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APPLICATION OF SOUTHWESTERN § BEFORE THE STATE OFFICE
ELECTRIC POWER COMPANY FOR § OF
AUTHORITY TO CHANGE RATES § ADMINISTRATIVE HEARINGS

**SOUTHWESTERN ELECTRIC POWER COMPANY'S
PROPOSED FINDINGS OF FACT AND CONCLUSIONS OF LAW**

For the Administrative Law Judges' (ALJs) convenience, the proposed findings of fact and conclusions of law include the same headings as the briefing outline.

I. Findings of Fact

Procedural History

1. Southwestern Electric Power Company (SWEPCO or the Company) is a wholly owned subsidiary of American Electric Power Company (AEP) and is a fully integrated investor-owned electric utility serving retail and wholesale customers in Texas, Louisiana, and Arkansas.
2. SWEPCO is an electric utility, a public utility, and a utility as those terms are defined in Sections 11.004(1) and 31.0026) of the Public Utility Regulatory Act (PURA).
3. SWEPCO serves approximately 187,400 Texas retail customers, all of whom are affected by SWEPCO's application to change rates.
4. The Federal Regulatory Commission (FERC) regulates SWEPCO's wholesale electric operations.
5. On October 14, 2020, SWEPCO filed its Petition and Statement of Intent requesting Commission approve to increase its Texas retail base rate revenue by \$90,199,736, which is an increase of 26.03% over its adjusted Texas retail test year base rate revenues exclusive of fuel and rider revenues. The overall impact of the proposed revenue requirement increase, considering both fuel and non-fuel revenues, is a 15.57% increase.
6. SWEPCO's rate increase is needed to reflect incremental investment in generation since its last test year and incremental investment in transmission and distribution since SWEPCO last modified its Transmission Cost Recovery Factor (TCRF) and Distribution Cost Recovery Factor (DCRF).
7. Additionally, SWEPCO has announced the retirement of its Dolet Hills Power Plant (Dolet Hills). As a result, SWEPCO proposes a rate treatment to mitigate the impact of depreciating Dolet Hills over its remaining economically useful life of 2021.

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8. SWEPCO is also requesting an increase in \$5 million over Test Year costs to expand its distribution vegetation management program. SWEPCO recommends these funds be specifically earmarked (consistent with current vegetation management costs) to maintain and improve reliability for customers on targeted circuits in Texas.
9. SWEPCO also requests the Commission approve certain policy-oriented proposals, including the establishment of a self-insurance reserve, deferred recovery of Hurricane Laura restoration cost and certain charges billed to SWEPCO by the Southwest Power Pool (SPP).
10. SWEPCO employed the twelve month period ending March 31, 2020 as its 12 month historical test year (Test Year).
11. SWEPCO provided notice of its application for four consecutive weeks in a newspaper having general circulation in each county in SWEPCO's Texas service territory. Individual notice was provided to SWEPCO's Texas retail customers by bill insert. SWEPCO timely provided notice of its statement of intent to each municipality retaining original jurisdiction over its rates and services. Additionally, SWEPCO electronically provided notice to Staff of the Public Commission of Texas (Staff), the Office of Public Utility Counsel (OPUC), and legal representatives of all parties to SWEPCO's most recent base case, Docket No 46449.
12. The following intervening parties participated in this docket: Staff, OPUC, Texas Industrial Energy Consumers (TIEC), Cities Advocating Reasonable Deregulation (CARD), Texas Cotton Ginners Association (TCGA), Walmart Inc. (Walmart), Eastman Chemical Company (Eastman), Sierra Club and Dr. Lawrence Broughs (Sierra Club), East Texas Salt Water Disposal Company and East Texas Oil and Gas Producers (ETSWD), Nucor Steel Longview, LLC (Nucor), and East Texas Electric Cooperative, Inc. and Northeast Texas Electric Cooperative, Inc. (ETEC-NTEC).
13. On October 30, 2020, the Commission referred this case to the State Office of Administrative Hearings (SOAH).
14. On November 19, 2020, SWEPCO filed an Agreed Motion to Adopt Procedural Schedule in which it agreed to extend the jurisdictional deadline until October 27, 2021.
15. On December 17, 2020, the Commission issued its Preliminary Order identifying the issues to be addressed in this proceeding.
16. SWEPCO timely filed, with the Commission, petitions for review of rate ordinances of the municipalities exercising original jurisdiction within its service territory. All such appeals were consolidated for determination in this proceeding.
17. On March 31, 2021, SWEPCO, Staff, CARD, OPUC, and TIEC filed a Joint Proposed Procedural Schedule Regarding Rate Case Expenses to modify the procedural schedule established in SOAH Order No. 2.

18. The hearing on the merits commenced on May 19, 2021 and concluded on May 26, 2021.

Invested Capital - Rate Base

Generation, Transmission, and Distribution Capital Investment

19. SWEPCO incurred a total amount of \$143.5 million of distribution capital investment placed in service during the period July 1, 2016, and March 31, 2020.
20. SWEPCO has invested approximately \$636.7 million in its transmission system since the end of the test year (June 30, 2016) in its last base rate case, Docket No. 46449.
21. SWEPCO employs rigorous budgeting, outsourcing, planning, contracting, materials acquisition, and cost review processes to ensure that the costs associated with its distribution and transmission capital projects are reasonable.
22. The entirety of the distribution and transmission investment is used and useful in providing service to the public and reasonable and necessary.

Dolet Hills Power Station

23. Despite diligent efforts to reduce mining costs at the Dolet Hills lignite mines, lignite production at those mines ceased based on SWEPCO's and Cleco Power, LLC's (CLECO) determination that all economically recoverable lignite had been depleted.
24. The Company evaluated mining operations and costs of operating Dolet Hills beyond 2021. SWEPCO studied the expected total SWEPCO system cost to serve customers under the scenario where the Dolet Hills plant continues to serve customers through 2026 and the scenario where the Dolet Hills plant is retired by December 31, 2021. That study demonstrates that the expected least cost path for SWEPCO and its customers lies in retirement of the Dolet Hills plant.
25. SWEPCO's decision to retire the Dolet Hills plant at the end of 2021 is a prudent decision.
26. During 2021 seasonal operation, the Dolet Hills plant is planned to run during the peak summer months when the plant typically is most needed by SWEPCO's customers. Even at other times outside of seasonal operation, the plant remains available if called upon by SWEPCO's and CLECO's respective Regional Transmission Organizations for reliability reasons.
27. Until its retirement at the end of 2021, the Dolet Hills plant will continue to be offered into the energy market year round, incurring expenses required to ensure the unit is available to operate when called upon by the SPP.

