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APPLICATION OF EL PASO ELECTRIC COMPANY TO CHANGE RATES	**§ § §**	**PUBLIC UTILITY COMMISSION OF TEXAS**

CROSS-REBUTTAL TESTIMONY

OF

KEVIN C. HIGGINS

FOR

TEXAS INDUSTRIAL ENERGY CONSUMERS

November 19, 2021

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Kevin C. Higgins. My business address is 111 East Broadway, Suite 1200, Salt Lake City, Utah, 84111.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am a Principal in the firm of Energy Strategies, LLC. Energy Strategies is a private consulting firm specializing in economic and policy analysis applicable to energy production, transportation, and consumption.

Q. ARE YOU THE SAME KEVIN C. HIGGINS WHO FILED DIRECT TESTIMONY ON BEHALF OF TEXAS INDUSTRIAL ENERGY CONSUMERS ("TIEC") IN THIS DOCKET?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR CROSS-REBUTTAL TESTIMONY?

A. My Cross-Rebuttal Testimony responds primarily to the direct testimony of the City of El Paso ("CEP") witness Clarence L. Johnson, Office of Public Utility Counsel ("OPUC") witness Evan D. Evans, and Commission Staff witness Adrian Narvaez regarding certain aspects of these parties' cost-of-service recommendations and/or revenue distribution recommendations. Absence of comment on my part regarding a particular issue does not signify support (or opposition) toward parties' positions with respect to the non-discussed issue.

Q. PLEASE SUMMARIZE THE PRIMARY CONCLUSIONS OF YOUR CROSS-REBUTTAL TESTIMONY.

A. I offer the following primary recommendations in my cross-rebuttal testimony:

- The load factor used for weighting average demand in the Average and Excess Four Coincident Peak ("A&E/4CP") calculation should be based on the highest system annual peak, rather than the average of the four summer peaks recommended by El Paso Electric ("EPE") and supported by Mr. Johnson and Mr. Evans.

- Imputed capacity costs associated with the Newman 10 and Macho Springs solar resources should be allocated using the A&E/4CP method rather than on an energy basis, as recommended by Mr. Johnson.

- General Advertising expense should be allocated based on customer count, rather than non-fuel O&M, as recommended by Mr. Johnson, because these costs are primarily incurred to provide information and/or instructions to customers.

- Mr. Evans's proposal to recover Uncollectible Accounts expense from all classes should be rejected. Governmental customers and Commercial & Industrial Large customers should be excluded from the allocation of this expense since these classes do not cause account write-offs.

- Mr. Evans's recommendations regarding interruptible energy cost allocation should be rejected. Interruptible rates are separately determined outside of the cost-of-service study and the revenues generated by interruptible customers are credited back to all classes. Thus, I do not agree with assigning additional energy cost responsibility to Schedule No. 38 as though it were a separate class. I also disagree with Mr. Evans's alternative recommendation to assign interruptible energy to the customer classes under which interruptible customers receive firm service.

- Mr. Johnson's cost-of-service study incorporating his COVID-19 adjustments cannot be relied upon as an accurate representation of class revenue requirements. His three-year averaging approach to calculating allocation factors would create a mismatch between the measurement period used to determine the revenue requirement (i.e., the Test Year), and the period used for class cost allocation (a hybrid of 2017-2019 and the Test Year). Mr. Johnson's adjustment to current revenues is not calculated using the revised billing determinants that would logically result from his allocation factor adjustments. In addition to its conceptual problems, Mr. Johnson's analysis contains numerous errors that distort the results of his study.

- I recommend that the Commission reject EPE's revenue distribution approach, which is also utilized in the derivation of Staff's proposed rates, because it inconsistently applies caps and floors to certain classes and produces inequitable results. I recommend that all Texas rate classes be moved to full cost of service, at the revenue requirement ultimately approved in this proceeding and incorporating my recommended changes to cost allocation. To the extent that gradualism is utilized, it should be based on principles consistently applied to all rate classes, instead of the arbitrary application of caps and floors to a subset of classes.

II. CLASS COST ALLOCATION

Q. TO WHICH PARTIES ARE YOU RESPONDING ON THE TOPIC OF CLASS COST ALLOCATION?

A. I am responding primarily to the direct testimony of the CEP witness Mr. Johnson and OPUC witness Mr. Evans. Because of the large number of class cost allocation issues addressed by parties in this case, I have organized my response on an issue-by-issue basis.

Load Factor Used for Weighting Average Demand

Q. WHY IS LOAD FACTOR RELEVANT FOR ALLOCATING CLASS COSTS IN THIS CASE?

A. Similar to other Texas utilities, EPE uses the A&E/4CP method for allocating production demand costs.[1] As discussed in my direct testimony,[2] an essential step when using this method is to weight the average demand (or energy) component of this allocator by the system load factor. As a general matter, load factor is calculated by dividing the energy used by an entity during a time period by the product of the entity's single highest peak demand during the time period, multiplied by the number of hours in the same time period. In the context of the A&E/4CP calculation, load factor should be calculated for the utility system based on its annual system coincident peak (1CP).

[1] In this proceeding, EPE is proposing to change to the 4CP method for its "peaking" plants, which I oppose in my direct testimony.

[2] Direct Testimony of Kevin C. Higgins, pp. 19-22.

While there is no controversy that "load factor" must be used for this weighting, there is disagreement among the parties as to how the load factor should be calculated for this purpose.

