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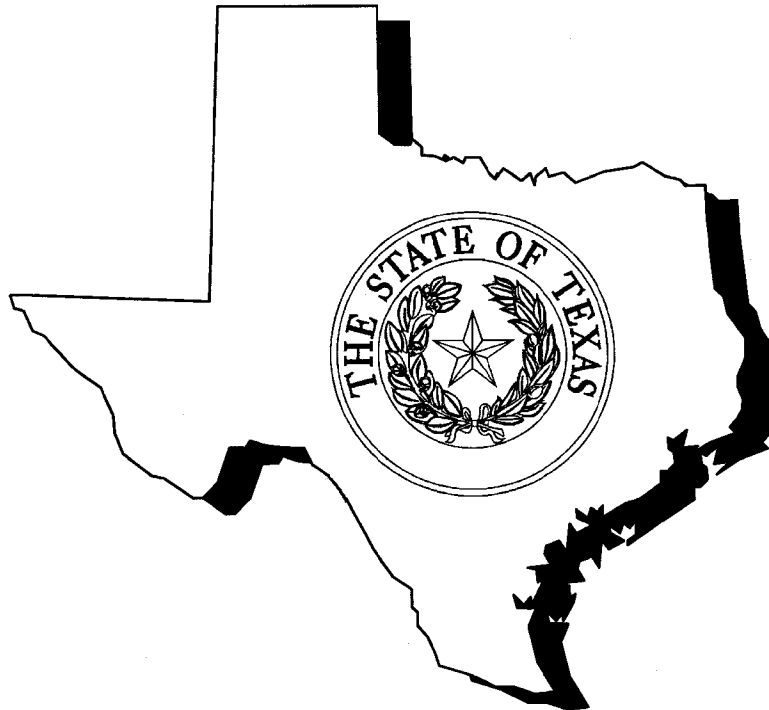
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**SOAH DOCKET NO. 473-21-2606
PUC DOCKET NO. 52195**

**APPLICATION OF EL PASO
ELECTRIC COMPANY TO CHANGE
RATES**

**§
§
§**

**BEFORE THE STATE OFFICE
OF
ADMINISTRATIVE HEARINGS**



**TESTIMONY IN SUPPORT OF UNOPPOSED
STIPULATION AND AGREEMENT**

DARRYL TIETJEN

**RATE REGULATION DIVISION
PUBLIC UTILITY COMMISSION OF TEXAS**

JULY 15, 2022

TESTIMONY OF DARRYL TIETJEN
IN SUPPORT OF UNOPPOSED STIPULATION AND AGREEMENT

TABLE OF CONTENTS

I.	Introduction.....	2
II.	Purpose of Testimony.....	3
III.	Key Provisions of the Agreement.....	5
IV.	Recommendation.....	9

Attachment DT-1 List of Testimonies by Darryl Tietjen

I. INTRODUCTION

Q. Please state your name and business address.

A. Darryl Tietjen, 1701 N. Congress Avenue, Austin, Texas.

Q. By whom are you employed and in what capacity?

A. I am employed by the Public Utility Commission of Texas (PUC or Commission) as the Director of the Rate Regulation Division.

Q. What are your principal areas of responsibility?

A. In addition to the management of the Rate Regulation Division, I am responsible for conducting analyses and participating in proceedings involving financial and accounting issues pertaining to regulated utility companies. These analyses and activities include developing fair rates of return on invested capital, evaluating financial integrity requirements, leading or participating in various rulemaking proceedings, and preparing testimony concerning a variety of financial and accounting matters relevant to public utilities regulated by the Commission.

Q. Please describe your educational background and professional qualifications.

A. I hold a Master of Business Administration degree with concentrations in finance and accounting from The University of Texas at Austin (UT Austin), and a Bachelor of Business Administration degree with a concentration in finance, also from UT Austin. While earning my master's degree, I was employed by UT Austin as an instructor, teaching two sections of undergraduate corporate finance. Prior to attending graduate school, I was employed by a commercial bank, where I was principally involved in investment activities and internal and external financial reporting.

