Filing Receipt

Received - 2021-11-19 02:29:44 PM
Control Number - 52195
ItemNumber - 406

SOAH DOCKET NO. 473-21-2606
DOCKET NO. 52195

APPLICATION OF EL PASO ELECTRIC	§	BEFORE THE STATE OFFICE
COMPANY TO CHANGE RATES	§	OF
	§	ADMINISTRATIVE HEARINGS

REBUTTAL TESTIMONY

OF

LARRY J. HANCOCK

FOR

EL PASO ELECTRIC COMPANY

NOVEMBER 19, 2021

TABLE OF CONTENTS

SUBJECT **PAGE**

I. Introduction and Qualifications

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Larry J. Hancock. My business address is 100 North Stanton Street, El Paso, Texas 79901.

Q. HOW ARE YOU EMPLOYED?

A. I am employed by El Paso Electric Company ("EPE" or "Company") as Manager - Plant Accounting.

Q. ARE YOU THE SAME LARRY J. HANCOCK WHO SUBMITTED DIRECT TESTIMONY?

A. Yes, I am.

II. Purpose of Rebuttal Testimony

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to (i) Texas Industrial Energy Consumers ("TIEC") witness Mr. Kevin C. Higgins' recommended annualization adjustment to accumulated depreciation, and (ii) City of El Paso ("CEP") witness Mr. Karl J. Nalepa's recommendation to remove from rate base the $16.8 million payment made to the Pueblo of Isleta for the right of way ("ROW") renewal.

III. Rebuttal to Mr. Kevin C. Higgins

Q. HAVE YOU REVIEWED TIEC WITNESS MR. HIGGINS' TESTIMONY AS IT RELATES TO ANNUALIZED ACCUMULATED DEPRECIATION?

A. Yes, I have.

Q. DO YOU AGREE WITH HIS FINDINGS AND RECOMMENDATIONS?

A. No, I do not.

Q. WHAT DOES MR. HIGGINS RECOMMEND REGARDING THE ANNUALIZATION ADJUSTMENT TO ACCUMULATED DEPRECIATION?

A. Mr. Higgins recommends a pro forma adjustment to increase accumulated depreciation by $(1,212,615) on a Texas jurisdictional basis. This is equal to the amount of annualized depreciation expense on new plant added during the test year that EPE is requesting in this case. Mr. Higgins' recommendation results in a decrease in the Company's Texas jurisdictional revenue requirement of $(120,935).

Q. WHY DOES MR. HIGGINS MAKE THIS RECOMMENDATION?

A. Mr. Higgins believes that since the Company adjusts depreciation expense to reflect the forward-going depreciation expense associated with all new plant added during the test year, a corresponding adjustment should be made to increase accumulated depreciation for the same amount to be offset against rate base.

Q. DO YOU AGREE WITH MR. HIGGINS' RECOMMENDATION TO ADJUST ACCUMULATED DEPRECIATION FOR THE ANNUALIZED DEPRECIATION ON THE NEW PLANTS?

A. No, I do not. Mr. Higgins' adjustment to accumulated depreciation is, in effect, a post-test year adjustment to invested capital and is improper under current Public Utility Commission of Texas ("PUCT") rules. Secondly, the PUCT has consistently rejected the notion of including an adjustment to accumulated depreciation for new plant placed in service in the latter part of the test year.

Q. WHY SHOULD MR. HIGGINS' ADJUSTMENT TO ACCUMULATED DEPRECIATION BE CLASSIFIED AS A POST TEST YEAR ADJUSTMENT TO INVESTED CAPITAL?

A. It would be classified as a post-test year adjustment because it adjusts accumulated depreciation for changes that occurred after the test year. In other words, his adjustment adds accumulated depreciation to the amount existing at the test year end. In addition, in a previous EPE case, Docket No. 8363, the Commission determined this type of adjustment to be a post-test year adjustment. In that filing, a CEP witness proposed adding 10 months of accumulated depreciation as an offset to rate base. The Commission rejected the proposal, finding that "[t]he adjustment to accumulated depreciation recommended by the

City is improper because it constitutes an impermissible post-test year adjustment to invested capital."[1]

Q. WHAT RULE ADDRESSES POST-TEST YEAR ADJUSTMENTS TO RATE BASE?

A. 16 Texas Administrative Code ("TAC") § 25.231(c)(2)(F)(i) addresses increases to rate base and 16 TAC § 25.231(c)(2)(F)(iii) addresses decreases to rate base.

Q. WHY WOULD MR. HIGGINS' ADJUSTMENT TO ACCUMULATED DEPRECIATION BE IMPROPER UNDER 16 TAC § 25.231(c)(2)(F)?

A. Mr. Higgins' proposed adjustment, which represents a decrease to the Company's requested rate base, does not meet the requirements of 16 TAC § 25.231(c)(2)(F)(iii), which only allows post-test year adjustments for known and measurable rate base decreases to historical test year data when certain criteria are met. Mr. Higgins' adjustment to accumulated depreciation for the annualized depreciation on the new plant does not meet the criteria under this rule and therefore would be improper to include in this filing.

