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PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF  
SOUTHWESTERN ELECTRIC POWER COMPANY  
FOR AUTHORITY TO CHANGE RATES

REBUTTAL TESTIMONY OF  
MARK J. LESKOWITZ  
FOR  
SOUTHWESTERN ELECTRIC POWER COMPANY

APRIL 23, 2021

TESTIMONY INDEX

<u>SECTION</u>	<u>PAGE</u>
I. INTRODUCTION .....	1
II. BACKGROUND .....	1
III. PURPOSE OF REBUTTAL TESTIMONY .....	2
IV. COAL AND LIGNITE INVENTORY .....	3
V. CONCLUSION .....	7

1 I. INTRODUCTION

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

3 A. My name is Mark J. Leskowitz, and I am employed by American Electric Power  
4 Service Corporation (AEPSC), a subsidiary of American Electric Power Company, Inc.  
5 (AEP), in the regulated Commercial Operations organization as Vice President – Fuel  
6 Procurement. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

7 II. BACKGROUND

8 Q. PLEASE GIVE A BRIEF DESCRIPTION OF YOUR EDUCATIONAL  
9 BACKGROUND AND WORK EXPERIENCE.

10 A. I graduated from the University of Houston at Clear Lake in 1990, with a Bachelor of  
11 Science in Finance.

12 My professional background in energy began in 1991 as a junior accountant for  
13 The Coastal Corporation, an oil and natural gas company corporately based in Houston,  
14 Texas. From 1991 through 2002, I worked at various energy companies including The  
15 Coastal Corporation, Enron Corporation, and finally Williams Companies in various  
16 accounting and energy settlements positions with my last position as Manager of  
17 Energy Settlements. In 2002, I joined AEPSC in Columbus, Ohio as the Manager of  
18 Commercial Accounting, eventually being promoted to Director of Commercial  
19 Accounting, with responsibilities of the accounting for AEP's regulated and  
20 unregulated commercial operations. In January 2014, I accepted a position as the  
21 Managing Director of Commercial Services overseeing the Regulated Commercial  
22 Operations settlements including regulated PJM Interconnection and Southwest Power

1 Pool (SPP) activity, wholesale formula rate contracts, renewable wind purchase power  
2 agreements, and natural gas settlements. In August 2018, I was promoted to my current  
3 position as Vice President - Fuel Procurement.

4 Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY AS VICE  
5 PRESIDENT – FUEL PROCUREMENT?

6 A. I am responsible for oversight of the coal procurement, coal transportation, natural gas  
7 procurement, and consumables procurement for AEP operating companies, including  
8 Southwestern Electric Power Company (SWEPCO or the Company), Appalachian  
9 Power Company (APCo), Wheeling Power Company (WPCo), Kentucky Power  
10 Company (KPCo), Indiana & Michigan Power Company (I&M), Public Service  
11 Company of Oklahoma (PSO) and as agent for Ohio Valley Electric Corporation and  
12 Indiana Kentucky Electric Corporation.

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

14 A. No. I am adopting the direct testimony of SWEPCO witness Amy E. Jeffries.

15 III. PURPOSE OF REBUTTAL TESTIMONY

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

17 A. The purpose of my rebuttal testimony is to respond to issues raised by Cities  
18 Advocating Reasonable Deregulation (CARD) witness Scott Norwood regarding his  
19 recommended adjustments to the requested coal and lignite inventory levels including  
20 the disallowance of the Dolet Hills inventory target amount in its entirety.

