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

WORKPAPERS TO THE CROSS-REBUTTAL TESTIMONY AND EXHIBITS OF KEVIN C. HIGGINS

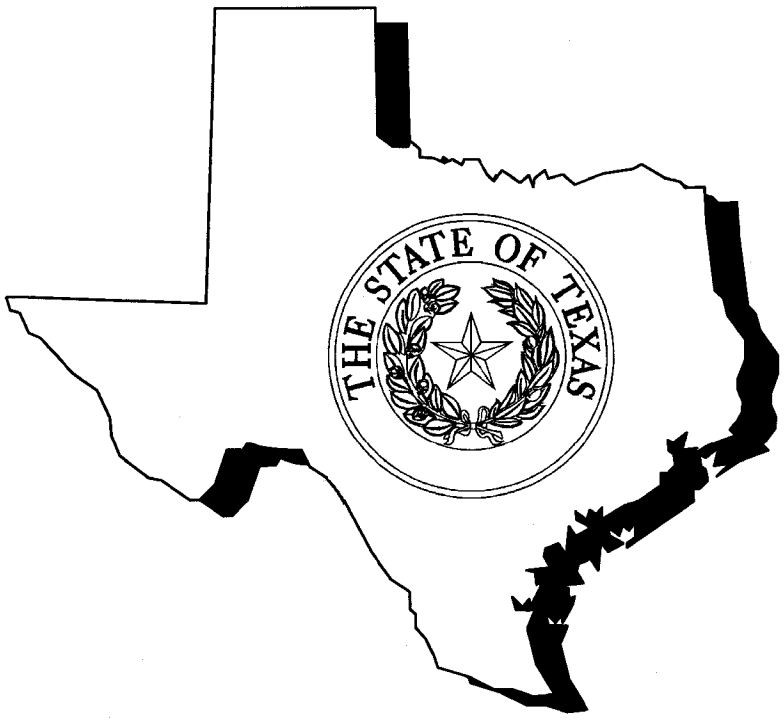
ON BEHALF OF

TEXAS INDUSTRIAL ENERGY CONSUMERS

November 22, 2021

SOAH DOCKET NO. 473-21-1892
PUC DOCKET NO. 51802

APPLICATION OF SOUTHWESTERN PUBLIC SERVICE COMPANY FOR AUTHORITY TO CHANGE RATES	**§**	**BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS**



COST ALLOCATION & RATE DESIGN PHASE

CROSS-REBUTTAL TESTIMONY OF

WILLIAM B. ABBOTT

RATE REGULATION DIVISION

PUBLIC UTILITY COMMISSION OF TEXAS

SEPTEMBER 14, 2021

This issue of asymmetric intervenor representation can be more severe in situations where a company proposes a gradualism adjustment that generally benefits those classes with more active intervenor representation at the expense of those classes that have less, or no, intervenor representation. A gradualism adjustment that shifts cost recovery away from active intervenors and onto customers with less active intervenor representation would likely engender less intervenor opposition for a given level of overall revenue increase. This could result in a scenario in which the utility receives a larger-than-otherwise overall rate increase due to less opposition, active intervenors receive a short-term benefit in the form of a below-cost increase for their classes, and the remaining classes end up with above-cost rates. Even absent utility support for such a gradualism adjustment, the active intervenors may propose and support gradualism adjustments that benefit them collectively at the expense of the remaining classes.[5]

Q. Given the above concerns, what do you recommend?

A. 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 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.

[5] It is, however, often the case that some intervenors would benefit from and support cost-based rates in a particular rate case.

V. REVENUE DISTRIBUTION

Q. What does Mr. Evans claim regarding the need to "moderate" the rate increase for certain customers?

A. While he does not use the term, Mr. Evans is essentially arguing for a "gradualism" adjustment, wherein instead of establishing rates base on cost as required under 16 TAC § 25.234(a), the rate increase is "moderated" for the Residential and the Small General Service (SGS) classes. This "moderation" would result in the rates for the beneficiary classes being set below cost, with the other classes bearing the burden of this subsidization by having rates established that are above cost in order to make up the difference and meet the Texas Jurisdictional revenue requirement. Mr. Evans states that the 2020 test year was an "unusual" test-year, and points to the fact that energy usage and peak demand have changed in different ways for different classes since SPS's last rate case.[6] He also erroneously claims that SPS did not normalize any of the test year data.[7]

Q. As an initial matter, are there serious practical concerns regarding Mr. Evans's gradualism proposal?

A. Yes. Mr. Evans has not provided a specific gradualism proposal or accompanying methodology. He has not indicated what sort of cap should be applied to any class increase, or details as to how the remaining costs should be distributed to other classes. For example, the Commission has recently approved moderated base rate increases for certain customer classes by capping the rate increase at approximately 42%, or 2.7 times the system-average

[6] Direct Testimony and Workpapers of Evan D. Evans at 43-44 (Aug. 13, 2021) (Evans Direct).

[7] *Id.* at 43.

increase, with the residual amounts distributed amongst other similar classes.[8] To the degree that a gradualism cap is imposed, it is generally most equitable to distribute any residual revenue requirement amounts amongst the remaining non-capped classes in proportion to cost. In this proceeding, however, the Residential class is facing a below-average base rate increase of 14.6% under SPS's proposal, compared to a 23.1% system average increase; and under Staff's proposal a 15.0% base rate increase, compared to a 17.8% system average increase. Under typical rate moderation methodologies, classes with below-average rate increases would bear the burden of having rates set above cost in order to subsidize the rate moderation applied to classes facing the largest rate increases. Mr. Evans has not explained exactly how or why cost recovery should be shifted from the residential and SGS class to other classes, especially since the residential class is facing a below-average increase and would thus typically have rates set above cost if any rate moderation is employed.

Q. Are the percentage increases indicated in your answer above representative of the actual rate increases faced by residential customers in this proceeding?

A. No. It is important to keep in mind that base rates represent only a portion of a customer's total bill, as they do not include fuel charges, which can be significant. This issue of how to properly evaluate rate impacts was recently litigated, with the following outcome:

> The Commission concludes that any gradualism methodology should evaluate the differences in the actual rates that customers pay. Consistent with this approach, the gradualism methodology the Commission adopts in this proceeding requires that each class's present revenue be evaluated inclusive of revenues from both the transmission-cost recovery factor and the distribution-cost recovery factor.[9]

[8] *Application of Southwestern Electric Power Company for Authority to Change Rates,* Docket No. 46449, Commission Number Run, Memorandum of William Abbott (Dec. 20, 2017).

[9] *Id.*, Order on Rehearing at 8 (Mar. 19, 2018).

The Commission also found that "any gradualism methodology should evaluate the differences in the actual rates that customers pay."[10] Such an approach stands to reason, as determining whether an increase is harsh or promotes rate shock must focus on what customers actually pay for their electric service *in total*. For example, a customer is not likely to experience rate shock if one component of their electric bill doubles while another component decreases by an equal or greater amount, resulting in no overall bill increase.