I am a Certified Public Accountant (CPA) licensed in the state of Texas. For over 22 years I was a member of the planning committee for the annual Energy Conference

1 sponsored by the Texas Society of Certified Public Accountants, and I twice served as
2 chairman of that committee.

3 I also hold the designation of Chartered Financial Analyst (CFA), which is awarded
4 by the CFA Institute after successful completion of its three-part examination process over
5 a minimum three-year period. The curriculum for the CFA charter covers a comprehensive
6 body of knowledge fundamental to the practice of investment management, and includes
7 the areas of finance, accounting, economics, statistics, and ethical and professional
8 conduct.

9 In 2021, I was the recipient of the Pat Wood Power Star Award, which the Gulf
10 Coast Power Association presents annually in recognition of significant contributions
11 towards the advancement of competitive energy markets in Texas.
12

13 **Q. Have you previously testified before this Commission?**

14 A. Yes. Attachment DT-1 provides a summary of the dockets in which I have filed direct or
15 other testimony.
16

17 **II. PURPOSE OF TESTIMONY**

18 **Q. What is the purpose of your testimony in this case, Docket No. 52195, *Application of***
19 ***El Paso Electric Company to Change Rates?***

20 A. The purpose of my testimony is to support the unopposed Stipulation and Agreement
21 (Agreement) that El Paso Electric Company (EPE) and the other Signatories¹ have reached
22 in this proceeding.

¹ The Signatories include EPEC, the Staff of the Public Utility Commission of Texas, the City of El Paso, the Office of Public Utility Counsel, Texas Industrial Energy Consumers, Freeport-McMoran, Inc., Wal-Mart Inc., W. Silver, Inc., the Texas Cotton Ginners' Association, the U.S. Department of Defense and all other Federal Executive Agencies, Ysleta Independent School District (ISD), El Paso ISD, Socorro ISD, Clint ISD, San Elizario ISD, Fabens ISD, Anthony ISD, Canutillo ISD, Tornillo ISD, the Housing Authority of the City of El Paso, El Paso County Housing Authority, the Region 19 Education Service Center, and the El Paso County Community College District (collectively, the Rate 41 Group), Vinton Steel, LLC, Local 960 of the International Brotherhood of Electrical Workers, AFL-CIO, and the University of Texas at El Paso.

1 **Q. Does the Agreement provide for an acceptable resolution of EPE's request in this**
2 **proceeding?**

3 A. Yes. The terms of the Agreement address a range of issues, and the Agreement reflects an
4 appropriate and reasonable balancing of the interests of EPE and its customers. The final
5 terms constitute a negotiated compromise to which the Signatories agreed after detailed
6 discussions, and any changes to the Agreement could undermine its purpose, result in the
7 withdrawal from the Agreement by a Signatory negatively affected by the changes, and
8 create additional litigation and costs.
9

10 **Q. Are you the only witness providing testimony in support of the Agreement?**

11 A. No. Mr. James Schichtl, on behalf of EPE, is also providing supporting testimony. While
12 my testimony includes a discussion of the provisions that I believe are among the key points
13 of the Agreement, Mr. Schichtl's testimony provides a further discussion of the Agreement
14 and, for certain issues, provides additional details on the Agreement's terms.

15 Additionally, Mr. Matt Behrens, on behalf of EPE, is filing an affidavit to support
16 the reasonableness of EPE's external rate case expenses.
17

18 **Q. Please provide a brief description of EPE's request in this proceeding.**

19 A. On June 1, 2021, EPE filed an application for approval of a \$69.7 million Texas-
20 jurisdiction-retail increase in base rates and other miscellaneous revenues and changes to
21 the structure and terms of its tariff. The requested net increase to base revenues was \$41.8
22 million after accounting for the revenues EPE is already recovering through its Distribution
23 Cost Recovery Factor (DCRF) and its Transmission Cost Recovery Factor (DCRF).

