



Filing Receipt

Received - 2021-08-30 04:22:55 PM
Control Number - 51415
ItemNumber - 663

Public Utility Commission of Texas

Memorandum

TO: All Parties of Record

FROM: Diane Hopingardner – Staff Number Running Liaison
Rate Regulation Division, Public Utility Commission of Texas

DATE: August 30, 2021

RE: Docket No. 50415 – *Application of Southwestern Electric Power Company
for Authority to Change Rates*

Transmission of PUC Number Running Staff's Workpapers

NUMBER RUNNING WORKPAPERS

Please find in this filing the native format Excel files of the number running workpapers from staff of the Public Utility Commission of Texas for the above referenced docket.

The following files are not convertible:

requirement.xlsx	1_51415 SWEPCO PFD revenue
	2_51415 PFD Schedule B.xlsx
	3_51415 PFD Schedule C.xlsx
	4_51415 PFD Schedule D.xlsx
	5_51415 PFD Schedule D Revised.xlsx
	6_51415 PFD Ad Valorem Adjustment.xlsx
	7_51415 PFD Dolet Hills Riders and COS
Adjustments.xlsx	
	8_51415 PFD Excess ADFIT Refund to
Ratepayers.xlsx	
	9_51415 PFD Factoring.xlsx
	10_51415 PFD Severance.xlsx

Please see the ZIP file for this Filing on the PUC Interchange in order to access these files.

Contact centralrecords@puc.texas.gov if you have any questions.

MEMORANDUM

TO: Diane Hopingardner
Public Utility Commission of Texas

FROM: Meaghan Bailey
Administrative Law Judge
State Office of Administrative Hearings

DATE: August 4, 2021

RE: *Application of Southwestern Electric Power Company for Authority to Change Rates*, SOAH Docket No. 473-21-0538, PUC Docket No. 51415

The State Office of Administrative Hearings (SOAH) Administrative Law Judges (ALJs) who presided over this SWEPCO rate case are preparing a Proposal for Decision (PFD) and require the assistance of Public Utility Commission of Texas (PUC or Commission) staff (Staff) in order to "run the numbers." In accordance with 16 Texas Administrative Code § 22.3(b)(2) and (3) and Commission policy, it is not impermissible *ex parte* communication for Commission employees who have not participated in the hearing to conduct number running for SOAH ALJs, provided memoranda memorializing the procedures are preserved and made available to all parties. I will act as SOAH's liaison for the number-running process. SOAH will maintain copies of all number-running memoranda generated by the ALJs and Staff, and make all such memoranda available to the parties at the time of issuance of the PFD.

As you know, the information you will be receiving during this process should be treated as work product of the ALJs. This means that you may not disclose the information to any other party to the proceeding, but you may disclose the information to those Staff members who need to know the information in order to supply SOAH with the customary schedules.

We anticipate that we will be exchanging memoranda, many of which may involve questions from the Staff seeking clarification of the ALJs' decisions on specific issues. To avoid any inadvertent, improper communications, I will screen all memoranda coming from you before delivering them to the ALJs. All communication concerning this number-running process from you and other Staff members to SOAH should be in writing and flow through you or someone designated by you to be the PUC liaison. All memoranda should be addressed to me.

Enclosed with this memorandum is an outline of the major issues in the case with the ALJs' recommendations.

PUC Docket No. 51415/SOAH 473-21-0538

ALJ Number-Running Summary

Global instructions:

- The ALJs accept SWEPCO's requests, as amended by any SWEPCO errata, and SWEPCO'S rebuttal cost of service study [SWEPCO Ex. 54 (Aaron Rebuttal), Exhibit JOA-1R; SWEPCO Ex. 54A (Aaron Rebuttal Workpapers)], except as stated below.
 - Note: Mr. Aaron's Rebuttal Workpapers include a tab labeled "COS Workpapers-Rebuttal" that list the revisions reflected in SWEPCO's Rebuttal Cost of Service, as compared to its as-filed cost of service. *incorporated the adj. on Mr Aaron's Rebuttal to the zero model*
- The ALJs intend that all flow-through impacts of the ALJs' recommendations on other issues be reflected in the PFD schedules. If the ALJs state below a specific number, which should instead reflect such flow-through impacts, please reflect the flow-through impacts.
- Where the ALJs state below a number that is rounded up or down, they intend that the number before rounding be used in preparing the PFD schedules.
- If you have questions or need clarifications or additional information, please let us know. Thank you.
- As an example, please provide number running schedules substantially in the form provided by Staff to SOAH that are included as Appendix A to the PFD issued in *Application of AEP Texas Inc. for Authority to Change Rates*, PUC Docket No. 49494/SOAH Docket No. 473-19-4421 (Nov. 12, 2019). That is, Schedules I-IV, and Schedules B.1-B.5 and C.1.

RATE BASE

- Remove the net book values of the now-retired Knox Lee Units 2, 3, and 4, Lieberman Unit 2, and Lone Star Unit 1 and place them into a regulatory asset, to be amortized over four years. Staff Ex. 3 (Stark Dir.) at 17-20 & Attachment RS-23. *P/D (13,240,470)
Depr. (464,939)
Amort 3,310,118*
- Please note also the flow-through adjustments recommended at Staff Ex. 3 (Stark Dir.) at 17-20.
- Eliminate the adjustment that deducts Excess ADFIT from the net book value of the Dolet Hills Power Station. See SWEPCO Ex. 6 (Baird Dir.) at 48 & Exh. MAB-2; SWEPCO Ex. 36 (Baird Reb.) & Exh. MAB-2R.
- Please note that the ALJs propose various adjustments impacting the calculation of Excess ADFIT, discussed below, and separately address the ultimate disposition of the Excess ADFIT.

- Remove from base rates all cost recovery for (1) the Dolet Hills Power Station, (2) the plant's lignite inventories, (3) SWEPCO's investment in the Oxbow mine reserves, and (4) SWEPCO's return on equity and associated income taxes concerning the Dolet Hills Lignite Company (DHLC) (the latter of which is presently included in base rates as a fuel expense, as explained at Staff Ex. 3 (Stark Dir.) at 22 & Attachment RS-28)). Cost recovery for these items will instead be addressed in a Dolet Hills Rate Rider, as follows: - O&M fee

- For the period between March 18, 2021 (the relate-back date for the rates ultimately approved in this proceeding) through December 31, 2021 (the retirement of the Dolet Hills Power Station), i.e., reflecting the period in which the plant continues to be used and useful in providing service to customers:

- The remaining net book value of the Dolet Hills Power Station will be depreciated in accord with the asset's previously established useful remaining life through 2046 (thereby rejecting SWEPCO's proposed accelerated treatment described at SWEPCO Ex. 6 (Baird Dir.) at 22-23, 49).

- SWEPCO will earn a return on the Dolet Hills Power Station, the plant's lignite inventory, and the Oxbow mine reserves.

- Similarly, SWEPCO will continue to recover the return on equity and associated taxes for DHLC.

- As addressed in more detail in connection with expense issues for this period through December 31, 2021, SWEPCO will also continue to recover the O&M and tax-related costs associated with the plant's operations. See instr. below

- For the period beginning January 1, 2022:

- The then-remaining net book value of the Dolet Hills Power Station will be placed in a regulatory asset, to be amortized in accord with the plant's remaining useful life through 2046.

- Similarly, the then-remaining net book value of SWEPCO's investment in the Oxbow mine will be placed in a regulatory asset, to be amortized over the same schedule as with the Dolet Hills Power Station.

- All other cost recovery relating to the Dolet Hills Power Station, its lignite inventories, the Oxbow mine, or DHLC ends.

The basic goal of the Dolet Hills Rate Recovery Rider is to ensure that the costs appropriately charged to ratepayers for a fully operating power plant do not continue beyond the retirement of the Dolet Hills Power Station, but are thereafter limited solely to recovering the remaining net book value of investment, consistent with the Commission's treatment of the retired Welsh Unit 2 in Docket No. 46449. Although Staff and various other parties advocated these same basic goals and a variety of means intended to achieve them, the ALJs' proposed mechanism of a rate rider is derived from OPUC Ex. 1 (Cannady Dir.) at 11-28, with some modifications:

- To avoid a double-recovery relating to the plant's lignite inventories, and because the ALJs find that the two assets should be considered used and useful in providing the power generated by the Dolet Hills Power Station, the ALJs would place the Oxbow mine investment and DHLC equity and taxes in the same rate rider as the Dolet Hills Power Station and treat them in a parallel fashion through the plant retirement date. *See* SWEPCO Ex. 36 (Baird Reb.) at 21-22.
- Recovery of the remaining book values of the Dolet Hills Power Station and the Oxbow mine investment would be addressed through the Dolet Hills Rate Rider rather than in base rates. For this reason, the rider would continue in effect after December 2021, unlike OPUC's proposal.
- Eliminate the \$455,122,490 pro forma reduction of SWEPCO's ADFIT balance. *See* SWEPCO Ex. 17 (Hodgson Dir.) at 26-27; Staff Ex. 3 (Stark Dir.) at 29-42.
 - Note: The flow-through adjustments to Excess ADFIT are described at Staff Ex. 3 (Stark Dir.) at 44.
- Consistent with the ALJs' recommendation that the Commission deny approval of SWEPCO's proposed self-insurance reserve, remove the requested \$1,689,700 increase in property-insurance expense with which SWEPCO would have funded the reserve. *See* SWEPCO Ex. 6 (Baird Dir.) at 12-13; SWEPCO Ex. 28 (Wilson Dir.) at 4; CARD Ex. 2 (M. Garrett Dir.) at 37-39 & Attachment MG-2.8.

EXCESS ACCUMULATED DEFERRED FEDERAL INCOME TAXES

- As noted above, the Excess-ADFIT impact of the ALJs' recommended removal of SWEPCO's proposed \$455,122,490 ADFIT adjustment is described at Staff Ex. 3 (Stark Dir.) at 44.
- In response to recommendations from Staff, SWEPCO in rebuttal revised its Excess ADFIT calculation to reflect the 35.01% Texas Retail allocation established in Docket No. 46449. *See* SWEPCO Ex. 45 (Hodgson Reb.) at 25-26. Staff does not oppose the use of the 35.01% Texas Retail allocation factor, and the ALJs are recommending that it be adopted.
- Similarly, utilizing a methodology Staff had proposed, SWEPCO also corrected an error found in its sub-ledger detail, where there had been a misclassification between jurisdictions. *See* Tr. at 564-65 (Hodgson Cross) (May 20, 2021); SWEPCO Ex. 17B (Errata to Hodgson Dir.) at 24. The ALJs recommend that these changes be adopted.
- The balance of Excess ADFIT that is refundable to customers (*i.e.*, unprotected Excess ADFIT and accrued protected Excess ADFIT) should be refunded to SWEPCO's customers in the manner proposed by Staff: (1) credit the balance against any amounts owed by customers because of the March 18, 2021 relate-back date in this proceeding; and (2) refund any remaining balance over a six-month period, with carrying charges at the

same weighted average cost of capital that is determined in this proceeding. See Staff Ex. 3 (Stark Dir.) at 46-47.

RATE OF RETURN

The ALJs recommend a return on equity of 9.45%, a cost of debt of 4.18%, and a capital structure of 50.63% long-term debt and 49.37% equity. Those recommendations result in an overall recommended rate of return of 6.79%, as shown below.

Component	Cost	Weighting	Weighted Cost
Debt	4.18%	50.63%	2.12%
Equity	9.45%	49.37%	4.67%
Overall			6.79%

O&M EXPENSES

The letter and number after the bullet (e.g. A.3.) refer to the part of the briefing outline filed by SWEPCO on May 24, 2021, and approved by the ALJs in SOAH Order No. 13 on May 27, 2021.

- A.3. Proposed Deferral of SPP Wholesale Transmission Costs. No # change but deny SWEPCO's request. No regulatory asset or liability—no ATC tracker.
- B.1. Dolet Hills. Follow CARD approach but for 9 months. Allow recovery of test year average monthly O&M expense level of \$1.04 million per month for each month in test year until plant retirement at end of December 2021. Test year average monthly O&M expense of \$1.04 million per month. CARD Ex. 3 (Norwood Dir.) at 6. So recovery for 9 months—March 2021 through December 2021. Then no more recovery.
- C.1. Payroll Expenses. Adopt Staff recommendation. Two parts:
 - For direct SWEPCO expenses, Staff requests an adjustment of \$544,331 above SWEPCO's requested adjustment. Staff Ex. 3 (Stark Dir.) at 6-7.
 - For AEPSC payroll allocated to SWEPCO, an adjustment of (\$4,480,512)—the difference between SWEPCO's requested increase and the updated October 2020 payroll amount. Staff Ex. 3 (Stark Dir.) at 8.
- C.1-2. Incentive Compensation (short-term and long-term). Two small adjustments agreed between Staff and SWEPCO.

Reflected in SWEPCO rebuttal NO PFD adj.

First, SWEPCO found an error in the business unit financial-based goal percentage; a correction results in adjustments of (\$50,709) and (\$6,131) for SWEPCO and AESPC, respectively. Staff Ex. 3 (Stark Direct) at 9.

=(56,840)

Second, SWEPCO identified an erroneously included \$43,345 of financial based incentive compensation that was capitalized. Staff proposes an adjustment of (\$42,039) to remove these costs net of amortization of \$1,306 from SWEPCO's requested rate base. Staff Ex. 3 (Stark Direct) at 10.

net = 42,039

Remove adj per Staff

(42,000)

SWEPCO reflected in rebuttal However, was entered as addition to rate base rather than a reduction so

PFD adj = 2 x (\$2,000) = (\$4,000)

2x in order to reverse addition & reflect subtraction

*Reflected incorrectly in rebuttal *PFD adj requested*

- C.3. Severance Costs. Two changes.

- For SWEPCO's direct severance costs. This is an ALJ recommendation balancing the parties' contentions and the evidence. This calculation uses OPUC's method for calculating AEPSC's severance costs and the specific information for SWEPCO's direct severance costs. An ALJ-recommended adjustment of (\$504,067). Average three years: 2017 calendar year (0), 2018 calendar year (0), and test year (\$756,100) to get \$252,033. Difference between test year and three year average results in (\$504,067) adjustment.
- For AEPSC's severance costs charged to SWEPCO, accept OPUC adjustment. OPUC proposed adjustment of a reduction of severance costs incurred by AEPSC and charged to SWEPCO from a requested \$1,460,876 to \$824,300. OPUC Ex. 1 (Cannady Dir.) at 43-44. (\$636,576) adjustment.