In this proceeding, SPS's requested total bill increase for residential customers is 8.0%, and the increase for SGS customers is 13.2%.[11] When considered in light of the actual electric bills that customers pay, rate shock is not a concern for these customers, even under SPS's proposed rate increase with no adjustments. Furthermore, in the event that the Commission approves a rate increase less than that proposed by SPS, the likelihood and magnitude of any potential rate shock would be even lower. It is unnecessary in this proceeding to depart from the requirement under the rules, and the Commission's clear preference, that rates be set at cost.

Q. Is the basis for Mr. Evans's rate moderation proposal reasonable?

A. No. Mr. Evans has provided no evidence that the CCOSS study reflecting the Commission's decisions should not be used to establish rates at cost in this proceeding. The changes in energy usage and peak demand by class that Mr. Evans relies on are insufficient to support his claim that we should ignore the CCOSS that will be produced by applying the Commission's decisions on allocation and cost of service items. Changes in energy usage and peak demand by class are not unusual, and the increase in peak demand

[10] *Id.*, Order on Rehearing at Finding of Fact No. 314A.

[11] Southwestern Public Service Company's 45-Day Update, Schedule Q-U1 at 4 (Mar. 25, 2021) (45-Day Update).

that Mr. Evans highlights might very well be one of the drivers of the need to increase rates. Furthermore, Mr. Evans's claim that SPS did not normalize the test-year data is incorrect.[12] Schedule O-U1.7 of the updated rate filing package shows weather normalization adjustments to billing demand,[13] and the direct testimony of SPS witness Jannell E. Marks includes an extensive discussion of SPS's weather normalization methodology.[14]

Q. Is Mr. Evans's "moderation" proposal consistent with Commission precedent?

A. No. Mr. Evans's proposal conflicts with Commission precedent in several ways. It fails to adequately address the requirements of 16 TAC § 25.234, the Commission's preference for cost-based rates, and the standards that must be met before rate moderation is appropriately applied.

As discussed above, a gradualism adjustment is appropriate where movement to cost would result in an increase that is "out of proportion or harsh to a particular class,"[15] or where an increase is "harsh to particular classes and promote rate shock".[16] In SPS's most recent fully litigated base-rate case, gradualism was a contested issue. In that proceeding, SPS and various parties opposed a class revenue distribution based on setting rates at cost, and instead proposed gradualism adjustments:

> SPS requested rates based on a recent inter-class cost-of-service study (COS study), but with a two-step modification to result in the maximum base-revenue increase for any class being capped at 200% of the system-average increase and no class experiencing a rate decrease. TIEC and Occidental Permian, Ltd. recommended a 150% average-system-wide-increase cap

[12] Evans Direct at 44.

[13] 45-Day Update, Schedule O-UI.7.

[14] Direct Testimony of Jannell E. Marks (Feb. 8, 2021).

[15] Docket No. 39896, Proposal for Decision at 284.

[16] Docket No. 40443, Redacted Proposal for Decision at 269.

> with no class experiencing an increase smaller than 50% of the system-average increase. AXM advocated for a 175% average-system-increase cap. DOE, OPUC, and Walmart supported a gradualism adjustment, depending on the final SPS revenue requirement and the impacts to each rate class. Staff and Pioneer opposed any gradualism adjustment, asserting no customer class's rates would be modified enough to create rate shock. Thus, Staff and Pioneer argued, there is no justification for veering from the Commission's long-standing guiding principle that costs should be borne by the classes who cause them.[17]

The Commission's order in Docket No. 43695 noted that the Proposal for Decision in that case adopted SPS's proposed gradualism treatment:

> In the PFD, the SOAH ALJs concluded that the Commission should adopt rates consistent with SPS's proposed gradualism adjustment. The SOAH ALJs stated their recommendation struck a balance between competing policies and was consistent with recent Commission decisions in Dockets No. 39896 and 40443.[18]

Citing its preference for cost-based rates, the Commission declined to adopt a gradualism adjustment in that case and instead set the revenue requirement for each class based on cost:

> The Commission declines to adopt any gradualism adjustment in this proceeding. The Commission has often stated that one of its primary responsibilities in setting rates is ensuring those rates are, to the greatest extent reasonable, consistent with cost causation. Further, as SPS conceded, the wisdom of a gradualism adjustment is affected by the size of the rate change. While there is no magic threshold at which a change in rates automatically justifies an aberration from basing rates on classes' costs of service, in Docket 40443, the Commission determined that an increase as large as 29% did not warrant rate mitigation. Here, SPS's overall Texas retail revenue requirement will be decreased by less than 1% and class allocations based purely on each classes' cost of service will result in relatively small rate changes. All but one class will experience less than a 14% change to its base-revenue responsibilities. The largest change will be borne by Street Lighting customers, whose revenue responsibility will increase 24.28%. Thus, moving from classes' costs of service and mandating inter-class cost subsidization is not warranted in this proceeding.

[17] *Application of Southwestern Public Service Company for Authority to Change Rates*, Docket No. 43695, Order on Rehearing at 9 (Feb. 23, 2016).

[18] *Id.*, Order on Rehearing at 10.

> Consistent with the Commission's decision to not include any adjustments for gradualism, the Commission deletes proposed findings of fact 335 through 337 and instead adopts new findings of fact 335A through 335C, 336A, and 337A through 337C.[19]

The Commission also explicitly rejected the proposals recommended by other parties as unreasonable:

> 337B. All other gradualism-adjustment proposals, including those of TIEC, Occidental, and AXM, are unreasonable and are not adopted.[20]

The largest overall class increase as proposed by SPS in this proceeding is 32.0% including fuel costs.[21] This is far below the 42% increase cap that the Commission applied in a recent gradualism decision.[22] Mr. Evans has failed to demonstrate that SPS's proposed rate increase is so out of proportion or harsh to a particular class that it promotes rate shock.

Q. Would adoption of Mr. Evans's recommendation promote rate stability?

A. No, not in the long run. Setting rates at cost is fundamental to facilitating a utility's ability to recover revenues under the fair-return standard. As Mr. Evans indicated, the demand and energy usage of various rate classes within a utility system grows or shrinks at different rates. As customer usage changes, so do the costs that customers impose on the utility system. When all rates are set to reflect cost, the revenues that a utility recovers via these rates more closely matches the costs incurred as customer usage changes. Maintaining subsidized rates for some customers, as Mr. Evans proposes, means that the revenues recovered via the below-cost rates (i.e., the rates "moderated" for gradualism purposes) will very likely be insufficient to recover the costs to serve that group of customers.

[19] *Id.*

[20] *Id.*, Order on Rehearing at Finding of Fact No. 337B.

[21] 45-Day Update, Schedule Q-U1 at 4.

[22] Docket No. 46449, Commission Number Run, Memorandum of William Abbott.

