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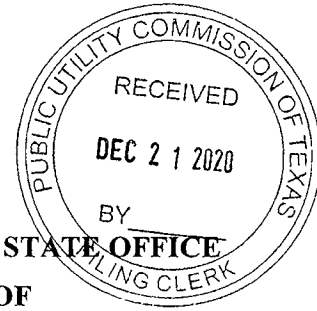


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SOAH DOCKET NO. 423-21-0538
PUC DOCKET NO. 51415



APPLICATION OF SOUTHWESTERN §
ELECTRIC POWER COMPANY FOR §
AUTHORITY TO CHANGE RATES §

BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS

SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION STAFF'S SIXTH REQUEST FOR INFORMATION

DECEMBER 21, 2020

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Files provided electronically on the PUC Interchange

Staff_6_2_Attachment1.xlsx

Staff_6_8_Attachment1.xlsm

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**SOAH DOCKET NO. 473-21-0538
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**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
STAFF'S SIXTH REQUEST FOR INFORMATION**

Question No. Staff 6-1:

Please provide Southwestern Electric Power Company's (SWEPCO or the Company) actual capital structure as of the end of the test year.

Response No. Staff 6-1:

The actual test year total capital structure for SWEPCO is provided on Schedule K-1 and results in 50.81% debt and 49.19% equity.

Prepared By: Carrie M. Luedtke

Title: Corp Finance Analyst Prin

Sponsored By: Renee V. Hawkins

Title: Mng Dir Corporate Finance

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**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
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Question No. Staff 6-2:

Refer to Staff 6-1. Please provide a detailed reconciliation between the Company's actual capital structure as of the end of the test year and the Company's requested capital structure in its application.

Response No. Staff 6-2:

A detailed reconciliation is provided in Staff_6_2_Attachment1.xlsx.

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SOUTHWESTERN ELECTRIC POWER COMPANY
TEST YEAR ENDING 3-31-2020
PUC DOCKET NO. 51415

Dr. (Cr.)

LTD Reconciliation

Test Year
03/31/20

Acct 181	Debt Issue Costs	16,265,793
Acct 189	Loss on Reacq debt	6,453,129
Acct 224	LTD Outstanding	(2,565,000,000)
Acct 226	Debt Discount	4,466,191
Acct 257	Gain on Reacq. Debt	(484)
Debt -Per Books		<u>(2,537,815,372)</u>

Adjustments:

Acct 224	Adj Debt Refinance - Local Cr Facilit	15,000,000	Refinance 5-12-2020
Acct 181	Adj Debt Iss costs Local Cr Facility	173,571	WP K-3.1
Acct 257	Eliminate Gain on Reacq debt	484	WP K-3.1
	Hedging costs adj.	1,594,704	K-3 cell m48
		<u>16,768,759</u>	

Requested Long Term Debt Balance (2,521,046,613) K-1

Common Equity Reconciliation

Common Equity-Per Books (2,457,266,197) WP K-1

Adjustments:

Acct 2190007	OCI-Min Pen Liab FAS 158-OPEB	(8,219)	WP K-1
Acct 2190015	Accum OCI-Hdg-CF-Int Rate	(1,259,816)	WP K-1
		<u>(1,268,035)</u>	

Requested Common Equity Balance (2,458,534,232) K-1

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**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
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Question No. Staff 6-3:

Refer to Schedule K-1. Please provide workpapers showing the calculation and composition of the (\$16,768,759) adjustment to long-term debt in column (4).

Response No. Staff 6-3:

This information is provided in Attachment 1 to the response in Staff 6-2.

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**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
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Question No. Staff 6-4:

Refer to Schedule K-1. Please provide workpapers showing the calculation and composition of the \$1,268,035 adjustment to equity in column (4).

Response No. Staff 6-4:

This information is provided in Attachment 1 to the response in Staff 6-2.

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**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
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Question No. Staff 6-7:

Refer to Schedule K-3. Please provide the calculation and composition of the amount of \$648,837.84 for Amortization of Loss (Gain) on Reacquired Debt. Please identify all debt issuances that give rise to these amounts. Please explain and justify why the Company adds Amortization of Loss (Gain) on Reacquired Debt in its adjustment to Annual Requirement. Please specifically explain and justify this in light of the fact that Column (I) on Schedule K-3 schedule, which pertains to Gain (Loss) on Reacquired Debt, shows no amounts for the Company's outstanding debt issuances.