- D. Depreciation and Amortization Expense. The ALJs recommend the values proposed in SWEPCO's application except for the following:

- Account 354 – Transmission Towers and Fixtures: adopt CARD's S1.5-74 curve life combination, which decreases annual depreciation expense by \$130,874. See CARD Ex. 1 (D. Garrett Dir.) at Exh. DJG-3 at 3.
- Account 355 – Transmission Poles and Fixtures: adopt CARD's recommended L1.5-49 curve life combination, which decreases annual depreciation expense by \$1,795,499. See CARD Ex. 1 (D. Garrett Dir.) at Exh. DJG-3 at 3.
- Account 364 – Distribution Poles, Towers and Fixtures: adopt SWEPCO's rebuttal correction to use the S-.5-55 curve life combination, which decreases total company depreciation expense by \$847,189. See SWEPCO Ex. 43 (Cash Reb.) at 29.
- Account 366 – Distribution Underground Conduit: adopt CARD's recommended R4.0-80 curve life combination, which decreases annual depreciation expense by \$148,914. See CARD Ex. 1 (D. Garrett Dir.) at Exh. DJG-3 at 4.
- Amortization – Adopt Staff's adjustment to intangible plant amortization, a reduction of \$1,855,750 from SWEPCO's filed case. See Staff Ex. 3 (Stark Dir.) at 16.

- F. Affiliate Expenses. Accept Staff's proposed adjustment. The net adjustment to SWEPCO's revenue requirement resulting from these adjustments is (\$634,043). Staff Ex. 3 (Stark Dir.) at 13-14.

- F. Federal Income Tax Expense. SWEPCO's proposal is approved with adjustments as needed for (1) the proposed return and synchronized interest amounts for invested capital and rate of return and (2) any adjustment for ADFIT.

- H1. Ad valorem taxes. Four parts:

- Include capital lease balances in calculation of effective ad valorem tax rate. Correcting this error reduces SWEPCO's effective ad valorem tax rate from approximately 1.0026% to .9986%. Staff Ex. 3 (Stark Dir.) at 49.
- Exclude operating leases from the rate base on which the effective tax rate is applied. Staff Ex. 3 (Stark Dir.) at 52.

- The Dolet Hills generation plants and retired gas fired generating units should remain in the ad valorem tax calculation. SWEPCO's proposal.
 - Use a .961262% effective ad valorem tax rate. Staff Ex. 12 at Staff 17-13; Staff Initial Brief at 66.
- H2. Payroll Taxes. Accept Staff position. Make Staff's adjustment for (1) payroll tax expense (SWEPCO payroll + AEPSC payroll) and (2) executive compensation. Associated adjustment to payroll tax expense of (\$258,162). Staff Ex. 3 (Stark Dir.) at 53, Attachment RS-57.
- H3. Gross Margin Tax. Adjust as needed to account for adjustments to revenue requirement. *Model will calculate*

RETAIL BTMG

- Adjust SWEPCO's jurisdictional allocation of transmission costs to remove Eastman Chemical Co.'s load served by its retail behind-the-meter generation (BTMG). This change should reduce the Texas load by 146 MW. TIEC Ex. 1 (Pollock Dir.) at 13; *see also* Tr. at 1200-04 (Aaron cross) (discussing difference between TIEC Ex. 73 (SPP-RTO coincident demands by jurisdiction) and SWEPCO Ex. 31 (Aaron Dir.) at Exh. JOA-3). The change should result in a reduction of \$5,687,068 allocated to Texas. *See* TIEC Ex. 73 (SWEPCO Response to TIEC 11-1), Attachment 1 at 1.
- Adjust SWEPCO's class allocation of transmission costs to remove Eastman Chemical Co.'s load served by its retail BTMG. This change should reduce LLP-T load by 149 MW. *See* TIEC Reply Brief at 42 n.247. It appears this change can be accomplished by replacing the "A&E/4CP trans" allocator for transmission costs (which includes Eastman's BTMG load) with the "A&E/4CP" allocator for production costs (which does not include Eastman's BTMG load). *See* SWEPCO Ex. 31 (Aaron Dir.) at 18:9-12; SWEPCO Ex. 54A (Aaron Reb. Workpapers) at "JOA WP - SWEPCO TX COS_Class TY 3_2020 Rebuttal.xlsx," Tab TX CLASS, Rows 15 & 17.

BILLING DETERMINANTS

- With one exception stated in the next bullet, use SWEPCO's proposed billing determinants as described in the direct testimony of Company witnesses Aaron, Burnet, and Coffey, and further detailed in Schedules O-1.1, -1.2, 1.3, -1.4, and -1.7 *See* SWEPCO Initial Brief at 108-11; SWEPCO Ex. 31 (Aaron Dir.) at 20-23; SWEPCO Ex. 30 (Burnet Dir.) at 10-11, and SWEPCO Ex. 29, (Coffey Dir.) at 2. The ALJs are not accepting the East Texas Salt Water Disposal Company's proposal to adjust SWEPCO's billing determinants to account for the effects of COVID-19.
- Reject SWEPCO's proposal to adjust the billing determinants for the General Service (GS) rate schedule to account for future migration to that schedule from the Lighting and Power (LP) rate class. Staff Ex. 4 (Narvaez Dir.) at 28. **Note** that this is actually a Rate Design issue and will be handled in the Rate Design section of the PFD, but it was partially

presented as a Billing Determinants issue. There may be some confusion with this issue in connection with migrating between rate classes in general and migrating from LP to GS specifically. In the Revenue Distribution/Rate Design section of the PFD, the ALJs will agree with Staff and recommend against SWEPCO's proposal to remove the 50 kW maximum demand that currently applies to the GS rate schedule. *See* Staff Ex. 4 (Narvaez Dir.) at 26-29. The ALJs' position on "migration" applies only to this LP-to-GS issue, and not to general migration among rate schedules between rate cases if, for example, a customer's load increases or decreases such that the customer would qualify for service under a different rate schedule.

FUNCTIONALIZATION/COST ALLOCATION

- Accept the methodology and calculations used in SWEPCO's jurisdictional and class cost of service studies, as revised by SWEPCO's rebuttal cost of service studies. *See* SWEPCO Reply Brief at 103-04; SWEPCO Ex. 54 (Aaron Reb.) at 5-7, and SWEPCO Ex. 54A (Aaron Rebuttal Workpapers). The inputs to these studies, however, should be revised to reflect the ALJs recommendations outlined in this memorandum, including adjustments to invested capital, rate of return, and expenses. For example, the cost of service studies should be adjusted to remove the allocation of Eastman Chemical's purported load that resulted in a \$5.7 million allocation to the Texas retail jurisdiction.

REVENUE DISTRIBUTION/RATE DESIGN

- Accept TIEC's recommendation that there should be no increase in the Reactive Demand charge. TIEC Ex. 1 (Pollock Dir.) at 49.
- Accept SWEPCO's proposed revenue distribution and rate moderation/gradualism methodology as revised in its Rebuttal cost of service studies. *See* SWEPCO Ex. 55 (Jackson Reb.) at 7-8, Exh. JLJ-1R. This includes SWEPCO's proposal, in its rebuttal case, to apply an approximate 43% cap to any rate increase, and in particular three individual rate classes that were significantly below unity: the Cotton Gin, Oilfield Secondary, and Public Street and Highway Lighting rate classes. *See* Transcript at 1247-48. The ALJs note that Exh. JLJ-1R indicates that the increase for those three classes would be 35.42%, 42.93%, and 32.39%, respectively.
- Reject SWEPCO's proposal to remove the 50 kW maximum demand that currently applies to the GS rate schedule. *See* Staff Ex. 4 (Narvaez Dir.) at 26-29. (*See also* discussion above in the context of Billing Determinants.)
- In accordance with Walmart's recommendation, reject SWEPCO's rate design change with regard to the LP Secondary that shifts cost from the demand to the energy charge. *See* Walmart Ex. 1 (Perry Dir.) at 23-24.

RIDERS

As riders, the following items, if adopted, would be collecting charges from customers outside of base rates.

- Accept SWEPCO's proposed Rate Case Surcharge (RCS) Rider. SWEPCO Ex. 5 (Ferry-Nelson Dir.) at 26. The amounts to be collected through the RCS Rider are those specified in the table to Staff witness Stark's Final Supplemental Direct Testimony filed on July 20, 2021 at page 8 of 8, *except* that the line designated as "[Docket] 47141" should be increased from \$0 to \$2500. *See* CARD Reply Brief at 46-47. Thus, the total authorized rate case expenses to be recovered through the RCS rider are: $\$3,697,521 + 2,500 = \$3,700,027$.
- Accept SWEPCO's proposed Residential Service Plug-in Electric Vehicle Rider. *See* SWEPCO Ex. 3 (Smoak Dir.) at 8-9; SWEPCO Ex. 32 (Jackson Dir.) at 27-28.
- Accept TIEC's proposal that an energy allocator, rather than demand allocator, should be used to allocate costs to the Renewable Energy Credit Rider. *See* TIEC Initial Brief at 83, refuting SWEPCO Ex. 55 (Jackson Reb.), Exh. JLJ-2R
- Reject SWEPCO's proposed Synchronized Self-Generation Load (SSGL) rider/rate. This is related to the BTMG issues discussed above. Because the ALJs recommend the allocation of Eastman's load served by its retail BTMG should not be allocated to the Texas jurisdiction, there should not be a rate/rider that recovers the costs of that allocation from Texas retail customers.

BASELINES

- Accept SWEPCO's proposed baselines for the TCRF, DCRF, and GCRR based on the class cost of service derived from the ALJs' adjustments to SWEPCO's as-filed/rebuttal costs of service studies as specified in this memorandum.

RATE CASE EXPENSES

- *See* bullet above in the Riders section regarding accepting the RCS Rider. The ALJs note, however, that SWEPCO witness Aaron's Rebuttal workpapers, specifically the tab labeled "COS Changes-Rebuttal," line 18, indicate a revision from SWEPCO's as-filed cost of service to its rebuttal cost of service regarding rate case expenses. The ALJs assume that revision is dealing with rate case expenses in one or more dockets that were booked to FERC Account 928 during the test year. That is appropriate from a regulatory accounting standpoint. However, because the ALJs are recommending recovery of rate case expenses through a rider outside of base rates, the final cost of service in this case *to determine base rates* should not include rate case expenses.

OTHER ISSUES

- SWEPCO addresses a number of "Other Issues" at the end of its Initial Brief. SWEPCO Initial Brief at 140-44. All of these issues, as the ALJs understand them, either are not contested and/or do not affect the revenue requirement to be set in this case. Because the revenue-related issues that are not contested were presented in SWEPCO's direct case, the ALJs assume that any cost of service effects to these non-contested issues are flowed

through SWEPCO's rebuttal testimony and its proposed rebuttal cost of service studies and do not require any additional adjustments from the ALJs.¹ As examples, referring to page 122-24 of SWEPCO's Reply Brief:

- Regarding Interest on Customer Deposits, SWEPCO states that it does not contest Staff's adjustment to update the customer deposit interest amount to incorporate the Commission approved 2021 interest rate. *Citing SWEPCO Ex. 36 (Baird Reb.) at 37. rebuttal adj (1,041,000)*
- Regarding the Supplemental Employee Retirement Plan, SWEPCO notes that Staff witness Stark raised concerns with how SERP was removed from SWEPCO's requested cost of service, but that SWEPCO does not contest Ms. Stark's recommended additional adjustment for SERP expenses. *Citing SWEPCO Ex. 36 (Baird Reb.) at 35. rebuttal adj (93,000)*
- Regarding Executive Perquisites, SWEPCO states that given the Commission's decisions in Docket Nos. 40443 and 46449, it does not contest Staff's recommended adjustment for executive perquisites. *Citing SWEPCO Ex. 36 (Baird Reb.) at 36. rebuttal adj (21,000)*

factoring- see SWEPCO reply brief

¹ SWEPCO witness Aaron, who sponsors the rebuttal cost of service studies, states that the changes sponsored by SWEPCO witness Baird are included in the rebuttal cost of service study. SWEPCO Ex. 54 (Aaron Reb.) at 7.

JOH WP - SWEPCO TX COS - CLASS TY 3 - 2020 Rebuttal

"COS Change" - Rebuttal

SWEPCO
Rebuttal COS

J Aaron

Class allocation factors (DEMPROD and DEMTRANS) updated to reflect 1CP as recommended by TIEC
Reduce Texas retail base rate revenue by \$33,928 for overstated Cotton Gin customer count.

M Baird

Rate Base

Capitalized Incentives

Dolet Hills remaining book value

(42,000) Reduction to rate base allocated on Plant. Row 1187. ✓

(29,000,153) Increased production accumulated depreciation. Row 1051. ✓

(29,042,153) decrease to rate base ✓

O&M

Short Term Incentives

Amortization Intangibles

Loss on Disposition of Plant

SERP

Rate Case Expense

Executive Perquisites

Interest on Customer Deposits

Affiliate Carrying Charges

Dolet Hills depreciation expense

① (57,000) Reduce Acct 920 A&G. Row 1351. ✓

② (1,857,000) Reduce Acct 404. Row 1382. ✓

③ (490,000) Reduced Acct 411 (Accretion included loss on disposition) ✓

④ (93,000) Reduce Acct 926. Row 1357. ✓

⑤ (46,000) Reduce Acct 928. Row 1362. ✓

⑥ (21,000) Reduce Acct 926. Row 1357. ✓

⑦ (1,041,000) Reduce Acct 903. Row 1325. ✓

⑧ (634,000) Reduce Acct 920 A&G. Row 1351. ✓

⑨ (7,250,038) Reduce Production Depreciation. Row 1375. ✓

⑩ (1,899,000)

O&M Reg 553,366,356
neb. reg O&M 551,474,356
diff 1,892,000

reg. net rate base 5,389,281,026
neb. reg net RB 5,360,238,873
diff 29,042,153

5,360,322,877 SWEPCO
5,360,238,873 Staff
84,004 diff

⑪ (9,597,038)

b/c 42,000 reduction was
added in SWEPCO's rebuttal
model

275,368,632
- 9,597,038
265,771,594 Ties to

SWEPCO return - 387,226,159
rebuttal 387,220,091
Staff return rebuttal 6,068
diff due to rate base error

