



Control Number: 51415



Item Number: 95

Addendum StartPage: 0

SOAH DOCKET NO. 423-21-0538

PUC DOCKET NO. 51415

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





**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO OFFICE OF
PUBLIC UTILITY COUNSEL'S THIRD REQUEST FOR INFORMATION**

DECEMBER 7, 2020

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-  OPUC 3-8 Attachment 1.xlsx
-  OPUC 3-12 Attachment 1.xlsx
-  OPUC_3-5_Attachment_1.xlsx
-  OPUC_3-11_Attachment_1.xlsx

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Question No. OPUC 3-1:

Please refer to the Direct Testimony of Mr. Drew Seidel, page 19. Please provide the current vegetation management cycle for all SWEPCO distribution circuits expressed in years. Please provide the average vegetation management costs expended each year in the current cycle. Please provide this same information for the Texas jurisdiction.

Response No. OPUC 3-1:

A cycle-based vegetation management program involves the evaluation and trimming of trees and vegetation on all circuits on every mile of a distribution system during a set period of years. For SWEPCO, given the vegetation growth in its region, a period greater than six years would not be considered a cycle because trees and vegetation trimmed on circuits addressed at the beginning of the period would have grown back and began touching the conductor prior to addressing all of the remaining circuits on the distribution system. Consequently, no SWEPCO jurisdiction is on a cycle-based vegetation management program. As discussed by Mr. Seidel, SWEPCO currently employs a reactive vegetation management program that is based on specific historical performance of a given line. Please see the Company's response to CARD 2-14 for SWEPCO TX vegetation expenses and Total SWEPCO (TX, LA, and AR) vegetation expenses for the test year and the last three calendar years.

Prepared By: Paul D. Flory

Title: Regulatory Consultant Sr

Sponsored By: Drew W. Seidel

Title: VP Dist Region Oper

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Question No. OPUC 3-2:

Please refer to the Direct Testimony of Mr. Drew Seidel, page 12. Please confirm or deny that the Company has adjusted its test year forced outage expense to consider any improvements that would result from the proposed increase in its vegetation management spending program. If deny, please provide an explanation as to why not. If confirm, please provide the reference in the Application where these anticipated cost savings are included as they relate to the Texas jurisdiction.

Response No. OPUC 3-2:

Denied. SWEPCO did not make any adjustments to O&M related forced outage expenses. While there may be future savings resulting from the proposed increase in vegetation management spend, the intent of the proposal is to maintain and improve reliability on targeted circuits consistent with SWEPCO's reactive performance-based approach to vegetation management.

Prepared By: Paul D. Flory

Title: Regulatory Consultant Sr

Sponsored By: Drew W. Seidel

Title: VP Dist Region Opers

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Question No. OPUC 3-3:

Please refer to the Direct Testimony of Mr. Drew Seidel, page 23. Please confirm or deny that any of the increase in the distribution operations and maintenance (“O&M”) costs shown in Figure 7 are related to storm costs that exceeded \$500,000 for any individual event. If confirm, please provide the amount of the adjusted test year distribution O&M costs that relate to storm costs greater than \$500,000.

Response No. OPUC 3-3:

Denied. The adjusted test year distribution does not include any storm costs greater than \$500K per storm. SWEPCO removed all storms greater than \$500K in adjustment A-3.16. Please see the testimony of company witness Mike Baird, page 31, lines 4 – 20.

Prepared By: Paul D. Flory

Title: Regulatory Consultant Sr

Sponsored By: Drew W. Seidel

Title: VP Dist Region Opers

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

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**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO OFFICE OF
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Question No. OPUC 3-4:

Please refer to the Direct Testimony of Mr. Drew Seidel, page 18. Please confirm or deny that the requested \$14.57 million in vegetation management for the Texas jurisdiction will be spent on third-party contracts for tree-trimming. If confirm, please provide the amount of the \$14.57 million that is proposed for outside contract expense and the amount that will be contract administrative overhead performed by company employees. If deny, please provide the amount that is planned to be performed by SWEPCO or other AEP employees and the amount that will be conducted pursuant to outside third-party contracts.

Response No. OPUC 3-4:

Denied. Approximately 97% of the current vegetation management expenses for the SWEPCO Texas jurisdiction is spent on outside services. SWEPCO anticipates spending approximately \$14.15 million in outside services for tree trimming/removal and herbicide application under the vegetation management proposal.

