



Control Number: 51415



Item Number: 404

Addendum StartPage: 0

SOAH DOCKET NO. 473-21-0538

PUC DOCKET NO. 51415

2021 APR 23 PM 3:02

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF
SOUTHWESTERN ELECTRIC POWER COMPANY
FOR AUTHORITY TO CHANGE RATES

REBUTTAL TESTIMONY OF
JENNIFER L. JACKSON
FOR
SOUTHWESTERN ELECTRIC POWER COMPANY

APRIL 23, 2021

TESTIMONY INDEX

<u>SECTION</u>	<u>PAGE</u>
I. INTRODUCTION	1
II. PURPOSE OF REBUTTAL TESTIMONY	1
III. REVENUE DISTRIBUTION	2
IV. COMMERCIAL RATE DESIGN	10
V. INDUSTRIAL RATE DESIGN	11
VI. STAFF'S OPPOSITION TO CUSTOMER RATE OPTIONS	16
VII. CONCLUSION	20

EXHIBITS

<u>EXHIBIT</u>	<u>DESCRIPTION</u>
EXHIBIT JLJ-1R	Rebuttal Revenue Distribution
EXHIBIT JLJ-2R	Renewable Energy Credit (REC) Opt-Out Credit

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

I. INTRODUCTION

- Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.
- A. My name is Jennifer L. Jackson. I am a Regulated Pricing and Analysis, Manager, in Regulated Pricing and Analysis, part of the American Electric Power Service Corporation (AEPSC) Regulatory Services Department, 212 East Sixth Street, Tulsa, Oklahoma 74119-1295.
- Q. ARE YOU THE SAME JENNIFER L. JACKSON WHO FILED DIRECT TESTIMONY IN THIS DOCKET?
- A. Yes, I am.

II. PURPOSE OF REBUTTAL TESTIMONY

- Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?
- A. The purpose of my testimony is to support the rebuttal revenue distribution and rate design that incorporates the changes accepted by SWEPCO in this rebuttal phase, including the changes made to the class cost-of-service study as discussed in the rebuttal testimony of SWEPCO witness John O. Aaron. I will also respond to criticisms, address recommendations, and rebut certain arguments made by various intervenor testimonies and Public Utility Commission of Texas (Commission) Staff (Staff) witness Adrian Narvaez regarding the following issues:
- 1) The modification of the proposed revenue distribution recommended by Texas Industrial Energy Consumers (TIEC) witness Jeffry Pollock, Nucor Steel Longview, LLC (NUCOR) witness James W. Daniel, and Staff witness Narvaez;
 - 2) The rejection of the proposed commercial rate design by Staff witness Narvaez and the general discussion of Staff’s opposition to customer rate options;

3) The changes to the Lighting & Power rate design recommended by Walmart witness Lisa Perry; and

4) The recommendations for Industrial rate design including the rejection of the proposed synchronized self-generation rate by TIEC witness Pollock, NUCOR witness Daniel, and Eastman Chemical Company (Eastman) witness Ali Al-Jabir. The opposition of SWEPCO's proposed kVAR charge and the inclusion of an opt-out credit recommended by TIEC witness Pollock.

III. REVENUE DISTRIBUTION

Q. HAS THE CLASS COST-OF-SERVICE STUDY RELIED UPON FOR THE REBUTTAL REVENUE DISTRIBUTION BEEN UPDATED IN THIS REBUTTAL PHASE?

A. Yes. SWEPCO witness Aaron has outlined certain changes made to the rebuttal cost-of-service study incorporated into the rebuttal revenue distribution. The rebuttal revenue distribution also reflects some of the recommendations of the parties, as discussed below. EXHIBIT JIJ-1R is the rebuttal revenue distribution.

Q. WHAT ARE THE POSITIONS OF THE PARTIES REGARDING SWEPKO'S REVENUE DISTRIBUTION?

A. NUCOR, TIEC, and Walmart comment on and make revenue distribution recommendations in their respective witnesses' testimonies. NUCOR witness Daniel states that SWEPCO's revenue distribution to rate classes prolongs and increases significant levels of inter-class subsidies left over from SWEPCO's last three rate cases, and should be rejected. NUCOR submits its recommended revenue distribution with witness Daniel's testimony. TIEC witness Pollock states that to minimize instability while moving all rates closer to cost, the class definitions should generally correspond

1 to SWEPCO's retail rate schedules and the movement to cost should be limited only
2 by gradualism. Walmart witness Lisa Perry suggests the apportionment of any increase
3 to LP secondary and states any reduction to the revenue requirement should be used to
4 move classes closer to cost.

5 Staff witness Narvaez states that SWEPCO's proposed revenue distribution
6 completely ignores the class cost-of-service study and results in classes unjustifiably
7 moving away from cost. Mr. Narvaez also states that relying on the Major Rate Class
8 customer classification does not adequately address the requirement that rates are based
9 on cost.