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE CALCULATION OF LOAD FACTOR USED IN WEIGHTING AVERAGE DEMAND IN THIS CASE?

A. I recommend using a load factor based on the single highest actual firm system coincident peak for EPE's system (1CP).

Q. WHAT DO OTHER PARTIES RECOMMEND REGARDING THE APPROPRIATE NUMBER OF PEAKS TO INCLUDE IN THE LOAD FACTOR CALCULATION?

A. The use of a load factor measured using the single highest system annual peak is also supported in the direct testimonies of Commission Staff witness Mr. Narvaez,[3] Freeport-McMoRan, Inc. witness Mr. Jeffry Pollock[4] and the University of Texas at El Paso witness Ms. Kit Pevoto.[5] However, CEP witness Mr. Johnson[6] and OPUC witness Mr. Evans[7] support EPE's use of a 4CP load factor.

Q. WHAT IS YOUR RESPONSE TO MR. JOHNSON'S AND MR. EVANS'S RECOMMENDATIONS?

[3] Direct Testimony of Adrian Narvaez, pp. 9-12.

[4] Direct Testimony of Jeffry Pollock, p. 12.

[5] Direct Testimony of Kit Pevoto, pp. 9-12.

[6] Direct Testimony of Clarence L. Johnson, p. 22.

[7] Direct Testimony of Evan D. Evans, pp. 14-15.

A. The use of the average of four monthly peaks for determining system load factor is inappropriate. System load factor for the Test Year should be based on the system's single highest peak demand for that year. In addition to being conceptually correct from the standpoint of cost allocation, measuring load factor with respect to the maximum system peak demand is consistent with the approach EPE uses in assessing its loads and resources balance to calculate its planning reserve margin.[8]

This issue was litigated in two recent cases before the Commission: Docket No. 43695 (Southwestern Public Service Company ["SPS"])[9] and Docket No. 46449 (Southwestern Electric Power Company ["SWEPCO"]).[10] In both cases the Commission required the use of the single annual coincident peak in calculating the system load factor. Calculating load factor using the annual system peak demand also comports with the definition of "Load factor" in §25.5 of the Electric Substantive Rules, defined as:

> The ratio of average load to peak load during a specific period of time, expressed as a percent. The load factor indicates to what degree energy has been consumed compared to maximum demand or utilization of units relative to total system capability.[11]

In this case, load factor is properly calculated using the peak load experienced during the Test Year.

[8] *See* EPE 2021 Integrated Resource Plan (September 16, 2021), Figure 11. Initial L&R at 59. *See also* Hawkins Dir. at Exhibit DCH-3.

[9] Docket No. 43695, Final Order at 10-11, Findings of Fact 246A-251A (Dec. 18, 2015).

[10] Docket No. 46449, Final Order at Findings of Fact 277-284 (Jan. 11, 2018).

[11] 16 T.A.C. § 25.5--7, (64).

Q. DOES THE FACT THAT EXCESS DEMAND IS CALCULATED USING 4CP IN THE A&E/4CP METHOD NECESSITATE MEASURING LOAD FACTOR USING 4CP?

A. No. The number of CPs used in calculating excess demand – be it 1, 4, or some other number – is irrelevant to the determination of annual average demand and irrelevant to the determination of system load factor for the test period. There is but one system load factor during the year, not multiple load factors depending on how many CPs are used to calculate excess demand.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATION REGARDING THE APPROPRIATE LOAD FACTOR TO USE IN THE A&E/4CP CALCULATION FOR CLASS COST OF SERVICE PURPOSES.

A. My recommended load factor is calculated using the highest annual system coincident peak and unadjusted firm loads, and is presented in Exhibit KCH-7 of my direct testimony. As discussed above, my recommendation is consistent with Commission precedent in cases in which the proper calculation of system load factor was litigated. In this case, the correct load factor to use for class cost of service purposes is 45.47%.

Allocation of Imputed Capacity Costs

Q. PLEASE PROVIDE BACKGROUND ON THIS ISSUE.

A. The concept of imputed capacity recognizes that, if a Purchased Power Agreement ("PPA") provides capacity value, that value should be reflected in the ratemaking process even if the PPA does not contain any explicit capacity charges. This practice is consistent with the fact that energy costs from PPAs are recovered through the fuel factor (and allocated

on an energy basis), but that capacity- or demand-related costs are not eligible fuel costs,[12] and must therefore instead be recovered through base rates. EPE imputes capacity value for its Newman 10 and Macho Springs PPAs. The imputed capacity portion of the Newman 10 and Macho Springs PPA costs is allocated using the A&E/4CP method and included in the base rate revenue requirement. The remaining Texas-allocated portion of the PPA costs is considered a fuel expense and included in the fuel factor.

In EPE's last rate case, Docket No. 46831, EPE's initial filing improperly allocated these imputed capacity costs based on energy, which I noted in my direct testimony in that case.[13] In rebuttal, EPE agreed that imputed capacity costs should be classified as demand-related.[14] Consistent with that correction to its testimony in Docket No. 46831, EPE allocates these capacity costs using the A&E/4CP method in this case.

Q. WHAT DOES MR. JOHNSON PROPOSE REGARDING THE ALLOCATION OF IMPUTED CAPACITY COSTS?

A. Mr. Johnson contends that imputed capacity costs should be allocated based on energy, "[b]ecause the Company provides no explanation for changing the energy allocation applied to non-reconcilable solar generation expense."[15] In the alternative, Mr. Johnson states that a 12 CP allocator is also reasonable.