Furthermore, setting subsidized rates for some customers requires that the rates for other customers be set above cost. Because customers tend to respond to lower rates with higher usage, and to higher rates with lower usage, the cross-subsidies present under non-cost-based rates have the perverse result of encouraging excessive usage of the utility system by those customers whose rates are below-cost while artificially discouraging usage of the utility system by those customers whose rates are above-cost. This can lead to a growing gap between revenue recovery and costs.

Over time, a rate structure based on such non-cost-based rates will likely fail to yield revenues at a level adequate to allow the utility to recover its reasonable costs and earn a fair return. While rate design is not the only relevant factor, a utility with rates significantly far from cost would be expected to need to file for rate increases more frequently than it otherwise would due to the failure of non-cost-based rates to yield the required revenues over time. This has the effect of undermining rate stability by necessitating frequent rate changes and higher rate-case expenses. Mr. Evans's recommendation to employ gradualism for his client's benefit is contrary to establishing a sound and stable rate structure.

Q. Please summarize your response to OPUC witness Evans's "moderation" proposal.

A. Mr. Evans has provided no reasonable basis to depart from the requirement that rates be set at cost in this proceeding. Furthermore, Mr. Evans has not shown that moving to cost would be unduly harsh and promote rate shock. In SPS's last litigated base rate proceeding, the Commission rejected gradualism arguments and moved class revenues to cost, including a base rate increase to Street Lighting customers of over 24%. More recently,

the Commission imposed a gradualism cap of 42%.[23] Under SPS's proposal in this case, the highest overall class increase would be 32% if the application is granted with no reductions to SPS's request.[24] In the event that SPS's requested increase is not granted in full, then it is likely that the highest class rate increase would be even lower than these amounts. Excessive or unreasonable rate shock is not a concern in this proceeding, and class revenue requirements should be set at cost.

VI. RESIDENTIAL SERVICE CUSTOMER CHARGES

Q. Would you provide some background on the issue of class rate design as it relates to the residential customer charges?

A. Yes. Once a class revenue requirement is established, designing the particular rates for a class represents another "zero-sum" situation, as given a target class revenue requirement, lowering one particular rate results in an increase in the other rates. Typically, the rate design issue faced for the residential class is the question as to how much of the cost recovery should be through the fixed monthly customer charges and how much should be in the per-kilowatt-hour (kWh) energy charges; with higher customer charges corresponding to lower energy charges. Increasing the proportion of costs recovered through the monthly customer charge leads to more regular and predictable customer bills, while increasing the proportion of costs recovered through the energy charges leads to more volatile customer bills—with significantly higher electric bills occurring with extremely hot or cold weather.

[23] *Id.*

[24] 45-Day Update, Schedule Q-U1.

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

CITY OF EL PASO'S RESPONSES TO TIEC'S FIRST REQUEST FOR INFORMATION TO CITY OF EL PASO TIEC 1-1—TIEC 1-6

TIEC 1-4 Referring to Mr. Johnson's Direct Testimony at page 28, please explain how Mr. Johnson identified the six classes he included in his COVID adjustment and provide the basis for selecting these classes.

RESPONSE:

The NBER research paper provided in Mr. Johnson's workpapers shows that work from home and similar restrictions in 2020 increased residential usage and decreased commercial and industrial usage during the second and third quarter of that year. EPE's internal analyses confirm this pattern. Mr. Johnson identified one residential class and five commercial and industrial classes (SG, GS, LPS, Petro. Refining, and City/County) which are major in size and incurred significant changes in energy and demand allocation factors compared to the previous three years. The aggregate decrease in the five commercial and industrial classes is roughly equal to the increase in residential class usage, which is consistent with the findings of the NBER research paper. Although some smaller non-residential classes may exhibit changes in usage during 2020, it is more difficult to identify direct causal links to COVID-19 for military. agricultural, lighting, and pumping classes. Furthermore, identifying the *major* classes is more useful for purposes of evaluating the Company's proposed revenue allocation, because the larger classes are more likely to drive the validity of allocations. The six classes comprise more than 90% of total demand and energy.

Prepared and Sponsored By: Clarence Johnson

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

CITY OF EL PASO'S RESPONSES TO
TIEC'S FIRST REQUEST FOR INFORMATION TO
CITY OF EL PASO TIEC 1-1—TIEC 1-6

TIEC 1-5 Referring to Mr. Johnson's testimony at Bates page 86-87, please explain whether Mr. Johnson's adjustment to the present revenues of the Residential class and the five non-residential classes subject to the allocation factor adjustment would be carried through to the rate design process. If so, please provide a detailed explanation of how the adjustment would be implemented in designing rates for each affected class. If not, please explain why not.

RESPONSE: No. The adjusted CCOS study is not a vehicle for performing proof of revenues. The purpose of the allocation factor adjustments is to provide a benchmark for evaluating the Company's cap/floor limits on the class revenue increase distribution. As stated on page 29 of Mr. Johnson's direct testimony:

> . *The CCOS result is used to evaluate and adjust the Company's cap and floor proposal. The CCOS study is always an estimation process, and in this case the COVID pandemic has created additional uncertainty and imprecision in the CCOS result. Given that context, the CCOS study is best utilized to evaluate rate moderation constraints. The adjustments to the CCOS study for aberrant usage pattern provide a more reasonable benchmark for evaluating class revenue change limits.*

Prepared and Sponsored By: Clarence Johnson

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

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

EL PASO ELECTRIC COMPANY'S RESPONSE TO
CITY OF EL PASO'S FOURTEENTH REQUEST FOR INFORMATION
QUESTION NOS. CEP 14-1 THROUGH CEP 14-16

CEP 14-8:

Please explain how the Company's CCOS proposes to address uncollectible cost associated with Large C&I customers.

RESPONSE:

Refer to pages 15 (lines 10 to 21) and 24 (lines 28 to 31) of El Paso Electric Company's ("EPE") witness Adrian Hernandez' direct testimony.

EPE's policy changed in June 2020 as part of the FASB issued Accounting Standards Update 2016-13, Financial Instruments-Credit Losses (Topic 326). The Large C&I (Commercial and Industrial) customers are considered fully collectible based on payment history and, therefore, are not considered for risk in the monthly uncollectible cost calculation. Should a Large C&I customer become indebted to EPE and be identified as risky, a separate provision for uncollectible cost will be considered ad hoc.

Preparer:	Adrian Hernandez Mayte Luna	Title:	Senior Rate Analyst – Rates Supervisor – Revenue Collection
Sponsor:	Adrian Hernandez	Title:	Senior Rate Analyst – Rates

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

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

EL PASO ELECTRIC COMPANY'S RESPONSE TO
FREEPORT-MCMORAN, INC'S FIRST REQUEST FOR INFORMATION
QUESTION NOS. FMI 1-1 THROUGH FMI 1-25

FMI 1-4:

The following Interrogatories pertains to the Direct Testimony of David C. Hawkins.