Staff Adjustments Related to Retired Generating Units

Plant	Utility Account	Month Number	Activity Cost	Unit 4 Retired Jan 2019 Assume Same Avg. NBV as Other 2 Units	Total Knox Lee Retirements	SWEPSCO Requested Depreciations Rate D-4	Staff Depreciation Expense Adjustment
Knox Lee Generating Plant	31230 - Boiler Plant Equip-Oil/Gas	202005	(1,418,917)	(709,459)	(2,128,376)	3.28%	(69,811)
Knox Lee Generating Plant	31230 - Boiler Plant Equip-Oil/Gas	202005	(1,337,150)	(668,575)	(2,005,725)	3.28%	(65,788)
Knox Lee Generating Plant	31430 - Turbogenerator Units-Oil/Gas	202005	(1,286,941)	(643,471)	(1,930,412)	3.62%	(69,881)
Knox Lee Generating Plant	31430 - Turbogenerator Units-Oil/Gas	202005	(1,197,489)	(598,744)	(1,796,233)	3.62%	(65,024)
Knox Lee Generating Plant	31730 - ARO Steam Prod Plant Oil/Gas	202005	(968,072)	(484,036)	(1,452,108)	1.89%	(27,490)
Knox Lee Generating Plant	31730 - ARO Steam Prod Plant Oil/Gas	202005	(975,981)	(487,990)	(1,463,971)	1.89%	(27,714)
Knox Lee Units 2 & 3 NBV at Retirement in May of 2020			(7,184,550)	(3,592,275)	(10,776,824)		(325,707)
Lieberman Generating Plant	31230 - Boiler Plant Equip-Oil/Gas	202005	(609,654)		(609,654)	8.19%	(49,931)
Lieberman Generating Plant	31430 - Turbogenerator Units-Oil/Gas	202005	(988,413)		(988,413)	7.54%	(74,526)
Lieberman Generating Plant	31730 - ARO Steam Prod Plant Oil/Gas	202005	(40,752)		(40,752)	6.26%	(2,549)
Lieberman NBV at Retirement			(1,638,820)		(1,638,820)		(127,006)
Lone Star Generating Plant	31230 - Boiler Plant Equip-Oil/Gas				(315,149)	0	
Lone Star Generating Plant	31430 - Turbogenerator Units-Oil/Gas				(313,242)	0	
Lone Star Generating Plant	31730 - ARO Steam Prod Plant Oil/Gas				(196,435)	6.22%	(12,226)
Lone Star NBV at retirement			(824,826)		(824,826)	0	(12,226)
Total Plant Retirements			(9,648,195)	(3,592,275)	(13,240,470)		(464,939)

Staff Adjustment to Net Plant for Retirements:

Retirements by FERC Acct Knox Lee & Lieberman	Amount	Percentage	Allocate	
			Lone Star	
31230 - Boiler Plant Equip-Oil/Gas	(4,743,755)	38%	(315,149)	(5,058,903)
31430 - Turbogenerator Units-Oil/Gas	(4,715,058)	38%	(313,242)	(5,028,300)
31730 - ARO Steam Prod Plant Oil/Gas	(2,956,831)	24%	(196,435)	(3,153,267)
Total Allocated Plant Retirements	(12,415,644)	100%	(824,826)	(13,240,470)

Reasonableness Check

Knox Lee NBV at TYE \$13,603,768 Response to Staff 5-66
Units 4, 2 & 3 Retired, Unit 5 Still in service
\$13,603,768 ÷ 4 times 3 =

10,202,826

Lieberman NBV at TYE: \$6,231,201 Response to Staff 5-66
Unit 2 retired, Units 3 & 4 Still in service
\$6,231,201 ÷ 3 =

2,077,067

Lone Star - No units left in service

NBV at TYE = \$1,067,340 Response to Staff 5-66
Reasonableness check of Staff plant retirement, above

1067340

13,347,233

Staff Regulatory Asset Balance and Amortization Expense

Regulatory Asset Balance	13,240,470
Number of years in amortization period	
Staff Amortization Expense	3,310,118

Staff Property Tax Adjustment Exclude Retired Unit NBV from Ad Valorem Tax Calculation

shareholders with respect to a plant that no longer provides service.⁴⁹

70. It is reasonable for SWEPCO to recover the remaining undepreciated balance of Welsh unit 2 over the 24-year remaining lives of Welsh units 1 and 3.⁵⁰

71. The appropriate accounting treatment that results in the appropriate ratemaking treatment is to record the undepreciated balance of Welsh unit 2 in a regulatory-asset account.⁵¹

Q. Is it reasonable to treat the generating units retired since Docket No. 46449 consistent with the regulatory treatment established in that case?

A. Yes, it is. Accordingly, I have reflected an adjustment of (\$13,240,470) to SWEPCO's requested rate base to remove the net book value of the retired units.⁵² SWEPCO explains in response to discovery that the Company does not track book value for individual units in its property records.⁵³ SWEPCO does provide the net book values of the plants in April 2020 (the month prior to the retirements) and in May 2020 (the month of the retirements) as well as the total amount of \$13,240,470 recorded for the retirements of the units at each plant.⁵⁴ The Commission precedent established in Docket No. 46449 called for amortizing Welsh Unit 2 over the remaining lives of the two Welsh units that remained in service (Units 1 and 3). In this case, the retired units were not retired early, but were retired at the end of their estimated useful lives as established in Docket No. 46449. I therefore recommend that the net book value of the retired plants be placed in a regulatory asset and amortized over the four-year period that rates from this case are expected to be in effect. I have calculated an adjustment of \$3,310,118 to amortization

⁴⁹ *Id.*, Finding of Fact No. 69.

⁵⁰ *Id.*, Finding of Fact No. 70.

⁵¹ *Id.*, Finding of Fact No. 71.

⁵² Attachment RS-23.

⁵³ Southwestern Electric Power Company's Response to Commission Staff's Fifteenth Request for Information (SWEPCO's Response to Staff's 15th RFI) at Staff 15-1 (Mar. 30, 2021). (Attachment RS-24).

⁵⁴ Southwestern Electric Power Company's Response to Cities Advocating Reasonable Deregulation's Ninth Set of Requests for Information (SWEPCO's Response to CARD's 9th RFI) at CARD 9-2. (Mar. 29, 2021) (Attachment RS-25).

1 expense to recognize this amortization.⁵⁵ Together these adjustments provide for a return
2 of, but not on, SWEPCO's remaining investment in these units consistent with
3 Commission precedent. Additionally, I have reflected an adjustment of (\$464,939) to
4 depreciation expense to exclude the depreciation expense related to these plants in
5 SWEPCO's requested revenue requirement, and I removed the net book value of the
6 retired units from the plant balance used to calculate ad valorem taxes.⁵⁶

7 **M. Dolet Hills**

8 **Q. Please explain SWEPCO's request with respect to the Dolet Hills generating plant.**

9 **A.** SWEPCO explains that lignite production operations halted at the associated DH Mines
10 in May 2020 after SWEPCO and Cleco Power, LLC, the joint owner of Dolet Hills,
11 determined that all economically recoverable lignite had been recovered.⁵⁷ It was then
12 decided that the Dolet Hills plant would be retired no later than December 31, 2021.⁵⁸
13 SWEPCO is proposing to offset the undepreciated balance of Dolet Hills with the balance
14 of excess accumulated deferred federal income tax (ADFIT) liabilities owed to ratepayers
15 associated with the Tax Cuts and Jobs Act of 2017 (TCJA).^{59,60} Because the proposed
16 offset for the excess ADFIT liabilities owed ratepayers as calculated by SWEPCO is less
17 than the undepreciated book balance of Dolet Hills, the Company proposes to amortize
18 the balance remaining after the offset over a four year period, as that is the time period
19 the Company anticipates between rate cases.⁶¹

⁵⁵ Attachment RS-23.

⁵⁶ *Id.*

⁵⁷ Direct Testimony of Thomas P. Brice at 6:7-9 (Oct. 14, 2020) (Brice Direct).

⁵⁸ *Id.* at 6:11-12.

⁵⁹ Act to Provide for Reconciliation Pursuant to Titles II and V of the Concurrent Resolution on the Budget for Fiscal Year 2018, Pub. L. No. 115-97, 113 Stat. 2054 (Dec. 22, 2017).

⁶⁰ Baird Direct at 23:7-10.

⁶¹ *Id.* at 23:10-11.

PFD DOLET NET BOOK VALUE:

Application	MAB-4	82,311,412
Rebuttal Add'l	MAR-2R	29,000,153
Total		111,311,565

Using same% MAB-4:	%	
31100 - Structures, Improvemnt-Coal	5.2180%	(5,808,220)
31200 - Boiler Plant Equip-Coal	82.0134%	(91,290,428)
31400 - Turbogenerator Units-Coal	6.8654%	(7,641,932)
31500 - Accessory Elect Equip-Coal	2.1836%	(2,430,580)
31600 - Misc Pwr Plant Equip-Coal	3.3041%	(3,677,883)
31700 - ARO Steam Production Plant	0.4306%	(479,266)
31700 - ARO Steam Production Plant	-0.0150%	16,743

TOTAL DOLET REDUCTION FOR ADFIT	(111,311,565)
---------------------------------	---------------

Southwestern Electric Power Company
Dolet Hills Recommendation

Depreciation													
Description	Utility Account	Month	Gross Plant	Accum Depr	Allocated CWIP	Gross Plant + Allocated CWIP	Depreciation Rates	July 2020 - Mar-21	Total Company Net Book	Texas Net Book	Total Company Depreciation	Texas Net Book	
Dolet Hills Plant	31100 - Structures, Improvemnt-Coal	06/2020	57,127,514	51,966,358	686,515	57,814,029	2.00%	867,210	4,293,946	1,586,330	149,800	83,360.48	
Dolet Hills Plant	31200 - Boiler Plant Equip-Coal	06/2020	211,216,144	139,942,797	2,538,234	213,754,378	2.36%	3,783,452	67,489,895	24,933,071	2,354,472	1,310,214.51	
Dolet Hills Plant	31400 - Turbogenerator Units-Coal	06/2020	39,735,805	33,443,811	477,515	40,213,320	2.13%	642,408	5,649,586	2,087,150	197,093	109,678.20	
Dolet Hills Plant	31500 - Accessory Elect Equip-Coal	06/2020	12,575,554	10,576,211	151,123	12,726,678	2.10%	200,445	1,796,898	663,836	62,687	34,884.07	
Dolet Hills Plant	31600 - Misc Pwr Plant Equip-Coal	06/2020	16,666,082	13,644,739	200,280	16,866,362	2.39%	302,330	2,719,013	1,004,496	94,856	52,785.55	
Dolet Hills Plant	31700 - ARO Steam Production Plant	06/2020	1,257,350	548,720	-	1,257,350	37.57%	354,315	354,315	130,896	12,361	6,878.49	
Dolet Hills Plant	31700 - ARO Steam Production Plant	06/2020	(26,693)	(1,937)	-	(26,693)	61.83%	(12,378)	(12,378)	(4,573)	(432)	(240.30)	
			338,551,758	250,122,699	4,053,667	342,605,425			82,291,276	30,401,206	2,870,838	1,597,561	
			CWIP		4,053,667								
Account 1080161									29,763,258	10,995,563			
Demo Estimate									10,740,383	3,967,864			
Total Dolet NBV									122,794,917	45,364,633			
Excess ADIT Off-Set									(111,311,565)	(38,974,389)			
Remaining Value									11,483,351	6,390,244			
4 Year Amortization									2,870,838	1,597,561			

$\$ 111,311,565$
 $- 82,311,412$
29,000,153

Southwestern Electric Power Company
Dolet Hills Recommendation

Description	Utility Account	Month	Gross Plant	Accum. Depr	Allocated CWIP	Gross Plant + Allocated CWIP	Depreciation Rates	Depreciation	Total Company Net Book	Texas Net Book	Total Company Depreciation	Texas Net Book
								July 2020 - Mar-21				
Dolet Hills Generating Plant	31100 - Structures, Improvemnt-Coal	06/2020	57,127,514	51,966,358	686,515	57,814,029	2.00%	867,210	4,293,946	1,586,330	528,106	195,100.28
Dolet Hills Generating Plant	31200 - Boiler Plant Equip-Coal	06/2020	211,216,144	139,842,797	2,536,234	213,754,378	2.36%	3,783,452	67,489,895	24,933,071	8,300,477	3,066,479.62
Dolet Hills Generating Plant	31400 - Turbogenerator Units-Coal	06/2020	39,735,805	33,443,811	477,515	40,213,320	2.13%	642,408	5,649,586	2,087,150	694,834	256,695.35
Dolet Hills Generating Plant	31500 - Accessory Elect Equip-Coal	06/2020	12,575,554	10,578,211	151,123	12,726,678	2.10%	200,445	1,796,898	663,836	220,998	81,644.10
Dolet Hills Generating Plant	31600 - Misc Pwr Plant Equip-Coal	06/2020	16,666,082	13,644,739	200,280	16,866,362	2.39%	302,330	2,719,013	1,004,496	334,407	123,541.45
Dolet Hills Generating Plant	31700 - ARO Steam Production Plant	06/2020	1,257,350	548,720	-	1,257,350	37.57%	354,315	354,315	130,896	43,577	16,098.71
Dolet Hills Generating Plant	31700 - ARO Steam Production Plant	06/2020	(26,693)	(1,937)	-	(26,693)	61.83%	(12,378)	(12,378)	(4,573)	(1,522)	(562.41)
			338,551,758	250,122,699	4,053,667	342,605,425			82,291,276	30,401,206	10,120,876	3,738,997
				CWIP	4,053,667							

Account 1080161	29,763,258	10,995,563
Demo Estimate	10,740,383	3,967,864
Total Dolet NBV	122,794,917	45,364,633
ADIT Off-Set	(82,311,412)	(30,408,645)
Remaining Value	40,483,505	14,955,988
4 Year Amortization	10,120,876	3,738,997

Rebuttal
Add'l 29,000,153

Plant Adjustment- To A/D

Total Company Net Book	%	Adj	
4,293,945.80	5.2180%	(4,294,996.51)	31100 - Structures, Improvemnt-Coal
67,489,894.60	82.0134%	(67,506,409.05)	31200 - Boiler Plant Equip-Coal
5,649,586.48	6.8654%	(5,650,968.91)	31400 - Turbogenerator Units-Coal
1,796,898.18	2.1836%	(1,797,337.87)	31500 - Accessory Elect Equip-Coal
2,719,013.48	3.3041%	(2,719,678.81)	31600 - Misc Pwr Plant Equip-Coal
354,315.11	0.4306%	(354,401.81)	31700 - ARO Steam Production Plant
(12,378.00)	-0.0150%	12,381.03	31700 - ARO Steam Production Plant
82,291,275.66		(82,311,411.93)	
		To D-I	

Deprec Exp Adjustment

Total Company Net Book	%	Adj	
4,293,945.80	5.22%	528,105.72	31100 - Structures, Improvemnt-Coal
67,489,894.60	82.01%	8,300,477.31	31200 - Boiler Plant Equip-Coal
5,649,586.48	6.87%	694,833.87	31400 - Turbogenerator Units-Coal
1,796,898.18	2.18%	220,997.72	31500 - Accessory Elect Equip-Coal
2,719,013.48	3.30%	334,407.25	31600 - Misc Pwr Plant Equip-Coal
354,315.11	0.43%	43,576.57	31700 - ARO Steam Production Plant
(12,378.00)	-0.02%	(1,522.35)	31700 - ARO Steam Production Plant
82,291,275.66		10,120,876.18	
		To D-I	