Q. DO YOU AGREE THAT IMPUTED CAPACITY COSTS SHOULD BE ALLOCATED BASED ON ENERGY?

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[12] 16 T.A.C. § 25.236(a)(6).

[13] Docket No. 46831, Direct Testimony of Kevin C. Higgins, p. 32.

[14] Docket No. 46831, Rebuttal Testimony of Adrian Hernandez, p. 7.

[15] Direct Testimony of Clarence L. Johnson, p. 24.

A. No. Allocating imputed *capacity* costs based on *energy* makes no sense and would defeat the entire purpose of imputing the capacity costs in the first place. As I indicated above, EPE agreed in its rebuttal testimony in Docket No. 46831 that imputed capacity costs should be classified as demand-related, and properly allocated these costs using the A&E/4CP method in this case. Moreover, the capacity from the Newman 10 and Macho Springs solar resources is included as firm capacity in EPE's loads and resources assessment.[16] There is no logical basis to allocate these imputed capacity costs on an energy basis. It is appropriate to allocate the imputed capacity-related portion of these PPAs using the A&E/4CP method, consistent with the proper allocation of production plant.

Allocation of General Advertising Expense

Q. HOW DOES EPE ALLOCATE GENERAL ADVERTISING EXPENSE (ACCOUNT 930.1)?

A. EPE allocates general advertising expense on a customer basis in this case.

Q. HOW DOES MR. JOHNSON PROPOSE TO ALLOCATE GENERAL ADVERTISING EXPENSE?

A. Mr. Johnson proposes to allocate general advertising expense based on non-fuel O&M expense. Mr. Johnson argues that FERC Account 930.1 includes the cost of image advertising, which may have the objective of creating more favorable opinions of the utility among investors, public officials, or other influential persons. He contends that such

[16] EPE's response to RFI FMI 1-4, David C. Hawkins' Exhibit DCH-3.

advertising is not linked to customers, but instead is motivated to advance the interests of the utility.[17]

Q. DO YOU AGREE THAT NON-FUEL O&M EXPENSE IS A MORE APPROPRIATE ALLOCATION METHOD FOR EPE'S GENERAL ADVERTISING EXPENSE THAN CUSTOMER COUNT?

A. No. EPE categorizes over 98% of Account 930.1 as Informational/Instructional advertising.[18] According to EPE, "[a]dvertising expenses are a reasonable and necessary part of providing service to customers and consist primarily of costs to provide information and/or instructions to customers."[19] Based on EPE's characterization of the nature of its advertising expense, I recommend that these costs be allocated based on customer count because these costs are incurred to communicate with customers. To the extent that EPE's characterization is inaccurate, and these costs instead consist of image advertising to create more favorable opinions of the utility among investors, public officials, or other influential persons, as Mr. Johnson infers, such costs may be more appropriately recovered from shareholders than from customers. In either event, Mr. Johnson's recommendation should be rejected.

[17] Direct Testimony of Clarence L. Johnson, pp. 35-36.

[18] According to EPE WP A-3 Adj 23 Advertising, $1,490,870 of Account 930.1 is categorized as Informational/Instructional and $28,436 as General Advertising Expense. According to Schedule G-04.01_(c), the $28,436 is Facebook/Twitter advertising. I note that it appears that EPE's Regulatory Case Working Model overstates adjusted Account 930.1 expense by $18,525 because the model includes an adjustment of ($155,311) instead of the ($173,836) shown in WP A-3 Adj 23.

[19] Direct Testimony of Cynthia S. Prieto, p. 19.

Allocation of Uncollectible Accounts Expense

Q. HOW DOES EPE ALLOCATE UNCOLLECTIBLE ACCOUNTS EXPENSE (ACCOUNT NO. 904)?

A. EPE allocates Uncollectible Accounts expense to customer classes based on the firm base and fuel revenues of each class, except those classes that are not subject to account write-offs, such as governmental customers and Commercial & Industrial Large customers.[20]

Q. WHAT DOES MR. EVANS PROPOSE REGARDING THE ALLOCATION OF UNCOLLECTIBLE ACCOUNTS EXPENSE?

A. Mr. Evans recommends that these costs should be recovered from all customer classes in proportion to sales revenues.[21]

Q. WHAT IS YOUR RESPONSE TO MR. EVANS'S RECOMMENDATION?

A. I support EPE's proposal to exclude governmental customers and Commercial & Industrial Large customers from the allocation of Uncollectible Accounts expense since these classes do not cause account write-offs. According to EPE, Commercial & Industrial Large customers are considered fully collectible based on payment history.[22] I believe EPE's approach is a better representation of cost causation because Uncollectible Accounts expense was not caused by governmental and Commercial & Industrial Large classes.

[20] Direct Testimony of Adrian Hernandez, p. 24.

[21] Direct Testimony of Evan D. Evans, pp. 29-31.

[22] EPE response to RFI CEP 14-8.

Treatment of Interruptible Energy in Class Cost Allocation

Q. IN GENERAL, HOW DOES EPE TREAT RATE SCHEDULE NO. 38, NOTICED INTERRUPTIBLE POWER SERVICE, FOR COST OF SERVICE PURPOSES IN THIS CASE?