10 Staff also contends that the TCRF and DCRF test year revenues should be
11 included in evaluation of the proposed base rate increase. Witness Narvaez
12 recommends that the Commission should reject SWEPCO's proposed revenue
13 distribution proposal because it is inequitable, does not make reasonable movement
14 towards cost-based rates, and is inconsistent with Commission precedent. Staff also
15 recommends adoption of a multi-year phased-in revenue distribution approach to make
16 gradual movement to cost-based rates and use of a methodology from the last base rate
17 case in Docket No. 46449 to set revenue targets for each class during each phase.

18 Q. WHAT IS YOUR RESPONSE TO THE PARTIES' CRITICISM OF SWEPCO'S
19 REVENUE DISTRIBUTION?

20 A. In proposing the use of Major Rate Class groupings in its application, SWEPCO offered
21 an approach that is consistent in principle with previous Commission decisions, which

1 has supported the use of major rate classes in SWEPCO's last two base rate cases.¹ As
2 described in direct testimony, the major class groupings were proposed as a mitigation
3 mechanism as well as to maintain relationships between rate schedules. The parties
4 recognize that mitigation is a necessary component of the revenue distribution, but they
5 do not agree on how the mitigation should occur.

6 Q. WHAT MITIGATION STRATEGIES WERE RECOMMENDED BY SWEPCO?

7 A. In order to mitigate the large increases and large impacts to certain classes, SWEPCO
8 recommended classes with similarly-situated customers be combined into a major rate
9 class. The combined change in class revenue requirement at an equalized rate of return
10 was then applied to the individual classes. The major classes of customers used in the
11 proposed revenue distribution are Residential, Commercial and Industrial, Municipal,
12 and Lighting.

13 Q. WHY DID SWEPCO PROPOSE TO COMBINE THE COMMERCIAL AND
14 INDUSTRIAL RATE CLASSES INTO ONE MAJOR CLASS?

15 A. SWEPCO proposed to group the Commercial and Industrial customer classes into one
16 large rate class to share the proposed increase among all the customers in the General
17 Service (GS), Lighting and Power (LP), Large Lighting and Power (LLP), Metal
18 Melting (MMS), Oilfield, and Cotton Gin rate classes. SWEPCO's Industrial class has
19 several individual rate classes that serve one or very few customers. Having few
20 customers in a rate class can make the class cost-of-service study results for a particular
21 class very susceptible to unusual outcomes that may impact the rate design in a

¹ *Application of Southwestern Electric Power Company for Authority to Change Rates*, Docket No. 46449, Order on Rehearing at Findings of Fact 311 through 314A (Mar. 19, 2018).

1 particular test year. Grouping individual rate classes into major classes mitigates this
2 situation, providing for a smoother distribution of any rate increases (or decreases).
3 SWEPCO's existing, Commission-approved commercial and industrial rate schedules
4 are built as a family of rates meaning that in many cases, multiple rate schedules are
5 available for service to commercial and industrial customers and, in order to sustain the
6 current expected level of migration among the customer classes (not create unexpected
7 migration), the class increase is used to set rates.

8 Q. HAS SWEPCO UTILIZED THIS MULTIPLE RATE SCHEDULE APPROACH FOR
9 COMMERCIAL AND INDUSTRIAL CUSTOMERS IN THE PAST?

10 A. Yes. This is not a new approach to rate design for SWEPCO. SWEPCO has
11 consistently offered Commercial and Industrial customers the ability to choose among
12 rate schedules that best meet their needs. I discuss this issue in more detail later in my
13 testimony.

14 Q. IS MIGRATION AN ACCEPTABLE RESULT OF THE COMMERCIAL AND
15 INDUSTRIAL RATE DESIGN?

16 A. Yes, customer migration amongst rate schedules under which a customer may qualify
17 for service can occur after rates are set in a rate review. Some reasons for rate schedule
18 migration include customer operational changes, such as adding or removing a shift in
19 their operation, improving operational load factor, or adding to or removing capacity
20 requirements. This is the reason SWEPCO provides rate schedules to accommodate
21 customer needs as they change.

22 Q. DOES SWEPCO'S REVENUE DISTRIBUTION AND RATE DESIGN
23 RECOGNIZE MIGRATION?

1 A. Yes. By assigning the class average increase to the family of rate schedules, SWEPCO
2 can reliably estimate the rate schedule that best serves the customer based on the test
3 year adjusted billing determinants of each class. SWEPCO's rate design also looks at
4 customers' load factors and typical customer bill impacts to review possible customer
5 migration based on the proposed rate changes. Assigning individual class increases
6 can skew those results and make it harder to predict migration because customers are
7 moving to a new rate schedule based on pricing without substantially changing their
8 operating requirements. An example of this occurred recently when a large customer
9 moved between LLP to MMS between rate cases based on the final pricing. This
10 movement was not included in the final rate design. Grouping customers together for
11 revenue distribution purposes allows the migration to be reasonably determined in a
12 rate case, while accommodating rate classes with few customers susceptible to unusual
13 outcomes in a particular test year.

