID-19) posed an imminent threat for all of the counties in
7 Texas.⁶ On March 16, 2020, President Trump declared a national state of emergency
8 urging Americans to take actions, including staying home for non-essential activities,
9 to slow the spread of COVID-19. During a March 31, 2020 press conference, Governor
10 Abbott issued a stay-at-home order for everything except essential services and
11 activities starting April 1, 2020⁷ (after the end of the test year) and lasting for 30 days.
12 By May 1, 2020, Texas started Phase 1 of its reopening plan where non-essential
13 businesses were allowed to reopen, but only operate at 25% capacity. By June 3, 2020,
14 Texas had made it to Phase 3 of its reopening plan. This phase allowed businesses to
15 operate at 50% capacity. On July 2, 2020, Governor Abbott issued an order requiring
16 face coverings for all public spaces in Texas. However, by March 2, 2021, Governor
17 Abbott issued an executive order (Executive Order GA-34) removing the mask
18 mandate and allowing businesses in Texas to operate at 100% capacity with no
19 restrictions.⁸

⁶ See <https://gov.texas.gov/news/post/governor-abbott-issues-executive-order-relating-to-the-expanded-reopening-of-services>

⁷ See <https://www.texastribune.org/2020/04/03/texas-under-stay-home-order-its-rules-match-those-other-states/>

⁸ See <https://www.dshs.state.tx.us/coronavirus/opentexas.aspx>

1 Q. GIVEN EXECUTIVE ORDER GA-34, WHICH REMOVED ALL COVID-19
2 RESTRICTIONS ON BUSINESSES OPERATING IN TEXAS, IS THERE ANY
3 REASON TO MAKE A COVID-19 PRO-FORMA ADJUSTMENT TO THE TEST
4 YEAR?

5 A. No. In fact, this order now supports the Company's position not to make a pro-forma
6 adjustment for the COVID-19 pandemic. It is now known that businesses that were
7 temporarily forced to limit their operations in response to the pandemic in 2020 will
8 not be under the same restrictions moving forward. Therefore, it would be
9 inappropriate to make the pro-forma COVID-19 adjustment as recommended by
10 ETSWD.

11 Q. MS. PEVOTO CONTENDS THAT SWEPCO HAS PROVIDED IN DISCOVERY
12 THE DATA OF MEASURABLE CHANGES IN ELECTRICITY SALES BY RATE
13 CLASS SINCE THE PANDEMIC BEGAN.⁹ IS SHE CORRECT?

14 A. The Company did provide its normalized sales by month since the end of the Test Year.
15 However, it would be incorrect to assume that all changes in normalized growth from
16 2019 to 2020 are the result of the COVID-19 pandemic. In fact, the National Bureau
17 of Economic Research (NBER), which is responsible for determining the start and end
18 dates of U.S. business cycles, has announced that the U.S. economy officially went into
19 recession in February of 2020, a month before any COVID-19 restrictions were
20 announced.

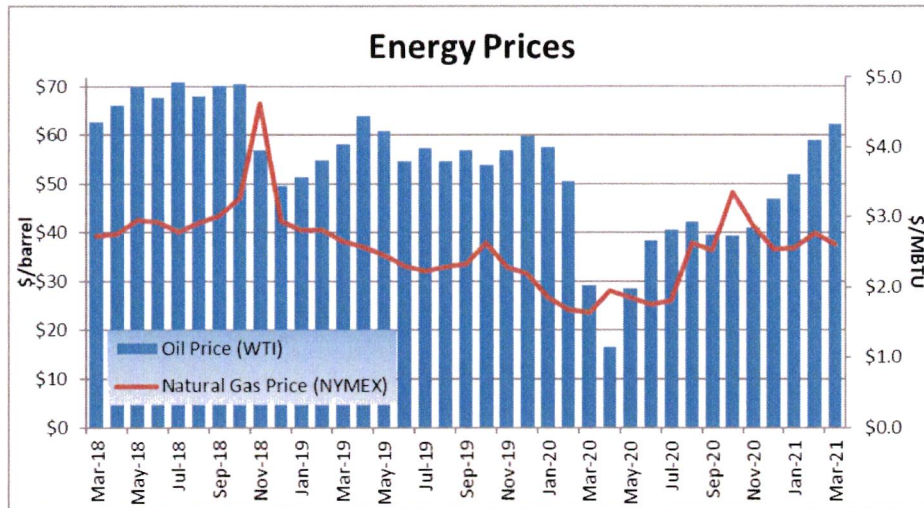
⁹ Direct Testimony of Kit Pevoto at 14:15-16.