A. Rate Schedule No. 38 is not included as a separate class in EPE's cost-of-service study. Instead, the demand charges for interruptible ratepayers are developed based on the demand unit costs for Rate Schedule No. 25, Large Power Service Rate, less an interruptible capacity credit. The interruptible non-fuel energy charge is set equal to the Rate Schedule No. 25 Off-Peak Period Energy Charge.[23] The base revenues EPE receives from Rate Schedule No. 38 are used to reduce the rates for all Texas classes.

Q. IS INTERRUPTIBLE LOAD INCLUDED IN THE MAJORITY OF EPE'S ALLOCATORS?

A. No. For example, interruptible load is not included in the A&E/4CP or 4CP allocators used for allocating demand-related production and transmission costs. Nor is it included in the E1ENERGY allocator used for non-fuel/purchased power variable costs. This is appropriate because Schedule No. 38 is not included as a separate class in the cost-of-service study.

Q. DO ANY ALLOCATORS USED BY EPE INCLUDE INTERRUPTIBLE LOAD?

A. Yes. The E1FUEL allocator, used for fuel expenses, includes interruptible energy. While fuel costs are not at issue in this case, EPE's cost-of-service study includes reconcilable fuel expenses. But in EPE's cost-of-service study, fuel expenses are effectively cancelled

[23] Direct Testimony of Manuel Carrasco, p. 61.

out by offsetting fuel revenues, nullifying the impact of this allocator. I note, however, that including fuel expenses and revenues in the cost-of-service study could create potential problems if fuel expenses and revenues do not fully offset each other, as I will address later in my testimony in response to Mr. Johnson's COVID-19 adjustment. Excluding fuel expenses and revenues entirely from EPE's cost allocation model would avoid such potential errors or distortions.

In addition, the E2ENERGY allocator includes interruptible energy. EPE uses this allocator for certain fuel-related deferred income tax expenses and fuel-related accumulated deferred income taxes, as well as some fuel inventory-related rate base and small miscellaneous rate base items. While I do not believe it is appropriate to include interruptible load in any class cost of-service allocators, for simplicity's sake I did not challenge this in my direct testimony because these items largely offset each other. I am addressing it here to provide the context for my response to Mr. Evans's recommendation.

Q. WHAT DOES MR. EVANS RECOMMEND REGARDING INTERRUPTIBLE ENERGY?

A. Mr. Evans argues that EPE's E1ENERGY allocator, which excludes interruptible loads, shifts the responsibility for non-fuel, energy-related generation O&M entirely onto firm customers and causes firm customers to subsidize the interruptible sales. Mr. Evans recommends that the energy charge for interruptible service be increased to reflect the portion of generation O&M expenses and other costs that would be allocated to interruptible energy if they were treated as a separate class. In the alternative, Mr. Evans

suggests that the interruptible energy could be assigned to the customer classes under which the interruptible customers receive firm service.[24]

Q. WHAT IS YOUR RESPONSE TO MR. EVANS'S RECOMMENDATIONS?

A. Mr. Evans's recommendations regarding interruptible energy cost allocation should be rejected. Interruptible rates are separately determined outside of the cost-of-service study, which is appropriate given the unique nature of interruptible service. As I noted above, interruptible customers pay energy charges based on the Schedule No. 25 energy charge; thus it is not necessary to separately allocate energy cost responsibility to Schedule No. 38 as though it were a separate class.

I also disagree with Mr. Evans's alternative recommendation to assign interruptible energy to the customer classes under which interruptible customers receive firm service. Since base revenues from interruptible customers are credited back to all firm classes, including classes that have no associated interruptible load, there is no logical basis to allocate additional cost responsibility to certain firm classes simply because interruptible customers may also receive firm service under those schedules.

The rates developed for firm service schedules that would otherwise apply to customers served on Schedule No. 38, such as Schedule No. 25, are derived using billing determinants that do not include interruptible load. It is inappropriate to inflate the unit costs for these firm service schedules based on allocators that include interruptible load.

[24] Direct Testimony of Evan D. Evans, pp. 24-25.

COVID-19 Allocation Impact

Q. WHAT DOES MR. JOHNSON PROPOSE ON THE SUBJECT OF COVID-19?

A. According to Mr. Johnson, due to COVID-19, residential energy usage increased significantly in 2020 and declined for major business, industrial, and governmental office customers.[25] Mr. Johnson contends, "given the over-arching impact of the pandemic on CCOS study allocation factors, one could conclude that a CCOS study based on the 2020 test year is inherently flawed and incapable of providing accurate information to the rate making process." He proposes two alternatives: adopting an equal percentage change in rates in order to maintain current class relationships or adjusting allocation factors to reflect historical patterns prior to the pandemic. Mr. Johnson incorporates adjustments to the cost-of-service study to reflect the latter alternative.[26]

Q. PLEASE BRIEFLY DESCRIBE THE APPROACH MR. JOHNSON USES TO ADJUST ALLOCATION FACTORS.

A. Mr. Johnson did not undertake a comprehensive adjustment of all of rate classes to account for his view of COVID-19 impacts.[27] Instead, he selects six classes for his adjustments: Residential, Small General Service, General Service, Large General Service, Petroleum Refining, and City/County. For these classes, he calculates allocation factors based on a three-year average for 2017-2019 and substitutes those percentages for EPE's 2020 Test Year inputs. Mr. Johnson uses this approach for the A&E/4CP (D1PROD), 4CP (D2PROD/D2TRAN), and Energy (E1ENERGY) allocators. According to Mr. Johnson,

[25] Direct Testimony of Clarence L. Johnson, Appendix B-1.