24 On July 15, 2022, EPE and the other parties in this proceeding filed the Agreement,
25 which settles and resolves all the issues between the parties in this proceeding.
26

27 **Q. Do any parties oppose the Agreement?**

28 A. No.

III. KEY PROVISIONS OF THE AGREEMENT

Q. Please discuss the key provisions of the Agreement.

A. The Agreement includes the following terms:

- 1. Base Rates:** The Signatories agree that the Commission should authorize EPE to implement a rate increase of \$5.149 million in Texas base rate and non-firm revenues over EPE's adjusted test year base rate revenues, as presented in EPE's rebuttal case in the rebuttal testimony of Adrian Hernandez filed on November 19, 2021.² In addition, the parties agree to EPE's proposed changes to Miscellaneous charges as reflected in its proposed tariff, Rate Schedule No. 99. The new rates shall be effective for electricity consumed on and after November 3, 2021.
- 2. Prudence Finding Regarding Investment:** The Signatories agree that all EPE investment since the September 30, 2016 end of the Docket No. 46831 test year through the December 31, 2020 end of the test year in this Docket No. 52195, as presented in EPE's rate filing package, is used and useful in providing service and prudent and included in rate base, except for the following items:
 - a. a disallowance to the original cost for the Isleta Right of Way (which is described in the direct testimony of Clay Doyle filed on June 1, 2021) as follows: in any future TCRF or base rate proceeding, the original cost of \$16.8 million will be reduced such that the net plant in service balance as of December 31, 2022, will be \$7.962 million (Texas retail); and
 - b. a disallowance of \$500,000 of the original cost (total company) of the spare LMS 100 Turbine and Booster at the Montana Power Station, which are described in the direct testimony of Kyle Olson filed on June 1, 2021.
- 3. Depreciation:** The Signatories agree that beginning with the effective date of rates in this case (November 3, 2021), EPE will use the depreciation rates as proposed in the direct testimony of Staff witness Heidi Graham, filed on October 29, 2021, and reflected in her Attachment HG-3.
- 4. Financial Matters:** Effective beginning with the effective date of rates in this case (November 3, 2021), EPE's Weighted Average Cost of Capital (WACC) shall be

² This is in addition to the Transmission Cost Recovery Factor (TCRF) and Distribution Cost Recovery Factor (DCRF) investments being moved to base rates.

7.501% based upon a 5.576% Cost of Debt, an authorized Return on Equity (ROE) of 9.35%, and EPE's proposed regulatory capital structure of 49% long-term debt and 51% equity. The foregoing WACC, Cost of Debt, ROE, and capital structure will apply for purposes of calculating EPE's allowance for funds used during construction and in proceedings where the WACC is required, for example, in TCRF, DCRF, and Generation Cost Recovery Rider (GCRR) filings.

5. Nuclear Decommissioning. No costs for nuclear decommissioning are included in EPE's cost of service.

6. COVID-19 Costs: For costs incurred through test-year end, EPE will recover \$6,297,803 of deferred COVID-19 costs through a separate COVID-19 surcharge over a four-year period (\$1,574,451 annually in addition to the base rate revenue requirement in Item No. 1 above). None of the test-year COVID-related costs is included in either EPE's rate base or EPE's base rate revenue requirement. EPE will not include any carrying costs, including but not limited to rate of return, on the unamortized amount of the regulatory asset recovered through the surcharge. This surcharge and the four-year amortization shall not relate back and instead will begin in the first billing cycle after approval by the Commission's final order in this proceeding. By March 31 of each year, EPE will file for approval of a true-up of the previous year to account for any changes in the bad-debt amount and additional COVID-related expenses incurred after the test-year and deferred pursuant to the March 26, 2020 Order in Project No. 50664, and the Commission, after notice and process as defined in the Order in Project No. 50664, may adjust the COVID-19 surcharge to account for approved costs.

7. Riders for Retiring Plants: This item No. 7 applies to three of EPE's units: Rio Grande Unit 7 and Newman Units 1 and 2 (collectively called the Retiring Plants). EPE will implement a rider for the Retiring Plants in an amount of approximately \$5,935,946 per year, based on the ROE in item No. 4 above and on depreciation in item No. 3 above, that will continue until a unit discontinues the provision of electric service, including contingent service for reliability purposes, to Texas ratepayers. This rider will relate back to the effective date for base rates, which is November 3, 2021.