28. The Dolet Hills plant was providing service to customers during the Test Year and prior to the Rate Year and will continue to provide service through the end of 2021.
29. Because the Dolet Hills plant was still in service prior to the Rate Year, consistent with the terms of the Cost of Service rule, it properly remains in SWEPCO's historical rate base for the purpose of setting rates in this proceeding.
30. To remove costs associated with the Dolet Hills plant from rates after its retirement and well after the rates in this proceeding became effective without accounting for additional investment placed into service and other changes to SWEPCO's costs of service through that same date is asymmetrical and will not afford SWEPCO an opportunity to earn a reasonable return on its capital invested to serve customers.
31. Realizing that depreciating the Dolet Hills plant over its 2021 service life for ratemaking purposes would have a significant impact on SWEPCO's base rates, SWEPCO proposes to offset the undepreciated value of the Dolet Hills plant with excess Accumulated Deferred Federal Income Tax (ADFIT).
32. SWEPCO's proposal to offset the recovery of its Dolet Hills investment from customers with the excess ADFIT balances an investment prudently incurred to provide service to customers with the excess ADFIT legitimately returnable to customers and is reasonable.
33. SWEPCO's ADFIT offset proposal provides benefits to existing and future customers and better achieves intergenerational equities.
34. The amount of unprotected excess ADFIT and the protected excess ADFIT refund provision will not completely offset the Dolet Hills plant's undepreciated value. After the Excess ADFIT offset, SWEPCO proposes to expense the remaining value of SWEPCO's investment in the Dolet Hills plant over four years. This proposal is reasonable.
35. SWEPCO has unrecovered capital investment in the Oxbow Lignite Company, which owns the lignite reserves used to supply lignite to the Dolet Hills plant. While lignite production operations ceased in May 2020, the asset was not removed from service and continues to benefit customers through the final operation of the Dolet Hills plant in 2021 as the mined lignite is delivered to the Dolet Hills plant and SWEPCO burns the lignite to generate electricity to serve customers.
36. While mining activities ceased in May of 2020, the Dolet Hills Lignite Company (DHLC) will continue to exist and deliver lignite to SWEPCO and SWEPCO will continue incurring this non-eligible fuel expense throughout the 2021 operation of the Dolet Hills plant. It would be improper to remove the DHLC equity and tax costs from SWEPCO's cost of service.

Retired Gas-Fired Generating Units

37. In January 2019 SWEPCO retired Knox Lee Unit 4. Additionally, in May 2020 the Company retired Knox Lee Units 2 and 3, Lieberman Unit 2, and Lone Star Unit 1.
38. In deciding to retire these four units, the Company considered the age and condition of the units' equipment, the significant capital investment required for them to continue operating, and their relatively high cost to generate electricity. In light of those considerations, SWEPCO determined it was in the best interest of its customers to retire the generating units. The prudence of those decisions was unchallenged.
39. SWEPCO accounted for these retirements in accordance with the FERC Uniform System of Accounts, which requires the book cost of the unit retired be credited to electric plant and the same book cost be charged to the accumulated provision for depreciation applicable to that property.
40. SWEPCO accounted for the retirement of Lieberman Unit 1 in this way in Docket No. 46449, which was uncontested.
41. 16 Tex. Admin. Code (TAC) § 25.72(c) requires SWEPCO to maintain its books and records according to the FERC Uniform System of Accounts.
42. Staff does not present compelling reasons to depart from the required accounting.

Flint Creek and Welsh Capital Investment

43. In Docket No. 46449, the Commission found that SWEPCO had correctly bid its solid fueled generating units into the SPP Integrated Market based on the incremental costs of the units, realizing revenues in excess of the associated incremental costs of dispatch.
44. SWEPCO continued to operate these units in the same manner as was reviewed by the Commission in SWEPCO's previous base rate case, Docket No. 46449. Over the years 2016 through 2020, the revenues from Welsh 1 & 3 and Flint Creek generation units were \$196 million in excess of the variable costs of those units.
45. The Company regularly reviews capital projects that could provide economic, environmental, reliability, or safety-related benefits to SWEPCO's generating fleet. The first step in any capital addition evaluation is to research alternatives that may exist, and when warranted to perform cost-benefit analyses to estimate a project's value.
46. Rate Filing Package Schedule H-5.2b provides a list of every capital projected with a value of greater than \$100,000 placed in service since the close of the previous rate case test year through the end of the Test Year in this case. This schedule provides a description of the reason for the capital investment, including (1) Immediate Personnel Safety Requirement, (2) Regulatory Safety of Operations Requirement, (3) Regulatory Commitment (Not classifieds in (2)), (4) Plant Efficiency Improvement, (5) New Building, (6) Productivity

Improvement, (7) Reliability, (8) Economic, (9) Habitability, and (10) Other. The schedule also indicates whether a cost/benefit analysis was done for the project, which was done for a large majority of the projects.

47. SWEPCO uses multiple processes to ensure its generation O&M expenses are reasonable. These include the use of budget controls, the review of cost trends, and careful tracking of staffing levels at its power plants.
48. Schedule H-1.2 provides a description of the O&M incurred by FERC Account, by plant, for each month of the Test Year. Schedule H-3 provides historical SWEPCO generation O&M, by FERC Account, by year since 2015. Schedule H-4 provides the major O&M projects undertaken during the Test Year by plant.
49. SWEPCO's capital investment placed in service at the Flint Creek, Welsh, and Dolet Hills plants since the end of the Docket No. 46449 test year is prudent and the O&M expenses incurred during the Test Year at these plants are a reasonable and necessary component of SWEPCO's cost of service.

Coal and Lignite Inventory

50. SWEPCO must maintain solid fuel inventories to assure a continuous supply of coal and lignite of appropriate quality, delivered at a reasonable cost over a period of years so as to promote the generation of the lowest cost per kWh of electricity, within the constraints of safety, reliability of supply, unit design, and environmental requirements.
51. Coal and lignite deliveries must be arranged so that sufficient fuel is available at all times to provide and maintain adequate and dependable electric service for SWEPCO's customers.
52. Setting inventory levels for SWEPCO's coal power plants (Welsh, Flint Creek, and Turk) and lignite power plants (Pirkey and Dolet Hills) based on the average level of burn from the Test Year would negatively impact SWEPCO's ability to reliably serve the needs of its customers and SPP and expose SWEPCO's customers to reliability risk.
53. Setting coal and lignite inventory targets for SWEPCO's coal and lignite power plants based on full-load burn ensures that adequate inventory is available to provide the necessary reliability for SWEPCO customers and SPP.
54. The target coal and lignite inventory levels SWEPCO requests to include in rate base are reasonable and necessary to ensure adequately reliable service to its customers.

Prepaid Pension & OPEB Assets

55. SWEPCO records an additional cash investment in the pension trust fund as a prepaid pension asset in accordance with GAAP under ASC 715-30. The prepaid pension asset is the cumulative additional pension cash contributions beyond the amount of pension cost.

Accordingly, an additional cash investment recorded as a prepaid pension asset should be included in rate base under PURA § 36.065.