[26] Direct Testimony of Clarence L. Johnson, p. 27.

[27] City of El Paso's Response to TIEC 1-4.

he developed the E2ENERGY (energy including interruptible) allocator based on the E1 and E2 differentials in Schedule P-7 and used load factors to develop the 12 CP and NCP allocators.[28]

Q. IS THERE ANOTHER COMPONENT TO MR. JOHNSON'S COVID ADJUSTMENTS?

A. Yes, Mr. Johnson also makes an adjustment to decrease the current revenues of the Residential class and increase the current revenues of the other five classes subject to his adjustment. In this adjustment, he estimates the portion of increased 2020 Residential revenues due to the COVID-19 work-from-home impact. He then reduces Residential current revenues by this amount and credits the five non-residential classes with this increment.[29] In Mr. Johnson's presentation, the current revenue portion of his adjustment partially offsets the cost shift from his allocation factor adjustments.[30]

Q. WHAT IS YOUR RESPONSE TO MR. JOHNSON'S COVID-19 ADJUSTMENTS?

A. Mr. Johnson's cost-of-service study incorporating his COVID-19 adjustments cannot be relied upon as an accurate representation of class revenue requirements. His three-year averaging approach to calculating allocation factors is decidedly ad hoc and would create a mismatch between the measurement period used to determine the revenue requirement (i.e., the Test Year), and the period used for class cost allocation (a hybrid of 2017-2019 and the Test Year). Further, Mr. Johnson's adjustment to current revenues is not calculated using the revised billing determinants that would logically result from his allocation factor

[28] Direct Testimony of Clarence Johnson, Appendix B-3.

[29] Direct Testimony of Clarence Johnson, Appendix B-4 – Appendix B-6.

[30] *See* Mr. Johnson's Schedule CJ-3.

adjustments. Finally, Mr. Johnson's analysis contains numerous errors that distort the results of his study.

Q. PLEASE SUMMARIZE THE IMPACT OF MR. JOHNSON'S COVID ADJUSTMENTS ON CLASS COST ALLOCATION.

A. This impact is summarized in Table KCH-1-CR, below, at EPE's requested revenue requirement.

Table KCH-1-CR
Impact of CEP COVID-19 Adjustments
at EPE's Requested Revenue Requirement

Rate Class	EPE As-Filed Base Rev. Req. [31]	Base Rev. Req. w/ CEP COVID Adj. [32]	CEP COVID Adj. Base RR Impact	CEP Current Rev. Adj. [33]	CEP COVID Adj. Net Impact
R01-Residential TX	326,245,874	290,700,969	(35,544,905)	(14,992,000)	(20,552,905)
R02-Small Gen Serv	30,138,183	34,004,225	3,866,043	1,421,743	2,444,299
R07-Rec Light	616,597	592,327	(24,270)	-	(24,270)
R08-Street Light	3,078,789	3,041,656	(37,133)	-	(37,133)
R09-Traffic Signs	98,620	97,583	(1,037)	-	(1,037)
R11TOU-Muni Pump	10,197,507	10,183,516	(13,991)	-	(13,991)
R15-Elec Ref	2,237,306	1,785,273	(452,033)	-	(452,033)
R22-Irrig Serv	558,931	582,923	23,992	-	23,992
R24-Gen Serv	114,237,948	135,192,412	20,954,465	8,184,516	12,769,949
R25-Large Power	37,276,695	41,167,239	3,890,545	2,189,774	1,700,770
R26-Petroleum Ref	12,941,244	13,756,385	815,142	368,503	446,639
R28-P Area Light	2,643,075	2,615,128	(27,946)	-	(27,946)
R30-Elec Furnace	1,506,318	1,479,349	(26,969)	-	(26,969)
R31-Mili Reserv	14,775,932	14,714,087	(61,845)	-	(61,845)
R34-Cotton Gin	178,184	171,364	(6,820)	-	(6,820)
R41-Cty/Cnty	16,990,428	23,571,183	6,580,755	2,827,464	3,753,292
RWH-Water Heating	809,787	875,796	66,009	-	66,009
Total Texas	574,531,417	574,531,417	-	-	-

[31] EPE Regulatory Case Working Model - As Filed - Dkt 52195, Revenue Requirement tab, rows 11.

[32] To isolate the impact of the COVID-19 adjustment from Mr. Johnson's other cost allocation changes, I substituted the allocation factors in EPE's model with Mr. Johnson's allocation factors shown in "3-CJ Confidential Workpaper EPE Regulatory Case Working Model - As Filed - Dkt 52195," Allocation Factor tab, rows 69-85.

[33] Based on Mr. Johnson's "Workpaper-Allocation Adjustments, CCOS and Rev Incr," ccos results tab.

As shown in Table KCH-1-CR, Mr. Johnson's COVID-19 adjustments reduce the Residential base revenue requirement by $35.5 million, or a 10.9% reduction from that calculated by EPE. This is caused by the changes in Mr. Johnson's allocation factors. For example, the Residential kWh used by Mr. Johnson in his energy allocators are 10.5% lower than the Residential kWh in EPE's test-year allocators.[34] At the same time, Mr. Johnson reduces Residential current base revenues by only 5.5%, or $15.0 million. The net impact is a reduction to the Residential required base revenue increase of $20.6 million.