Prepared By: Paul D. Flory

Title: Regulatory Consultant Sr

Sponsored By: Drew W. Seidel

Title: VP Dist Region Opers

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Question No. OPUC 3-5:

Please refer to the Direct Testimony of Mr. Dan Boezio, page 16. Please provide a schedule that details the total capital rebuilds and upgrades to SWEPCO's Texas jurisdictional transmission system for each of the calendar years 2016, 2017, 2018, 2019 and the test year. Please provide a description of the major rebuilds and upgrades as well as the capitalized costs. Please also include in your response the percentage of the current transmission system that has been rebuilt or upgraded since the last base rate proceeding in terms of miles of transmission plant.

Response No. OPUC 3-5:

On 11/13/20, OPUC provided the following clarification concerning this request: "Mr. Boezio's testimony is correct. We are looking for O&M cost increases related to capital improvements." SWEPCO provides the following response to the clarified request:

Some O&M related to construction is not assigned to a capital project, but it is assigned to the appropriate O&M project applicable to the work performed. Most of the O&M related to a capital project is related to transmission line rehabilitation projects. Before the line rehabilitation construction begins, the existing Rights-of-Ways (ROW) are cleared or widened as necessary to facilitate the construction. This existing ROW work is O&M and is not capitalized. See OPUC 3-5 Attachment 1 for O&M related to capital line rehabilitation projects.

Prepared By: William M. Romine

Title: Regulatory Consultant Staff

Sponsored By: Daniel R. Boezio

Title: VP Trans Field Services

**SWEPCO TRANSMISSION
O&M Associated with Capital**

Proj_ID	Project	2016	2017	2018	2019	Test Year
A13006085	A13006085 T/SW/AbbottTee-Waldron 69kV-Ref	3,002	0	0	0	0
A13006B01	A13006B01 Many to Negreet 69 kV Replace Crossarms	(53,305)	0	0	0	0
A14013001	A14013001 T/SEP/BROWNLEE RD-MINDEN RD	0	0	0	0	0
A15706503	A15706503 T/SEP/GRANDSALINE-MINEOLA 69KV	14,378	1	0	0	0
A15706507	A15706507 T/SEP/BOONEVILLE-BRANCH69KV	31,649	0	0	0	0
A15706545	A15706545 T/SEP/DIANA-PLILERRD/STRUCTURE REPLACEMENT	1,588	97,816	0	0	0
A15706624	A15706624 Clarendon - Jericho 69kV Structures	0	26,178	0	0	0
A15706C02	A15706C02 SEP-East Leesville-Hicks-Rehabilitation	0	38,730	0	0	0
A15706C15	A15706C15 SEP-WILKES-NNEWBOSTON-Line Rehabilitation	0	28,242	0	0	0
A15706C23	A15706C23 SEP-CARTHAGE-CB2560-Line Rehabilitation	0	9,596	0	0	0
A15706C27	A15706C27 SEP-TaylorSt-ThirtyNinthSt-Line Rehabilitation	0	10,783	0	0	0
A15706C31	A15706C31 SEP-Diana-Pliler-Line Rehabilitation	0	34,470	0	0	0
A15706C33	A15706C33 SEP-NLeesville-Hornbeck-Line Rehabilitation	0	54,865	0	0	0
A15706C39	A15706C39 SEP-RedPoint-DeanPoint-Line Rehabilitation	0	90,825	41	0	0
A15706C41	A15706C41 SEP-Arsenal Hill-ShedRoad-Line Rehabilitation	0	118	0	0	0
A15706C43	A15706C43 SEP-Blanchard-NorthMarket-Line Rehabilitation	0	43,536	76,988	0	0
A15706C53	A15706C53 SEP-MurfWest-Dierks-Line Rehabilitation	0	6,243	0	0	0
A15706C55	A15706C55 SEP-Dierks-Mena-Line Rehabilitation	0	6,267	0	0	0
A15706C57	A15706C57 SEP-PrairieGrove-SiloamSpr-Line Rehabilitation	0	32,327	0	0	0
A15706C63	A15706C63 SEP-Dyess-Springdale1-Line Rehabilitation	0	47,743	73,524	0	0
A15706C67	A15706C67 SEP-Booneville-WBooneville-Line Rehabilitation	0	17,584	17,203	0	0
A15706C71	A15706C71 SEP-GrandSaline-Quitman-Line Rehabilitation	0	74,399	194	0	0
A15706C73	A15706C73 SEP-Winnsboro-Pittsburg-Line Rehabilitation	0	25,690	16,532	0	0
A15706C75	A15706C75 SEP-Whitney-Kilgore-Line Rehabilitation	0	0	41,927	0	0
A15706C93	A15706C93 SEP-FlintCreek-Brookline- Line Rehabilitation	0	0	28,868	0	0
A15706C95	A15706C95 SEP-Sugarhill-Ashdown-Line Rehabilitation	0	45,701	2,446	0	0
A15706C97	A15706C97 SEP-Nashville-WMurfreesbro-Line Rehabilitation	0	7,590	10,733	0	0
A15706D02	A15706D02 SEP-Nashville-Okay-Line Rehabilitation	0	46,759	5,372	0	0
A15706D04	A15706D04 SEP-EastRogers-BeaverDam-Line Rehabilitation	0	66,905	46,047	0	0
A15706D21	A15706D21 Shamrock - Nichols (SPS) 115kV	0	0	16,453	0	0
A15717001	A15717001 T/SEP/Brooks St-Edwards St 69kV	751	0	0	0	0
A18806013	A18806013 Bann-New Boston Failed Insulator Replacement	0	0	0	13,545	7,030
B194ARLRE	B194ARLRE T/SW/Non-Specific Work - Line	6,523	48,765	73,674	78,333	70,255
B194LALRE	B194LALRE T/SW/Non-Specific Work - Line	0	114,855	103,306	27,892	6,934
SI194ARLR	SI194ARLR TB/SI/SEP/AR - Line Rehabilitation	146,913	23,584	0	0	0
SI194LALR	SI194LALR TB/SI/SEP/LA - Line Rehabilitation	38,319	6,093	0	0	0
SI194TXLR	SI194TXLR TB/SI/SEP/TX - Line Rehabilitation	128,872	13,980	0	0	0
	Total O&M Associated with Line Rehabilitation	318,690	1,019,645	513,308	119,770	84,219