Accumulated Deferred Federal Income Tax

56. SWEPCO calculated its tax expense on a stand-alone basis without regard for the tax consequences of its parent company, its affiliates, or its participation in a consolidated tax return.
57. SWEPCO likewise calculated its ADFIT balance on a stand-alone basis.
58. SWEPCO has a \$455,122,490 net operating loss carryforward (NOLC) on a stand-alone basis relating to its ADFIT balance.
59. SWEPCO's NOLC relates entirely and exclusively to the operations of SWEPCO.
60. PURA § 36.060(a) requires a stand-alone tax calculation for both currently owed and deferred taxes.
61. Internal Revenue Service normalization rules require a consistent stand-alone calculation of tax expense, depreciation expense, rate base, and ADFIT.
62. Consideration of any tax consequence or benefit resulting from SWEPCO's participation in a consolidated tax return and consolidated tax sharing agreement would be a consolidated tax savings adjustment prohibited by PURA § 36.060(a).

Excess ADFIT

63. The enactment of the Tax Cuts and Jobs Act in 2017 lowered the corporate income tax rate from 35% to 21% and caused certain amounts of the deferred tax expense that SWEPCO collected from customers to become "excess," which means that those deferred taxes will not have to be paid back to the government in the future.
64. SWEPCO's use of the Texas retail allocation factor of 35.01% approved in Docket No. 46449 to determine the amount of excess ADFIT available to Texas customers is reasonable.
65. SWEPCO calculated the balance of excess ADFIT available to be returned to customers immediately, and the remaining balance of protected excess ADFIT that must be returned to customers as an amortization in rates.
66. SWEPCO used the excess ADFIT available to be returned to customers as an offset to recover the undepreciated value of the Dolet Hills Power Station, which will cease operations on or before December 31, 2021.

67. The remaining balance of protected excess ADFIT will be returned to customers as an amortization included in rates consistent with IRS normalization requirements.

Accumulated Depreciation

68. SWEPCO's calculation of accumulated depreciation is reasonable.
69. SWEPCO's adjustments to accumulated depreciation are reasonable and should be adopted.

Regulatory Assets and Liabilities

Self-Insurance Reserve

70. SWEPCO's proposed self-insurance reserve is in the public interest and is a lower-cost alternative to purchasing commercial insurance.
71. SWEPCO's self-insurance reserve results in savings that benefit ratepayers.
72. SWEPCO's proposed annual accrual of \$1,689,700 to the storm reserve is reasonable. The annual accrual of \$1,689,700 accounts for annual expected operations and maintenance losses from storm damage in excess of \$500,000 and builds towards a target reserve of \$3,560,000.
73. SWEPCO's proposal to charge the Texas jurisdictional Hurricane Laura restoration costs against the self-insurance reserve is reasonable and is approved.
74. In future rate filings, SWEPCO will treat the reserve amount as a reduction to its Texas jurisdictional rate base if the amounts credited to the reserve exceed the charges against the reserve and will treat the reserve amount as an addition to its Texas jurisdictional rate base if the charges against the reserve exceed the amounts credited to the reserve.

Rate of Return

Overall Rate of Return, Return on Equity, Cost of Debt

Return on Equity

75. A return on equity (ROE) of 10.35 percent will allow SWEPCO a reasonable opportunity to earn a reasonable return on its invested capital.
76. The results of the discounted cash flow model, the capital asset pricing model, and the risk premium approach support an ROE of 10.35 percent.
77. A 10.35 percent ROE is consistent with SWEPCO's business and regulatory risk.

78. No adjustment to SWEPCO's return on invested capital is appropriate under PURA § 36.052.
79. SWEPCO made reasonable efforts to prevent interruptions of service consistent with 16 TAC § 25.52(b)(1).

Cost of Debt

80. SWEPCO's proposed 4.18% embedded cost of debt is reasonable.

Capital Structure/Overall Rate of Return

81. The capital structure composed of 50.63% long term debt and 49.37% equity that the Company proposed is unchallenged and is reasonable in light of SWEPCO's business and regulatory risks.
82. A capital structure composed of 50.63% long-term debt and 49.37% equity will help SWEPCO maintain its stable credit and attract capital from investors.
83. SWEPCO's overall rate of return is as follows:

Component	Cost	Weighting	Weighted Cost
Debt	4.18%	50.63%	2.11%
Equity	10.35%	49.37%	5.11%
Overall		100.00%	7.22%

Financial Integrity, Including "Ring Fencing"

84. SWEPCO and the operations and structure of its corporate consolidated group is less likely than others in Texas to raise the sorts of issues involving risks associated with high amounts of leverage or unregulated activity that would require the need for the additional financial protection measures described by Staff witness Mr. Mark Filarowicz in this case.
85. SWEPCO and its affiliates already adhere to the legal requirements governing affiliate relations and transactions.
86. Given the fact that SWEPCO and its consolidated group does not present any of the risk factors associated with high levels of leverage or unregulated activity, the existing affiliate rules that govern SWEPCO and its affiliates are sufficient to safeguard its customers, and there is no need to implement any additional financial protection measures in this case.

Expenses

Transmission and Distribution O&M Expenses

Transmission O&M Expense

87. SWEPCO's Test Year transmission O&M expenses were \$46,683,319, of which \$8,636,052 were affiliate expenses.
88. SWEPCO's transmission O&M expenses were not contested by any party and are reasonable.

Transmission expense and revenues under FERC-approved tariff

89. The SPP charges SWEPCO for the provision of transmission service to SWEPCO's customers. SWEPCO also receives payment from SPP for SPP members' use of SWEPCO's transmission facilities. These expenses and revenues are incurred and received pursuant to the FERC-approved SPP Open Access Transmission Tariff (OATT). The net amount that SWEPCO incurred under the SPP OATT during the Test Year is included in SWEPCO's requested cost of service in this proceeding.

Proposed Deferral of SPP Wholesale Transmission Costs

90. The SPP charges SWEPCO for the provision of transmission service to SWEPCO's customers. SWEPCO also receives payment from SPP for SPP members' use of SWEPCO's transmission facilities in the provision of transmission service to their customers. These payments (charges) and receipts (revenues) occur pursuant to the FERC-approved SPP OATT.
91. The net amount that SWEPCO incurred under the SPP OATT during the Test Year is included in SWEPCO's requested cost of service in this proceeding and was unopposed.
92. SWEPCO's proposal that the portion of its ongoing net SPP OATT bill that is above or below the net test year level approved for recovery by the Commission be deferred into a regulatory asset or liability until it can be addressed in a future TCRF or base-rate proceeding is reasonable and should be implemented.
93. The TCRF rule for distribution service providers operating in ERCOT authorizes the distribution service provider to charge or credit its customers for the amount of wholesale transmission cost changes to the extent that such costs vary from the wholesale transmission service cost used to fix the base rates of the distribution service provider.
94. When amending this ERCOT TCRF rule, the Commission observed that this recovery mechanism is appropriate because the ERCOT distribution service providers have no ability to avoid such costs or address and manage the regulatory lag that exists with respect to these costs.