Q. WHAT IS YOUR RESPONSE TO MR. JOHNSON'S COVID-19 ALLOCATION FACTOR ADJUSTMENTS?

A. 2020 Test Year electricity usage differs from 2017-2019 usage for numerous reasons unrelated to COVID-19. For example, growth in the number of customers and continued adoption of refrigerated air conditioning have increased Residential usage over this period.[35] Commercial and industrial electricity usage may change for a variety of operational and economic reasons unrelated to the COVID-19 work-from-home paradigm. Mr. Johnson's averaging adjustment is not limited to COVID-19 impacts but also captures these other impacts. Furthermore, the extent to which COVID-19 will continue to impact our lives and electricity usage patterns is unknown. It is plausible that many people will continue working remotely full or part-time for the foreseeable future, either due to health concerns or because the pandemic caused a disruption resulting in increased remote work going forward.

[34] Based on Residential Annual Energy at Source of 2,681,376,311 kWh used by EPE compared to 2,400,382,735 kWh used by Mr. Johnson.

[35] https://www.epelectric.com/company/news/el-paso-electric-customers-set-a-new-peak-demand-for-electricity-during-heat-advisory.

Another problematic element of Mr. Johnson's COVID-19 adjustment is that it would create a mismatch between the period used to determine the revenue requirement and the period used for class cost allocation. According to EPE, from October 2016 (the month following the end of the test year in Docket No. 46831) through December 2020, EPE invested $953.3 million in new plant in service.[36] Mr. Johnson proposes to incorporate allocation factors from as early as 2017 to allocate costs incurred three years later. Mr. Johnson's approach would not accurately reflect cost causation.

Q. DOES MR. JOHNSON'S ADJUSTMENT CREATE ANY OTHER MISMATCHES IN RATEMAKING COMPONENTS?

A. Yes. If an allocation factor adjustment were made, current revenues (and thus the billing determinants used to design rates) should also be adjusted. Mr. Johnson proposes an adjustment to current revenues, but it is not reasonably calculated. Conceptually, a change to the load inputs used to calculate allocation factors should be accompanied by a change to related billing determinants, and ultimately current revenues. For example, if the Residential energy sales used in the energy allocators are decreased by 10% from those in the original allocators (and non-residential energy sales are increased by the same amount), then allocated Residential energy costs would be decreased by 10%. However, this allocation change should be accompanied by a 10% decrease in the Residential kWh billing determinants used for rate design purposes. The net impact on proposed rates would be minimal so long as allocation factors, billing determinants, and current revenues change proportionately.

[36] Direct Testimony of James Schichtl, p. 4.

Precisely calculating such an adjustment is complicated because it requires the development of revised billing determinants for each impacted rate schedule. According to EPE, billing determinants are not readily available for any period that is not a test year.[37]

Q. DOES MR. JOHNSON RECALCULATE CURRENT REVENUES BASED ON THE BILLING DETERMINANTS FOR EACH AFFECTED CLASS?

A. No. Mr. Johnson has not undertaken this billing determinant calculation and it is unclear whether he intends that associated billing determinant adjustments be made at all.[38] It would be unreasonable to adjust the allocation factors for certain classes upwards based on the theory that their usage during 2020 was artificially low due to COVID-19, but then not also increase the number of billing determinants used to design rates for that class in a corresponding manner. But in a discovery response, Mr. Johnson indicated that he would not carry through his COVID-19 adjustment to the rate design process.[39]

Regardless of whether Mr. Johnson's current revenues adjustment is intended to impact the rate design process, it is flawed and should be rejected. Notably, Mr. Johnson's allocation factors are based on an average of 2017-2019 (combined with Test Year inputs for the non-adjusted classes), but his revenue adjustment is based on a comparison of 2019 and 2020 Residential revenues. Mr. Johnson's 5.5% decrease to Residential current revenues is disproportionately small relative to his decrease to Residential allocation factors and costs,

[37] EPE response to RFI OPUC 1-10.

[38] CEP Response to RFI TIEC 1-5.

[39] *Id.*

indicating that Mr. Johnson's Residential current revenue adjustment is significantly understated.

Mr. Johnson then reallocates the decrease in Residential current revenues to the five adjusted non-residential classes. Since current revenues are a function of each rate schedule's billing determinants and current rates, an adjustment to current revenues cannot be accurately calculated using Mr. Johnson's approach.

Q. YOU MENTIONED THAT MR. JOHNSON'S ANALYSIS CONTAINS ERRORS. WHAT IS THE NATURE OF THOSE ERRORS?

A. I have identified several errors in Mr. Johnson's analysis.[40] First, his E1FUEL/E2ENERGY allocators contain apparent errors for some classes. These allocators include interruptible energy and are used to allocate reconcilable fuel expense and certain other fuel-related expense and rate base items. However, Mr. Johnson does not include interruptible energy in these allocators for Rate Schedule Nos. 15 or 25. Conversely, Mr. Johnson erroneously includes interruptible energy in Rate Schedule No. 24, which does not serve customers also served on Rate Schedule No. 38.

Secondly, Mr. Johnson changes the allocation of fuel expense without making a corresponding change to retail fuel revenues. This means that each class's fuel expense and fuel revenues do not fully offset each other in Mr. Johnson's analysis, distorting the depiction of each class's "non-fuel" revenue requirement.