Response No. Staff 6-7:

Please see Attachment 1 to Staff 6-8 and WP K-3.1 for the composition of the \$648,838 Amortization of Loss on Reacquired Debt. Please note that Schedule K-3, Column (I) shows no loss on reacquired debt for outstanding debt. SWEPCO's deferred loss on reacquired debt (Account 189) does not relate to existing outstanding debt issues during the test year but relates to prior year reacquisition and retirement of previously outstanding debt series.

SWEPCO adds the effects of the unamortized debt loss and amortization at the bottom of Schedule K-3 in determining the debt requirement of the net outstanding long term debt. This is authorized in the PUCT Rate Filing Instructions for Schedule K-3.

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Question No. Staff 6-8:

Refer to the MS Excel file named "SWEPCO 03-31-2020 WCOC," specifically Cell Nos. J77, J78, J81, J82, and J83 of the tab named "Debt issue-disc-loss." These cells appear to have hard coded monthly amounts multiplied by 12 to annualize them. Please provide workpapers showing the calculation, derivation, or source of those monthly amounts.

Response No. Staff 6-8:

Please see Staff_6_8_Attachment1.xlsm tabs named 1890001; 1890002; 1890004; and 1890006. This file provides the monthly detail requested.

Attachment I is available electronically on the PUC Interchange.

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**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
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Question No. Staff 6-9:

Refer to Schedule K-3. Please provide the calculation and composition of the amount of \$1,921,313 for Amortization of Hedging Costs. Please identify all hedges and hedged debt issuances that give rise to these amounts. Please explain and justify why the Company adds Amortization of Hedging Costs in its adjustment to Annual Requirement.

Response No. Staff 6-9:

WP K-3.2 and WP K-3.3 provides the requested composition of the Series I hedge loss and the Series M hedge gain (amortization of swap costs). The Company accounts for any gains or losses and gains on these interest rate swaps on Schedule K-3 in the same manner as we do loss and gains on reacquired debt as described in the response to Staff 6-7.

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**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
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Question No. Staff 6-10:

Refer to Schedule K-3. Please provide the calculation and composition of the amount of (\$6,453,128) for Unamortized Loss (Gain) on Reacquired Debt. Please identify all debt issuances, including the gain or loss and date of transaction, that give rise to these amounts. Please explain and justify why the Company subtracts Unamortized Loss (Gain) on Reacquired Debt in its adjustment to Debt Balance.

Response No. Staff 6-10:

Please refer to the response in Staff 6-7 and Staff 6-8 Attachment 1. The information included in the response to Staff 6-7 includes detail of the deferred loss balance and the related amortization expense included in Schedule K-3.

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Question No. Staff 6-11:

Refer to Schedule K-3. Please provide the calculation and composition of the amount of (\$1,594,703) for Unamortized Hedging Costs. Please identify all hedges and hedged debt issuances that give rise to these amounts. Please explain and justify why the Company subtracts Unamortized Hedging Costs in its adjustment to Debt Balance.

Response No. Staff 6-11:

Please see the response to Staff 6-9. The referenced work papers provide unamortized balances and amortization expense included in Schedule K-3.

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**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO COMMISSION
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Question No. Staff 6-12:

Refer to the MS Excel file named "SWEPCO 03-31-2020 WCOC," specifically the tab named "LTD." Please confirm that the Series I Hedge Loss (referred to in Cell No. G96) will be fully amortized on January 31, 2022. If not confirmed, please explain in detail.

Response No. Staff 6-12:

Confirmed.

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Question No. Staff 6-13:

Refer to Staff 6-12. Please explain and justify why the Company proposes to calculate its requested cost of debt based on this hedge loss from February 2012 that will be fully amortized less than one year after SWEPCO's rate change.

Response No. Staff 6-13:

SWEPCO's treatment on this hedge loss is consistent with Texas Administrative Code regarding post-test year adjustments 25.231(c)(2)(F). The filing conforms to the use of a test year ending March 31, 2020. SWEPCO's Rate Base and the related Weighted Cost of Capital (WCOC) is matched to the test year date of March 31, 2020 in this filing. This provides for a fair return on investment. SWEPCO is not adjusting for expected rate base increases between March 2020 and January 2022 (expiration date of hedging loss) and accordingly, the WCOC at the test year end should not be adjusted for an event over a year into the future. Numerous changes will happen up until the new rates go into effect, not just the final hedging loss amortization in 2022.

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Question No. Staff 6-14:

Refer to Staff 6-12. Please confirm that, if SWEPCO had not included the Series I Hedge Loss from February 2012 in its calculation, SWEPCO's requested cost of debt would have been 4.08%. If anything other than confirm, please provide calculations and a detailed explanation.

Response No. Staff 6-14:

Confirmed, 4.08%.

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