14 Q. WHAT MODERATION STRATEGIES DO THE PARTIES RECOMMEND?

15 A. TIEC witness Pollock recommends that the increases for classes that are producing
16 negative rates of return and would require excessive base rate increases, should be
17 limited to approximately 43% based on Docket No. 46449. NUCOR witness Daniel
18 states that gradualism should only be applied for three relatively small rates classes.
19 Walmart witness Perry does not oppose SWEPCO's proposed revenue distribution but
20 recommends that if the Commission approves a lower revenue requirement, that the
21 reduction move individual customer classes closer to their respective cost to serve
22 while ensuring that no class receives an increase larger than that proposed by
23 SWEPCO. Staff witness Narvaez states that relying on the Major Rate Class customer

1 classification does not adequately address the requirement that rates are based on cost
2 and recommends a multi-year phased-in gradualism approach.

3 Q. GIVEN THE EMPHASIS ON COST-BASED RATES DISCUSSED BY THE
4 PARTIES, WHAT CHANGES TO THE REVENUE DISTRIBUTION ARE BEING
5 ADOPTED IN REBUTTAL TESTIMONY?

6 A. SWEPCO recognizes the criticisms of the proposed revenue distribution, most of which
7 surround the move to cost-based rates. In response, SWEPCO is adopting in this
8 testimony a rebuttal revenue distribution that moves all classes closer to cost while also
9 supporting the new commercial rate schedule structural changes SWEPCO proposed
10 in its direct case.

11 The revenue distribution first includes the class cost-of-service study changes
12 adopted by SWEPCO witness Aaron. The updated class cost-of-service study includes
13 an updated equalized cost to serve for each rate class. The rebuttal revenue distribution
14 continues to recognize cost to serve, bill impact, and moderation. The main difference
15 in the rebuttal revenue distribution is application of the individual rate class change to
16 the industrial customer classes. SWEPCO continues to support a rate schedule that
17 supports the lower load factor commercial customers, including churches and schools.
18 The results of the rebuttal class cost-of-service show that the GS and LP classes are
19 very close to the combined class increase. Therefore, the individual rate class increases
20 for GS and LP are applied before including the Cotton Gin class subsidy as discussed
21 below.

1 Q. HOW ARE CLASSES WITH RATE INCREASES MULTIPLE TIMES THE
2 SYSTEM AVERAGE INCREASE TREATED IN THE REBUTTAL REVENUE
3 DISTRIBUTION?

4 A. There seems to be some consensus regarding rate increase moderation for rate classes
5 with equalized increases multiple times greater than the system average increase.
6 SWEPCO has applied an increase to the three rate classes, Cotton Gin, Oilfield
7 Secondary, and Public Street and Highway Lighting that do not go over 1.5 times the
8 system average increase of approximately 43% based on the parties' moderation
9 recommendations. This does create a small subsidy among the other classes that share
10 the major class grouping with those classes but this methodology is consistent with the
11 Order in Docket No. 46449 and moves all classes closer to cost, while recognizing the
12 billing units associated with the proposed commercial rate structure proposals.

13 Q. HOW DO YOU ADDRESS THE CRITICISM THAT SWEPCO HAS NOT
14 RECOGNIZED THE TCRF AND DCRF REVENUES WHEN ASSIGNING COST
15 TO THE RATE CLASSES?

16 A. Staff, NUCOR, and TIEC emphasize that the TCRF and DCRF test year revenues
17 should be included in evaluation of a proposed base rate increase and the overall impact
18 of the rate changes upon a customer's bill must also be reviewed. The adjustments to
19 SWEPCO's base rates comprise the costs associated with transmission and distribution
20 services, including the costs recovered through the existing TCRF and DCRF riders.
21 SWEPCO's approach recognizes the rate class revenue requirement changes associated
22 with test year cost to serve and proposes to reset base rates including transmission and
23 distribution costs formerly recovered in the riders. While the base rate change indicates

1 the gross change required to move the revenue requirement from the riders to the base
2 rates for recovery, the bill impact to the customers showing the change in rider recovery
3 (net change) is recognized in the revenue distribution by class. After the appropriate
4 adjustment to base rates is determined to assure full recovery based on the class cost-
5 of-service study, SWEPCO's revenue distribution indicates the rate class bill impact
6 associated with the change in the TCRF and DCRF revenues recovered during the test
7 year.

8 Q. DOES SWEPCO'S REVENUE DISTRIBUTION APPROPRIATELY RECOGNIZE
9 THE TCRF AND DCRF CHANGE AND THE FINAL ORDER IN DOCKET NO.
10 46449?

11 A. Yes, SWEPCO's revenue distribution looks at the overall impact of the rate changes upon
12 a customer's bill as recommended by Staff in Docket No. 46449. No changes to
13 SWEPCO's proposal are necessary in order to recognize TCRF and DCRF revenues.

14 Q. DO YOU AGREE THAT STAFF'S FOUR-YEAR PHASE-IN APPROACH TO
15 RATE MODERATION IS NECESSARY IN THIS PROCEEDING?

16 A. No. Staff's recommended phase-in approach is cumbersome and could result in
17 SWEPCO foregoing an opportunity to recover its cost to serve its customers until the
18 phase-in period is over. As acknowledged by Staff, this is an unusual suggestion. In
19 response to Staff's criticism, SWEPCO has adjusted its rebuttal revenue distribution to
20 move all rate classes closer to cost as discussed above, which eliminates the need for
21 any gradual phase-in of the proposed rates.