Referring to page 8, lines 11-32:

a. Is the capacity provided by the New Mexico PPAs included as firm capacity in EPE's L&R Table? If not, please explain your response.

b. Are the solar projects that provide electricity under the New Mexico PPAs essentially identical to the Macho Springs and Newman solar projects? If not, state all differences.

RESPONSE:

a. Yes, the capacity contribution to peak load from each of the New Mexico PPAs is included in the loads and resources table as firm capacity. The existing New Mexico PPAs are included in row 2.1 of Exhibit DCH-3 along with the Macho Springs and Newman solar projects.

b. They are "essentially" similar to the Macho Springs and Newman solar projects in that they are stand-alone solar facilities (i.e. no battery storage) with some form of solar tracking. Some of the unique differences, but not an all-inclusive list of all detailed differences, are name plate capacity, geographic location, photovoltaic panels and tracking systems.

Preparer: Omar Gallegos — Title: Senior Director – Resource Planning Management

Sponsor: David C. Hawkins — Title: Vice President – Strategy and Sustainability

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PUC DOCKET NO. 52195

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

EL PASO ELECTRIC COMPANY'S RESPONSE TO
OFFICE OF PUBLIC UTILITY COUNSEL'S FIRST REQUEST FOR INFORMATION
QUESTION NOS. OPUC 1-1 THROUGH OPUC 1-37

OPUC 1-10:

Pandemic Impact Questions

Please provide the actual billing determinants, consistent with the type of data provided in Schedule Q-7 (e.g. billed customers, kWh, billed kilowatts ("kW"), etc.), by rate class and by month for the Texas retail jurisdiction, New Mexico retail jurisdiction, and the FERC jurisdiction for the period of 2010 through 2019. Please provide this information in Excel or other functioning electronic format.

RESPONSE:

El Paso Electric Company does not have billing determinants readily available that is consistent with the type of data provided in Q-7 for any period that is not a test year.

Preparer: Manuel Carrasco Title: Manager – Rate Research

Sponsor: Manuel Carrasco Title: Manager – Rate Research

SOAH DOCKET NO. 473-17-2686
DOCKET NO. 46831

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

REBUTTAL TESTIMONY

OF

ADRIAN HERNANDEZ

FOR

EL PASO ELECTRIC COMPANY

JULY 2017

the NARUC Manual in assigning the supervision accounts for the operation and maintenance sections separately.

IV. IMPUTED CAPACITY COSTS

Q. TIEC WITNESS HIGGINS RECOMMENDS THAT EPE ALLOCATE IMPUTED CAPACITY COSTS ON DEMAND. DO YOU AGREE?

A. Yes. These costs should be classified as demand-related. EPE has made this change in rebuttal.

V. LOAD DISPATCHING COSTS

Q. MR. HIGGINS RECOMMENDS THAT EPE ALLOCATE LOAD DISPATCHING COSTS USING THE 4CP-A&E METHOD. DO YOU AGREE?

A. No. EPE believes that 12-CP is appropriate. EPE previously vetted its use of a 12-CP allocation for FERC accounts 556 and 561 in Docket No. 44941. Specifically, EPE decided to use a DPROD12 allocator for Account 556 (System Control and Load Dispatching) and DTRAN12 allocator for Account 561 (Load Dispatching) as explained in the rebuttal testimony of EPE witness Manuel Carrasco. These allocators were chosen as a result of a recommendation of OPUC witness Mr. Marcus in EPE's prior rate case, Docket No. 44941, where it was persuasively argued that load dispatching is not simply a function of peak demand but rather a function that operates 24 hours of each day, all year, to ensure that loads meet peak demands regardless of the month, and EPE agreed. Therefore, Mr. Higgins' recommendation regarding load dispatching costs should be rejected.

VI. ALLOCATION OF A&G ACCOUNTS

Q. CEP WITNESS JOHNSON RECOMMENDS THAT ADMINSTRATIVE AND

SOAH NO. 473-17-2686
PUC DOCKET NO. 46831

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

DIRECT TESTIMONY

OF

KEVIN C. HIGGINS

FOR

TEXAS INDUSTRIAL ENERGY CONSUMERS

June 23, 2017

A. Yes. As described above, EPE imputes a capacity value to the Newman 10 and Macho Springs solar resources. However, EPE erroneously allocates these capacity-related costs based on energy.[84] I recommend that the capacity component of solar plants be allocated, both between jurisdictions and rate classes, using the A&E/4CP allocator.

Allocation of Generation Load Dispatching Expense

Q. HOW DOES EPE PROPOSE TO ALLOCATE ACCOUNT 556?

A. EPE characterizes its allocation method for Account 556 (Generation System Control and Load Dispatching) as a 12CP methodology, but it is in fact a variant of the Average & Excess method utilizing 12 coincident peaks.[85]

Q. WHAT IS YOUR RECOMMENDATION REGARDING THE ALLOCATION OF ACCOUNT 556?

A. I recommend that Account 556 be allocated using the A&E/4CP allocator, consistent with EPE's allocation of generation labor costs and the majority of generation plant. The A&E/4CP method places greater emphasis on EPE's summer peaks, and therefore gives greater weight to the months in which meeting the system's demand is the most challenging. My recommended approach is consistent with the allocation method for Account 556 approved for Southwestern Electric Power Company ("SWEPCO") and ETI in Docket Nos. 40443 and 39896, respectively.[86] This approach was also used by SPS in its most recent general rate case.[87] I recommend that the A&E/4CP method be used for both jurisdictional and class cost allocation purposes.[88]

[84] See EPE Regulatory Case Working Model - As Filed - Dkt 46831, the "555000 - ADJ ONLY-NON RECON – TX" item, in the amount of $1,260,329.00 and $999,965.15 Texas-allocated, which is allocated using E2ENERGY. I note that EPE's imputed capacity costs adjustment contains an error, as identified in EPE's response to TIEC 4-1(c). Further, I believe EPE intended to directly assign the Newman 10 imputed capacity costs to Texas, which I oppose.
[85] Direct Testimony of Rene F. Gonzalez, p. 11. The fact that EPE is actually using a variant of the Average & Excess method is evident by examining EPE's Response to TIEC 03-02, TIEC 03-02_Attachment 01, which derives EPE's "DPROD12" class allocator.
[86] Docket No. 40443, Commission Number Run 40443 SWEPCO CCOS Model (Sept. 23, 2013); Docket No. 39896, Commission Number Run 39896 ETI COS (Aug. 28, 2012).
[87] See Docket No. 45524, Direct Testimony of Richard M. Luth, pp. 44-45. Mr. Luth explained that SPS proposed an allocation different from what it was required to use in Docket No. 43695 based on a review of the allocation

DOCKET NO. 51802

APPLICATION OF SOUTHWESTERN PUBLIC SERVICE COMPANY FOR AUTHORITY TO CHANGE RATES	**§**	**PUBLIC UTILITY COMMISSION OF TEXAS**