1 IV. COAL AND LIGNITE INVENTORY

2 Q. DID MR. NORWOOD CORRECTLY STATE THE AMOUNT OF TONS SWEPCO  
3 REQUESTED FOR INCLUSION IN RATE BASE?

4 A. No. Mr. Norwood incorrectly states that the inventory requested by SWEPCO is 1.92  
5 million tons. However, SWEPCO requested 1.50 million tons (Welsh: 0.48 million  
6 tons; Flint Creek: 0.23 million tons; Turk: 0.22 million tons; Pirkey: 0.34 million tons;  
7 and Dolet Hills: 0.23 million tons), as described in Company witness Amy E. Jeffries'  
8 direct testimony, which I have adopted as my own, and as shown in the workpapers for  
9 Schedules B-1.5.7 and E-2.2. The difference between Mr. Norwood's and SWEPCO's  
10 tonnage figures appears to be the result of Mr. Norwood using the total plant target  
11 inventory tons versus SWEPCO's share of the target inventory tons for the Pirkey and  
12 Dolet Hills lignite plants.

13 Q. DO YOU AGREE WITH MR. NORWOOD'S RECOMMENDED REDUCTION IN  
14 THE COAL AND LIGNITE BALANCES BY USING THE AVERAGE DAILY  
15 BURN IN THE TARGET INVENTORY CALCULATION?

16 A. No, I do not. Mr. Norwood recommends replacing the full-load burn per day in the  
17 inventory calculation with an average daily burn during the test year. His suggestion of  
18 using an historic level of burn in the calculation would negatively impact SWEPCO's  
19 ability to reliably serve the needs of its customers and the recommendation should be  
20 rejected.

1 Q. ARE THERE NEGATIVE IMPLICATIONS FROM MR. NORWOOD'S  
2 RECOMMENDATION FOR SWEPCO CUSTOMERS IF AN HISTORIC  
3 AVERAGE BURN RATE IS USED TO SET SWEPCO'S INVENTORY TARGETS?

4 A. Yes. Using the historical average of fuel consumed increases reliability risk for  
5 SWEPCO's customers. First, using an average burn rate calculation assumes that the  
6 historical period operating conditions will persist into the future. Factors such as  
7 weather or unit outages can easily result in future conditions being different from the  
8 average historical burn rate. Furthermore, an average burn rate fails to account for the  
9 peak coal inventory needed during heavier use periods of the year, thereby exposing  
10 SWEPCO customers to an increased reliability risk. For example, if SWEPCO were to  
11 use an average burn rate to set inventory levels and there was a subsequent supply  
12 disruption during a high generation month such as August, the plant could run out of  
13 coal.

14 The quantity of coal expressed in the number of full-load burn days in  
15 SWEPCO's request is proper because it avoids issues with historical averages.  
16 Historical averages can be skewed by events such as an unplanned plant outage or  
17 periods of high wind penetration that would not recognize that coal plants are base load  
18 units in SPP during high peak load periods and may be required to run weeks at a time  
19 at or near full load. SWEPCO's method of setting inventory targets based on full-load  
20 burn ensures that adequate inventory is available to provide the necessary reliability for  
21 SWEPCO customers and was approved in SWEPCO's last two base rate cases (Docket  
22 Nos. 40443 and 46449). Mr. Norwood's recommendation for an inventory adjustment  
23 based on average burn rate should therefore be denied.

1 Q. ACCORDING TO MR. NORWOOD, THE LEVEL OF COAL AND LIGNITE FUEL  
2 INVENTORY THAT SWEPCO HAS REQUESTED IS EXCESSIVE. DO YOU  
3 AGREE?

4 A. I disagree with Mr. Norwood's opinion. Target inventory levels are determined based  
5 on the number of days that the plant may be expected to operate using just the fuel  
6 inventory available at the plant site. To establish the target inventory levels, SWEPCO  
7 looks at numerous factors that could affect the supply of fuel to a plant, such as: the  
8 source of fuel supply, shipping methods and lead times, on-site storage capabilities,  
9 and typical plant capacity factors. These factors determine the proper amount of fuel  
10 needed to ensure each plant has sufficient coal stored to minimize operational risk for  
11 all conditions that could cause supply disruptions. These target inventory levels are  
12 reviewed each year with the Fuel Procurement Team and SWEPCO Senior  
13 Management and plant personnel.

