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PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF
SOUTHWESTERN ELECTRIC POWER COMPANY
FOR AUTHORITY TO CHANGE RATES

REBUTTAL TESTIMONY OF
GREGORY S. WILSON
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 Gregory S. Wilson. I am a consulting actuary specializing in the area of
4 property-casualty actuarial matters. I am a Vice President and Principal at Lewis &
5 Ellis, Inc. (L&E). My business address is 700 Central Expressway South, Suite 550,
6 Allen, Texas 75007.

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

8 A. Yes, I did.

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 and rebut certain intervenor
12 witnesses' challenges to Southwestern Electric Power Company's (SWEPCO or the
13 Company) proposed self-insurance reserve. Specifically, I rebut:

- 14 • Cities Advocating Reasonable Deregulation (CARD) witness Mark E.
15 Garrett's recommendations that the Company's requested increase in property
16 insurance of \$1,689,700 be rejected;
- 17 • Office of Public Utility Counsel (OPUC) witness Constance E. Cannady's
18 recommendations that the damages used in the Monte Carlo Model be limited
19 to \$6.41 million; and
- 20 • Texas Industrial Energy Consumers (TIEC) witness Billie LaConte's
21 recommendations that the Commission ignore the losses in 2000 and 2004.

1 III. SELF-INSURANCE RESERVE

2 Q. IN HIS TESTIMONY, MR. GARRETT STATES THAT YOU DID NOT PROVIDE
3 ANY EMPIRICAL EVIDENCE IN SUPPORT OF THE COST BENEFIT
4 ANALYSIS. PLEASE RESPOND.

5 A. 16 TAC § 25.231(b)(1)(G) requires that an expert show that the self-insurance plan
6 would be a lower cost alternative than commercial insurance and that the ratepayers
7 receive the benefit of the self-insurance plan. My testimony clearly showed this to be
8 the case.

9 Q. DID YOUR TESTIMONY INCLUDE ANY EMPIRICAL EVIDENCE?

10 A. Yes. 16 TAC § 25.231(b)(1)(G) requires that the cost benefit analysis include a
11 detailed analysis of the appropriate limits of self-insurance, an analysis of the
12 appropriate annual accruals to build a reserve account for self-insurance, and the level
13 at which further accruals should be decreased or terminated. These items were all
14 included in my testimony in support of the annual accrual, the target amount of the
15 reserve, and the number of years that the accrual should be continued to build the
16 reserve to the desired level.

17 Q. IN HER TESTIMONY, MS. CANNADY RECOMMENDS THAT THE DAMAGES
18 FROM THE 2000 ICE STORM NOT BE USED WHEN RUNNING THE MONTE
19 CARLO MODEL BECAUSE THEY ARE ESTIMATES. DO YOU AGREE WITH
20 HER RECOMMENDATION?

21 A. No. Prior to 2005, SWEPCO did not keep records of damage for each storm, only
22 payments made by year. The 2000 damage payments were \$11,836,581. The 2001
23 damage payments were \$3,361,414. Because the ice storm happened in late 2000 and

1 there was no indication of a major storm in 2001, SWEPCO concluded that the 2001
2 payments were related to the ice storm. It appeared at the time that the largest non-
3 major storm in the experience period was \$281,557. As a result, the 2000 and 2001
4 amounts were added together to get \$15,197,995. Then, \$563,114 was subtracted from
5 the number, which represented \$281,557 for both 2000 and 2001, assuming a worst-
6 case minor storm in each of those years. This was described in my testimony in Docket
7 No. 37364. Because the estimate is conservative, and almost certainly lower than the
8 actual payments, it is appropriate to include those damages. There were clearly
9 significant storm damages in those years and it would not be appropriate to exclude
10 them.

11 Q. IS THERE ANYTHING IN 16 TAC § 25.231(b)(1)(G) THAT PROHIBITS THE
12 INSURANCE EXPERT FROM USING ESTIMATES?

13 A. No. In fact, by requiring the use of an insurance expert, the rule might be considered
14 to be expecting the expert to use estimates. For example, in every piece of testimony I
15 have provided since the mid-1990s, I have applied a trend factor to the historical losses
16 to bring the past losses to the current level. This trend factor is estimated based on the
17 Handy-Whitman index, which is an index that measures construction in the utility
18 industry. To the best of my recollection, this estimate has never been rejected by the
19 Commission.

1 Q. IN HER TESTIMONY, MS. LACONTE STATES THAT THE DAMAGES FROM
2 2000 AND 2004 SHOULD NOT BE CONSIDERED BECAUSE THEY ARE
3 ESTIMATES. PLEASE RESPOND.

4 A. As discussed in detail in the previous answer, the amounts of the storm damage that
5 were incurred by SWEPCO in those years are conservative. SWEPCO used actual data
6 for total storm damages during those years but, because SWEPCO did not track
7 damages for each storm, an estimated break-out between major and non-major storms
8 was used instead.

9 IV. CONCLUSION

10 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

11 A. Yes, it does.