Q. WHY IS HIS ACCUMULATED DEPRECIATION ADJUSTMENT A RATE BASE DECREASE?

A. His adjustment represents a decrease to rate base because it is the direct consequence of increasing accumulated depreciation. In other words, any increase to accumulated depreciation would result in a corresponding reduction to rate base, as the decision in Docket No. 8363 recognized.

Q. WHAT CRITERIA MUST BE MET BEFORE A POST TEST YEAR REDUCTION TO RATE BASE IS ALLOWED UNDER THE COMMISSION'S RULE?

A. Under 16 TAC § 25.231(c)(2)(F)(iii), two sets of criteria apply to a rate base decrease. First, the decrease must represent:

(a) plant which was [recorded in specified accounts];

(b) plant held for future use;

[1] See Docket No. 8363, pages 49-50 and Finding of Fact 35 on page 220 of the Examiners' Report, which the Commission adopted.

(c) CWIP (mirror CWIP is not considered CWIP); or

(d) an attendant impact of another post-test year adjustment.

Second, the rate base decrease must represent "plant that has been removed from service, mothballed, sold, or removed from the electric utility's books prior to the rate year."

Q. WHY DOES MR. HIGGINS' ADJUSTMENT FAIL TO COMPLY WITH THE COMMISSION'S POST TEST YEAR ADJUSTMENT RULE ON RATE BASE DECREASES?

A. The accumulated depreciation adjustment Mr. Higgins proposes does not meet the criteria set forth in 16 TAC § 25.231(c)(2)(F)(iii)(a-d). Perhaps most notably, it clearly does not represent "plant that has been removed from service, mothballed, sold, or removed from the electric utility's books." In addition, Mr. Higgins' accumulated depreciation adjustment is not related to any post-test year adjustment.

Q. DID EPE MAKE ANY POST-TEST YEAR RATE BASE ADJUSTMENTS IN THIS CASE?

A. No.

Q. IS THE ANNUALIZATION OF DEPRECIATION EXPENSE A POST-TEST YEAR ADJUSTMENT?

A. No, it is not a post-test year adjustment. It is a standard adjustment to cost of service to annualize depreciation expense and has never been considered a post-test year adjustment.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION ON THIS ISSUE?

A. Based on past practice, I recommend that no adjustment be made to accumulated depreciation for the annualized depreciation expense related to new plant added during the test year.

IV. Rebuttal to Mr. Karl J. Nalepa

Q. HAVE YOU REVIEWED MR. NALEPA'S TESTIMONY AS IT RELATES TO THE RATE BASE TREATMENT OF THE $16.8 MILLION PAYMENT FOR THE ISLETA ROW RENEWAL?

A. Yes, I have.

Q. WHAT DOES CEP WITNESS NALEPA RECOMMEND REGARDING THE RATE BASE TREATMENT OF THE ISLETA ROW RENEWAL PAYMENT?

A. Mr. Nalepa recommends that the $16.8 million payment be removed from rate base and treated as an O&M expense. His recommendation results in a decrease in the Company's Texas jurisdictional revenue requirement of $(1.468) million.

Q. WHY DOES MR. NALEPA MAKE THIS RECOMMENDATION?

A. Mr. Nalepa believes that instead of capitalizing the payment to plant in service and including it in rate base in this filing, the Company should have treated the lease payment as an annual O&M expense.

Q. PLEASE ADDRESS MR. NALEPA'S CLAIM THAT THE COMPANY CONSIDERED TREATING THE ROW RENEWAL COST AS AN EXPENSE INSTEAD OF CAPITALIZING IT?

A. Individuals within the Transmission Department made inquiries with accounting personnel as to whether the cost should be capitalized or expensed for budgeting purposes. The accounting department stated that under the FERC Uniform System of Accounts, a single upfront payment would be capitalized while annual payments would have to be expensed. Therefore, because the ultimate agreement negotiated with the Isleta Pueblo resulted in a single upfront payment, the payment was capitalized and amortized over the life of the ROW agreement (25 years).

Q. DO CUSTOMERS RECEIVE THE BENEFIT OF THIS SINGLE UPFRONT PAYMENT OVER THE TERM OF THE ROW AGREEMENT?

A. Yes. Capitalization of an expenditure results in the creation of an asset on the Company's books. Accounting rules define an asset as an expenditure that has a future economic benefit. Since the payment will allow the Company to access the ROW easement on Isleta land for the next 25 years, it will clearly provide a benefit to customers over the life of the agreement.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION ON THIS ISSUE?

A. I recommend that the $16.8 million payment for the Isleta ROW renewal remain in rate base so that customers will continue to receive the benefit of the Arroyo-West Mesa transmission line.

V. Conclusion

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.