95. The unique nature of these costs incurred by ERCOT distribution service providers is substantially the same as the SPP OATT wholesale transmission charges incurred by SWEPCO.
96. The legislative history of PURA § 36.209, which provides for the recovery of changes in wholesale transmission charges incurred by non-ERCOT utilities, indicates that the law was intended to allow non-ERCOT utilities similar cost recovery opportunities afforded ERCOT utilities.

Distribution O&M Expense

97. SWEPCO's adjusted test year distribution O&M expenses including its own costs plus AEPSC charges for distribution activities necessary to provide safe, reliable distribution services were \$93,656,735.
98. The adjusted test year distribution O&M costs reflect the amount necessary to perform distribution functions—e.g., planning, construction, operation, and maintenance of the distribution system; and implementing SWEPCO's distribution system asset management programs, reliability programs, and the vegetation management program.
99. The adjusted test year distribution O&M costs reflect the level of distribution-related programs that will be implemented going forward based on the existing and expected needs of the distribution system.
100. SWEPCO's distribution O&M expenses are reasonable and necessary.

Distribution Vegetation Management Expense & Program Expansion

101. SWEPCO's proposal to recover distribution O&M base-rate expenses of \$14.57 million total, consisting of the test-year amount of \$9.57 million and an additional amount of \$5 million, is reasonable.
102. The additional amount of distribution O&M expense in the amount of \$5 million is reasonable and necessary to carry forward SWEPCO's vegetation-management program to improve overall reliability on targeted circuits and decrease outages caused by trees.
103. SWEPCO commits to spending the entirety of the increased amount of \$5 million for distribution O&M expense solely on vegetation management.
104. It is reasonable to open a compliance docket where SWEPCO will file regular reports indicating how it is spending the additional amount of vegetation-management expense allowed in its cost of service, and will also report on the effect such additional spending is having on its distribution outage rates.

Allocated Transmission Expenses related to retail behind-the-meter generation

105. To serve its retail and wholesale customers, including retail customers with behind-the-meter generation (BTMG) whose loads are synchronized to the SPP Transmission System, SWEPCO purchases Network Integration Transmission Service (NITS) from SPP in accordance with SPP's FERC-approved OATT.
106. The Test Year NITS charges billed to SWEPCO are included in the overall bill from SPP to SWEPCO for the provision of transmission services to SWEPCO's customers.
107. SWEPCO's Test Year SPP transmission charges were billed to and paid by SWEPCO pursuant to the SPP OATT.
108. SWEPCO's Test Year SPP transmission charges were reasonable.

Generation O&M Expense

109. During the Test Year and until its retirement at the end of 2021, the Dolet Hills plant has been and will continue to be offered into the energy market year round, incurring expenses required to ensure the unit is available to operate when called upon by SPP or MISO. SWEPCO expects the Dolet Hills plant will operate seasonally in 2021 much as it did during the Test Year and that, as a result, O&M expenses will also be similar.
110. The O&M expenses incurred at the Dolet Hills plant during the Test Year are a reasonable component of the cost of providing service to customers when the rates set in this case will be in effect.
111. The inclusion of O&M expenses incurred during the Test Year at the Dolet Hills plant in cost of service matches the expenses needed to make the plant available to customers with SWEPCO's investment in the plant itself.
112. SWEPCO's generation operation and maintenance expenses are reasonable.
113. SWEPCO properly accounted for the reduction in non-fuel operation and maintenance expenses that resulted from the retirement of five gas-fired generation units.

Labor Related Expenses

Payroll Expenses

114. SWEPCO's proposed base payroll is based on the salaries of its employees for the final pay period at the end of the Test Year (annualization) plus post test year pay increases of 3.0% for merit eligible employees and 2.5% for hourly physical and craft employees, which were implemented in April 2020 and September 2020, respectively.

115. Because these payroll increases were awarded by September 2020, they represent appropriate known and measurable adjustments to Test Year expenses.
116. SWEPCO's calculation in this proceeding matches the adjustment approved in Docket Nos. 40443 and 46449, which is to annualize salaries of employees on the payroll at the end of the Test Year and then apply a known and measurable increase that was awarded post Test Year.

Incentive Compensation

Short-Term Incentive Compensation

117. SWEPCO's application followed Commission precedent by excluding financial based short-term incentive compensation (STI) expense and 50% of the financial based funding mechanism related to its STI plans.
118. SWEPCO's request to recover STI expense should be adjusted to correct errors in accordance with the testimony of Commission Staff witness Ruth Stark, which SWEPCO does not oppose.
119. In accordance with PURA § 14.006, SWEPCO's STI payments to collectively bargained employees should not be reduced to remove financially based STI.
120. SWEPCO's requested STI expense, adjusted in accordance with the testimony of Commission Staff witness Ruth Stark, is approved.

Long-Term Incentive Compensation

121. Consistent with the Commission's precedent, SWEPCO adjusted its test year long-term incentive compensation (LTI) expenses to remove the 75% of those expenses related to performance units but retained the 25% related to restricted stock units.
122. Restricted stock units are not based on financial measures and are appropriate to include in SWEPCO's rates.
123. SWEPCO's requested LTI expense is approved.

Severance Costs

124. During the Test Year, SWEPCO incurred \$1,460,876 in severance costs properly allocated to SWEPCO from AEPSC and \$767,074 in severance costs incurred directly by SWEPCO.
125. AEPSC and SWEPCO prudently incur severance costs under a severance program that allows management to evaluate operations on a continuing basis to provide the most efficient and effective service at the lowest reasonable cost to customers.

126. OPUC has not presented a persuasive case to depart from actual historical Test Year costs.

Other Post-Retirement Benefits

127. SWEPCO's requested cost of service pension expense reflects the costs being recorded by SWEPCO in 2020 as presented in the 2020 actuarial studies, which are the latest available actuarial studies performed by Willis Towers Watson, the Company's independent actuary. SWEPCO applies the Test Year actual payroll expense/capital ratio of 69.71% to these 2020 costs to determine the pro forma level of expense to include in the cost of service. SWEPCO's requested cost of service pension expense is reasonable.
128. The requested cost of service Other Post Retirement Benefits (OPEB) expense reflects the costs being recorded by SWEPCO in 2020 as presented in the 2020 actuarial studies, which are the latest available actuarial studies performed by Willis Towers Watson, the Company's independent actuary. SWEPCO's cost of service OPEB expense is reasonable.

Depreciation and Amortization Expense

129. The depreciation and amortization rates proposed by the Company in this proceeding for its assets are based on a depreciation study conducted by the Company's depreciation witness, Mr. Jason Cash, are reasonable, and should be adopted.
130. The use of a 10% contingency factor in the Company's demolition study to determine terminal net salvage amounts for SWEPCO's generating plants is reasonable and should be adopted.
131. The application of a 2.22% escalation (or inflation) factor to the net salvage amounts provided by Sargent & Lundy to determine the future terminal net salvage amount at each plant's retirement year is reasonable and should be adopted.