1 In order to accept ETSWD's recommendation to make a pro-forma adjustment
2 based on the "known" post-test year normalized sales data, one would have to assume
3 that the SWEPCO-Texas service territory will remain in a perpetual recession and
4 pandemic. That assumption is simply not reasonable nor consistent with Governor
5 Abbott's recent executive orders.

6 Q. MS. PEVOTO ALSO STATES THAT ETSWD'S USAGE DROPPED BY 12
7 PERCENT IN 2020 DUE TO LOW OIL PRICES AND LOW DEMAND FROM THE
8 PANDEMIC. ARE YOU AWARE OF ANY CHANGES IN MARKET
9 CONDITIONS THAT COULD INFLUENCE THE USAGE OF ETSWD GOING
10 FORWARD?

11 A. Yes. In fact, as shown in Figure CMB-1R below, energy prices have experienced a
12 significant rebound in recent months.

13 **Figure CMB-1R**

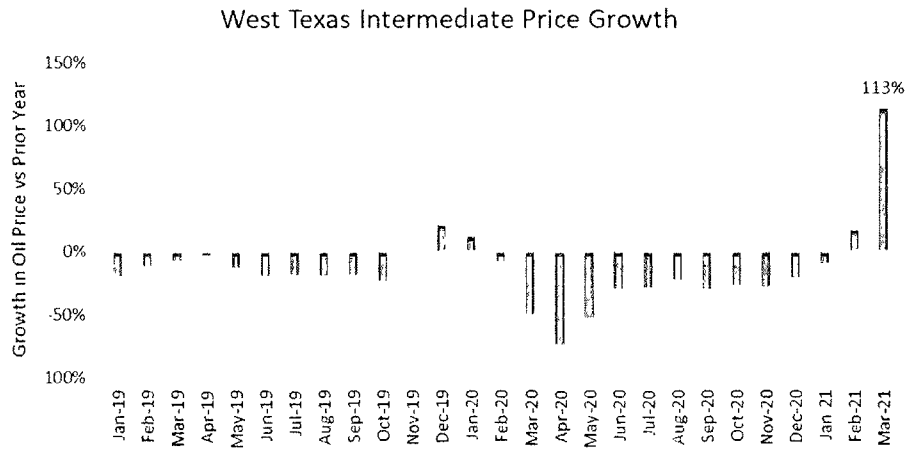


1 In April 2020, the month *after the end of The Test year*, oil and natural gas
2 prices dropped in response to a ‘perfect storm’ of three distinct disruptive market
3 forces. First, there was the impact of the recession that started in February 2020, which
4 had an impact on the demand for energy. Then by April, most states had issued stay-
5 at-home orders requiring non-essential workers to stay home in order to address the
6 public health crisis. Combined, the recession and pandemic had a significant impact
7 on the *demand* for oil. But there was also a *supply* disruption as a result of a price war
8 between Russia and Saudi Arabia. The increase in global oil supply, combined with
9 the drop in global demand for oil created a situation where the market price for oil was
10 temporarily negative.

11 Negative oil prices sent a signal to domestic producers resulting in a temporary
12 reduction in oil and gas activities as described in Ms. Pevoto’s direct testimony.
13 However, as vaccinations have increased and more states have relaxed their COVID-
14 19 restrictions on businesses, the demand for oil is starting to pick up which is causing
15 a significant increase in market prices, as shown in Figure CMB-2R below. Compared
16 to the last month of the test year (March 2020), the latest price for West Texas
17 Intermediate is up 113%. In fact, the price of oil in March 2021 (\$62.33/barrel) was
18 the highest price since April of 2019, the first month of the test year. Given the current
19 price signals, it is reasonable to conclude the temporary decline in sales to oil and gas
20 producers will turn around by the time the new rates go into effect.

1

Figure CMB-2R



2

V. CONCLUSION

3

4 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

5 A. Yes, it does.