This rider is in addition to the base rate revenue requirement in Item No.1 above.

- a. The rider shall continue to be charged so long as there is continued electric service provided from each unit, including contingent service for reliability purposes. Rider charges will be adjusted as each unit discontinues electric service to Texas ratepayers.
- b. Retirement dates chosen by EPE shall require supporting evidence in the next base rate proceeding and are subject to challenge by the Commission Staff and Intervenors in that docket.
- c. Any over-recovery by EPE for an incorrect retirement date shall be subject to a refund to be provided to ratepayers in accordance with the cost allocation and rate design approved in the final order in Docket No. 52195.
- d. Other than as provided by paragraph a. above, any necessary updates to the rider to reflect changing costs will be brought in a base rate proceeding.
- e. The treatment of any undepreciated capital remaining following discontinuance of cost recovery through the rider for any applicable generation unit will be addressed in a future base rate proceeding.

8. Rate Case Expenses: In accordance with Staff's recommendation, rate case expenses of \$4,087,168 will be removed from base rates, and incurred rate case expenses in the amount of \$4,267,270 will be recovered through a rate rider over a four-year period without carrying costs. This rider includes along with other rate case expenses the rate case expenses for this proceeding incurred through March 31, 2022, after and agreed reduction of \$3,275. Rate case expenses incurred after March 31, 2022 through the final order in this proceeding will be considered in EPE's next rate proceeding. The term "incurred" means when the underlying service was performed that resulted in the charge. This recovery of rate case expenses is in addition to the base rate revenue requirement in Item No.1 above. This surcharge and the four-year amortization shall not relate back and instead will begin in the first billing cycle after approval by the Commission's final order in this proceeding. The parties recognize that the final order in Docket No. 52040 may have implications concerning the expenses from that proceeding included in the rider. If the final order in Docket No. 52040 does modify any of the expenses included in the rate case expense rider, EPE will make a compliance filing to adjust

the rider to reflect the Commission's Order. EPE will follow the Commission's guidance as to the appropriate treatment of rate-case expenses incurred in Docket No. 52040 after March 31, 2022.

9. **Excess Deferred Income Taxes:** Excess Deferred Income Taxes (EDIT) in a total company amount of \$24,091,867 million (\$3,106,666 million unprotected and \$20,985,201 million stub period protected) will be included as a rider to be returned to Texas customers over a four-year period of \$4,717,101 (Texas retail) per year, \$6,098,168 after grossing up for taxes. This rider and the four-year amortization shall not relate back and instead will begin in the first billing cycle after approval by the Commission. However, the amount that would otherwise be returned to customers in the fourth year, and any and all previous years proceeding backwards if necessary, will be first used as an offset against the relate-back surcharge as provided in Paragraph 10, and any remaining amount will be returned in the amortization. The Signatories agree to revise the EDIT credit rider in the event amounts included in the rider are determined by the Internal Revenue Service to be a violation of tax normalization requirements.

10. **Relate-back of Rates.** Any relate-back surcharge applicable to the base rates and the Retiring Plant rider will be avoided, if possible, by offsetting the surcharge amount on a rate class-by-rate class basis with the EDIT that would otherwise be refunded to customers as provided by Paragraph 9. If after such netting against the EDIT, the customer still has a relation-back balance owed to EPE, the customer will be surcharged over a 12 month period to recover that balance. If a customer class is due a net refund after calculation of the relate-back for base rates and the retiring plant rider, that refund will be credited back to the customer over a 12-month period.