PFD DOLET HILLS ADJUSTMENTS

Instruction: Remove from base rates all cost recovery for the Dolet Hills Power Station, the plant's lignite inventories, SWEPCO's investment in Oxbow, and SWEPCO's return on equity and taxes associated with DHLC

FERC	Description	Sch H-1.2c Total	Staff 9-8 Fuel	Staff 5-61 DHLC Equity	Staff 5-57 Insurance	SWEPCO TOTAL	PFD Adjustment O&M
Steam Power Generation - Operation							
5000	Oper Supervision & Engineering	1,000,513				1,000,513	(1,000,513)
5010	Fuel		1,847,918	1,418,666		3,266,584	(3,266,584)
5020	Steam Expenses	1,357,844				1,357,844	(1,357,844)
5050	Electric Expenses	483,234				483,234	(483,234)
5060	Misc Steam Power Expenses	3,807,766				3,807,766	(3,807,766)
5070	Rents	634				634	(634)
5090	Allowance Consumption SO2	-				-	-
Steam Power Generation - Maintenance							
5100	Maint Supv & Engineering	394,249				394,249	(394,249)
5110	Maintenance of Structures	200,177				200,177	(200,177)
5120	Maintenance of Boiler Plant	3,947,061				3,947,061	(3,947,061)
5130	Maintenance of Electric Plant	174,758				174,758	(174,758)
5140	Maintenance of Misc Steam Plt	1,100,713				1,100,713	(1,100,713)
Other Power Generation - Operation							
5460	Oper Supervision & Engineering	-					
5480	Generation Expenses	(3)				(3)	3
5490	Misc Other Pwr Generation Exp	3				3	(3)
Other Power Generation - Maintenance							
5510	Maint Supv & Engineering	(1)				(1)	1
5520	Maintenance of Structures	-				-	-
5530	Maintenance of Generating Plt	(7)				(7)	7
5540	Maint of Misc Oth Pwr Generation	-				-	-
Other Power Supply Expenses - Operation							
5560	Sys Control & Load Dispatching	-					
5570	Other Expenses	-					
9240	Property Insurance				442,574	442,574	(442,574)
Total O&M		12,466,942	1,847,918	1,418,666	442,574	16,176,100	(16,176,100)

Test year end Dolet Hills gross plant in service	OPUC 9-1 TYE Balance	Rebuttal SWEPCO Adjustment	NBV After Rebuttal SWEPCO Adj	PFD Adj to Remove Dolet Hills from RB
310 Land and Land Rights	1,510,615		1,510,615	(1,510,615)
311 Structures and Improvements	57,023,545		57,023,545	(57,023,545)
312 Boiler Plant Equipment	211,135,254		211,135,254	(211,135,254)
314 Turbogenerator Units	39,735,805		39,735,805	(39,735,805)
315 Accessory Electric Equipment	12,572,796		12,572,796	(12,572,796)
316 Misc Power Plant Equipment	16,666,082		16,666,082	(16,666,082)
317 ARO Steam Production Plant-Ash Pond	1,257,350		1,257,350	(1,257,350)
317 ARO Steam Prod. Plant & Lignite Mine	(26,693)		(26,693)	26,693
Gross Plant Balances Including Account 310	339,874,755		339,874,755	(339,874,755)
Test year end Dolet Hills accumulated depreciation	OPUC 9-2			
31000 - Land - Coal Fired	-			
31100 - Structures, Improvemnt-Coal	(50,009,996)	(5,808,220)	(55,818,216)	55,818,216
31200 - Boiler Plant Equip-Coal	(122,971,477)	(91,290,428)	(214,261,905)	214,261,905
31400 - Turbogenerator Units-Coal	(31,520,737)	(7,641,932)	(39,162,669)	39,162,669
31500 - Accessory Elect Equip-Coal	(9,951,770)	(2,430,580)	(12,382,350)	12,382,350
31600 - Misc Pwr Plant Equip-Coal	(12,751,800)	(3,677,883)	(16,429,683)	16,429,683
31700 - ARO Steam Production Plant	(410,008)	(479,266)	(889,274)	889,274
31700 - ARO Steam Production Plant		16,743	16,743	(16,743)
10800 Dolet Hills GAAP Depreciation	9,125,930		9,125,930	(9,125,930)
Accumulated Depreciation	(218,489,858)	(111,311,565)	(329,801,423)	329,801,423
Net Book Value	121,384,897	(111,311,565)	10,073,332	(10,073,332) **
Remove Oxbow Mine from Rate Base				(16,576,181)
Remove Fuel Inventory from Rate Base				(28,528,383)

** Instruction to eliminate the adjustment that deducts Excess ADIT from net book value of Dolet Hills combined with the instruction to remove from base rates all cost recovery for the Dolet Hills Power Station (Add \$111,311,565 back results in net book value of \$121,384,897 to be removed = net adjustment to SWEPCO's rebuttal request of \$10,073,332)

DOLET DEPRECIATION EXPENSE IN REBUTTAL REQUEST:

Application Depreciation Expense	10,120,876	MAB-4
Rebuttal Depreciation Adjustment	<u>(7,250,038)</u>	Aaron Rebuttal
Net Rebuttal Depreciation Expense	2,870,838	MAB-2R

Using same% MAB-4:

	%	
31100 - Structures, Improvemnt-Coal	5.2180%	(149,800)
31200 - Boiler Plant Equip-Coal	82.0134%	(2,354,473)
31400 - Turbogenerator Units-Coal	6.8654%	(197,093)
31500 - Accessory Elect Equip-Coal	2.1836%	(62,687)
31600 - Misc Pwr Plant Equip-Coal	3.3041%	(94,856)
31700 - ARO Steam Production Plant	0.4306%	(12,361)
31700 - ARO Steam Production Plant	-0.0150%	<u>432</u>

TOTAL PFD ADJ DOLET DEPRECIATION EXPENSE IN REBUTTAL (2,870,838)

SOUTHWESTERN ELECTRIC POWER COMPANY

Fuel Inventory

For the Test Year Ended March 31, 2020

	Mar-20 Current Act Tons	Mar-20 Fuel Cost Rpt Per Ton Value	Mar-19 -Mar-20 13 Mo. Avg Per Ton Value	Inv Sheets 2020 Target Tons	Current To Be Recovered
Welsh	812,559	37.82	\$ 37.67	477,280	\$ 17,978,663
Flint Creek	332,133	31.65	\$ 31.04	231,494	\$ 7,184,879
Pirkey	296,704	50.23	\$ 50.24	337,652	\$ 16,962,044
Dolet Hills	318,336	101.00	\$ 121.97	233,898	\$ 28,528,383
Turk	275,537	36.79	\$ 37.48	224,241	\$ 8,404,762
Total Coal					\$ 79,064,880
Oil					\$ 3,749,767
In Transit					\$ 2,293,686
Undistributed					\$ 2,352,329
Survey Adjustment					\$ (754,318)
Total					<u>\$ 86,706,344</u>

PFD RECOVERY OF DOLET HILLS

A. TO BE RECOVERED THROUGH RIDER 3/31/2021 THROUGH 12/31/2021:

Net Book Value PFD	121,384,897	Rebuttal NBV after reversing ADFIT
Rate of return	6.79%	PFD recommended rate of return
Annual Return	8,242,034	
FIT	1,505,401	Using PFD recommended ROE& cap structure
Monthly Return & FIT (1/12th)	812,286	
Number of months 3/18/2021 through 12/31/2021 retirement	9.42	
1. Return and FIT to be recovered (9.42 months)	7,651,737	
Remaining Life Dkt 46449 at 12/31/2015 (Exh DAD -2 pge 18)	30.5	Recovery period from Dkt 46449
Time period 12/31/2015 through 3/18/2021	5.21	5 years plus 2.52 months
Amortization period	25.29	Remaining recovery period from Dkt 46449 at 3/18/2021
Test year end Net Book Value	121,384,897	
Annual Depreciation	4,799,719	
2. Depreciation 3/18/2021 through 12/31/2021	3,767,780	9.42 months
Dolet Hills Fuel Inventory in Rate Base	28,528,383	W/P Sch B-1.5.7
Oxbow Mine Investment Included in Rate Base	16,576,181	
Total Fuel Inventory and Oxbow	45,104,564	
Rate of return	6.79%	PFD recommended rate of return
Annual Return	3,062,600	
FIT	559,381	Using PFD recommended ROE& cap structure
Monthly Return & FIT (1/12th)	301,832	
Number of months 3/18/2021 through 12/31/2021 retirement	9.42	
3. Return and FIT to be recovered Oxbow and Dolet Hills fuel	2,843,255	9.42 months
Dolet Hills Lignite Company Return on Equity & Assoc Taxes	1,418,666	RS-28
Number of months 3/18/2021 through 12/31/2021 retirement	9.42	
4. DHLC FIT & Taxes to be recovered through 12/31/2021	1,113,653	9.42 months
Dolet Hills Average Monthly O&M expense	1,040,000	PFD number running instructions
Number of Month recovery	9	PFD number running instructions
5. Dolet Hills O&M Expense Recovery	9,360,000	

TOTAL EXPENSES TO BE RECOVERED IN RIDER 3/18/2021 - 12/31/2021	24,736,424
(Items 1 through 5)	

B. TO BE RECOVERED ANNUALLY THROUGH RIDER BEGINNING 1/1/2022:

Net Book Value PFD	121,384,897	Rebuttal NBV after reversing ADFIT
Depreciation 3/18/2021 through 12/31/2021	3,767,780	9.42 months
Remaining Dolet Hills Net Book Value at 1/1/2021	117,617,117	
Oxbow Mine Investment	16,576,181	
Total Regulatory Asset Balance 1/1/2022	134,193,298	
Balance remaining Dkt 46449 life at 1/1/2022	24.5	(30.5 years at 12/31/15 minus 6 yrs thru 12/31/21)

TOTAL TO BE RECOVERED ANNUALLY IN RIDER BEGINNING 1/1/2022	5,477,277
-------------------------------------------------------------------	------------------

1 **SENSITIVE** [REDACTED] **END HIGHLY SENSITIVE***** on a Total Company
2 basis.

3 CARD witness Karl Nalepa presents the Texas Retail impact of each of my recommended
4 adjustments in his Direct Testimony. The rationale for my findings and proposed
5 recommendations are discussed in further detail below.

6 **III. DOLET HILLS NON-FUEL O&M EXPENSE**

7 **Q. WHAT IS THE ISSUE REGARDING SWEPCO'S REQUEST FOR DOLET HILLS**
8 **NON-FUEL O&M EXPENSE?**

9 **A.** SWEPCO has announced that it plans to retire Dolet Hills no later than December of 2021,
10 which is approximately 2 months after the Company's new base rates are scheduled to be
11 placed into effect.⁴ However, SWEPCO's rate increase application does not adjust the
12 Test Year O&M expense for Dolet Hills to reflect the scheduled retirement of the plant in
13 December 2021.⁵ By ignoring the retirement of Dolet Hills, SWEPCO's requested revenue
14 requirement is unreasonably inflated since there will be no significant operations and
15 maintenance costs after the plant has been retired.

16 **Q. WHAT IS THE LEVEL OF TEST YEAR NON-FUEL O&M REQUESTED BY**
17 **SWEPCO FOR DOLET HILLS?**

18 **A.** SWEPCO incurred approximately \$12.5 million for the Company's 257 MW (40.28%)
19 ownership share of Dolet Hills non-fuel O&M during the Test Year, and is requesting that
20 the entire \$12.5 million amount be included in its new base rates.⁶

21 **Q. WOULD IT BE PROPER TO INCLUDE THE TEST YEAR LEVEL OF DOLET**
22 **HILLS NON-FUEL O&M EXPENSE IN THE REVENUE REQUIREMENT TO BE**
23 **COLLECTED THROUGH SWEPCO'S NEW BASE RATES?**

24 **A.** No. SWEPCO will not incur significant non-fuel O&M expenses at Dolet Hills after the
25 plant is retired, which is only a few months after the Company's new base rates are placed
26 into effect. In fact, because the operations of Dolet Hills have been restricted primarily to

⁴ See Direct Testimony and Exhibits of Monte McMahon at 11. ("McMahon Direct at ____").

⁵ See Attachment SN-3, SWEPCO's response CARD 2-13.

⁶ See Attachment SN-4, SWEPCO's responses to CARD 1-15 and Schedule H-1.2.

1 summer months, the O&M expenditures for the plant are likely to be greatly reduced by
2 the time the Company's new base rates are placed into effect.

3 **Q. WHAT IS YOUR RECOMMENDATION ON THIS ISSUE?**

4 A. I recommend that the O&M for Dolet Hills reflected in the Company's new base rates be
5 adjusted to reflect a Total Company expense level of approximately \$2.1 million. My
6 recommendation is based on allowing SWEPCO to recover two months of expense at the
7 Test Year average monthly O&M expense level of \$1.04 million per month.⁷ My
8 recommended adjustment for this issue reduces SWEPCO's requested Test Year O&M
9 expense for Dolet Hills by approximately \$10.4 million on a Total Company basis.

10 **IV. RETIRED GAS-FIRED UNITS O&M EXPENSE**

11 **Q. WHAT IS THE ISSUE REGARDING SWEPCO'S NON-FUEL O&M EXPENSE**
12 **REQUEST FOR THE COMPANY'S GAS-FIRED GENERATING UNITS?**

13 A. SWEPCO's non-fuel O&M request does not reasonably account for the fact that the
14 Company retired 5 gas-fired generating units during and immediately preceding and
15 following the Test Year. These retirements are known changes that will reduce O&M
16 expenses from the level incurred during the Test Year. Because SWEPCO did not
17 reasonably adjust Test Year O&M expenses to reflect these gas unit retirements, the
18 Company's requested revenue requirement is unrealistically inflated.

19 **Q. WHAT ARE THE GAS UNITS WHICH SWEPCO RECENTLY RETIRED?**

20 A. As summarized in Table 1 below, SWEPCO retired 5 gas units with a combined capacity
21 of 167 MW immediately before and shortly after the Test Year end.⁸

⁷ See Attachment SN-5.

⁸ See McMahon Direct at pages 9-10.