Curve Life Combinations – Mass Property Accounts

132. The Company's proposed S0.0 68 curve/life combination for FERC Account 353, Station Equipment, is reasonable and should be adopted by the Commission.
133. The Company's proposed L3.0 65 curve/life combination for FERC Account 354, Towers and Fixtures, is reasonable and should be adopted by the Commission.
134. The Company's proposed S0.5 46 curve/life combination for FERC Account 355, Poles and Fixtures, is reasonable and should be adopted by the Commission.
135. The Company's proposed R2.0 70 curve/life combination for FERC Account 356, Overhead Conductor & Devices, is reasonable and should be adopted by the Commission.
136. The Company's proposed S-.5 55 curve/life combination for FERC Account 364, Poles, Towers, & Fixtures, is reasonable and should be adopted by the Commission.

- 137. The Company's proposed R4.0 70 curve/life combination for FERC Account 366, Underground Conduit, is reasonable and should be adopted by the Commission.
- 138. The Company's proposed R3.0 46 curve/life combination for FERC Account 367, Underground Conductor, is reasonable and should be adopted by the Commission.
- 139. The Company's proposed R3.0 59 curve/life combination for FERC Account 369, Services, is reasonable and should be adopted by the Commission.
- 140. The Company's proposed L0.0 15 curve/life combination for FERC Account 370, Meters, is reasonable and should be adopted by the Commission.

Dolet Hills Power Station

- 141. The Dolet Hills Power Station will cease operation on December 31, 2021.
- 142. The Dolet Hills Power Station was not included in Mr. Cash's depreciation study and is not included in the depreciation expense included in rates.
- 143. The Company's proposal to offset the undepreciated value of the Dolet Hills Power Station with the available excess ADFIT is reasonable and should be adopted.
- 144. The Company's proposal to amortize the remaining undepreciated value of Dolet Hills Power Station, after applying the offset, over a four year period is also reasonable and should be adopted.

Purchased Capacity Expense

- 145. During the Test Year, SWEPCO continued to purchase 50 MW of capacity under its long-term purchase power agreement with Louisiana Generating Company (formerly Cajun Electric Power Cooperative). That agreement began in 1992. These capacity costs have been consistently recovered through base rates.
- 146. During the Test Year, SWEPCO purchased the product designated as Operating Reserve Capacity under the Cajun contract and counted that capacity in SWEPCO's compliance with SPP's capacity reserve requirements. During the Test Year SWEPCO did not purchase any Operating Reserve Energy under the Cajun contract.
- 147. The Operating Reserve Capacity under the Cajun contract is distinguishable from Regulation and Operating Reserve Services are procured in the SPP IM day-ahead and real-time market.
- 148. The costs that SWEPCO incurred during the Test Year under the Cajun contract continue to be properly recovered in base rates.

149. The cost of energy incurred under SWEPCO's wind energy contracts has been collected through SWEPCO's fuel factor and reconciled as energy purchases since their inception, starting with Docket No. 40443 for the Majestic Renewable Energy Purchase Agreements (REPA).
150. According to the SPP Planning Criteria, the amount of capacity that may be accredited to a renewable resource is determined by a set of formulas using the historical output of that particular facility and updated over time.
151. The capacity accreditation made by SPP for any given resource will vary somewhat over time, making the inclusion of a fixed imputed capacity value in base rates problematic.
152. The Commission should continue to account for the costs incurred under these REPAs as energy.

Affiliate Expenses

153. SWEPCO incurred a total of \$87,634,578 in adjusted total company test year affiliate charges; \$85,227,881 in charges from AEPSC and \$2,406,697 from other affiliates.
154. Staff proposed an adjustment to SWEPCO's affiliate expense that SWEPCO did not oppose.
155. As adjusted by Staff, SWEPCO's affiliate expenses are reasonable and necessary for each item or class of items, are allowable, and are charged to SWEPCO at a price no higher than was charged by the supplying affiliate to other affiliates, and the rate charged was a reasonable approximation of the cost of providing the service.

Federal Income Tax Expense

156. SWEPCO's method of calculating its federal income tax expense is reasonable.
157. The amount of federal income tax SWEPCO included in its cost of service was calculated in accordance with the provisions of PURA §§ 36.059 and 36.060.
158. No party challenged the inclusion of federal income tax expense in SWEPCO's cost of service.

Taxes Other Than Income Tax

Ad Valorem (Property) Taxes

159. SWEPCO calculates ad valorem tax expense by applying an effective ad valorem tax rate to SWEPCO's pro forma net rate base at the end of the Test Year.

160. The effective ad valorem tax rate synchronizes ad valorem tax expense with the plant investments included in rate base that generates the associated tax.
161. This method of calculating ad valorem taxes is the same that was used by SWEPCO and approved by the Commission in SWEPCO's previous rate case, Docket No. 46449.
162. SWEPCO does not oppose Staff's recommendation to include capital lease balances in the calculation of the effective tax rate or the exclusion of operating leases from the rate base on which the effective tax rate is applied.
163. Because SWEPCO is allowed recovery of the remaining book value of the Dolet Hills plant and the retired gas-fired units, this value will be included in SWEPCO's property base for determining SWEPCO's ad-valorem-tax expense, since it still contributes to rate recovery and therefore remains a portion of the value of SWEPCO's assets.
164. It is proper for SWEPCO to adjust the Test Year rate base to which the effective ad valorem tax rate is applied for the use of Texas-only depreciation and AFUDC rates.
165. It would be improper to remove capitalized financially based incentive compensation from the ad valorem tax calculation. No party denies that a portion of total compensation is properly capitalized or that these ad valorem taxes will be incurred and are a necessary component of the cost of service.

Payroll Taxes

166. Test Year payroll taxes are adjusted to correspond to adjustments made to Test Year payroll costs for known and measurable changes.
167. The compensation packages that the Company offers its employees include a base payroll amount as well as an incentive-compensation portion. Both portions are part of an overall compensation package that is designed to be competitive in the marketplace and allow the Company to attract and retain qualified individuals as employees.
168. It would be improper to remove financially based incentive compensation from the payroll tax calculation. No party alleges that the Company will cease to incur these payroll costs or associated taxes or challenges the reasonableness of the Company's compensation from a cost or market-competitive compensation perspective.

Gross Margin Tax

169. SWEPCO calculates the Texas gross receipts (margin) tax amount using an effective rate derived from Test Year payments and Test Year Texas retail base and fuel revenues.
170. SWEPCO agrees with Staff that revenue related taxes should be updated and synchronized with the final revenue requirement set in this case.

Billing Determinants

COVID-19

171. SWEPCO's initial filing included pro forma adjustments to the Test Year billing determinants for all of the known and measureable items at the time this case was filed.
172. The ongoing effects, if any, of the COVID-19 pandemic on SWEPCO's billing determinants are not known and measurable and do not reflect conditions that are likely to prevail when the rates approved in this case are in effect.
173. SWEPCO's adjusted Test Year billing determinants are reasonable and should be used in designing rates resulting from this case.