14 Q. DOES THE RECENT DECLINE IN ENERGY PRODUCTION FROM SWEPCO'S  
15 COAL AND LIGNITE UNITS IMPACT THE NEED TO UTILIZE FULL-LOAD  
16 BURN TO ESTABLISH INVENTORY TARGETS?

17 A. No. SWEPCO is obligated to procure and maintain a reliable supply of fuel. Even  
18 though the average amount of coal utilized by SWEPCO has decreased over the years,  
19 it is SWEPCO's responsibility to be prepared for periods when coal generation is in  
20 high demand. There are times when a coal plant is not required by the market for a  
21 month and other times when the same plant is required at near full capacity for an  
22 extended period. It is during those times when these units are needed at full-load



1 capacity when the use of the average burn rate to set inventory levels could place  
2 SWEPCO in a position of risk.

3 SWEPCO having inventory to serve customers at peak periods is a requirement,  
4 which allows the company to readily provide reliable electricity and ensures adequate  
5 supply available to prevent disruption issues. Using the full-load burn rate is necessary  
6 to ensure the ability of the Company to provide reliable generation for SWEPCO's  
7 customers in times of uncontrollable events. Operational or weather issues can also  
8 occur at the mines over significant periods of time, which could result in the plants not  
9 being available to run at full load for sustained periods in SPP.

10 Q. DO YOU AGREE WITH MR. NORWOOD'S RECOMMENDATION THAT THE  
11 DOLET HILLS INVENTORY SHOULD BE DISALLOWED IN ITS ENTIRETY?

12 A. No. I do not. SWEPCO is required to maintain reliable fuel supply for all of their plants.  
13 The 45-day inventory target has been approved by the Commission in SWEPCO's  
14 previous rate case PUC Docket No. 46449 and continues to be prudent for managing  
15 the Dolet Hills inventory. From the test year through its eventual retirement date,  
16 SWEPCO is managing the fuel inventory at Dolet Hills while accounting for potential  
17 impacts from weather, supply disruptions, and plant outages as it does with its other  
18 coal and lignite plants. In addition, SWEPCO has and will continue to finance the  
19 inventory and incur costs from having inventory available in the test year through the  
20 retirement date of the plant. As of mid-April 2021, SWEPCO has over 60 days of full  
21 load inventory for reliability and preparation for the 2021 summer seasonal period.

22 Further, Dolet Hills must be available for seasonal burn and Regional  
23 Transmission Organization ("RTO") reliability year round in SPP for SWEPCO and in

1 the Midcontinent Independent System Operator (“MISO”) market for CLECO, the  
2 Dolet Hills operator. Mr. Norwood ignores these additional RTO reliability needs of  
3 Dolet Hills by recommending the plant be disallowed all inventory required to run  
4 reliably for the RTOs as well as for the SWEPCO or CLECO customers. Dolet Hills  
5 requires inventory to run reliably and efficiently for customers and therefore Mr.  
6 Norwood’s recommendation to disallow Dolet Hills inventory in its entirety should be  
7 rejected.

8 V. CONCLUSION

9 Q. DO YOU BELIEVE SWEPCO SHOULD MAKE AN ADJUSTMENT TO ITS  
10 REQUESTED TARGET INVENTORY LEVELS?

11 A. No. SWEPCO requested the target inventory levels for SWEPCO’s coal and lignite  
12 plants that are necessary to provide adequate reliability to SWEPCO customers and  
13 SPP as supported by Company witness Amy E. Jeffries’ direct testimony. In addition,  
14 the Company’s request is consistent with the treatment approved in SWEPCO’s last  
15 two rate cases (Docket Nos. 40443 and 46449).

16 Q. DO YOU AGREE WITH MR. NORWOOD’S RECOMMEDATION THAT THE  
17 DOLET HILLS INVENTORY SHOULD BE DISALLOWED IN ITS ENTIRETY?

18 A. No. SWEPCO’s requested target inventory level of 45 days is necessary to provide  
19 adequate reliability to SWEPCO customers as supported by Company witness Amy E.  
20 Jeffries’ direct testimony.

21 Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

22 A. Yes, it does.