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Question No. OPUC 3-6:

Please refer to the Direct Testimony of Mr. Dan Boezio, page 17. Please provide a copy of the five-year vegetation management agreement with outside vendors and contractors as referenced in Mr. Boezio's testimony.

Response No. OPUC 3-6:

See attachments OPUC 3-6 CONFIDENTIAL Attachments 1 through 5.

OPUC 3-6 CONFIDENTIAL Attachments 1 through 5 responsive to this request is CONFIDENTIAL MATERIAL under the terms of the Protective Order. Due to current restrictions associated with COVID-19, this information is being provided electronically and a secure login to access the information will be provided upon request to individuals who have signed the Protective Order Certification.

Prepared By: William M. Romine

Title: Regulatory Consultant Staff

Sponsored By: Daniel R. Boezio

Title: VP Trans Field Services

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**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO OFFICE OF
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Question No. OPUC 3-7:

Please refer to the Direct Testimony of Mr. David A. Hodgson, pages 24-25. Please confirm or deny that SWEPCO or SWEPCO's parent company requested a private letter ruling from the Internal Revenue Service concerning the proposed treatment of the Excess Deferred Federal Income Tax ("EDFIT") associated with the Net Operating Loss. If confirm, please provide a copy of the request and any response received from the IRS. If deny, please provide an example of any other jurisdiction where this approach has been used and adopted by the regulating entity.

Response No. OPUC 3-7:

Deny. Neither SWEPCO nor SWEPCO's parent company has requested a private letter ruling from the IRS concerning the proposed treatment of excess deferred federal income taxes associated with the net operating loss carryforward (NOLC). The Company relied on previous PLR's (see Exhibits to Witness Hodgson's testimony) and revenue procedures issued by the IRS as the basis of the proposed treatment. The IRS's most recent relevant guidance is Revenue Procedure 2020-39 which was issued August 14, 2020. This revenue procedure provides guidance under §168 of the Internal Revenue Code to clarify the normalization requirements following the Tax Cuts and Jobs Act.