**SOUTHWESTERN ELECTRIC POWER COMPANY
ADJUSTMENT SUPPORT
TEST YEAR ENDING MARCH 31, 2020**

Description	Schedule Reference	Amounts	Description	
NON-UTILITY / NON-APPLICABLE				
ACCOUNT 282 NORMALIZED ADJUSTMENT		43,815,932	ADFIT Related to Unprotected Excess	960F-XS
		13,720	ADFIT Related to Joint Ventures System Fuel Project	680A
	Schedule G-7.4b - Page 2 - Line 57	<u>45,829,652</u>	ADFIT Related to Book Impaired Asset Reserve - SFAS 121	651A
			Total Non-Utility / Non-Applicable - Account 282	
ACCOUNT 283 NORMALIZED ADJUSTMENT	Schedule G-7.4b - Page 2 - Line 57	9,578,820	ADFIT Related to Unprotected Excess	960F-XS
KNOWN CHANGES				
ACCOUNT 199 NORMALIZED ADJUSTMENT	Schedule B-1.5 - Adjustment B-1.5.13	(913,340)	To adjust ADFIT for Accrued Mine Reclamation	
		21%		
	Schedule G-7.4b - Page 1 - Line 15	<u>191,801</u>	ADFIT Related to Accrued Mine Reclamation	
ACCOUNT 282 NORMALIZED ADJUSTMENT	Schedule B-1.5 - Adjustment B-1.5.4	224,168,719	Adjustment to Accumulated Depreciation for Texas Depreciation Rates	
	Schedule B-1.5 - Adjustment B-1.5.10	(4,446,089)	Adjustment to Accumulated Depreciation for ABFUDC	
	Schedule B-1.5 - Adjustment B-1.5.11	(13,389,353)	Adjustment to Accumulated Depreciation for SFAS 143	
		21%	Federal Income Tax Rate	
		<u>(43,329,988)</u>	Adjust ADFIT Related to Adjustment to Accumulated Depreciation for Texas Depreciation Rates, ABFUDC & SFAS 143	
ACCOUNT 282 NORMALIZED ADJUSTMENT	Schedule B-1.5 - Adjustment B-1.5.11	(10,042,883)	ADFIT Related to Protected Excess for NOL	960F-XS
	Schedule B-1.5 - Adjustment B-1.5.13	455,122,490	To adjust for a Stand-Alone Federal Net Operating Loss	
	Schedule G-7.4b - Page 2 - Line 74	<u>401,749,619</u>	Adjustment to Property Related ADFIT - Account 282	
ACCOUNT 283 ACCRUED BOOK PENSION COSTS	Schedule B-1.5 - Adjustment B-1.5.8	83,452,444	13 Month Average — Pension Prepaid Asset Balance Expense Amount	
		21%	Federal Income Tax Rate	
	Schedule G-7.4b - Page 3 - Line 61	(17,525,013)	Required ADFIT Balance	
	Schedule G-7.4b - Page 3 - Line 61	(14,834,029)	ADFIT Recorded in Account 283	
	Schedule G-7.4b - Page 3 - Line 61	<u>(2,690,984)</u>	Adjustment to ADFIT Related to Accrued Book Pension Costs Expense Amount	
POST TEST YEAR ADJUSTMENTS				
ACCOUNT 282 NORMALIZED ADJUSTMENT	Schedule G-7.11 - Page 1 of 1 - Line 3	N/A		
	Workpaper Schedule D-4	N/A		
	Schedule G-7.11 - Page 1 of 1 - Line 3	<u>N/A</u>		

SOUTHWESTERN ELECTRIC POWER COMPANY
 Cities Advocating Reasonable Deregulation Property Insurance Expense
 Docket No. 51415; Test Year End March 31, 2020

Line No.	Description	Amount
1	Expected Annual Storm Loss ¹	\$ 799,700
2	Incremental Cost Request to Build Storm Reserve ²	<u>890,000</u>
3	Total Proposed Increase to Property Damage Expense	\$ 1,689,700
4	Adjustment to Remove the Increased Property Damage Expense, Account 974	<u><u>\$ (1,689,700)</u></u>

Note 1 From Schedule A-3, Adjustment 16, line 3.

Note 2 From Schedule A-3, Adjustment 16, line 4.

PFD Adj. Acct 924

PFD TOTAL EXCESS ADFIT DUE TO RATEPAYERS:

Protected Excess Amortization	13,915,656
Unprotected Excess	<u>29,678,864</u>

43,594,520 TOTAL EXCESS ADFIT TO BE RETURNED TO TEXAS RATEPAYERS

PFD PROTECTED EXCESS ADFIT AMORTIZATION

PFD calculated Protected Excess ADFIT Refund

2018 Amort Per Books	10,080,455	
2019 Amort Per Books	8,562,396	
Tax Return True-up 2019 Amort Per Books	366,919	
Jan through March 2020 Projected Amort	2,542,157	
Projected amortization through TYE	21,551,927	
Projected Amort. 4/1/2020 through 3/18/2021	9,848,719	
Projected amortization 1/2018 through 3/18/21	31,400,846	
Percent allocated to Texas	35.01%	Texas Jurisdictional factor
	10,993,366	
	1.265823	Gross-up factor
	13,915,656	Total Protected Excess to be returned to Texas ratepayers

*Hodgson Rebuttal
excluding NOLE adys*

PFD UNPROTECTED EXCESS ADIT

Description	Unprotected	Notes
Excess Balance 01.01.18	50,479,142	Beginning Balance of Remeasurement at 1/1/2018
Amended Return Remeasurement	252,148	Adjustment due to amended returns
2017 RTP + Reclassifications	16,231,778	Adjustments for 2017 Tax Return True-ups and reclassification entries
Total Company Unprotected Excess	66,963,068	
	35.01%	Texas Jurisdictional Factor
	23,446,303	Texas Share Prior to Gross-up
	1.265823	Gross-up Factor
	29,678,864	Total Unprotected Excess to be returned to Texas Ratepayers

1 ADFIT is reflected in SWEPCO's rates in this proceeding.¹²² According to SWEPCO,
2 the grossed-up (for taxes) amount allocated to Texas is \$5,245,870 at test-year-end and
3 estimated to be a total of \$7,408,645 at the end of March 2021.¹²³

4 **Q. Do you agree with SWEPCO's calculated Texas refund amounts of protected excess**
5 **ADFIT amortization at test-year end and at March 2021?**

6 **A.** No, I do not. SWEPCO explains that its proposed pro forma adjustment to include the
7 NOLC ADFIT asset in rate base (described previously) impacts the balance of protected
8 excess ADFIT and the related amortization.¹²⁴ SWEPCO provides a walk-forward of the
9 total company balance of protected and unprotected excess ADFIT from January 1, 2018
10 through its projected balance at December 31, 2020 in response to discovery.¹²⁵ This
11 walk-forward shows the actual amortization of protected and unprotected excess ADFIT
12 per SWEPCO's books for calendar years 2018 and 2019 and the projected amortization
13 for 2020. Also shown on the walk-forward are pro forma adjustments for each year
14 based on SWEPCO's request to include the NOLC ADFIT asset in rate base. These
15 adjustments have the effect of not only significantly reducing the balance of protected
16 excess ADFIT but also of reducing the amortization of the excess ADFIT and thereby
17 reducing the refund liability owed to ratepayers. These proposed adjustments are shown
18 on lines 3, 4, 9, and 13 of SWEPCO's walk-forward at Attachment RS-47 and should be
19 excluded from the calculation of the refund amount owed ratepayers.

¹²² *Id.* at 49:5-8.

¹²³ Application at W/P Schedule B-1.5.17.1, "Protected Excess ADFIT Refund Provision (3/31/2020)" of \$5,245,870 plus "April 2020 – March 2021" of \$2,162,705 (Attachment RS-45).

¹²⁴ SWEPCO's Response to Staff's 9th RFI at Staff 9-16 (Attachment RS-46).

¹²⁵ SWEPCO's Response to CARD's 4th RFI at CARD 4-32 (Attachment RS-47).

1 **Q.** What amount are you proposing be refunded to Texas ratepayers for the amortized
2 protected excess ADFIT through March 18, 2021, the relate-back date for rates in
3 this proceeding?

4 A. Using SWEPCO's actual booked amortization in 2018 and 2019 and its projection of the
5 2020 amortization amount to calculate a projected amortization for calendar year 2020
6 through March 18, 2021, I calculated a Texas jurisdictional refund amount of
7 \$14,494,385.¹²⁶

8 **Q.** How will the remaining unamortized balance of protected ADFIT be returned to
9 ratepayers?

10 A. As explained previously, the normalization rules prevent returning these amounts to
11 ratepayers more rapidly than over the remaining lives of the assets that gave rise to the
12 excess ADFIT. The remaining excess ADFIT will be amortized through the income tax
13 expense calculation over these lives.

14 **Q.** Do you have any adjustments to SWEPCO's proposed amortization of the protected
15 excess ADFIT in its income tax calculation?

16 A. Yes, I do. SWEPCO reduced the test-year protected excess ADFIT amortization by
17 \$4,664,032 as part of its request to include the stand-alone NOLC ADFIT asset in rate
18 base.¹²⁷ Just as that request should be rejected, so too should this adjustment. This is yet
19 another financial hit to ratepayers associated with SWEPCO's stand-alone NOLC ADFIT
20 request on top of the Company's requested addition of \$455,122,490 to its rate base.

21 **Q.** What is the balance of unprotected excess ADFIT at test-year end?

22 A. SWEPCO identified a balance of \$17,337,163 as the Texas jurisdictional balance of
23 unprotected excess ADFIT.¹²⁸ It is unclear how SWEPCO determined this balance.

¹²⁶ Attachment RS-48.

¹²⁷ Application at Schedule G-7.9 (SWEPCO) (Attachment RS-49).

¹²⁸ Application at W/P Schedule B-1.5.17.1 (Attachment RS-45).

1 SWEPCO grossed this Texas jurisdictional amount up for taxes to reach its proposed
2 unprotected excess ADFIT refund amount owed to Texas ratepayers of \$23,000,070.¹²⁹
3 SWEPCO provides service in several states and notes that its regulators have provided
4 for various periods and methods to amortize their ratepayers' shares of the unprotected
5 excess ADFIT balance.¹³⁰ However, even if SWEPCO has begun amortizing its
6 unprotected excess ADFIT balance under orders from regulators in its other jurisdictions,
7 Texas ratepayers should receive their fair share of the balance at January 1, 2018 only
8 adjusted for amended returns and return-to-provision (RTP) adjustments and excluding
9 booked amortization related to other jurisdictions and adjustments related to SWEPCO's
10 proposed NOLC ADFIT request. Using the same walk-forward of the unprotected excess
11 ADFIT provided by SWEPCO in discovery, identified above, I calculated a Total
12 Company balance of unprotected excess ADFIT of \$66,963,068.¹³¹ Allocating this to the
13 Texas jurisdiction using SWEPCO's allocation factor of 36.94% and grossing-up for
14 taxes yields the amount of \$31,311,597 of unprotected excess ADFIT that should be
15 refunded to Texas ratepayers.¹³²

16 **Q. You previously discussed that you recommend the Commission reject SWEPCO's**
17 **proposal to offset its remaining Dolet Hills plant balance with the excess ADFIT**
18 **owed to ratepayers resulting from the TCJA. What is your recommendation related**
19 **to these excess ADFIT liabilities?**

20 **A. I recommend that the Commission return the \$45,805,982 (\$14,494,385 of protected**
21 **excess ADFIT and \$31,311,597 of unprotected excess ADFIT) to its Texas ratepayers by**
22 **first crediting the refund against any amount owed by ratepayers because of the March**
23 **18, 2021 relate-back date for rates in this proceeding. The remainder should be returned**

¹²⁹ *Id.*

¹³⁰ SWEPCO's Response to OPUC's 1st RFI at OPUC 1-25 (Attachment RS-50).

¹³¹ Attachment RS-51.

¹³² *Id.*

1 to ratepayers over a six-month period with carrying charges at the weighted average cost
2 of capital determined in this proceeding.

3 **P. Depreciation Expense**

4 **Q. Please explain your adjustments to SWEPCO's requested depreciation expense.**

5 A. As explained previously, the Dolet Hills generating plant will be retired no later than
6 December 31, 2021 and SWEPCO proposes an accelerated recovery of the remaining
7 book value by using the excess ADFIT regulatory liabilities owed to ratepayers,
8 discussed above, to partially offset the net book value and then depreciating the
9 remainder over a four-year period. SWEPCO's request includes its proposed
10 depreciation of \$10,120,877 on its calculated residual net book value of Dolet Hills after
11 the excess ADFIT offset in its requested revenue requirement.¹³³ Because I am
12 recommending a different method of recovery for the retiring Dolet Hills plant, I have
13 reflected an adjustment of (\$10,120,877) to remove this amount from depreciation
14 expense. I have also included adjustments of (\$1,306) to depreciation expense associated
15 with my exclusion of capitalized financial based incentive compensation and (464,939)
16 related to my adjustments for the retired generating units.

17 **Q. Do you have any other depreciation expense adjustments?**

18 A. Yes, I do. SWEPCO included test-year losses from disposition of utility plant of
19 \$653,208 in its requested depreciation expense.¹³⁴ Because rates from this proceeding are
20 expected to be in effect for a four-year period, I included one-fourth of this amount in
21 SWEPCO's revenue requirement resulting in an adjustment of (\$489,906).

¹³³ Attachment RS-26.

¹³⁴ Application at WP A, Line 264.

1 normalization method of accounting for purposes of section 168(f)(2) and (i)(9)(C) of
2 the Code, i.e., the Company would have violated the normalization rules. The
3 punishment for a normalization violation is discussed earlier in my testimony.

4 Q. HAS THE COMPANY PRESENTED IN THIS FILING THE BALANCE OF EDFIT
5 THAT SHOULD BE PASSED BACK TO CUSTOMERS?

6 A. Yes. The total company unamortized balance of protected EDFIT is presented in
7 Schedule G-7.9a in the amount of \$486,745,961. This balance represents the
8 unamortized balance that is expected to be returned to all customers of the Company
9 regardless of jurisdiction. The unamortized balance of protected EDFIT to be returned
10 to Texas customers is ~~\$121,725,475~~ ^{\$106,154,193}. The Company is proposing in this filing to utilize
11 the Texas jurisdictional balance of unamortized unprotected EDFIT of ~~\$17,337,163~~ ^{\$23,446,303} to
12 partially offset the unrecovered cost of the Dolet Hills Power Station as discussed in
13 the testimony of Company witness Michael Baird.

14 Q. HAS THE COMPANY RECORDED AMORTIZATION OF PROTECTED EDFIT
15 SINCE THE ENACTMENT OF TCJA?

16 A. Yes. Under the ARAM, the protected amortization of EDFIT began January 1, 2018 –
17 immediately after the effect of the federal rate change due to TCJA. This deferred tax
18 benefit was deferred on the Company's income statement through a provision for
19 revenue refund as described in the testimony of Company witness Michael Baird.

20 Q. HAS THE COMPANY INCLUDED AN EDFIT BALANCE RELATED TO NOL
21 CARRYFORWARDS WITH ITS PROTECTED OR UNPROTECTED BALANCE?