UPDATE TESTIMONY
of
RICHARD M. LUTH

on behalf of

SOUTHWESTERN PUBLIC SERVICE COMPANY

(filename: LuthRDUpdate.docx; *Total Pages:* 270)

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SOUTHWESTERN PUBLIC SERVICE COMPANY

- Texas Retail

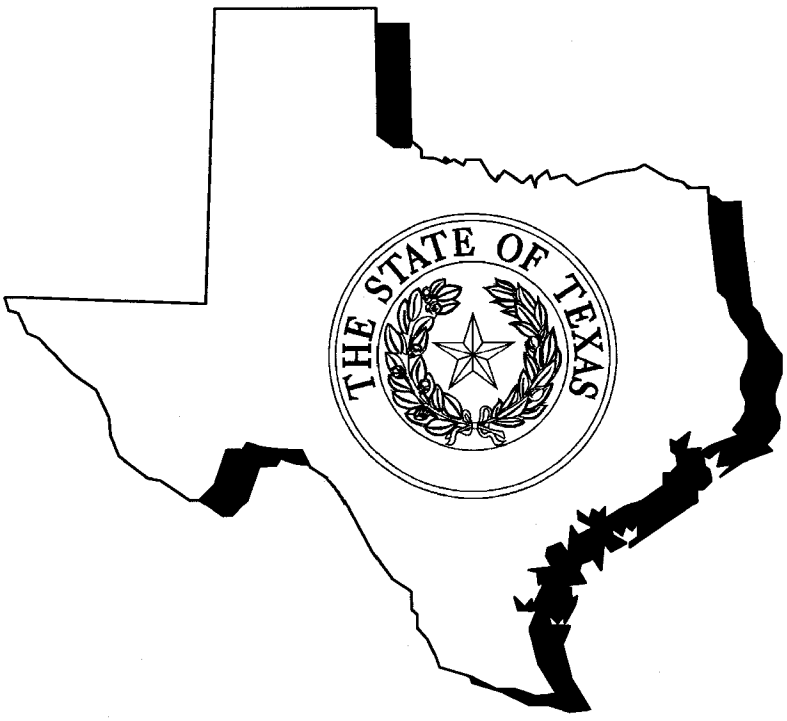
Summary of Changes in Combined Base Rate and Sagamore-adjusted Fuel Factor Revenue

For the Test Year Ended December 31st, 2020

Line No.	Customer Class	Base Rate Revenue: at Present Rates	Base Rate Revenue: at Updated Proposed Rates	Base Rate Revenue: Proposed Increase		Fuel Factor Revenue: at Historical Test Year Rates	Fuel Factor Revenue: Historical Test Year Rates with Sagamore Adjustment	Fuel Factor Revenue: Estimated Reduction		Combined Base Rate and Fuel Revenue: at Present Base Rates and Historical Test Year Fuel Factors	Combined Base Rate and Fuel Revenue: at Proposed Base Rates and Sagamore-adjusted Historical Test Year Fuel Factors	Net Change	
1	**Residential**	$ 238,777,934	$ 273,646,854	$ 34,868,920	14.6%	$ 34,308,209	$ 21,403,279	$ (12,904,930)	-37.6%	$ 273,086,143	$ 295,050,133	$ 21,963,990	8.0%
2	**Small General Service**	$ 23,575,237	$ 28,661,915	$ 5,086,678	21.6%	$ 3,843,116	$ 2,397,539	$ (1,445,576)	-37.6%	$ 27,418,353	$ 31,059,454	$ 3,641,102	13.3%
3	**Secondary General Service**	$ 120,872,914	$ 141,022,276	$ 20,149,362	16.7%	$ 27,851,971	$ 17,375,536	$ (10,476,435)	-37.6%	$ 148,724,885	$ 158,397,812	$ 9,672,927	6.5%
4	**Primary General Service**	$ 66,668,503	$ 81,966,941	$ 15,298,438	22.9%	$ 23,902,153	$ 14,911,430	$ (8,990,723)	-37.6%	$ 90,570,656	$ 96,878,371	$ 6,307,715	7.0%
5	**Large General Service - Transmission (69 kV)**	$ 25,630,227	$ 35,269,390	$ 9,639,163	37.6%	$ 13,032,298	$ 8,130,238	$ (4,902,060)	-37.6%	$ 38,662,525	$ 43,399,628	$ 4,737,103	12.3%
6	**Large General Service - Transmission (115 + kV)**	$ 115,444,249	$ 165,584,504	$ 50,140,255	43.4%	$ 62,933,140	$ 39,261,028	$ (23,672,112)	-37.6%	$ 178,377,389	$ 204,845,532	$ 26,468,143	14.8%
7	**Small Municipal and School Service**	$ 1,292,429	$ 1,824,372	$ 531,943	41.2%	$ 274,321	$ 171,136	$ (103,185)	-37.6%	$ 1,566,750	$ 1,995,508	$ 428,758	27.4%
8	**Large Municipal Service**	$ 8,571,087	$ 11,616,768	$ 3,045,681	35.5%	$ 2,545,883	$ 1,588,257	$ (957,626)	-37.6%	$ 11,116,970	$ 13,205,025	$ 2,088,055	18.8%
9	**Large School Service**	$ 8,950,473	$ 13,228,494	$ 4,278,021	47.8%	$ 1,954,527	$ 1,219,338	$ (735,190)	-37.6%	$ 10,905,000	$ 14,447,832	$ 3,542,831	32.5%
10	**Municipal & State Street Lighting**	$ 4,825,564	$ 5,735,540	$ 909,976	18.9%	$ 322,147	$ 200,973	$ (121,175)	-37.6%	$ 5,147,711	$ 5,936,513	$ 788,801	15.3%
11	**Guard & Flood Lighting**	$ 4,248,182	$ 3,360,358	$ (887,824)	-20.9%	$ 325,046	$ 202,783	$ (122,262)	-37.6%	$ 4,573,228	$ 3,563,141	$ (1,010,086)	-22.1%
12	**Total Texas Retail**	$ 618,856,799	$ 761,917,412	$ 143,060,613	23.1%	$ 171,292,811	$ 106,861,536	$ (64,431,275)	-37.6%	$ 790,149,610	$ 868,778,949	$ 78,629,339	10.0%

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

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



DIRECT TESTIMONY OF

ADRIAN NARVAEZ

RATE REGULATION DIVISION

PUBLIC UTILITY COMMISSION OF TEXAS

April 7, 2021

Q Do you agree with SWEPCO's approach?

A. No. SWEPCO's approach results in lower revenue requirement increases for CCOSS classes that are substantially below cost and will render it more difficult to eventually arrive at cost-based rates in the future.