Revenue Procedure 2020-39 specifically provides that it is intended to be consistent with overall pre-existing deferred tax normalization rules. The series of PLR's provided as exhibits to the testimony of Mr. Hodgson all specify a "with-and-without" or "last dollar deducted" approach as the only method which ensures compliance with normalization requirements. The Company performed a with-and-without test and determined that the balance of the NOLC was attributable to accelerated tax depreciation and therefore subject to the normalization requirements.

Prepared By: Jessica M. Criss

Title: Tax Analyst Prin

Sponsored By: David A. Hodgson

Title: Tax Acctg & Reg Support Mgr

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**SOUTHWESTERN ELECTRIC POWER COMPANY'S RESPONSE TO OFFICE OF
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Question No. OPUC 3-8:

Please refer to Schedule G-7.9, sponsored by Mr. David A. Hodgson. Please provide the underlying source document and computation of the test year amortization for the protected EDFIT of \$8,383,702.

Response No. OPUC 3-8:

See OPUC 3-8 Attachment 1.

Prepared By: Jessica M. Criss

Title: Tax Analyst Prin

Sponsored By: David A. Hodgson

Title: Tax Acctg & Reg Support Mgr

SWEPKO

Amortization of Excess ADFIT - PowerTax

		Excess ADFIT Amortization	
Company	Amortization Type	2019 Activity	2020 Activity
SEP Distr	Depreciation Difference	1,462,069	1,523,915
	Book Overhead	890,599	805,719
	Tax Only	(57,353)	(32,316)
SEP Distr Totals		2,295,314	2,297,318
		Book Depr Allocation	
	Book Depreciation Input	39,268,517	39,268,517
	Book Depreciation Allocated	39,233,384	39,233,397

9,145,923	2020 Annual Protected Excess Amortization
8,875,646	2019 Annual Protected Excess Amortization
6,656,734	April - December 2019 Amortization
2,286,481	January - March 2020 Amortization
(559,513)	Amortization Adjustments
8,383,702	Test Year Amortization

		Excess ADFIT Amortization	
Company	Amortization Type	2019 Activity	2020 Activity
SEP Gen	Book Overhead	-	-
	Depreciation Difference	4,943,783	5,107,864
	Book Overhead	140,711	132,056
	Tax Only	(83,297)	(67,098)
	Depreciation Difference	1,774	1,548
	Book Overhead	1	1
	Depreciation Difference	757	660
	Book Overhead	0	0
	Depreciation Difference	-	0
	Book Overhead	1	1
SEP Gen Totals		5,003,729	5,175,032
		Book Depr Allocation	
		121,404,093	121,404,093
		120,026,635	117,917,393

		Excess ADFIT Amortization	
Company	Amortization Type	2019 Activity	2020 Activity
SEP Transm	Depreciation Difference	689,116	711,316
	Book Overhead	419,810	411,337
	Tax Only	(11,827)	(7,700)
SEP Transm Totals		1,097,100	1,114,952
		Book Depr Allocation	
		31,222,280	31,222,280
		31,043,114	31,043,123

		Excess ADFIT Amortization	
Company	Amortization Type	2019 Activity	2020 Activity
SEP TX Distr	Depreciation Difference	1,157,471	1,209,270
	Book Overhead	79,198	81,104
	Tax Only	(36,173)	(21,135)
SEP TX Distr Totals		1,200,496	1,269,239
		Book Depr Allocation	
		22,818,743	22,818,743
		22,797,596	22,797,598

		Excess ADFIT Amortization	
Company	Amortization Type	2019 Activity	2020 Activity
SEP TX Transm	Depreciation Difference	620,676	591,349
	Book Overhead	(41,896)	(36,992)
	Tax Only	1,017	534
SEP TX Transm Totals		579,798	554,891
		Book Depr Allocation	
		19,815,004	19,815,004
		19,814,995	19,815,004

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Question No. OPUC 3-9:

Please refer to the Direct Testimony of Mr. Michael Baird, Exhibit MAB-4. Please provide the native format for this exhibit and all documentation that supports the information included therein. Please include in your response the amount of protected EDFIT and the amount of unprotected EDFIT that have been used to compute the total company offset to Dolet Hills net book value of \$82,311,412 and the Texas jurisdiction offset to Dolet Hills net book value of \$30,408,645.

Response No. OPUC 3-9:

Exhibit MAB-4 is highly sensitive and the native file was provided in the response to TIEC 1-24. The native file includes the amount of protected and unprotected EDFIT.