Customer Migration

174. SWEPCO's commercial rate design proposals reasonably estimate the new class billing determinants based on test year adjusted billing determinants.
175. Adjusting rate class billing determinants based on rate structure and pricing changes, while maintaining comparative pricing among classes, is the normal course of rate design.
176. The Commission's Electric Utility Rate Filing Package for Generating Utilities accepts the use of estimated billing units.
177. Accounting for the effect of customer migration based on new pricing is comparable to and part of the process of normalizing estimated test year billing determinants.

Functionalization and Cost Allocation

178. The allocation methodologies and processes used in SWEPCO's jurisdictional and class cost of service studies reflect criteria generally used to determine the appropriateness of allocation methodologies.
179. The allocation methodologies and processes used in SWEPCO's jurisdictional and class cost of service studies are consistent with the development of the jurisdictional and class cost of service studies ordered by the Commission in Docket No. 46449 and with the base rates approved by the Commission in that docket and updated in Docket No. 48233.
180. The results of SWEPCO's jurisdictional cost of service study can be relied upon to determine the revenue requirement for the Texas retail jurisdiction, and the class cost of service study can be relied upon to determine the cost to serve SWEPCO's Texas retail rate classes.

Jurisdictional Allocation

- 181. Transmission costs charged to SWEPCO by SPP for retail BTMG Texas load were properly allocated to the Texas retail jurisdiction because they were based on the demands used by SPP for the billing of transmission expenses incurred by SWEPCO.
- 182. If retail BTMG costs are removed from the Texas jurisdictional allocations, the costs incurred to provide service to SWEPCO's Texas jurisdiction would be inappropriately shifted to SWEPCO's other jurisdictions.

Class Allocation

- 183. The transmission allocation factor applied by SWEPCO reflects the appropriate allocation to classes based on costs billed to SWEPCO by SPP for transmission costs incurred to serve those customer classes.
- 184. Excluding the Eastman BTMG Texas load from the class that has that load (LLP-T) would inappropriately shift those transmission costs incurred by SWEPCO to other classes that should not be responsible for those transmission costs.

Municipal Franchise Fees

- 185. SWEPCO develops the effective rate for municipal franchise fees based on Test Year actual municipal franchise taxes paid, less the amount in excess of the base amount and Test Year actual kWh sales.
- 186. SWEPCO applies the effective rate for municipal franchise fees to the Test Year adjusted kWh sales to determine the *pro forma* amount to include in SWEPCO's cost of service.
- 187. SWEPCO's allocation of municipal franchise fees was not contested by any party and is reasonable.

Revenue Distribution and Rate Design

Rate Moderation / Gradualism

- 188. All parties to this case agree that some form and level of moderation should be applied to the revenue distribution.
- 189. SWEPCO's approach of grouping major rate classes for purposes of implementing the revenue distribution was approved by the Commission in SWEPCO's two most recent base rate proceedings, Docket No. 40443 and Docket No. 46449.
- 190. SWEPCO's proposed revenue distribution moves all customer classes closer to cost of service.

191. SWEPCO's proposed rate moderation methodology, which reduces the subsidization among individual rate classes, is reasonable and should be adopted.

Rate Design and Tariff Changes

192. In general, SWEPCO's proposed rate design retains the rate structures and relationships approved by the Commission in SWEPCO's two most recent base rate proceedings, Docket Nos. 40443 and 46449.
193. SWEPCO's proposed rate design provides a reasonable basis for establishing rates in this proceeding.
194. The new structure of the General Service (GS) and Lighting and Power (LP) rate classes is appropriately and reasonably designed to create a rate schedule for customers based on their energy and load requirements.
195. The reactive demand charge is encompassed within and is part of the overall cost increase.
196. Because the reactive demand charge can apply to multiple rate classes, SWEPCO use of the system average increase to update the reactive demand charge was reasonable.
197. SWEPCO offers a rate option for Cotton Gin customers that allows the application of the minimum monthly bill only during the ginning season as defined as November through February.
198. SWEPCO has appropriately considered the Cotton Gin class's unique attributes through the rebuttal revenue distribution and rate design.

Transmission Rate for Retail Behind-the-Meter Generation

199. The synchronous self-generation (SSGL) rate is designed to recover additional costs associated specifically with the inclusion of BTMG load in determining SWEPCO's share of the SPP transmission costs.
200. The cost of the BTMG load included in SPP's transmission charges must be recovered from all customers through the approved transmission allocation methodology or recovered specifically from BTMG customers.
201. Instead of directly assigning the cost associated with the inclusion of the BTMG to those customers, SWEPCO created the SSGL rate to apply to any commercial or industrial BTMG customer load that may also be included in SWEPCO's load ratio share.
202. The design of the SSGL rate is reasonable.

Riders

Proposed Residential Service Plug-in Electric Vehicle Rider

- 203. SWEPCO proposed a Residential Service Plug-in Electric Vehicle Rider establishing a tariff for customers taking service under the Residential Service rate schedule who use PEV charging. This rider aims to aid the integration of load from electric vehicle transportation in a manner that minimizes or eliminates additional system costs.
- 204. Under the tariff, an installed sub-meter separately measures PEV kWh usage while a standard meter measures total residence kWh usage.
- 205. The rates and rate design proposed under the tariff are consistent with 16 TAC § 25.234.
- 206. SWEPCO's proposed Residential Service Plug-in Electric Vehicle Rider is reasonable and appropriate.

Renewable Energy Credit Rider

- 207. SWEPCO will file a Renewable Energy Credit (REC) Opt-Out Tariff in the compliance phase of this case subject to Commission approval.
- 208. SWEPCO's calculation of the REC Opt-Out credit factor is based on the imputed total company REC values and allocation to SWEPCO's Texas retail jurisdiction and eligible rate classes. The allocation is appropriately demand-based because the REC value is recorded in FERC Account 555 and the credit factor is developed based on kWh sales at the meter for eligible customers.

Retail Choice Pilot Project

- 209. In Docket No. 51257, the Commission denied the request of East Texas Salt Water Disposal Company to initiate a retail choice pilot project in SWEPCO's Texas service territory.

Baselines for Cost-Recovery Factors

- 210. A TCRF is a rate mechanism under PURA § 36.209 that allows an electric utility outside of ERCOT to periodically update its recovery of transmission costs.
- 211. The Commission adopted 16 TAC § 25.239 to implement PURA § 36.209. The rule provides that a non-ERCOT electric utility that has received a final base rate order after December 2005 is eligible to have a TCRF.
- 212. TCRF baseline values should be set during the compliance phase of this docket, after the Commission makes final rulings on the various contested issues that may affect this calculation.