Q. Why is it important for rates to be cost-based?

A. In addition to being required by 16 TAC § 25.234, cost-based rates are equitable and essential in advancing economic efficiency and rate stability. When rates are set at cost, the revenues that a utility recovers through these rates reflect the costs that customers impose on a utility's system. Cost-based rates will more closely match the costs incurred as customer usage changes over time. When rates are set below cost, the revenues recovered through the below-cost rates will be insufficient to recover the cost to serve that group of customers. Furthermore, setting subsidized rates for some customers requires that the rates for other customers be set above cost. Consequently, maintaining a rate structure based on non-cost-based rates would provide price signals that no longer reflect the actual cost to serve each group of customers, thus promoting inefficient usage of the utility's system by encouraging usage of the utility system by those customers whose rates are below-cost while discouraging usage of the utility system by those customers whose rates are above-cost. Over time, this can lead to a growing gap between revenue recovery and costs. This is of particular concern in this proceeding considering that several classes in SWEPCO's CCOSS have moved farther away from cost since SWEPCO's last base rate case.[20]

[20] Southwestern Electric Power Company's Response to Staff's Eighth Request for Information at Request No. Staff 8-1 (Jan. 21, 2021).

Q. If the Commission were to approve the same one-step gradualism approach as done in SWEPCO's last base rate case, would this approach result in significant movement towards cost for all classes within SWEPCO's CCOSS?

A. No. Certain classes, like the Cotton Gin, Oilfield Secondary Service, and the Public Street and Highway Lighting classes would still be significantly below cost whether the Commission approves SWEPCO's proposed rate increase or Staff's proposed rate increase.

Q. Do you believe that additional steps are needed to move classes towards cost?

A. Yes. As I explain in greater detail below. I recommend that the Commission adopts a multi-phased approach to achieve cost bast rates within three or four years.

B. Staff's Gradualism Proposal

Q What is your gradualism proposal?

A. I propose a multi-year phase-in mechanism that would allow for a gradual movement towards cost-based rates for all classes, based on the results of the CCOSS approved by the Commission in this proceeding.

Q. How would your proposed phase-in gradualism proposal work?

A. Phase One Rates would be set consistent with the Commission's approved revenue distribution methodology from Docket No. 46449 as discussed above, and would be implemented upon the conclusion of this proceeding. In other words, starting with the results of the CCOSS reflecting the Commission's decisions on cost and allocation issues, revenue increases for any individual class, net of changes in TCRF and DCRF revenues, would be capped at 43%. Then, the residual revenues from classes subject to the 43% cap

should be reallocated proportionally among the classes within the rate bundle that are not subject to the 43% cap. At Staff's proposed CCOSS level, the Cotton Gin, Oilfield Secondary Service, and the Public Street and Highway Lighting classes experience a net cost-based increase greater than 43%. Thus, under my proposal, the Cotton Gin and Oilfield Secondary Service would be capped at a 43% net increase, and the residual revenue amount would be allocated proportionally among the other classes within the Commercial and Industrial rate bundle. The Public Street and Highway Lighting class would also be capped at a 43% net increase and the residual revenue amount would be allocated proportionally among the other classes within the Municipal rate bundle.

Phase II rates would be set so as to cap revenue increases for any individual class, net of changes in TCRF and DCRF revenues, at an additional 43%. In other words, revenue increases for any individual class would be capped at 86% net increase from present test-year base-rate related revenues. At Staff's proposed CCOSS cost-based net revenue increases for all classes within the Commercial and Industrial rate bundle are below the 86% cap. This means that rates for all classes within the Residential, Commercial and Industrial, and Lighting rate bundles would be set at cost during Phase II. At Staff's proposed CCOSS level, a cost-based net revenue increase for the Public Street and Highway Lighting class would still be well above the 86% cap. For this reason, The Public Street and Highway Lighting class would to be capped at an 86% net increase and the now lesser residual revenue amount would be allocated proportionally among the other classes within the Municipal rate bundle, resulting in a decrease in rates for the non-capped classes. Phase II rates would come into effect a year after Phase I rates come into effect.

Phase III rates would be set so as to cap revenue increases for any individual class, net of changes in TCRF and DCRF revenues, at an additional 43%. In other words, revenue increases for any individual class would be capped at 129% net increase from present test-year base-rate related revenues. At Staff's proposed CCOSS, a cost-based net revenue increase for the Public Street and Highway Lighting class would still be above the 129% cap. For this reason, The Public Street and Highway Lighting class would to be capped at a 129% net increase and the now lesser residual revenue amount would be allocated proportionally among the other classes within the Municipal rate bundle, reducing their rates. Phase III rates would come into effect two year after Phase I rates come into effect.

Phase IV rates would be set so as to cap revenue increases for any individual class, net of changes in TCRF and DCRF revenues, at an additional 43%. In other words, revenue increases for any individual class would be capped at 172% net increase from present test-year base-rate related revenues. At Staff's proposed CCOSS, the Public Street and Highway Lighting's cost-based net revenue increase is 170.45%, which is below the 172% cap. This means that all rates would be set at cost during Phase IV.

Q. Has the Commission approved a phase-in gradualism approach before?

A. While the Commission has not approved a phase-in gradualism approach for an electric utility recently, the Commission has previously approved a phase-in gradualism approach for water Utilities in Docket Nos. 47736 and 50200.[21]

Q. Has a phase-in gradualism approach ever been proposed for an electric utility?

A. No. Not to my knowledge.

[21] *Application of SWWC Utilities Inc. DBA Water Services, Inc. for Authority to Change Rates*, Docket No. 47736, Final Order at 12-13, 17 (Oct. 16, 2019); *Application of Undine Texas, LLC and Undine Texas Environmental, LLC for Authority to Change Rates*, Docket No. 50200, Order at 22 (Nov. 5, 2020).

Q. What is your recommendation?

A. I recommend that the Commission reject SWEPCO's revenue distribution proposal and that the Commission approves a phase-in approach, as described above, in order to achieve a gradual move towards cost-based rates for each class in SWEPCO's class cost of service study. This approach reasonably recognizes that full movement to cost in one step would be harsh to particular customer classes, yet would recognize the results of the Commission determinations as regards the CCOSS, and gradually move rates to the cost-based level required by 16 TAC § 25.234.

VI. GENERAL SERVICE DEMAND REQUIREMENT

Q. Did SWEPCO propose changes to its General Service Tariff?

A. Yes. Among several other changes to its General Service Tariff, SWEPCO proposes to remove a tariff provision that restricts availability to customers with a maximum demand that does not exceed 50 kW.

Q. Do you support SWEPCO's proposal to remove the tariff provision that restricts availability to customers with a maximum demand that does not exceed 50 kW?

A. No. SWEPCO's proposal should be rejected because it constitutes a significant change to the tariff that would allow for the migration of customers from the Lighting & Power Tariff to the General Service tariff.

Q. Did SWEPCO admit that their proposed revision to the General Service tariff would result in migration of customers to the General Service tariff?