Prepared By: Randall W. Hamlett

Title: Dir Regulatory Acctg Svcs

Sponsored By: Michael A. Baird

Title: Mng Dir Acctng Policy & Rsrch

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Question No. OPUC 3-10:

Please refer to the Direct Testimony of Mr. David A. Hodgson, page 24. Please provide the remaining proposed adjusted balance of the protected EDFIT and the proposed adjusted balance of the unprotected EDFIT that will not have been refunded to ratepayers under the Company's proposal to use a portion of the excess deferred income tax liability to offset the net book value of Dolet Hills.

Response No. OPUC 3-10:

The Company's proposal to offset the net book value of the Dolet Hills Power Station includes the entire Texas jurisdictional balance of unprotected excess deferred income tax liability so no remaining balance would exist to be refunded to ratepayers.

As indicated on page 24 of the testimony of Mr. Hodgson, the adjusted balance of Texas jurisdictional protected excess deferred income tax liability is \$121,725,475 before accounting for any gross-up.

Prepared By: Jessica M. Criss

Title: Tax Analyst Prin

Sponsored By: David A. Hodgson

Title: Tax Acctg & Reg Support Mgr

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Question No. OPUC 3-11:

Please refer to the Direct Testimony of Mr. David A. Hodgson, page 24. Please show the computation of how the total amounts of protected EDFIT and unprotected EDFIT, as of January 1, 2018, have been grossed up for the tax effect for purposes of refunding the grossed-up amounts to ratepayers.

Response No. OPUC 3-11:

The amounts presented on page 24 of the testimony of Mr. Hodgson are before any gross-up for the tax effect of the refund to customers. The gross-up rate currently applied to the excess ADFIT on the books and records of the Company is 1.3287. The calculation of this rate can be seen in OPUC 3-11 Attachment 1.

Prepared By: Jessica M. Criss

Title: Tax Analyst Prin

Sponsored By: David A. Hodgson

Title: Tax Acctg & Reg Support Mgr

Federal Rate = 21%

Company	State	State Income Tax Rate	State Allocation Factor	Company Effective State Tax Rate	Effective Tax Rate	GROSS-UP FACTOR
SWEPCO	Arkansas	6.5000%	23.9099%	1.554%		
	Louisiana	8.0000%	40.4800%	3.238%		
	Nebraska	5.5800%	0.0231%	0.001%		
	Oklahoma	6.0000%	0.1611%	0.010%		
	Texas	0.7500%	4.2100%	0.032%		
	State Tax Offsets				-0.101%	
				<u>4.734%</u>	24.74%	1.3287

Detail extracted from Provision Subledger Report 52010:

	Gross-Up Rate	Entity Effective Rate
Federal	1.328741	0.21
Federal Offset	1.328741	-0.009944
Arkansas	1.328741	0.015541
Louisiana	1.328741	0.032384
Oklahoma	1.328741	0.000097
Texas	1.328741	0.000316
Nebraska	1.328741	0.000022
Arkansas Offset	1.328741	-0.000502
Nebraska Offset	1.328741	-0.000001
Louisiana Offset	1.328741	-0.000501
Oklahoma Offset	1.328741	-0.000005
		<u>0.247407</u>

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Question No. OPUC 3-12:

Please refer to Schedule G-7.6, sponsored by Mr. David A. Hodgson, Income Tax. Please provide all numerical components of the \$19,555,467 adjustment to the test year amortization of the EDFIT. Please separate each component of the \$19,555,467 adjustment as being related to the unprotected EDFIT or protected EDFIT.

Response No. OPUC 3-12:

See OPUC 3-12 Attachment 1.

Prepared By: Jessica M. Criss

Title: Tax Analyst Prin

Sponsored By: David A. Hodgson

Title: Tax Acctg & Reg Support Mgr

	Protected	Unprotected	Total
Test Year Amortization per Books	(\$8,383,702)	(\$14,891,435)	(\$23,275,137)
Remove Unprotected Amortization	\$0	\$14,891,435	\$14,891,435
Proforma NOL ARAM	\$4,664,032	\$0	\$4,664,032 [1]
Total Adjustments	\$4,664,032	\$14,891,435	\$19,555,467
Test Year Amortization as Adjusted	<u>(\$3,719,670)</u>	<u>\$0</u>	<u>(\$3,719,670)</u>

[1] Exhibit DAH-8