IV. COMMERCIAL RATE DESIGN

Q. WHAT IS STAFF'S RECOMMENDATION REGARDING SWEPCO'S PROPOSED GENERAL SERVICE AND LIGHTING AND POWER RATE DESIGN?

A. Staff witness Narvaez recommends rejection of SWEPCO's proposal to remove the demand requirement restriction on the GS rate schedule. The reason stated for the rejection of this GS rate structure modification is Staff believes it would constitute a significant tariff change that would allow customer migration from the LP tariff to the GS tariff. Staff contends that the proposal could result in rates being insufficient to recover costs to serve those classes. Mr. Narvaez also takes the position that adjusting billing determinants for migration to a newly designed rate structure would violate the "known and measurable" rule.

Q. WHAT IS YOUR RESPONSE TO THE BASIS FOR STAFF'S REJECTION?

A. I do not agree that adjusted billing determinants set for a class based on a new rate structure or new rate schedule offering, are not reasonably known and measureable. SWEPCO's commercial rate design proposals reasonably estimate the new class billing determinants based on test year adjusted billing determinants. The intent of the new structure of the GS and LP rate classes is to create a rate schedule for customers based on their energy and load requirements (kWh usage, demand requirements, seasonality, time-of-use, and load factor). SWEPCO's new structure is based on test year adjusted billing determinants for each class. While SWEPCO acknowledges that migration between the GS and LP rate schedules can occur after the test year and after approval of the new rate design, that situation is no different from the customer movement (additions, removals, and changes in customer loads) that occurs between rate cases for

1 the existing classes; it is fluid at all times. SWEPCO has always provided additional
2 rate options under which a customer may be eligible for service. The Commission has
3 consistently approved those options. Providing rate options for customers puts
4 SWEPCO in a position of better meeting its customer's needs. Additional explanation
5 and discussion of migration analysis is included in the previous section of this
6 testimony.

7 Q. WHAT RECOMMENDATIONS DID WALMART MAKE REGARDING THE LP
8 SECONDARY CLASS RATE DESIGN?

9 A. Walmart witness Lisa Perry suggests a more targeted approach to the LP rate schedule
10 design. Witness Perry suggests that the Commission's rate design goals should include
11 the removal of subsidies contained in the rates within the rate schedules. To accomplish
12 this, Walmart suggests assigning the majority of the LP class increase to the demand
13 component of the rate schedule.

14 Q. WHAT IS YOUR RESPONSE TO WALMART'S RECOMMENDATION?

15 A. While SWEPCO understands Walmart's recommendation, there is a concern that the
16 change would negatively impact lower load factor customers in favor of higher load
17 factor customers. Walmart did not offer any analysis in support of this
18 recommendation or offer customer impact for customers at different load profiles.

19 V. INDUSTRIAL RATE DESIGN

20 Q. PLEASE DESCRIBE THE OPPOSITION TO SEVERAL INDUSTRIAL RATE
21 DESIGN PROPOSALS.

1 A. Both TIEC witness Pollock and Eastman witness Al-Jabir oppose the introduction of a
2 synchronized self-generation (SSGL) rate for customers who utilize behind the meter
3 generation (BTMG) that is also synchronized with SWEPCO's transmission system.
4 Witness Al-Jabir recommends that the Commission reject SWEPCO's proposal to
5 introduce a new synchronized self-generation rate because the proposed rate is inconsistent
6 with cost causation principles and with the principles that govern cost allocation and rate
7 design for retail customers with self-generation. TIEC witness Pollock recommends that
8 the Commission reject the proposed SSGL charge because it is not a retail service that
9 SWEPCO is actually providing. Witness Pollock also states that if retail BTMG load
10 is to be included in allocating transmission costs, it would be appropriate to establish a
11 separate rate schedule applicable to all retail BTMG loads.

12 Q. HOW DOES SWEPCO ADDRESS THE PARTIES' CONCERNS WITH THE
13 SYNCHRONIZED SELF-GENERATION RATE?

14 A. SWEPCO's rebuttal witness C. Richard Ross discusses why the inclusion of BTMG
15 load synchronized with the SWEPCO transmission system is now necessary.
16 SWEPCO witness Aaron discusses how the BTMG load becomes part of the overall
17 transmission cost for the SWEPCO Texas jurisdiction and assignment to the rate
18 classes in the class cost-of-service study. I will discuss why a separate charge is
19 reasonable.

20 Q. WHY HAS SWEPCO INTRODUCED THE SYNCHRONIZED SELF-
21 GENERATION RATE?

22 A. The new rate was proposed to recover additional costs associated specifically with the
23 inclusion of BTMG load in determining SWEPCO's share of the Southwest Power Pool

1 (SPP) transmission costs. Instead of directly assigning the cost associated with the
2 inclusion of the BTMG to those customers, SWEPCO proposed to create a new charge
3 that applies to any commercial/industrial BTMG customer load that may also be
4 included in SWEPCO's load ratio share. The new charge was included as part of the
5 current specialty tariff sheet that includes the Standby, Maintenance, Backup, and As-
6 Available Standby (SMBAA) rates because it is used in conjunction with the SMBAA
7 service at this time. The pricing structure of the existing SMBAA tariff was developed
8 prior to the development of the RTOs and prior to SPP charges associated with BTMG
9 demands.