A. Yes. In her direct testimony, Jennifer L. Jackson stated:

> Q. WILL THE STRUCTURAL CHANGES TO THE GS RATE SCHEDULE CREATE MIGRATION OF CUSTOMERS TO THE

PUC DOCKET NO. 43695
SOAH DOCKET NO. 473-15-1556

APPLICATION OF SOUTHWESTERN PUBLIC SERVICE COMPANY FOR AUTHORITY TO CHANGE RATES	§ § §	**PUBLIC UTILITY COMMISSION OF TEXAS**

ORDER

This order addresses the application of Southwestern Public Service Company (SPS) for authority to change its Texas retail rates, filed on December 8, 2014. SPS originally sought a $64.75 million increase to its Texas retail revenue requirement. SPS subsequently reduced its requested increase to $58.85 million and then further lowered its request to a $42.07 million increase.[1]

A hearing on the merits was held over seven days at the State Office of Administrative Hearings (SOAH). On October 12, 2015, the SOAH administrative law judges (ALJs) filed their proposal for decision in which they recommended a Texas retail revenue requirement increase of $1.2 million. In response to parties' exceptions and replies to the PFD, on November 20, 2015, the SOAH ALJs filed a letter making changes to the PFD, including clarifying that they were recommending a $14.4 million increase to SPS's Texas retail revenue requirement.

Except as discussed in this order, the Commission adopts the PFD as modified, including findings of fact and conclusions of law. The Commission's decisions result in a Texas retail base-rate revenue requirement of $509,395,343, which is a decrease of $4,025,973 from SPS's present Commission-authorized Texas retail base-rate revenue requirement. Finding of Fact 237A is modified to reflect the Commission-authorized decrease to SPS's Texas retail revenue requirement. New findings of fact 19A through 19E are added to reflect issuance of the PFD and filings and events thereafter. The Commission incorporates by reference the abbreviations table provided in the PFD.

[1] Southwestern Public Service Co. (SPS) Initial Brief on the Revenue Requirement (Rev.) at 17 (Jul. 24, 2015); Proposal for Decision (PFD) at 27 (Oct. 12, 2015).

In the PFD, the SOAH ALJs concluded that the Commission should adopt rates consistent with SPS's proposed gradualism adjustment.[32] The SOAH ALJs stated their recommendation struck a balance between competing policies and was consistent with recent Commission decisions in Dockets No. 39896 and 40443.[33]

The Commission declines to adopt any gradualism adjustment in this proceeding. The Commission has often stated that one of its primary responsibilities in setting rates is ensuring those rates are, to the greatest extent reasonable, consistent with cost causation. Further, as SPS conceded, the wisdom of a gradualism adjustment is affected by the size of the rate change.[34] While there is no magic threshold at which a change in rates automatically justifies an aberration from basing rates on classes' costs of service, in Docket 40443, the Commission determined that an increase as large as 29% did not warrant rate mitigation.[35] Here, SPS's overall Texas retail revenue requirement will be decreased by less than 1% and class allocations based purely on each classes' cost of service will result in relatively small rate changes. All but one class will experience less than a 14% change to its base-revenue responsibilities. The largest change will be borne by Street Lighting customers, whose revenue responsibility will increase 24.28%.[36] Thus, moving from classes' costs of service and mandating inter-class cost subsidization is not warranted in this proceeding. Consistent with the Commission's decision to not include any adjustments for gradualism, the Commission deletes proposed findings of fact 335 through 337 and instead adopts new findings of fact 335A through 335C, 336A, and 337A through 337C.

B. Calculation of System Load Factor

SPS calculated its system load factor, used to weight the average demand for the SPS system, by averaging the coincident peaks at the time of the SPS system peaks for the months of

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[32] *Id.* at 280.

[33] *Id.* at 281.

[34] SPS Reply to Exceptions at 131.

[35] Staff Ex. 1A Murphy Direct T. at 53 (discussing rate changes adopted in Docket No. 40443); Docket No 40443, Proposal for Decision at 269 (May 20, 2013) adopted without modification by the Commission in its Order on Rehearing (Mar. 6, 2014).

[36] Commission Staff memorandum dated December 11, 2015 at 20, Attachment C.

June, July, August, and September, adjusted for losses (4CP).[37] Commission Staff, TIEC, State Agencies, and Occidental contested SPS's calculation. Those opposing SPS's calculation argued that SPS's system load factor should instead be based on the single highest peak demand measured during the test year, adjusted for losses (1CP).

In the PFD, the SOAH ALJs recommended that the Commission adopt SPS's proposal to use a 4CP-system-load factor. The SOAH ALJs noted 4CP was used when setting rates for Southwestern Public Service Company (SWEPCO) in Docket No. 40443. The SOAH ALJs also concluded that parties advocating for a 1CP load factor did not establish how 1CP will result in more proper cost allocation.[38] The Commission, however, is persuaded by the evidence of those parties, including TIEC, that assert use of a 1CP factor is more consistent with how SPP plans transmission and how SPS plans and builds its generation and transmission systems.[39] Further, in deposition, SPS's witness Mr. Luth acknowledged that a 1CP load factor is reasonable.[40] To reflect its decision of this issue, the Commission deletes proposed findings of fact 246 through 256 and instead adopts new findings of fact 246A through 251A.

C. Allocation of Radial Transmission Lines

In its application, SPS allocated the costs of its looped transmission lines to all classes based on each class's total contribution to the Texas retail average-and-excess-demand four coincident peaks (AED-4CP). For radial transmission lines, SPS made two proposals: direct assignment of the costs of radial transmission lines used to serve a single customer class and use of the AED-4CP allocation method for the costs of radial transmission lines that provide service to more than one customer class.[41] Numerous parties opposed SPS's proposed allocations regarding its radial transmission lines. TIEC, Occidental, DOE, and Amarillo Recycling Company asserted that, consistent with prior practice, the cost of an SPS radial transmission line should be allocated only to those classes that receive service from the line. In contrast, Commission Staff and OPUC advocated that all of SPS's transmission lines, including the radial transmission lines,

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[37] SPS Ex. 61, Evans rebuttal at 18.

[38] PFD at 226-228.

[39] TIEC Ex. 2, Pollock Dir. T. at 27; State Agencies Ex. 1, Pevoto Dir. T. at 8-9.

[40] TIEC Ex. 65, Luth Deposition at 67.

[41] SPS Ex. 61, Evans Rebuttal T. at 26.

241. It is reasonable for SPS to adjust its test-year sales for certain customer classes to remove the effects of abnormal weather, and to use its model to calculate the adjustment.

242. It is reasonable for SPS to exclude the test year from the time period used to develop normal weather because including the test year creates a bias in the weather variance analysis.

Annualized Revenue for Transmission-Level Customer 8

243. SPS properly included a known and measurable adjustment, increasing the test year billing determinants to reflect Customer 8's increased usage after the customer installed a second transformer to provide service to additional processes at that customer's facility.

Adjustment to Post-Test Year Billing Determinants

244. SPS properly adjusted the test year billing determinants to reflect known and measurable changes through December 31, 2014.