22 A. The Company has included an EDFIT balance related to NOLC as a component of the
23 protected EDFIT as presented in Schedule G-7.9a. As the "with-and-without" test

		COMPANY	STAFF
1	2018 Amort Per Books	10,080,455	10,080,455
2	2019 Amort Per Books	8,562,396	8,562,396
3	Amortization - NOL Excess	(4,626,403)	-
4	Jan through March 2020 Projected Amort	2,542,157	2,542,157
5	Jan through March 2020 Projected Amort - NOL Excess	(1,194,345)	-
6	Projected amortization through Test Year-End	15,364,260	21,185,008
7	Projected Amort. 4/1/2020 through 3/18/2021	9,848,719	9,812,724
8	Tax Return True-up of 2019 Amort Per Books	366,919	-
9	Projected Amort. NOL Excess	(4,606,830)	-
10	Projected amortization 1/2018 through 3/18/21	20,973,069	30,997,732
11	Percent allocated to Texas	35.01%	36.94%
12	Texas Jurisdictional	7,343,465	11,450,562
13	Gross-up Rate	1.265823	1.265823
14	Texas Refund - Protected Excess Amortization	9,295,525	14,494,385

Refund for Unprotected Excess ADFIT

EXHIBIT DAH-3R

Page 1 of 1

		COMPANY	STAFF
1	Excess Balance 01.01.18	(50,479,142)	(50,479,142)
2	Amended Return Remeasurement	(252,148)	(252,148)
3	2017 RTP + Reclassifications	(16,231,778)	(16,231,778)
4	Unprotected Excess - Total Company	(66,963,068)	(66,963,068)
5	Allocation Factor per Docket No. 46449	35.01%	36.94%
6	Unprotected Excess - Texas <i>Ties to Hodgson Erata</i>	(23,446,303)	(24,736,157)
7	Gross-up Factor (1 / (1 - 21%))	1.265823	1.265823
8	Unprotected Excess - Texas Refund	(29,678,864)	(31,311,597)

STAFF ADJUSTMENT TO SWEPCO PAYROLL

SOUTHWESTERN ELECTRIC POWER COMPANY CALCULATION OF PAYROLL ANNUALIZATION - Response to Staff 5-27 AS OF 10/31/2020				SWEPCO Proposed Adj A-3.1 RFP	Staff Adj to SWEPCO Request
Test year actual regular pay less joint billings	Annualized Payroll	Revised Adjustment			
FERC	Total				
5000	\$ 5,273,166	\$ 5,463,663	\$ 190,498	\$ 151,922	\$ 38,576
5010	\$ 50,682	\$ 52,513	\$ 1,831	\$ 1,460	\$ 371
5020	\$ 6,857,893	\$ 7,105,641	\$ 247,747	\$ 197,578	\$ 50,169
5050	\$ 7,117,976	\$ 7,375,119	\$ 257,143	\$ 205,071	\$ 52,072
5060	\$ 3,180,083	\$ 3,294,966	\$ 114,883	\$ 91,619	\$ 23,264
5100	\$ 3,928,392	\$ 4,070,308	\$ 141,917	\$ 113,178	\$ 28,738
5110	\$ 831,627	\$ 861,671	\$ 30,043	\$ 23,959	\$ 6,084
5120	\$ 8,195,282	\$ 8,491,344	\$ 296,062	\$ 236,109	\$ 59,953
5130	\$ 1,748,176	\$ 1,811,331	\$ 63,154	\$ 50,366	\$ 12,789
5140	\$ 1,847,164	\$ 1,913,895	\$ 66,730	\$ 53,217	\$ 13,513
5420	\$ 197	\$ 204	\$ 7	\$ 6	\$ 1
5440	\$ 1,125	\$ 1,166	\$ 41	\$ 32	\$ 8
5480	\$ 206,327	\$ 213,781	\$ 7,454	\$ 5,944	\$ 1,509
5520	\$ 986	\$ 1,021	\$ 36	\$ 28	\$ 7
5530	\$ 312,657	\$ 323,952	\$ 11,295	\$ 9,008	\$ 2,287
5600	\$ 1,453,939	\$ 1,506,464	\$ 52,525	\$ 41,888	\$ 10,636
5612	\$ 694	\$ 720	\$ 25	\$ 20	\$ 5
5620	\$ 242,445	\$ 251,203	\$ 8,759	\$ 6,985	\$ 1,774
5630	\$ 20,394	\$ 21,131	\$ 737	\$ 588	\$ 149
5660	\$ 296,121	\$ 306,819	\$ 10,698	\$ 8,531	\$ 2,166
5680	\$ 3,235	\$ 3,352	\$ 117	\$ 93	\$ 24
5690	\$ 4,743	\$ 4,914	\$ 171	\$ 137	\$ 35
5700	\$ 1,013,440	\$ 1,050,052	\$ 36,611	\$ 29,198	\$ 7,414
5710	\$ 365,267	\$ 378,463	\$ 13,196	\$ 10,523	\$ 2,672
5800	\$ 655,175	\$ 678,844	\$ 23,669	\$ 18,876	\$ 4,793
5820	\$ 305,879	\$ 316,929	\$ 11,050	\$ 8,812	\$ 2,238
5830	\$ (1,386,701)	\$ (1,436,797)	\$ (50,096)	\$ (39,951)	\$ (10,144)
5840	\$ 618,150	\$ 640,482	\$ 22,331	\$ 17,809	\$ 4,522
5850	\$ 25,818	\$ 26,751	\$ 933	\$ 744	\$ 189
5860	\$ 2,568,022	\$ 2,660,794	\$ 92,772	\$ 73,986	\$ 18,786
5870	\$ 261,908	\$ 271,370	\$ 9,462	\$ 7,546	\$ 1,916
5880	\$ 9,303,952	\$ 9,640,065	\$ 336,113	\$ 268,050	\$ 68,063
5900	\$ 122,227	\$ 126,643	\$ 4,416	\$ 3,521	\$ 894
5910	\$ 6,927	\$ 7,177	\$ 250	\$ 200	\$ 51
5920	\$ 676,656	\$ 701,101	\$ 24,445	\$ 19,495	\$ 4,950
5930	\$ 5,680,298	\$ 5,885,504	\$ 205,206	\$ 163,651	\$ 41,554
5940	\$ 184,702	\$ 191,375	\$ 6,673	\$ 5,321	\$ 1,351
5950	\$ 72,805	\$ 75,436	\$ 2,630	\$ 2,098	\$ 533
5960	\$ 133,719	\$ 138,550	\$ 4,831	\$ 3,852	\$ 978
5970	\$ 343,709	\$ 356,125	\$ 12,417	\$ 9,902	\$ 2,514
5980	\$ 203,351	\$ 210,697	\$ 7,346	\$ 5,859	\$ 1,488
9010	\$ 462,559	\$ 479,269	\$ 16,710	\$ 13,326	\$ 3,384
9020	\$ 1,741,189	\$ 1,804,091	\$ 62,902	\$ 50,164	\$ 12,738
9030	\$ 2,438,820	\$ 2,526,925	\$ 88,105	\$ 70,263	\$ 17,841
9070	\$ 975,874	\$ 1,011,128	\$ 35,254	\$ 28,115	\$ 7,139
9080	\$ 1,886,333	\$ 1,954,479	\$ 68,145	\$ 54,346	\$ 13,800
9200	\$ 4,325,628	\$ 4,481,895	\$ 156,267	\$ 124,623	\$ 31,644
9220	\$ (2,057,088)	\$ (2,131,402)	\$ (74,314)	\$ (59,265)	\$ (15,049)
9250	\$ 203,306	\$ 210,650	\$ 7,345	\$ 5,857	\$ 1,487
9280	\$ 1,995	\$ 2,067	\$ 72	\$ 57	\$ 15
9302	\$ 110,133	\$ 114,112	\$ 3,979	\$ 3,173	\$ 806
9350	\$ 1,590,352	\$ 1,647,805	\$ 57,453	\$ 45,819	\$ 11,634
	\$ 74,407,712	\$ 77,095,756	\$ 2,688,044	\$ 2,143,713	\$ 544,331
					Staff Adjustment to SWEPCO Request

Staff Adjustment to
SWEPCO Request

STAFF ADJUSTMENT TO AEPSC PAYROLL

SOUTHWESTERN ELECTRIC POWER COMPANY October 2020 Payroll Annualized in Cost of Service Response to Staff 5-27 Billed from AEPSC to SWEPSCO by FERC Account				SWEPSCO RFP Adjustment 8JF-18	Staff Adj to SWEPSCO Request
FERC Account	Test Year	Annualized	Proforma Adjustment		
5000 - Oper Supervision & Engineering	\$ 6,060,375	\$ 5,949,261	\$ (111,114)	\$ 609,540	\$ (720,654)
5010 - Fuel	\$ 419,862	\$ 412,223	\$ (7,639)	\$ 42,067	\$ (49,707)
5020 - Steam Expenses	\$ 96,351	\$ 94,551	\$ (1,800)	\$ 9,783	\$ (11,582)
5050 - Electric Expenses	\$ 2,493	\$ 2,447	\$ (46)	\$ 252	\$ (298)
5060 - Misc Steam Power Expenses	\$ 397,196	\$ 389,950	\$ (7,246)	\$ 39,848	\$ (47,094)
5100 - Maint Supv & Engineering	\$ 214,754	\$ 210,763	\$ (3,990)	\$ 21,746	\$ (25,736)
5110 - Maintenance of Structures	\$ 339,064	\$ 332,601	\$ (6,462)	\$ 34,780	\$ (41,242)
5120 - Maintenance of Boiler Plant	\$ 734,161	\$ 720,276	\$ (13,885)	\$ 75,011	\$ (88,896)
5130 - Maintenance of Electric Plant	\$ 188,963	\$ 185,411	\$ (3,552)	\$ 19,247	\$ (22,799)
5140 - Maintenance of Misc Steam Plt	\$ 69,068	\$ 67,753	\$ (1,315)	\$ 7,081	\$ (8,396)
5240 - Misc Nuclear Power Expenses	\$ 0	\$ 0	\$ (0)	\$ 0	\$ (0)
5280 - Maint Supv & Engineering	\$ 3,605	\$ 3,538	\$ (67)	\$ 364	\$ (430)
5290 - Maintenance of Structures	\$ 212	\$ 208	\$ (4)	\$ 22	\$ (26)
5300 - Maint of Reactor Plant Equip	\$ 11	\$ 11	\$ 0	\$ 0	\$ (0)
5310 - Maintenance of Electric Plant	\$ 8	\$ 8	\$ (0)	\$ 1	\$ (1)
5350 - Oper Supervision & Engineering	\$ 2,728	\$ 2,678	\$ (50)	\$ 274	\$ (324)
5370 - Hydraulic Expenses	\$ 264	\$ 260	\$ (5)	\$ 26	\$ (31)
5390 - Misc Hydr Power Generation Exp	\$ 3,068	\$ 3,009	\$ (58)	\$ 314	\$ (373)
5450 - Maint of Misc Hydraulic Plant	\$ 575	\$ 566	\$ (9)	\$ 54	\$ (64)
5510 - Maint Supv & Engineering	\$ (9)	\$ (9)	\$ (0)	\$ (0)	\$ 0
5530 - Maintenance of Generating Plt	\$ 6,651	\$ 6,528	\$ (123)	\$ 672	\$ (794)
5560 - Sys Control & Load Dispatching	\$ 827,359	\$ 811,947	\$ (15,412)	\$ 83,883	\$ (99,295)
5570 - Other Expenses	\$ 1,854,344	\$ 1,819,890	\$ (34,454)	\$ 187,762	\$ (222,215)
5600 - Oper Supervision & Engineering	\$ 3,575,131	\$ 3,510,075	\$ (65,055)	\$ 358,219	\$ (423,274)
5612 - Load Dispatch-Mntr&Op TransSys	\$ 557,248	\$ 546,966	\$ (10,282)	\$ 56,225	\$ (66,507)
5615 - Reliability, Pllng&Stds Develop	\$ 131,427	\$ 128,986	\$ (2,441)	\$ 13,304	\$ (15,744)
5620 - Station Expenses	\$ 3,970	\$ 3,901	\$ (69)	\$ 388	\$ (456)
5630 - Overhead Line Expenses	\$ 10,627	\$ 10,433	\$ (194)	\$ 1,066	\$ (1,260)
5660 - Misc Transmission Expenses	\$ 793,724	\$ 779,153	\$ (14,571)	\$ 79,882	\$ (94,452)
5670 - Rents	\$ 74	\$ 73	\$ (1)	\$ 7	\$ (9)
5680 - Maint Supv & Engineering	\$ 5,398	\$ 5,299	\$ (99)	\$ 542	\$ (641)
5690 - Maintenance of Structures	\$ 25	\$ 25	\$ (0)	\$ 3	\$ (3)
5691 - Maint of Computer Hardware	\$ 5,177	\$ 5,081	\$ (96)	\$ 525	\$ (621)
5692 - Maint of Computer Software	\$ 82,685	\$ 81,184	\$ (1,501)	\$ 8,276	\$ (9,777)
5700 - Maint of Station Equipment	\$ 116,017	\$ 113,909	\$ (2,107)	\$ 11,614	\$ (13,721)
5710 - Maintenance of Overhead Lines	\$ 12,530	\$ 12,306	\$ (223)	\$ 1,243	\$ (1,466)
5730 - Maint of Misc Trnsmssion Plt	\$ 695	\$ 682	\$ (13)	\$ 70	\$ (82)
5800 - Oper Supervision & Engineering	\$ 666,519	\$ 655,111	\$ (11,408)	\$ 64,796	\$ (76,204)
5820 - Station Expenses	\$ 40,190	\$ 39,447	\$ (743)	\$ 4,059	\$ (4,802)
5830 - Overhead Line Expenses	\$ 230	\$ 227	\$ (4)	\$ 22	\$ (26)
5840 - Underground Line Expenses	\$ 7,871	\$ 7,739	\$ (132)	\$ 758	\$ (890)
5860 - Meter Expenses	\$ 109,722	\$ 107,844	\$ (1,878)	\$ 10,667	\$ (12,545)
5880 - Miscellaneous Distribution Exp	\$ 628,152	\$ 617,286	\$ (10,866)	\$ 61,383	\$ (72,249)
5900 - Maint Supv & Engineering	\$ 4,924	\$ 4,842	\$ (83)	\$ 474	\$ (557)
5920 - Maint of Station Equipment	\$ 49,481	\$ 48,581	\$ (900)	\$ 4,957	\$ (5,858)
5930 - Maintenance of Overhead Lines	\$ 27,400	\$ 26,933	\$ (467)	\$ 2,658	\$ (3,124)
5970 - Maintenance of Meters	\$ 201	\$ 198	\$ (3)	\$ 20	\$ (23)
9010 - Supervision - Customer Accts	\$ 47,205	\$ 46,402	\$ (804)	\$ 4,577	\$ (5,381)
9020 - Meter Reading Expenses	\$ 82,431	\$ 80,986	\$ (1,445)	\$ 8,108	\$ (9,553)
9030 - Cust Records & Collection Exp	\$ 5,635,793	\$ 5,542,905	\$ (92,888)	\$ 538,030	\$ (630,918)
9050 - Misc Customer Accounts Exp	\$ 16,736	\$ 16,434	\$ (302)	\$ 1,670	\$ (1,972)
9070 - Supervision - Customer Service	\$ 72,733	\$ 71,452	\$ (1,281)	\$ 7,169	\$ (8,450)
9080 - Customer Assistance Expenses	\$ 43,068	\$ 42,258	\$ (810)	\$ 4,389	\$ (5,199)
9100 - Misc Cust Svc&Informational Ex	\$ 10,698	\$ 10,583	\$ (114)	\$ 851	\$ (965)
9120 - Demonstrating & Selling Exp	\$ 1,650	\$ 1,619	\$ (31)	\$ 169	\$ (200)
9200 - Administrative & Gen Salaries	\$ 13,644,440	\$ 13,419,095	\$ (225,345)	\$ 1,303,857	\$ (1,529,202)
9210 - Office Supplies and Expenses	\$ 5,234	\$ 5,289	\$ 55	\$ 110	\$ (54)
9220 - Administrative Exp Trnsf - Cr	\$ (0)	\$ -	\$ 0	\$ 0	\$ 0
9230 - Outside Services Employed	\$ 636	\$ 626	\$ (10)	\$ 60	\$ (70)
9250 - Injuries and Damages	\$ 8,333	\$ 8,180	\$ (154)	\$ 841	\$ (994)
9260 - Employee Pensions & Benefits	\$ 14,125	\$ 13,877	\$ (248)	\$ 1,390	\$ (1,638)
9280 - Regulatory Commission Exp	\$ 961,173	\$ 943,114	\$ (18,059)	\$ 97,877	\$ (115,937)
9301 - General Advertising Expenses	\$ 207	\$ 204	\$ (4)	\$ 21	\$ (24)
9302 - Misc General Expenses	\$ 111,978	\$ 110,047	\$ (1,930)	\$ 10,924	\$ (12,855)
9350 - Maintenance of General Plant	\$ 114,369	\$ 112,472	\$ (1,897)	\$ 10,950	\$ (12,847)
	\$ 38,821,330	\$ 38,145,694	\$ (675,636)	\$ 3,804,876	\$ (4,480,512)