[40] In addition to the errors pertaining to interruptible energy and fuel described herein, I also note that Mr. Johnson utilizes a Secondary Distribution allocator for "D3DIST" instead of a Primary Distribution allocator.

Q. WILL YOU PLEASE ELABORATE ON MR. JOHNSON'S ERROR RELATED TO FUEL REVENUES AND EXPENSE?

A. Yes. As I described earlier in my testimony, EPE includes both reconcilable fuel expenses and fuel revenues in its cost-of-service study. This is unnecessary, because this is a base rate case, and fuel costs and revenues are not at issue. However, in EPE's study, reconcilable fuel expenses are fully cancelled out by offsetting fuel revenues, thus apparently eliminating any harm from the unnecessary inclusion of fuel costs and revenues in what should be a base rate cost study. This is demonstrated in Table KCH-2-CR, below.

Table KCH-2-CR
Fuel & Purchased Power Expenses and Revenues in EPE's CCOSS[41]

Rate Class (a)	EPE Retail Fuel Revenues (b)	EPE Sales for Resale (c)	EPE Fuel & PP Expense (d)	EPE Net Fuel Amount (e) = (d) - (c) - (b)
R01-Residential TX	31,804,571	26,179,155	57,983,726	0
R02-Small Gen Serv	3,483,415	2,867,288	6,350,703	0
R07-Rec Light	47,019	38,703	85,722	0
R08-Street Light	461,227	379,648	840,874	0
R09-Traffic Signs	26,554	21,857	48,412	0
R11TOU-Muni Pump	2,189,127	1,801,926	3,991,054	0
R15-Elec Ref	965,884	795,044	1,760,928	0
R22-Irrig Serv	49,123	40,435	89,558	0
R24-Gen Serv	18,549,194	15,268,316	33,817,510	0
R25-Large Power	8,621,024	7,096,185	15,717,209	0
R26-Petroleum Ref	4,673,421	3,846,812	8,520,232	0
R28-P Area Light	343,211	282,506	625,717	0
R30-Elec Furnace	2,231,320	1,836,656	4,067,976	0
R31-Mili Reserv	4,077,775	3,356,521	7,434,296	0
R34-Cotton Gin	20,422	16,809	37,231	0
R41-Cty/Cnty	2,475,875	2,037,956	4,513,830	0
RWH-Water Heating	65,544	53,951	119,494	0
Total Texas	80,084,706	65,919,767	146,004,473	0

[41] Based on EPE Regulatory Case Working Model - As Filed - Dkt 52195.

Critically, however, in Mr. Johnson's study, fuel expenses are not fully offset by fuel revenues for each class. This is shown in Table KCH-3-CR, below.

Table KCH-3-CR
Fuel & Purchased Power Expenses and Revenues in CEP's CCOSS[42]

Rate Class (a)	CEP Retail Fuel Revenues (b)	CEP Sales for Resale (c)	CEP Fuel & PP Expense (d)	CEP Net Fuel Amount (e) = (d) - (c) - (b)
R01-Residential TX	31,804,571	23,169,200	51,317,033	(3,656,738)
R02-Small Gen Serv	3,483,415	2,941,663	6,515,436	90,357
R07-Rec Light	47,019	38,263	84,748	(535)
R08-Street Light	461,227	375,330	831,312	(5,245)
R09-Traffic Signs	26,554	21,609	47,861	(302)
R11TOU-Muni Pump	2,189,127	1,781,434	3,945,665	(24,896)
R15-Elec Ref	965,884	425,491	942,413	(448,963)
R22-Irrig Serv	49,123	39,975	88,539	(559)
R24-Gen Serv	18,549,194	18,144,229	40,187,317	3,493,894
R25-Large Power	8,621,024	6,827,680	15,122,502	(326,202)
R26-Petroleum Ref	4,673,421	4,020,206	8,904,280	210,654
R28-P Area Light	343,211	279,293	618,601	(3,903)
R30-Elec Furnace	2,231,320	1,815,769	4,021,713	(25,376)
R31-Mili Reserv	4,077,775	3,318,349	7,349,749	(46,374)
R34-Cotton Gin	20,422	16,618	36,808	(232)
R41-Cty/Cnty	2,475,875	2,651,321	5,872,361	745,166
RWH-Water Heating	65,544	53,337	118,135	(745)
Total Texas	80,084,706	65,919,767	146,004,473	0

Q. WHY IS IT PROBLEMATIC THAT FUEL REVENUE AND EXPENSE DO NOT NET TO ZERO BY CLASS IN MR. JOHNSON'S STUDY?

A. Fuel revenues are treated as other operating revenues, which are subtracted from the total revenue requirement to calculate each class's base revenue requirement. Since Mr. Johnson's fuel expenses are not fully offset by fuel revenues, this distorts the depiction of each class's base "non-fuel" revenue requirement in Mr. Johnson's study. This error

[42] 3-CJ Confidential Workpaper EPE Regulatory Case Working Model - As Filed - Dkt 52195.

highlights one of the hazards of including fuel expenses in EPE's cost-of-service study in the first instance – unintentional or erroneous impacts to the non-fuel revenue requirement are possible. I recommend that EPE exclude reconcilable fuel expense and revenues from its cost-of-service study in its next general rate case to avoid such potential pitfalls in the future.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS REGARDING MR. JOHNSON'S COVID-19 ADJUSTMENTS.