10 Q. HOW WAS THE RATE DESIGNED?

11 A. As explained in direct testimony, the synchronized self-generation rate is determined
12 first by dividing the total Commercial and Industrial class transmission functional
13 revenue requirement (that includes the BTMG) by the total class non-coincident peak
14 NCP kW to arrive at a transmission demand unit cost. The unit cost is then multiplied
15 by 50%. SWEPCO did not directly assign the BTMG transmission cost to the BTMG
16 customer. The rate was designed this way to accommodate any commercial or
17 industrial BTMG loads that are deemed part of SWEPCO's load ratio share of SPP
18 transmission costs.

19 Q. IS THE DESIGN OF THE SSGL RATE REASONABLE?

20 A. Yes. The rate was designed based on the approach used to design the backup charge
21 for full requirements backup service except applied specifically for transmission
22 functional cost. This is the first time SWEPCO has proposed a charge for synchronized
23 self-generation customers in response to the SPP's inclusion of BTMG load in its load

1 ratio share determination. If the Commission deems the inclusion of BTMG load
2 appropriate, the cost would either have to be recovered from all customers through the
3 approved transmission allocation methodology or recovered specifically from BTMG
4 customers. SWEPCO proposed a rate that was developed to recover the additional cost
5 from customers whose load is included as BTMG. SWEPCO is willing to implement
6 a solution that is judged to be fair and reasonable by the Commission. In recognition
7 of the parties' concerns, SWEPCO has developed a BTMG rate that could apply to any
8 BTMG customer load appropriately included in SWEPCO's transmission load ratio
9 share. The rebuttal SSSL rate methodology includes using the total SWEPCO retail
10 transmission cost and retail NCP in determining a BTMG rate applicable to all rate
11 classes.

12 Q. ARE THERE ANY OTHER INDUSTRIAL RATE DESIGN ISSUES THAT THE
13 PARTIES DISCUSS?

14 A. Yes, TIEC witness Pollock recommends no increase in the Reactive Demand charge
15 because he states that SWEPCO has not provided any support for increasing the
16 Reactive Demand charge. Witness Pollock also recommends a REC opt-out provision
17 that credits Transmission-voltage customers that submit appropriate opt-out letters to
18 the Commission.

19 Q. WHAT IS YOUR RESPONSE TO THE REACTIVE DEMAND CHARGE
20 RECOMMENDATION?

21 A. TIEC states that if SWEPCO wishes to increase the reactive demand charge, it should
22 be required to provide a study demonstrating the cost basis for this increase. While it
23 is true that a separate reactive demand study was not performed outside of the cost-of-

1 service study, the reactive demand charge is encompassed within and is part of the
2 overall increase. Because the reactive demand charge can apply to multiple rate
3 classes, SWEPCO utilized the system average increase to update the reactive demand
4 charge. The proposed reactive demand charge is \$0.66 per reactive kW, increased from
5 the current charge of \$0.51. The proposed methodology is a reasonable way to adjust
6 the reactive demand charge.

7 Q. WHAT IS YOUR RESPONSE TO THE REC OPT-OUT CREDIT?

8 A. SWEPCO will file a REC Opt-Out Tariff in the compliance phase of this case subject
9 to Commission approval. SWEPCO agreed to impute a value of the RECs for its
10 renewable energy purchases as a result of the settlement in Docket No. 47553
11 (SWEPCO's prior fuel reconciliation). Exhibit JLJ-2R contains SWEPCO's
12 calculation of the REC Opt-Out credit factor based on the imputed total company REC
13 values and allocation to SWEPCO's Texas retail jurisdiction and eligible rate classes.
14 The allocation is demand-based because the REC value is recorded in FERC Account
15 555 and the credit factor is developed based on kWh sales at the meter for the eligible
16 customers. SWEPCO has estimated a per kWh credit to be applied to Transmission-
17 voltage customers who will submit notice (at some future date) to the Commission
18 indicating a preference to opt-out of paying for RECs for SWEPCO's renewable energy
19 purchases.

1 VI. STAFF'S OPPOSITION TO CUSTOMER RATE OPTIONS

2 Q. PLEASE DESCRIBE STAFF'S REASONS FOR OPPOSING RATE OPTIONS FOR
3 CUSTOMERS.

4 A. Staff witness Narvaez recommends that the Commission require the elimination of the
5 potential for customer migration between base rates as part of next rate case. Staff
6 maintains that SWEPCO's policy of allowing some customers to take service under
7 multiple rate schedules undermines the Commission's ability to establish just and
8 reasonable rates. Witness Narvaez also suggests that adjusting the billing determinants
9 used to set rates for the General Service Tariff in order to account for future customer
10 migration, as proposed by SWEPCO would violate 16 Texas Administrative Code
11 (TAC) § 25.234(b) which requires that rates be "determined using revenues, billing and
12 usage data for a historical test year adjusted for known and measurable changes."
13 Witness Narvaez argues that any estimates regarding unknown future customer
14 migration would not meet the "known and measurable" standard.