245. SPS properly matched the billing determinants with the period of post-test year plant adjustments, and it updated the customer class allocation factors to reflect the calendar year 2014 information.

Inter-class Cost Allocation

Demand Allocation

246. [DELETED]

246A. The only aspect of SPS's average-excess-demand coincident-peak calculation that was contested in this proceeding was SPS's calculation of the system load factor by averaging the monthly peak for the four months of June through September, adjusted for loss (4CP).

247. [DELETED]

247A. Commission Staff, TIEC, Occidental, and State Agencies argued SPS should have instead based its system load factor on the single highest system peak, adjusted for loss (1CP).

248. [DELETED]

248A. Commission Staff stated that use of 1CP to calculate the system load factor best reflects cost causation because SPS uses the single system peak for resource planning.

249. [DELETED]

249A. TIEC cited to the Southwest Power Pool's requirement that its members have capacity margins based on 1CP.

250. [DELETED]

250A. SPS's witness, Mr. Luth, conceded that use of a 1CP system load factor is reasonable.

251. [DELETED]

251A. SPS's system load factor used for allocating demand should be based on 1CP.

252. [DELETED]

253. [DELETED]

254. [DELETED]

255. [DELETED]

256. [DELETED]

Radial Lines

257. [DELETED]

257A. For transmission-facility costs other than radial lines, SPS has traditionally allocated the costs among all customer classes using the DTRAN allocator.

258. [DELETED]

258A. SPS did not have adequate load research data for the individual customers on radial lines to determine what contributions they make to system peaks.

259. [DELETED]

259A. Direct allocation of the costs of radial transmission lines would be inconsistent with the manner in which transmission costs have traditionally been allocated in Texas. For example, in the Electric Reliability Council of Texas (ERCOT) footprint, the costs of transmission infrastructure are generally pooled and allocated system wide.

260. [DELETED]

260A. It is reasonable to allocate the costs of SPS's transmission facilities, including radial lines, to all classes using SPS's DTRAN allocator.

PUC DOCKET NO. 46449
SOAH DOCKET NO. 473-17-1764

APPLICATION OF SOUTHWESTERN ELECTRIC POWER COMPANY FOR AUTHORITY TO CHANGE RATES	§ § §	**PUBLIC UTILITY COMMISSION OF TEXAS**

ORDER

This order addresses the application of Southwestern Electric Power Company (SWEPCO) for authority to change its rates, filed on December 16, 2016. SWEPCO originally sought a $69 million increase to its Texas retail revenue requirement, primarily to reflect investments in environmental controls. However, SWEPCO also proposed a significant modification to the manner in which its transmission costs should be recovered. In addition, SWEPCO sought additional cost recovery for vegetation management, rate-case expenses, and a regulatory asset for certain costs under the Southwest Power Pool's open-access tariff.

A hearing on the merits was held between June 5 and June 15, 2017 at the State Office of Administrative Hearings (SOAH). On September 22, 2017, the SOAH administrative law judges (ALJs) filed their proposal for decision (PFD) in which they recommended a Texas retail revenue requirement increase of approximately $51 million. The SOAH ALJs rejected SWEPCO's new method to recover transmission costs and recommended granting its requested rate-case expenses, and regulatory asset. In response to parties' exceptions and replies to the PFD, on November 8, 2017, the SOAH ALJs filed a letter making changes to the PFD.

Except as discussed in this order, the Commission adopts the PFD as modified, including findings of fact and conclusions of law. The Commission's decisions result in a Texas retail base-rate revenue requirement of $369,234,023, which is an increase of $50,001,133 from SWEPCO's present Commission-authorized Texas retail base-rate revenue requirement. New findings of fact 17A through 17J are added to address the procedural history of this docket after the close of the evidentiary record at SOAH. The Commission incorporates by reference the abbreviations table provided in the PFD.

804

Cost Allocation

Allocation of Production Costs

277. SWEPCO allocates production costs to various classes under the average and excess Demand-4 coincident peak (A&E-4CP) methodology. This methodology allocates a percentage of costs, equal to the system load factor, based on average demand, and the remainder of those costs based on excess demand.

278. In SPS Docket No. 43695, the only Commission docket in which this issue has been litigated, the Commission determined that the system load factor should be calculated by using the single annual coincident peak, rather than the average of four coincident peaks.

279. SWEPCO used the single coincident peak in calculating its system load factor for Schedule O-1.6.

280. The use of the annual coincident peak in calculating system load factor is consistent with the definition of load factor in the Commission's rules.

281. The use of the annual coincident peak for calculating system load factor is consistent with SWEPCO's generation and transmission planning.

282. The use of the annual coincident peak for calculating system load factor is consistent with the National Association of Regulatory Commissioners (NARUC) manual.

283. The use of the annual coincident peak for calculating system load factor is consistent with SPP planning.

284. In using the A&E-4CP methodology, SWEPCO should calculate its system load factor using the single annual coincident peak.

Class Cost Allocation of Transmission Costs

285. SWEPCO proposes to allocate transmission costs to retail classes based on the 12CP demand allocator.

286. SWEPCO is a summer-peaking utility.

287. The electricity demands in the summer months are the primary drivers for the amount of transmission capacity needed for SWEPCO to provide reliable service.

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

COMMISSION STAFF'S RESPONSE TO THE UNIVERSITY OF TEXAS AT EL PASO'S FIRST REQUEST FOR INFORMATION
QUESTION NO. UTEP 1-1

UTEP 1-1 Please refer to the "Rev Distribution" spreadsheet in Commission Staff's Rate Design Model Workpaper (52195 Staff's Rate Design Model.xlsx Excel Workbook filed as Workpapers of PUCT Staff witness Adrian Narvaez on November 1, 2021) and provide the Rate of Return ("ROR") and the Relative Rate of Return ("RROR") for each of the rate classes based on Mr. Narvaez's recommended base rate revenue for each class, as shown on line no. 14 of the spreadsheet.

RESPONSE: See the table below for the requested ROR and RROR information associated with the referenced spreadsheet.

Class	ROR	RROR
Residential	5.69%	0.77
Small General Service	10.69%	1.44
Recreational Lighting	8.13%	1.10
Street Lighting	8.38%	1.13
Traffic Signals	8.42%	1.13
Municipal Pumping	8.27%	1.11
Electric Refining	8.38%	1.13
Water Heating	-2.25%	-0.30
Irrigation Service	8.19%	1.10
General Service	10.51%	1.42
Large Power	8.29%	1.12
Petroleum Refining	8.44%	1.14
Private Area Lighting	8.34%	1.12
Electric Furnace	8.44%	1.14
Military Reservation	8.36%	1.13
Cotton Gin	8.11%	1.09
City & County	10.71%	1.44

Prepared by: Adrian Narvaez
Sponsored by: Adrian Narvaez

NATIVE FILE UPLOADED TO INTERCHANGE

The following files are not convertible:

Fuel Rev & Expense WP.xlsx

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

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