A. I recommend that Mr. Johnson's COVID-19 cost allocation adjustments be rejected. His three-year averaging approach to calculating allocation factors would create a mismatch between the measurement period used to determine the revenue requirement and the period used for class cost allocation, and he has failed to make a proper corresponding adjustment to current revenues of the classes he chose to adjust. In addition to its conceptual problems, Mr. Johnson's analysis contains numerous errors that distort the results of his study. Mr. Johnson's study thus cannot be relied upon as an accurate representation of class revenue requirements.

The 2020 Test Year represents the most suitable basis for determining class cost of service in this proceeding.

III. REVENUE DISTRIBUTION

Q. IN YOUR DIRECT TESTIMONY YOU EXPLAINED THAT EPE'S REVENUE DISTRIBUTION PROPOSAL PRODUCES INEQUITABLE RESULTS BECAUSE

IT INCONSISTENTLY APPLIES CAPS AND FLOORS.[43] HAVE ANY PARTIES UTILIZED EPE'S APPROACH?

A. Yes. While not addressed in Commission Staff's testimony, Staff's rate design workpaper did not make changes to the revenue distribution approach utilized by EPE in its application. This approach caps the base increase to certain classes (Residential and Water Heating) at 1.5 times the average non-fuel base revenue increase, as an initial step in the revenue distribution. A floor is applied to the decreases for certain rate classes (Small General Service, General Service, and City and County Service), initially limiting the decreases for these classes to 50% of the decreases indicated by the cost-of-service study. Caps and floors are not applied to other classes. Then, after applying the initial caps and floors, the resulting revenue shortfall is allocated to all the classes in proportion to their allocated base revenue (after applying the initial cap or floor, as applicable).

Q. WHY DO YOU CONSIDER THIS APPROACH INEQUITABLE?

A. In addition to failing to move classes to cost, EPE's approach arbitrarily favors certain classes, at the expense of others, in applying gradualism subsidies. For example, under Staff's proposed revenue requirement and cost-of-service study, the Residential class requires a 14.61% increase but receives a 7.19% increase. Meanwhile, Rate Schedule No. 15 – Electrolytic Refining Service requires a similar, but actually larger, increase of 14.77% but receives no subsidy and instead an 18.37% increase.[44] Meanwhile Rate Schedule No. 26 – Petroleum Refinery Service, is shown as requiring a 6.84% increase but receives a 10.19% increase, which is higher than the increase that Residential would end

[43] Direct Testimony of Kevin C. Higgins, pp. 28-30.

[44] 52195 – Staff's Rate Design model.

up with (despite the results of Staff's cost-of-service study).[45] According to Staff's response to discovery, the relative rates of return under this revenue distribution range from -0.30 to 1.44. The relative rate of return for the Residential class would be 0.77.[46]

Q. DO YOU HAVE ANY OTHER COMMENTS ON STAFF'S PROPOSED RATES?

A. Yes. While it is not clear that Staff is endorsing EPE's revenue distribution proposal, as opposed to not taking a position on the proper revenue distribution at this point in the case, I would note that Staff has been a strong proponent of moving classes to cost in the absence of rate shock, including in two pending non-ERCOT rate cases. In SWEPCO's pending rate case, Docket No. 51415, Staff witness Mr. Narvaez recommended that classes be moved to cost unless the rate increase would exceed 43%. Under Mr. Narvaez's proposal, classes whose increases were limited by the initial 43% cap would be subject to additional phased-in annual increases of up to 43% until all classes reached cost.[47]

In SPS's pending rate case, Docket No. 51802, Staff witness William Abbott supported moving all classes to cost without any gradualism constraints despite the fact that SPS's application proposed base rate increases as high as 47.1% for certain classes.[48] Mr. Abbott testified that: "Any arguments in support of a gradualist approach to revenue distribution or rate design should be given a high degree of critical scrutiny in order to determine if

[45] 52195 – Staff's Rate Design Model, "Rev Distribution" tab.

[46] Staff's response to RFI UTEP 1-1.

[47] Docket No. 51415, Direct Testimony of Adrian Narvaez, pp. 23-26; Docket No. 51802, Update Testimony of Richard M. Luth, Attachment RML-RD-U1.

[48] Docket No. 51802, Cross-Rebuttal Testimony of William B. Abbott, pp. 9-17.

they meet the required showing that undue rate shock is a serious concern. No party in this case has made such a showing, and rates should be set based on cost in this proceeding."[49]

Q. PLEASE SUMMARIZE YOUR RECOMMENDATION REGARDING REVENUE DISTRIBUTION.

A. Consistent with my direct testimony, I recommend that all Texas rate classes be moved to full cost of service, at the revenue requirement ultimately approved in this proceeding and incorporating my recommended changes to cost allocation. I recommend that the Commission reject the revenue distribution approach used by EPE and Staff as inconsistent with the Commission's strong preference for aligning class revenues with the costs that each class causes to be incurred. To the extent that gradualism is utilized, it should be based on principles consistently applied to all rate classes, instead of the arbitrary application of caps and floors to a subset of classes.

Q. DOES THIS CONCLUDE YOUR CROSS-REBUTTAL TESTIMONY?

A. Yes, it does.

[49] Docket No. 51802, Cross-Rebuttal Testimony William B. Abbott, p. 9.