15 Q. WHAT DOES 16 TAC § 25.234 STATE?

16 A. The referenced rule stats the following: **§25.234. Rate Design.** (a) Rates shall not be
17 unreasonably preferential, prejudicial, or discriminatory, but shall be sufficient,
18 equitable, and consistent in application to each class of customers, and shall be based
19 on cost. (b) Rates will be determined using revenues, billing and usage data for a
20 historical test year adjusted for known and measurable changes, and costs of service as
21 defined in §25.231 of this title (relating to Cost of Service).

22 Q. DO THE ADJUSTMENTS TO THE RATE STRUCTURES PROPOSED BY
23 SWEPCO PROPERLY ACCOUNT FOR CUSTOMER BILLING UNITS?

1 A. Yes. SWEPCO has reasonably estimated the customers and billing units that compose
2 the proposed rate class based on the proposed rate design and the test year adjusted
3 billing determinants. While SWEPCO cannot determine future customer rate
4 migration after the rates are set, the customer billing determinants based on test year
5 adjusted and normalized information are in the appropriate proposed rate schedule. The
6 revenue from each class is the total expected revenue based on the test year adjusted
7 data.

8 Q. DOES THE ELECTRIC UTILITY RATE FILING PACKAGE (RFP) FOR
9 GENERATING UTILITIES ALLOW BILLING UNIT ESTIMATES IN RATE
10 DESIGN?

11 A. Yes. The RFP specifically states that estimates of billing units are acceptable.

12 Q. WHAT DOES THE RFP FOR GENERATING UTILITIES STATE ABOUT
13 HISTORICAL TEST YEAR ADJUSTMENTS?

14 A. The RFP, in the section on the Schedule Q-7, Proof of Revenue Statement, states the
15 following:

16 Provide a proof of revenue statement (sometimes known as a pro
17 forma revenue statement) showing expected or estimated adjusted
18 billing units, proposed prices, and the resulting base rate revenue and
19 fuel revenue for the proposed rate classes. Also show other revenue.
20 The result shall show total expected revenue by rate class and shall
21 conform to the requested revenue by rate class. The sum of all rate
22 classes plus other listed system revenue shall equal the total requested
23 revenue of the utility. The total adjusted kWh sales used in this proof
24 of revenue statement shall correspond to the total adjusted kWh sales
25 in Schedule O-1.1. Also prepare a proof of revenue statement similar
26 to the one above, using present rates in the revenue calculation.

27 Estimates of billing units are acceptable. Alternative data, such as pro
28 forma adjustments to revenues rather than billing units, may be used
29 to substantiate the recovery of proposed revenue as long as a narrative

1 explanation of the derivation of the revenue adjustments from the
2 kWh adjustments and customer adjustments shown in Schedule O-1
3 is provided. In all cases, enough information must be provided so as
4 to allow for the derivation of reasonably accurate prices under
5 alternative class revenue targets and alternative class kWh sales. For
6 utilities with multiple jurisdictions, information provided need only
7 be sufficient to produce a proof of revenue statement for Texas retail
8 revenues.

9 Q. HOW DO YOU RESPOND TO STAFF'S CRITICISM?

10 A. Staff's declaration that adjustments made for rate migration in the test year do not meet
11 the "known and measurable" standard appears unprecedented. Migration adjustments,
12 similar to test year adjustments and normalization, are performed to estimate a
13 reasonable rate year set of billing determinants on which to design new rates. Taking
14 into account the effect of customer migration based on new pricing is comparable to
15 and is part of the process of normalizing estimated test year billing determinants. Rate
16 design by its nature is an iterative process. Adjusting rate class billing determinants
17 based on rate structure and pricing changes, while maintaining comparative pricing
18 among classes, is the normal course of rate design and has been used successfully in
19 past rate cases.

20 Q. DOES THE FACT THAT RATE OPTIONS EXIST AND MIGRATION OCCURS
21 CREATE BARRIERS TO COST-BASED RATES?

22 A. No. In fact, one could argue that it eliminates those barriers by developing a rate that
23 will ultimately lead customers to subscribe to a more appropriate rate schedule,
24 ultimately reflecting the cost to serve each class of customers.