Staff adjustment to
SWEPSCO request

PFD ADJUSTMENT TO SEVERANCE COSTS

PFD Adjustmemt SWEPCO		(504,067)	PFD Adjustment
Test Year SWEPCO :			
500	236754	30.86%	(155,578)
560	174340	22.73%	(114,564)
580	126246	16.46%	(82,960)
920	229734	29.95%	(150,965)
		767074	100.00%
			(504,067)

PFD - Accept OPUC Adjustment

OPUC Adjustment:

500	(873,098)
502	212
557	27,295
903	17,822
920	191,198
	(636,571)

SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415
SWEPSCO
RECOMMENDED ADJUSTMENT TO SEVERANCE PAY
TEST YEAR ENDED MARCH 31, 2020

	SWEPSCO AEPSC Severance Pay (1)	SWEPSCO Direct Severance Pay (2)	SWEPSCO Total Severance Pay	OPUC Recommended AEPSC Severance Pay (3)	OPUC Recommended Direct Severance Pay (4)	OPUC Recommended Total Severance Pay	OPUC Recommended Adjustment to Revenue Requirements	Texas Retail Allocation Percentage	OPUC Recommended Adjustment to Revenue Requirements - Texas
5000 - Oper Supervision & Engineering	\$ 1,455,253	\$ 236,754	\$ 1,692,007	\$ 582,155	\$ -	\$ 582,155	\$ (1,109,853)	36.93%	\$ (409,858.58)
5020 - Steam Expenses	1,913		1,913	2,125		2,125	213	36.93%	79
5570 - Other Expenses	149		149	27,444		27,444	27,295	36.93%	10,079
5600 - Oper Supervision & Engineering		174,340	174,340		-	-	(174,340)	43.75%	(76,282)
5800 - Oper Supervision & Engineering		126,246	126,246		-	-	(126,246)	32.90%	(41,534)
9030 - Cust Records & Collection Exp	2,084		2,084	19,906		19,906	17,822	35.54%	6,333
9200 - Administrative & Gen Salaries	1,477	229,734	231,211	192,615	-	192,615	(38,596)	37.09%	(14,314)
			0						
Total	\$ 1,460,876	\$ 767,074	\$ 2,227,950	\$ 824,245	\$ -	\$ 824,245	\$ (1,403,705)		\$ (525,497)

Sources:

(1) SWEPSCO Response to Commission Staff RFI No. 5-33, Attachment 1

(2) SWEPSCO Response to Commission Staff RFI No. 5-33, Attachment 2

(3) Calculated from SWEPSCO Response to Commission Staff RFI Nos. 5-33 and 5-34

1 year was \$1,460,876.⁹⁹ Each of these two severance amounts SWEPCO paid during the
2 test year were significantly larger than severance expenses SWEPCO recorded in either
3 2017 or 2018.¹⁰⁰ In fact, SWEPCO recorded \$0 severance pay for each of the calendar
4 years 2017 and 2018. AEPSC charges to SWEPCO for severance pay were less than
5 \$550,000 for each of those two years.¹⁰¹ Based on these data points, the level of severance
6 pay expense during the test year does not represent a normal level of expense on a going
7 forward basis.

8 **Q. WHAT ADJUSTMENTS DO YOU RECOMMEND WITH RESPECT TO**
9 **SEVERANCE PAY?**

10 A. As shown on Schedule CTC-16, I recommend that the entire test year amount of severance
11 pay to former SWEPCO employees be removed as an abnormal and non-recurring amount.
12 For the AEPSC charges to SWEPCO, I recommend that the 2017, 2018, and test year
13 severance pay charges be averaged. The severance pay average for inclusion in total
14 company revenue requirement is \$824,300. My recommended adjustment on a total
15 company basis is a reduction of \$1,403,705¹⁰² to severance pay expense. The impact to
16 Texas retail operations is a reduction of \$525,497 to severance pay expense.

⁹⁹ *Id.*, Attachment 1.

¹⁰⁰ Attachment R, SWEPCO Response to Commission Staff RFI No. 5-34, Attachment 2.

¹⁰¹ *Id.*, Attachment 1.

¹⁰² Schedule CTC-16.

**SOUTHWESTERN ELECTRIC POWER COMPANY
AMORTIZATION OF PROTECTED AND UNPROTECTED
EXCESS DEFERRED TAXES
FOR THE TEST YEAR ENDED March 31, 2020**

Line No.	Description	Test Year Amortization	Test Year Amortization Adjustment	Test Year Amortization As Adjusted	Reference
1	Protected Excess Deferred Taxes:				
2	Liberalized Depreciation	\$8,383,702	(4,664,032)	\$3,719,670	G-7.9a
3	Unprotected Excess Deferred Taxes:				
4	Liberalized Depreciation	0	0	0	
5	Basis Differences	0	0	0	
6	Deferred Accounting	0	0	0	
7	Non-Property Deferred Taxes	0	0	0	
8	Total Unprotected	0	0	0	
9	Total Excess Deferred Taxes	\$8,383,702	(\$4,664,032)	\$3,719,670	
10	<u>Requested Amortization Methodology</u>				
11	Protected - Average Rate Assumption Method (ARAM) pursuant to Section 13001(d) of Tax Cuts and Jobs Act of 2017. Rate Difference reverses as related timing difference reverses.				

adj to FIT calc

**Protected Excess ARAM Amortization
NOL Carryforward ADFIT**

					Total Thru End of Test Year	Test Year Amortization Pro Forma to COS
Calendar Year	NOL Year	2012	2016	2017		
2018		(4,255,552)	4	(88,465)	(4,344,012)	-
2019		(4,371,674)	17	(254,746)	(4,626,403)	(3,469,802.02)
Q1 2020		(1,112,644)	(12)	(81,690)	<u>(1,194,345)</u>	<u>(1,194,345)</u>
					(10,164,760)	(4,664,147)

PFD ADJUSTMENT TO AD VALOREM TAXES

Description	Reference	Amount	PFD Adjusted Ad Valorem	
January 1, 2019 Net Electric Plant Subject to Ad Valorem Tax	G-9.1	6,315,734,214	0.961262%	PFD Effective Ad Valorem Rate
Ad Valorem Taxes Paid For 2019 Tax Year	G-9.1	63,325,856		
Ratio of Ad Valorem Tax Expense to Net Utility Plant at January 1, 2019		0.0100266816	Effective Rate	
03-31-2020 Net Electric Plant (A)		6,824,528,669	6,779,809,447	6,824,528,669 Co. Req. Plant Subj. to Ad Val. (44,719,222) Operating Leases
Ad Valorem Tax on March 31, 2020 Pro Forma Utility Plant Balance	(3) x (4)	68,427,376	65,171,732	* 6,779,809,447 Plant for Ad Valorem
Less Projected Capitalization of Ad Valorem Tax		(962,870)	(962,870)	
Ad Valorem Tax on 03-31-2020 Plant Balance		67,464,506	64,208,862	
Ad Valorem Tax Expense for Test Year (B)		62,415,506	62,415,506	
Ad Valorem Tax Adjustment		5,049,000.40	1,793,356	(3,255,645) PFD Adjustment to SWEPCO Req.

03-31-2020 Plant Balance Subject To Ad valorem Tax (A)

1010001 Plant in Service	9,262,029,380	
1011001 Capital Leases	53,016,644	
1011006 Prov-Leased Assets	(23,188,269)	
1011012 Accrued Capital Leases	229,699	
1011031 Operating Lease	52,090,397	1
1011032 Accrued Operating Leases	506,079	1 Net Operating Leases \$44,719,222
1011036 Prov - Operating Lease Assets	(7,877,254)	1
1060001 Const Not Classified	319,515,794	
1160007 Other Elec Plt Adj- Turk Impairment	(58,411,747)	
1160008 Turk AFUDC Reverse TC Cap - EPISOther Elec Plt Adj- Turk Impairment	(1,313,077)	
1160009 AmortTurkImpmnt&AFUDCReversal	7,902,825	
1160012 Turk Imprmnt-AuxBoiler	(18,500,000)	
1160013 Turk Imprmnt-AuxBoiler Amort	2,609,846	
1160016 TX Trans Veg Mgmt Cost Writeoff	(1,965,876)	
1160017 TX Distr Veg Mgmt Cost Writeoff	(4,103,577)	
1160018 TX Distr Veg Mgt WriteOff Amort	494,291	
1160019 TX Tran Veg Mgt WriteOff Amort	110,220	
1160020 Trans Costs - SERP	(185,343)	
1160021 Distr Costs - SERP	(154,769)	
1160022 Gen Costs - SERP	(297,729)	
1160023 CWIP FinBased Incen - Trans	(3,261,424)	
1160024 CWIP FinBased Incen - Distr	(6,097,633)	
1160025 CWIP FinBased Incen - Gen	(3,073,691)	
1160026 RWIP FinBased Incen - Trans	(85,384)	
1160027 RWIP FinBased Incen - Distr	(289,788)	
1160028 RWIP FinBased Incen - Gen	(124,731)	
1070001 CW/P - Project	226,392,894	
1080001 Accum Prov For Depr of Plt	(2,725,023,892)	
1080005 RWIP Project Detail	15,311,493	
1080011 Cost of Removal Reserve	(466,911,900)	
1080013 ARO Removal Depreciation - Accretion	8,405,956	
1080155 Unrecovered Plant	35,224,555	
1080160 AR Plt Retire-Unrecover Plant	14,888,618	
1080161 DH GAAP Depreciation	9,125,930	
1110001 Accum Prov for Amortization of Plant - Intangible	(56,356,973)	
1110007 Cloud Implement - A/P Amrt Plt	(8,723)	
Schd B-1 Pro Forma Adjustments to Net Electric Plant in Service	193,905,829	Link to Pro forma plant adjustments - Net
	6,824,528,669	

Test Year Ad Valorem Tax Expense (B)

408100517 Real & Personal Property Taxes	125,516
408100518 Real & Personal Property Taxes	(102,504)
408100519 Real & Personal Property Taxes	45,977,170
408100520 Real & Personal Property Taxes	16,288,380
408102917 Real-Pers Prop Tax-Cap Leases	(11,474)
408102919 Real-Pers Prop Tax-Cap Leases	101,168
408102920 Real-Pers Prop Tax-Cap Leases	37,250
Total Expense Recorded	62,415,506

STAFF FICA ADJUSTMENT

Description	SWEPco Adjustment Total	Staff FICA Adjustment
FICA Adjustment For Base Payroll Adjustment		
SWEPco Base Payroll -Test Year	121,844,696	
SWEPco OT	19,534,726	
Special Pay	25,802,121	
Total SWEPco Test Year Compensation	167,181,544	
SWEPco Base Test Year Payroll As a % of Total SWEPco	72.8816670%	
Total FICA Costs	10,808,834	6.4653% effective FICA rate for total TY compensation
FICA Costs Capitalized	(3,837,170)	(10,808,834/167,181,544)
Total FICA Expensed	6,971,664	
% of Compensation Attributable to Base Pay	72.8816670%	
FICA Expensed Attributable to Base Pay	5,081,065	
SWEPco Proforma Base Payroll	127,315,696.05	544,331 Staff adjustment to SWEPco's PR
% change in Test Year Payroll	4.4901422%	6.4653% calculated above
Increase (Decrease) FICA Expense For Base Pay	228,147	35,193 Staff Adjustment to FICA for SWEPco PR adj
FICA Adjustment For Incentive Compensation Adjustment		
% of Compensation Attributable to Special Pay	15.4335944%	
FICA Expensed Attributable to Special Pay	1,075,978.36	
SWEPco Proforma Special Pay	21,431,029.26	(50,709) Staff Adj to SWEPco incentive comp
% of change in Special Pay	-16.9408243%	6.4653% calculated above
Increase (Decrease) FICA Expense for Special Pay	(182,280)	(3,279) Staff Adjustment for FICA SWEPco Incentive Adj
Total FICA Adjustment SWEPco	45,867	31,914 Staff total FICA Adjustment for SWEPco Payroll and Incentive
Adjustment to AEPSC FICA for Staff Payroll and Incentive Adjustments Using effective rate for SWEPco calculated, above		
Staff Adjustment to requested AEPSC payroll		(4,480,512)
Effective rate from above		6.4653%
		(289,680) Staff Adjustment for for FICA AEPSC payroll
Staff Adjustment to requested AEPSC Incentive		(6,131)
Effective rate from above		6.4653%
		(396) Staff Adjustment for FICA AEPSC Incentive
		(290,076) Staff total FICA Adjustment for AEPSC
		(258,162) Total Staff FICA Adjustment

**SOAH DOCKET NO. 473-21-0538
PUC DOCKET NO. 51415**

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

Question No. Staff 5-63:

Refer to Schedule G-14, Regulatory Commission Expense and Schedule A-4, Detail Trial Balance for the Test Year Ended March 31, 2020. Please reconcile the total test year amount of \$2,497,184 shown on Schedule G-14, Regulatory Commission Expense, with the amount of \$2,624,761 shown for account 9280, Regulatory Commission Expense, on Schedule A-4.