- 213. A DCRF is a rate mechanism under PURA § 36.210 that allows an electric utility to periodically adjust its rates for changes in certain distribution costs.
- 214. The Commission has adopted 16 TAC § 25.243 to implement PURA § 36.210. The rule allows an electric utility not offering customer choice (e.g., SWEPCO) to file an application for a DCRF at any time other than April and May.
- 215. DCRF baseline values should be set during the compliance phase of this docket, after the Commission makes final rulings on the various contested issues that may affect this calculation.
- 216. A Generation Cost Recovery Rider (GCRR) is a rate mechanism under PURA § 32.213 that allows an electric utility to recover its investment in a power generation facility outside of a base rate proceeding.
- 217. The Commission adopted 16 TAC § 25.248 to implement PURA § 36.213.
- 218. The baseline values for a subsequent implementation of the GCRR should be established during the compliance phase of this docket, after the Commission makes final rulings on the various contested issues that may affect this calculation.

Reasonableness & Recovery of Rate Case Expenses

- 219. SWEPCO and CARD sought to recover a total of \$_____ in rate-case expenses for this docket as well as Docket Nos. 49042; Docket No. 46449; Docket No. 40443; and Docket No. 50997, consisting of \$_____ for SWEPCO's own rate-case expenses and \$_____ in rate-case expenses paid by SWEPCO to CARD for its participation in these dockets and reflected on SWEPCO's and CARD's rate-case expense reports.
- 220. SWEPCO's proposed mechanisms to recover the approved rate-case expenses are appropriate.
- 221. The amount of rate-case expenses incurred and requested do not include fees paid to, tasks performed by, or time spent on a task by an attorney or other professional that were either extreme or excessive.
- 222. The amount of rate-case expenses incurred and requested do not include expenses incurred for lodging, meals and beverages, transportation, or other services or materials that were either extreme or excessive.
- 223. The amount of rate-case expenses incurred and requested do not contain any amounts for duplication of services or testimony.

224. The amount of rate-case expenses incurred and requested are not disproportionate, excessive, or unwarranted in relation to the nature, complexity, and scope of the proceedings for which SWEPCO and CARD are seeking recovery or reimbursement.
225. With respect to proposals on issues by SWEPCO and CARD in this docket and Docket Nos. 49042; Docket No. 46449; Docket No. 40443; and Docket No. 50997, to the extent that rate-case expenses incurred in those dockets are addressed in this docket, all proposals had a reasonable basis in law, policy, or fact and were warranted by a reasonable argument for the extension, modification, or reversal of Commission precedent.
226. It is reasonable for SWEPCO to recover \$_____ through its RCS Rider.
227. The rate-case expenses approved by this Order are reasonable.

Other Issues

Additional Issues

228. SWEPCO agrees with Staff that the final approved return on equity should be included in the factoring rate calculation to synchronize factoring expense properly to the approved revenue requirement.
229. SWEPCO does not contest Staff's adjustment to update the customer deposit interest amount to incorporate the Commission approved 2021 interest rate.
230. Although the Company believes Supplemental Employee Retirement Plan (SERP) expense should be included in SWEPCO's cost of service, given the Commission's decisions in Docket Nos. 40443 and 46449, SWEPCO proactively removed this expense from its requested cost of service.
231. On pages 10:7 through 12:2 of her testimony, Staff witness Ms. Stark raises concerns with how SERP was removed from SWEPCO's requested cost of service. SWEPCO does not contest Ms. Stark's recommended additional adjustment for SERP expenses.
232. Given the Commission's decisions in Docket Nos. 40443 and 46449, SWEPCO does not contest Staff's recommended adjustment for executive perquisites.
233. SWEPCO has announced that the Welsh plant will cease coal-fired operations in 2028 in light of the CCR/ELG requirements.
234. SWEPCO has not yet determined whether natural gas conversion of the Welsh plant is in customers' best interest.
235. If such a conversion to natural gas were to materialize in the future, SWEPCO will request Commission authorization to include the costs associated with that conversion in customer rates in a future proceeding.

CWIP

236. SWEPCO has not included any Construction Work in Progress (CWIP) in its requested rate base.

Cash Working Capital

237. Rate Filing Package Schedule E-4 contains the calculation of SWEPCO's cash working capital allowance included in rate base.
238. 16 TAC § 25.231(c)(2)(B)(iii)(IV) and (V) require that a lead-lag study be performed to determine the reasonableness of a cash working capital allowance. The lead-lag study used in this proceeding is the one approved in SWEPCO's last base rate case, Docket No. 46449.
239. At the time the current proceeding was filed, less than five years had passed since SWEPCO's last lead-lag study. By using the last approved study, SWEPCO estimates that it saved around \$75,000 in rate-case expenses.
240. SWEPCO agrees with Staff that cash working capital should be updated and synchronized with the final revenue requirement.

Administrative and General O&M Expenses

241. Staff's adjustment of (\$46,306) to administrative and general operations and maintenance expense is not contested and is approved.

Tax Savings from Liberalized Depreciation

242. SWEPCO's federal income taxes were calculated consistent with PURA § 36.059 including treatment of tax savings derived from liberalized depreciation and amortization, investment tax credit, or similar methods.

Advertising Expense

243. SWEPCO's expenditures for advertising, contributions, memberships, and donations included in its cost of service meet the standard and thresholds set forth in 16 TAC § 25.231(b)(1)-(2).
244. SWEPCO uses advertising to convey important information regarding safety and reliability to its customers and to support local initiatives.
245. SWEPCO did not include any prohibited advertising expenses in its request.
246. SWEPCO makes charitable contributions toward education, community service, and economic development in and for the benefit of the communities in which it operates.

- 247. SWEPCO membership expenses are reasonable and comply with the Commission's standards.
- 248. Recovery of these costs is reasonable and necessary for SWEPCO to meet its ongoing obligations of providing safe and reliable service to its customers.

Competitive affiliates

- 249. No party raised an issue with respect to SWEPCO's competitive affiliates.

Deferred Costs

- 250. SWEPCO is not seeking to include in rates any costs previously deferred by an order of the Commission.
- 251. As described in findings 90-96, in this case, SWEPCO requested to defer the portion of its ongoing net SPP OATT bill that is above or below the net test year level approved for recovery by the Commission be deferred into a regulatory asset or liability until it can be addressed in a future TCRF or base-rate proceeding. SWEPCO's request is reasonable and is granted.

Proposed Time-of-Use Rate Pilot Projects

- 252. SWEPCO proposed an optional Residential Time-of-Use rate schedule as a pilot available to residential customers.
- 253. SWEPCO proposed a Commercial Time-of-Use rate schedule for commercial loads of 100 kW or greater.
- 254. The pilot projects will gauge interest and utilization of the time-of-use format by customers that do not qualify for SWEPCO's Off Peak Rider for LP, LLP, and MMS service. Participating customers can manage certain energy costs by shifting energy consumption to off-peak periods.
- 255. The proposed time of use rate schedule and design is reasonable and appropriate under 16 TAC § 25.234.

Experimental Economic Development Rider

- 256. SWEPCO proposes to update its economic development rider.
- 257. SWEPCO's proposed tariff revisions to attract loads from a variety of businesses with different load requirements in order to spur economic growth in its service territory and provide long term benefits to SWEPCO customers are reasonable and appropriate.