25 Q. IS SWEPCO UNIQUE AMONG OTHER TEXAS UTILITIES IN THIS REGARD?

1 A. No. Staff asserts that SWEPCO is unusual among utilities, stating that almost all of
2 the customers of other electric utilities in Texas are required to take service under a
3 single base rate schedule.² On the contrary, other utilities do frequently allow
4 customers to choose between multiple rate schedules. For example, Entergy Texas
5 offers two general service schedules with overlapping availability, as well as numerous
6 schedules containing time-of-use pricing under which a customer may receive service
7 instead of a standard pricing schedule.³ Another example is El Paso Electric, which
8 offers numerous specialty rate schedules under which a customer may receive service
9 instead of the standard pricing schedule under which the customer is eligible.⁴

10 Q. HOW WOULD STAFF'S RECOMMENDATION AFFECT CUSTOMERS?

11 A. Staff's recommendation would discourage rate structure changes or new innovative
12 rate designs proposed to serve customers based on the evolving customer landscape,
13 service needs, and customer requests because billing units were based on test year
14 estimates even though the estimates are clearly allowed by rule. Staff's
15 recommendation lacks a recognition of customer focus and customer satisfaction by
16 the utility. Eliminating optional rates would affect the additional rider options currently
17 available to SWEPCO's customers, including the C-2 heating rider and the SBMA
18 riders. This proclamation would also seemingly deny the newly proposed time-of-use

² *Application of Southwestern Electric Power Company for Authority to Change Rates*, Docket No. 51415, Direct Testimony of Adrian Narvaez at 28 (Apr. 7, 2021).

³ Entergy Texas' GS rate schedule is available to customers sized between 5 kW and 2,500 kW, and its LGS rate schedule is available to customers sized between 300 kW and 2,500 kW. Its time-of-use offerings include GS-TOD, LGS-TOD, LIPS-TOD, and Residential-TOD.

⁴ Examples include El Paso Electric's Time-of-Use Municipal Pumping Service, Irrigation Service, and Petroleum Refinery Service rate schedules.

options and EV rate-based options, further limiting customer rate schedule choices and limiting customer rate options when considering commercial/industrial changes in operations such as adding shifts to a production line or adding electric fleet vehicle charging. Under Staff's new standard, structural changes to existing rate schedules and proposing new rate schedules would not be allowed. That standard would not be customer-focused and would make it far more difficult for SWEPCO to provide rate solutions that are responsive to the evolving ways customers use electric energy.

Q. ARE THE PROPOSED COMMERCIAL RATE STRUCTURE CHANGES MADE TO ASSIST CUSTOMERS?

A. Yes. The commercial rate structure changes were proposed to accommodate lower load factor customers, including churches and schools, consistent with customer requests.

VII. CONCLUSION

Q. IS IT YOUR RECOMMENDATION THAT SWEPCO'S REBUTTAL REVENUE DISTRIBUTION REPLACE THE REVENUE DISTRIBUTION FILED IN SWEPCO'S DIRECT CASE AND BE APPROVED AS FILED IN THE REBUTTAL PHASE?

A. Yes, it is. The updated rebuttal class cost-of-service study results and the updated rebuttal revenue distribution reflect the recommendations of the parties accepted by SWEPCO. Rates based on the rebuttal revenue distribution would move classes closer to cost and support SWEPCO's proposed rate design. If the Commission agrees that it is appropriate to include BTMG loads in determining SWEPCO's Texas share of its

1 SPP transmission costs, SWEPCO supports its rate designed to apply to any
2 synchronized self-generation load. Additionally, SWEPCO supports its overall rate
3 design offering options for lower load factor commercial and small industrial
4 customers, time-of-use based rates, and rates specifically for electric vehicle charging.