Response No. Staff 5-63:

Please see Staff 5-63 Attachment 1 Regulatory Expenses for a reconciliation of the total test year amounts as shown on Schedule G-14 to the 9280 balance as shown on Schedule A-4. Certain accounts were inadvertently excluded from Schedule G-14. An additional \$46,306 should have been removed from the Company's total request for FERC 9280.

Prepared By: Tiffany A. Powell Day

Title: Regulatory Acctg Case Mgr

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

SOUTHWESTERN ELECTRIC POWER COMPANY
Regulatory Commission Expense
For the Test Year Ended March 31, 2020
(1)

SOAH Docket No. 473-21-0538
PUC Docket No. 51415
Staff's 5th, Q # STAFF 5-53
Attachment 1
Page 1 of 2

Line No	Description	(2) Docket No	(3) Test Year Amount	(4) Company Adjustments	(5) Company Request
1	Proceedings - Account 9280002				
2	SWEPSCO TX 2012 Base Rate Case	Docket No 40443	47	(47)	-
3	SWEPSCO TX 2012 Base Rate Case (AEPSC)		742	(742)	-
4	SWEPSCO TX 2016 Base Rate Case	Docket No 46449	(34,694)	34,694	-
5	SWEPSCO TX 2016 Base Rate Case (AEPSC)		1,119	(1,119)	-
6	SWEPSCO TX 2018 Rate Case Expense Recovery Filing	Docket No 47141	(30,608)	30,608	-
7	SWEPSCO TX 2018 Rate Case Expense Recovery Filing (AEPSC)		32,966	(32,966)	-
8	SWEPSCO TX 2020 Base Rate Case	TBD	9,828	-	9,828
9	SWEPSCO TX - Rate Case Expense Amortization		350,801	(350,801)	-
10	SWEPSCO TX 2018 DCRF Filing	Docket No 49041	45,533	(39,377)	6,156
11	SWEPSCO TX 2018 TCRF Filing	Docket No 49042	94,220	(70,011)	24,208
12	SWEPSCO TX 2020 GCRG Rule Making		1,999	(1,999)	-
13	SWEPSCO TX EECRF	Docket Nos 49499/50805	647	-	647
14	SWEPSCO TX EECRF (AEPSC)		6,896	(6,896)	-
15	SWEPSCO TX 2017 Fuel Factor Filing		4,985	(4,741)	244
16	SWEPSCO TX Fuel Refund Filing	Docket No 49974	45,067	(30,356)	14,711
17	SWEPSCO TX Fuel Refund Filing (AEPSC)		6	(6)	-
18	SWEPSCO TX 2020 Fuel Reconciliation Filing	Docket No 50997	73,141	(13,101)	60,040
19	SWEPSCO TX Tax Filing	Docket No 48233	100	(100)	-
20	SWEPSCO TX Tax Filing (AEPSC)		286	(286)	-
21	Texas Misc Legislative & Regulatory		(12,270)	67,974	55,704
22	Louisiana 2019 IRP Filing		13,069	(13,069)	-
23	Louisiana 2019 IRP Filing (AEPSC)		254,470	(254,470)	-
24	Louisiana Misc Legislative & Regulatory		167,977	(167,977)	-
25	Louisiana Base Rate Case Filing		16,900	(16,900)	-
26	Louisiana Base Rate Case Filing (AEPSC)		12,015	(12,015)	-
27	Arkansas Base Rate Case Filing	Docket No 19-008-U	166,889	(166,889)	-
28	Arkansas Base Rate Case Filing (AEPSC)		1,182,815	(1,182,815)	-
29	Arkansas Misc Legislative & Regulatory		10,977	(10,977)	-
30	Arkansas Misc Legislative & Regulatory (AEPSC)		8,533	(8,533)	-
31	Miscellaneous Regulatory Expense		4,754	(4,754)	-
32	Miscellaneous Regulatory Expense (AEPSC)		67,974	(67,974)	-
33	Total- Account 9280002		2,497,184	(2,325,646)	171,538
34	SWEPSCO Direct - proforma adj A-3 19		\$ 929,361	\$ (757,823)	\$ 171,538
35	AEPSC proforma adjustment A-3 18 (Work Order Adj Only)		1,567,823	(1,567,823)	-
36	Total Account 9280002		\$ 2,497,184	\$ (2,325,646)	\$ 171,538

\$115,834

PRD adj.

ALT instruction 2 p9

"The final cost of service in this case to determine base rates should not include rate case expenses."

Other Accounts (9280000, 9280001, 9280003, 9280005)					
Line			Test Year	Company	Company
No	Description	Docket No	Amount	Adjustment as Corrected	Request as Corrected
37	Arkansas Base Rate Case Amortization	Docket No 19-008-U	39,029	(39,029)	-
38	Misc FERC Regulatory Expense		38,196	-	38,196
39	Misc Other Jurisdictions (OH, OK, VA, WV)		15,471	(15,471)	-
40	Texas FERC Fees		43,075	-	43,075
41	Deferral of PUCT Expenses Per PURA Sec 39 504		(8,194)	8,194	-
			127,578	(46,306)	81,271
42	Total FERC Account 9280		\$ 2,624,761	\$ (2,371,952)	\$ 252,810

SOAH Docket No 473-21-0538
PUC Docket No 51415
Staff's 5th, Q # STAFF 5-63
Attachment 1
Page 2 of 2

PFD ADJUSTMENT TO FACTORING RATE

Schedule A-3 Adjustment 5 as filed by SWEPCO

SOUTHWESTERN ELECTRIC POWER COMPANY

Factoring Expense

For the Test Year Ended March 31, 2020

Factoring Model

Revenues WP A-3.5 (a)	1,614,421,809
Interest Cost - Avg Test Year Rate	1.4985%
x Debt Percent	95.00%
Debt Component	1.4236%
Allowed ROCE	10.35%
/ Tax Effect	0.79
Pretax ROCE	13.1013%
x Equity Percent	5.00%
Equity Component	0.6551%
Total Annual Weighted Cost of Capital	2.0786%
/ Days in Year	365
Daily Capital Cost Factor	0.000057
x Average Days Outstanding	31.82
Effective Carrying Cost Rate	0.1813720%
Carrying Cost Expense	2,928,109
Effective Bad Debt Rate	0.2793%
(Bad Debt Expense January 2011 - December 2011)	
Estimated Bad Debt Expense	4,509,449
Total Factoring Expense	7,437,558
Total Bank WP A-3.5	978,048
Total Cost	8,415,606
Effective Factoring Rate	0.5212768%

PFD Adjusted Factoring Rate	PFD Adjusted Factoring Rate
1,614,421,809	
1.4985%	
95.00%	
1.4236%	
9.450%	
0.79	
11.9620%	
5.00%	
0.5981%	
2.0217%	
365	
0.000055	
31.82	
0.1762439%	0.1762%
2,845,320	
0.2793%	0.2793%
4,509,080	
7,354,400	
978,048	0.0606%
8,332,448	
0.516126%	0.5161%

Adjust Cost of Equity

Revenue Deficiency	228,419,735
Factoring Rate	0.521277%
Factoring Exp on Deficiency	1,190,699

at issue here.⁶⁵⁴ The fact that SWEPCO's First Supplemental Rate-Case Expense Report filing came after the March 10, 2021 discovery deadline on SWEPCO's direct case should have come as no surprise to Staff given that they were a party to the March 31, 2021 Joint Proposed Procedural Schedule Regarding Rate Case Expenses, which set forth the April 8, 2021 deadline for SWEPCO's supplemental rate-case report. Moreover, the timing of the filing of the report did not harm Staff. Staff had the opportunity to conduct discovery on SWEPCO's rebuttal case, which included an updated request for recovery of rate-case expenses to include those presented on SWEPCO's supplemental report.⁶⁵⁵ Moreover, Staff directly addressed the reasonableness of the expenses and Staff position on the \$550 an hour cap in Ms. Stark's supplemental direct testimony.

X. Other Issues [including but not limited to PO Issues]

A. Additional Issues

1. Factoring Expense

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.⁶⁵⁶ At the conclusion of the case, a final "compliance" cost of service study that properly reflects the Commission's final decisions will be completed. Compliance cost of service studies are standard Commission practice in rate cases, and they synchronize all impacts of the case, including factoring expense.⁶⁵⁷

2. Interest on Customer Deposits

SWEPCO does not contest Staff's adjustment to update the customer deposit interest amount to incorporate the Commission approved 2021 interest rate.⁶⁵⁸

3. Supplemental Employee Retirement Plan (SERP)

SERP is not an extraordinary or discretionary benefit. Instead, this retirement plan provides the same benefits that general (or "qualified") pension plans do. The two differ only when the IRS allows the tax deduction to be taken. Contributions for benefits under qualified pension plans, which had a specific compensation limit of \$270,000 in 2017, are deducted in the

⁶⁵⁴ SWEPCO Ex. 34 at Exhibit LFN-1R.

⁶⁵⁵ SWEPCO Ex. 34 at 1:17-2:12.


⁶⁵⁶ SWEPCO Ex. 36 at 36:15-20.

⁶⁵⁷ SWEPCO Ex. 36 at 5:3-8.

⁶⁵⁸ SWEPCO Ex. 36 at 37:1-4.

current year. The pension benefits for the portion of an employee's salary that exceeds the compensation limit would be in the SERP and that deduction would occur when the employee receives the benefit.⁶⁵⁹ Although the Company believes this 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.⁶⁶⁰ Staff witness Ms. Stark raises concerns with how SERP was removed from SWEPCO's requested cost of service.⁶⁶¹ SWEPCO does not contest Ms. Stark's recommended additional adjustment for SERP expenses.⁶⁶²

4. Pension Expense

 SWEPCO addressed this issue in Section IV.C.4 of its Initial Brief. The requested cost of service pension expense reflects the costs being recorded by SWEPCO in 2020 as presented in the 2020 actuarial studies. 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.⁶⁶³ The actual payroll capitalization ratio for the Test Year reflects the costs actually incurred during the Test Year, is the superior allocation ratio, and is consistent with how this adjustment has been calculated in past cases, which has not been challenged.⁶⁶⁴ Staff no longer challenges the use of the actual payroll capitalization rate in the calculation.⁶⁶⁵

In this subsection of its Initial Brief, Staff again addresses Ms. Stark's concerns with how SERP was removed from SWEPCO's cost of service.⁶⁶⁶ As stated above, SWEPCO does not contest Ms. Stark's additional adjustments related to SERP expenses. Although Staff briefed this issue again under the heading of Pension Expenses, this is not an adjustment that is different from or in addition to that addressed above.

⁶⁵⁹ Docket No. 46449, PFD at 248.

⁶⁶⁰ SWEPCO Ex. 6 at 26:10-13.

⁶⁶¹ Staff Ex. 3 at 10:7-12:2.

⁶⁶² SWEPCO Ex. 36 at 35:18-20.

⁶⁶³ SWEPCO Ex. 6 at 25:12-26:4.

⁶⁶⁴ SWEPCO Ex. 36 at 35:21-36:5.

⁶⁶⁵ Staff Initial Brief at 90-91 ("Ms. Stark concedes that the use of the actual test year capitalization ratio is more appropriate.").

⁶⁶⁶ Staff Initial Brief at 90; Staff Ex. 3 at 10:7-12:2.

in rebuttal

5. Executive Perquisites

Given the Commission's decisions in Docket Nos. 40443 and 46449, SWEPCO does not contest Staff's recommended adjustment for executive perquisites.⁶⁶⁷

6. Potential Natural Gas Conversion of the Welsh Plant

SWEPCO has not yet determined whether natural gas conversion of the Welsh plant is in customers' best interest. Instead, SWEPCO has announced that the Welsh plant will cease coal-fired operations in 2028 in light of the CCR/ELG requirements. 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.⁶⁶⁸

In its brief, Sierra Club urges the Commission to order "the Company to present a plan for the Welsh plant – retirement, conversion to gas, or replacement by alternative resources – in its next rate case."⁶⁶⁹ As explained in the rebuttal testimonies of SWEPCO witnesses Messrs. Brice and McMahon, it would be premature and improper for the Commission to prejudge at this time the content, format, or timing of SWEPCO's analysis regarding the potential natural gas conversion of the Welsh plant.⁶⁷⁰ As 2028 approaches, the Company will monitor various factors with the potential to change over time and influence the outcome of its decision. These factors include such things as federal and state environment and regulatory requirements, natural gas prices, and energy market conditions. At a time when the Company has sufficient information to do so, analyses regarding the disposition of Welsh Units 1 & 3 post coal-burning operations will be performed.⁶⁷¹ Sierra Club does not address any of the factors that will undoubtedly change over time and influence the outcome of SWEPCO's decision regarding post coal-burning operations. Sierra Club does not claim that SWEPCO's next base rate case will take place at a time when these factors are better understood. Nor does Sierra Club have any knowledge of when SWEPCO's next base rate case will take place. Sierra Club does not present a compelling case to prejudge the answers to these questions at this time in the context of the current base rate case.

⁶⁶⁷ SWEPCO Ex. 36 at 36:6-8.

⁶⁶⁸ SWEPCO Ex. 33 at 16:13-17:4.

⁶⁶⁹ Sierra Club Initial Brief at 24-26. Sierra Club briefed this issue as Section II.A.iv of its brief. However, since this issue does not relate to generation, transmission, or distribution capital being reviewed for inclusion in rates, SWEPCO continues to brief this issue as an Additional Issue.

⁶⁷⁰ SWEPCO Ex. 33 at 17:5-10.

⁶⁷¹ SWEPCO Ex. 37 at 7:1-14.

The following files are not convertible:

12_51415 PFD Rate Design Model.xlsx
13_51415 CCOSS PFD.xlsx

Please see the ZIP file for this Filing on the PUC Interchange in order to access these files.

Contact centralrecords@puc.texas.gov if you have any questions.