258. The proposed tariff revisions are consistent with the Commission's standards including 16 TAC § 25.234.

Any Exceptions Requested to PUC Rules

259. The Commission's Cost of Service rule requires that an asset in rate base be depreciated over its service life.
260. After the excess ADFIT offset to the remaining undepreciated value of the Dolet Hills plant discussed above, SWEPCO proposes an additional mitigation measure to expense the remaining value of SWEPCO's investment in the Dolet Hills plant over four years, the anticipated period between rate cases, instead of the 2021 service life of the plant. SWEPCO's proposal is reasonable.

Should PUC Approve Requests for Waivers?

261. SWEPCO is not filing a fuel reconciliation proceeding in this docket; therefore, the schedules dealing with fuel reconciliation proceedings are not applicable. Accordingly, SWEPCO's requested waiver of the portions of the Rate Filing Package that request information related to fuel reconciliation proceedings is granted.

Compliance with Docket No. 46449

262. Ordering Paragraph 10 of the Order on Rehearing in Docket No. 46449, states, "[t]he regulatory treatment of any excess deferred taxes resulting from the reduction in the federal-income-tax rate will be addressed in SWEPCO's next base-rate case." SWEPCO's proposal to offset the undepreciated value of the Dolet Hills plant with excess ADFIT reasonably complies with this requirement.

II. Conclusions of Law

1. SWEPCO is subject to the Public Utility Regulatory Act (PURA).¹
2. SWEPCO is a public utility as that term is defined in PURA § 11.004(1) and an electric utility as that term is defined in PURA § 31.002(6).
3. The Commission exercises regulatory authority over SWEPCO, and jurisdiction over the subject matter of this application under PURA §§ 14.001, 32.001, 32.101, 33.002, 33.051, and 36.001-.112.
4. The Commission's jurisdiction to establish rates extends beyond the date a proposed rate is suspended.

¹ Tex. Util. Code §§ 11.001-58.302, §§ 59.001-66.016.

5. SOAH has jurisdiction over matters related to the conduct of this hearing and the preparation of a proposal for decision in this docket under PURA § 14.053 and Tex. Gov't. Code § 2003.049.
6. This docket was processed in accordance with the requirements of PURA and the Texas Administrative Procedure Act, Tex. Gov't. Code chapter 2001.
7. SWEPCO provided notice of its application in compliance with PURA § 36.103 and 16 TAC § 25.51(a).
8. Under PURA § 33.001, each municipality in SWEPCO's service area that has not ceded jurisdiction to the Commission has jurisdiction over the company's application, which seeks to change rates for service within each municipality.
9. Pursuant to PURA § 33.051, the Commission has jurisdiction over an appeal from a municipality's rate proceeding.
10. SWEPCO has the burden of proving the rate change it is requesting is just and reasonable under PURA § 36.006.
11. The applicant has the burden of proof, under PURA § 36.006, to demonstrate the reasonableness of its rates and rate design in a rate case. However, the burden of production shifts when another party proposes a change to the application. It is then incumbent on the challenging party to produce credible evidence that its proposal is more reasonable than the applicant's.
12. The offset of SWEPCO's ADFIT balance with its stand-alone NOLC complies with PURA § 36.060(a) and IRS normalization requirements.
13. SWEPCO's Excess ADFIT offset proposal is consistent with both PURA and the Cost of Service rule.
14. The TCJA reduced the federal income tax rate from 35% to 21%.
15. SWEPCO complied with the Commission's order in Docket No. 46449 addressing the effects of the TCJA.
16. SWEPCO's self-insurance plan with an annual accrual of \$1,689,700 and a target reserve amount of \$3,560,000 is in accordance with PURA § 36.064 and 16 TAC § 25.231(b)(1)(G).
17. The ROE and overall rate of return authorized in this proceeding are consistent with the requirements of PURA §§ 36.051 and 36.052.
18. The filed-rate doctrine requires that interstate power rates filed with FERC or fixed by FERC must be given binding effect by the Commission when determining interstate rates.

19. SWEPCO is obligated to pay SPP the charges SPP bills to SWEPCO pursuant to the SPP OATT for the provision of transmission services to SWEPCO.
20. The United States Supreme Court has held that, under the filed-rate doctrine, “a state utility commission setting retail prices must allow, as reasonable operating expenses, costs incurred as a result of paying a FERC-determined wholesale price”
21. Under the filed-rate doctrine, proof that the SPP charges included in the approved transmission charges were billed to and paid by SWEPCO pursuant to the SPP OATT demonstrates the reasonableness of the charges for retail ratemaking purposes as a matter of law.
22. PURA § 36.209(b) provides the statutory basis for the adoption of SWEPCO proposal to defer changes in SPP wholesale transmission charges.
23. Functionalization and allocation of SWEPCO’s costs of facilities, revenues, expenses, taxes, and reserves consistent with the requirements of this order is reasonable and consistent with the requirements of PURA § 36.055.
24. SWEPCO met the requirements of 16 TAC § 25.245 with respect to the rate-case expenses approved in this docket.
25. Affiliate expenses to be included in SWEPCO’s rates must meet the standards articulated in PURA §§ 36.051 and 36.058 and in *Railroad Commission of Texas v. Rio Grande Valley Gas Co.*, 683 S.W.2d 783 (Tex. App.—Austin 1984, no writ). SWEPCO has met these standards in this case.
26. The rate-case expenses approved in this docket reflect the reasonable cost of participating in the ratemaking proceeding in which they occurred in accordance with PURA §§ 33.023(b) and 36.061(b)(2).
27. The rates approved in this Order are just and reasonable; are not unreasonably preferential, prejudicial, or discriminatory; are sufficient, equitable, and consistent in application to each consumer class; and meet the requirements of PURA § 36.003.

III. Ordering Paragraphs

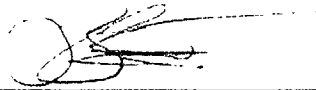
In accordance with these findings of fact and conclusions of law, the Commission issues the following orders:

1. The proposal for decision prepared by the SOAH Administrative Law Judges is adopted to the extent consistent with this order.
2. SWEPCO’s application is granted to the extent consistent with this order.

3. SWEPCO must accrue the self-insurance reserve accrual amount approved by this Order until modified by a Commission order in a subsequent proceeding.
4. SWEPCO must charge the Texas jurisdictional Hurricane Laura restoration costs against the self-insurance reserve consistent with its proposal in this case.
5. The TCRF, DCRF, and GCRR baseline values as requested by SWEPCO should be developed and set during the compliance phase of this docket.
6. SWEPCO and CARD may seek to recover any trailing rate-case expenses not already presented in their July 6, 2021 rate-case expense reports for this case, Docket No. 50997, and the appeals of Docket Nos. 40443 and 46449 in a future proceeding.

CERTIFICATE OF SERVICE

I certify that, unless otherwise ordered by the presiding officer, notice of the filing of this document was provided to all parties of record via electronic mail on July 1, 2021, in accordance with the Second Order Suspending Rules issued in Project No. 50664 and Order No. 1 in this matter.



William Coe