5 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

6 A. Yes, it does.

SOUTHWESTERN ELECTRIC POWER COMPANY
REBUTAL REVENUE DISTRIBUTION

EXHIBIT JLJ-1R
Page 1 of 1

CUSTOMER GROUP	RATE CODE	VOLTAGE LEVEL	TEST YEAR ADJ KWH	PRESENT RATE SCHEDULE REVENUE	EQUALIZED BASE REVENUE CHANGE	EQUALIZED BASE PERCENT CHANGE	TARGET BASE REVENUE CHANGE	TARGET BASE PERCENT CHANGE	GROSS BASE PERCENT CHANGE	PROPOSED RATE OF RETURN	PROPOSED RELATIVE RATE OF RETURN	NET REVENUE CHANGE	NET PERCENT CHANGE
RESIDENTIAL	12,15,16,19,61	SEC	2,165,609,056	147,077,995	41,688,067	28.34%	41,688,067	28.34%	28.34%	7.22%	1.00	35,538,945	24.16%
GENERAL SERVICE W/DEM	200,205,207,210-215,224,281	SEC	205,598,031	16,998,369	3,983,555	23.43%	4,127,789	24.28%	24.24%	7.33%	1.02	3,480,942	20.48%
GENERAL SERVICE WO/DEM	202,208,218	SEC	66,333,658	5,669,225	2,328,486	41.07%	2,328,486	41.07%	41.07%	7.22%	1.00	2,121,794	37.43%
LIGHTING & POWER	60,63,240,243,291	SEC	2,161,933,051	100,037,248	35,329,772	35.32%	35,329,772	35.32%	35.32%	7.24%	1.00	31,130,649	31.12%
LIGHTING & POWER	66,246,249,251,252,254,277	PRI	667,056,010	23,827,679	2,345,646	9.84%	2,345,646	9.84%	9.86%	7.23%	1.00	1,279,459	5.37%
COTTON GIN	253	SEC	4,565,380	231,688	244,468	105.52%	100,234	43.26%	43.26%	0.82%	0.11	82,063	35.42%
TOTAL COMMERCIAL			3,105,486,129	146,764,210	44,231,927	30.14%	44,231,927	30.14%	30.14%	7.22%	1.00	38,094,908	25.96%
LARGE LIGHTING & POWER	351	PRI	164,644,585	5,298,104	1,411,436	26.64%	1,411,436	26.64%	26.66%	7.23%	1.00	1,172,176	22.12%
LARGE LIGHTING & POWER	342,344	TRAN	818,720,986	22,387,847	7,677,422	34.29%	7,677,422	34.29%	34.30%	7.22%	1.00	6,595,172	29.46%
METAL MELTING - SEC	335	SEC	1,983,789	143,749	54,461	37.89%	54,461	37.89%	37.82%	7.21%	1.00	47,083	32.75%
METAL MELTING - PRI	325	PRI	37,667,206	1,402,858	360,494	25.70%	360,494	25.70%	25.75%	7.23%	1.00	267,809	19.09%
METAL MELTING - TRANS	318,321	69 TRAN	53,731,559	1,498,929	7,463	0.50%	7,463	0.50%	0.54%	7.23%	1.00	(165,352)	-11.03%
OILFIELD PRIMARY	330	PRI	384,472,605	10,636,387	2,481,901	23.33%	2,720,594	25.58%	25.59%	7.54%	1.04	2,222,959	20.90%
OILFIELD SECONDARY	331	SEC	20,704,032	588,848	493,443	83.80%	254,751	43.26%	43.36%	3.58%	0.50	252,808	42.93%
TOTAL INDUSTRIAL			1,481,924,742	41,956,723	12,486,621	29.76%	12,486,621	29.76%	29.77%	7.23%	1.00	10,392,655	24.77%
TOTAL COMMERCIAL & INDUSTRIAL			4,587,410,871	188,720,933	56,718,548	30.05%	56,718,548	30.05%	30.06%	7.22%	1.00	48,487,562	25.69%
MUNICIPAL PUMPING	541,543,550,553	SEC	60,026,735	2,279,333	340,521	14.94%	340,521	14.94%	14.94%	7.22%	1.00	229,414	10.06%
MUNICIPAL SERVICE	544,548	SEC	26,943,781	1,650,219	(51,145)	-3.10%	(25,573)	-1.55%	-1.55%	7.51%	1.04	(76,971)	-4.66%
TOTAL MUNICIPAL PUMPING & SERVICE			86,970,515	3,929,551	289,376	7.36%	314,948	8.01%	8.02%	7.33%	1.02	152,443	3.88%
MUNICIPAL LIGHTING	521,528,529,535, 538	SEC	26,004,489	2,267,085	368,184	16.24%	396,935	17.51%	17.53%	7.41%	1.03	312,984	13.81%
PUBLIC STREET & HWY	534,539,739	SEC	1,070,584	30,170	67,376	223.32%	13,052	43.26%	43.25%	-2.43%	(0.34)	9,773	32.39%
TOTAL MUNICIPAL LIGHTING			27,075,073	2,297,255	435,559	18.96%	409,987	17.85%	17.86%	7.07%	0.98	322,757	14.05%
TOTAL MUNICIPAL & MUNICIPAL LIGHTING		SEC	114,045,588	6,226,806	724,935	11.64%	724,935	11.64%	11.65%	7.22%	1.00	475,201	7.63%
PRIVATE, OUTDOOR, AREA	90-143	SEC	49,398,122	4,150,616	691,864	16.67%	691,864	16.67%	16.68%	7.23%	1.00	535,578	12.90%
CUST-OWNED LIGHTING	203,204,532	SEC	6,704,408	293,022	104,115	35.53%	104,115	35.53%	35.52%	7.22%	1.00	73,009	24.92%
TOTAL LIGHTING			56,102,530	4,443,639	795,979	17.91%	795,979	17.91%	17.92%	7.22%	1.00	608,586	13.70%
TOTAL FIRM RETAIL			6,923,168,045	346,469,372	99,927,529	28.84%	99,927,529	28.84%	28.84%	7.22%	1.00	85,110,294	24.57%

SOUTHWESTERN ELECTRIC POWER COMPANY
REC Opt Out Credit

Docket No. 51415 REC Costs (1)	\$	1,281,301
TX Retail Allocation (DEMPROD) (2)		36.91%
TX Retail Allocated REC Costs	\$	472,892

	Class DEMPROD (2)	REC Costs in Base Rates	kWh at Meter (2)	REC Opt Out Credit/kWh
Residential	42.28%	\$ 199,920		
Commercial	43.65%	206,424	3,105,486,129	(0.000066)
Industrial	12.59%	59,514	1,481,924,742	(0.000040)
Municipal	0.80%	3,780		
Lighting	0.69%	3,254		
	100.00%	\$ 472,892		

- (1) from SWEPCO response to CARD 1-9 Attachment 13.
(2) Docket No. 51415 SWEPCO rebuttal cost-of-service study.