11. **DCRF, TCRF, and GCRR:** EPE's existing DCRF and TCRF are set to zero. It is not necessary to refund any of the revenues EPE collected through its TCRF through December 31, 2020, or through its DCRF. Baselines for DCRF, TCRF, and GCRR are attached to the Agreement as Exhibits 2, 3, and 4, and will be used as the baseline in any DCRF, TCRF, or GCRR that EPE files after the conclusion of this proceeding. EPE agrees that the GCRR baseline includes a jurisdictional allocator consistent with the treatment of Newman Unit 6 as a system resource,

unless EPE petitions outside a GCRR filing and the treatment as a system resource is then otherwise modified in a subsequent Commission order.

12. Revenue Distribution/Class Allocation/Rate Design: The Signatories agree that Revenue Distribution/Class Allocation of the base rate increase and the riders shall be as shown on Exhibit 5 of the Agreement. The Signatories also agree to the components of the design of rates as shown on Exhibit 6. The Signatories agree to the approval of the tariff on Exhibit 7, which was designed consistent with the Agreements presented by this paragraph and Exhibits 5 and 6.

13. Additional Ring-Fencing: EPE will be subject to two of the additional Ring-Fencing provisions proposed by Staff:

- a. No EPE Debt Secured by Non-EPE Assets. EPE's debt will not be secured by non-EPE assets.
- b. No Commingling of Assets. Except for access to the utility money pool and use of shared assets governed by the Commission's affiliate rules, EPE will not commingle its assets with those of Sun Jupiter Holdings, LLC or IIF US Holding 2 LP.

14. Collaboration Regarding Distributed Generation Benefits: In paragraph 9 of Order Attachment A to the Final Order in EPE's last rate proceeding (Docket No. 46831), EPE committed to collaborating with interested stakeholders prior to proposing any modification of the rate design agreed-to in that proceeding for customers who have distributed generation. EPE agrees to begin such collaboration within 90 days of a final order in this proceeding.

15. Schedule No. FTRF Update. EPE withdraws its request to amend this schedule (Federal Tax Refund Factor Update) and, as a result, that schedule expires concurrently with the effective date of the base rates indicated in item #1 above.

IV. RECOMMENDATION

Q. What is your recommendation in this proceeding?

A. In my opinion, the Agreement represents a settlement between the parties that results in an acceptable resolution to this proceeding that is consistent with the public interest. The

1 Agreement reflects a reasonable compromise and represents an appropriate balancing of the
2 interests of EPE, the Signatories, and other stakeholders in the Texas electricity market.

3 Accordingly, I believe that the terms of the Agreement provide an acceptable
4 degree of certainty to the Signatories that would not be assured if litigation of this
5 proceeding were to continue. Given the broad spectrum of issues addressed by the
6 Agreement and the certainty provided by the formal agreement of the stipulating parties, I
7 recommend that the Commission adopt the Agreement in its entirety.
8

9 **Q. Does this conclude your testimony?**

10 A. Yes.

**LIST OF TESTIMONIES
BY DARRYL TIETJEN**

<u>PUC Docket</u>	<u>Company</u>	<u>Subject</u>
10060	Brazos River Authority	Rate of Return
10462	Tex-La Electric Cooperative	Interim Rates/ROR
10325	Central Texas Electric Cooperative	Rate of Return
10744	Rayburn Country Electric Cooperative	Sale, Transfer, Merger
10820	Magic Valley Electric Cooperative	Rate of Return
11347	Johnson County Electric Cooperative	Rate of Return
11571	Fayette Electric Cooperative	Rate of Return
11520	Southwestern Public Service Company	Rate of Return
12065	Houston Lighting & Power Company	Decomm. Exp.
12700	El Paso Electric Company	Rate Moderation/ Mirror CWIP
12815	Pedernales Electric Cooperative	Rate of Return
12820	Central Power and Light Company	Decomm. Exp.
12852	Gulf States Utilities Company	Decomm. Expense/ Contra-AFUDC
13827	Southwestern Public Service	Notice of Intent
14965	Central Power and Light Company	ROR/ Decomm. Exp.
15638	Texas Utilities Electric Company	Transmission COS
16585	T&H Communications	SPCOA
16705	Entergy Gulf States	Rate of Return
16705	Entergy Gulf States	ROR on ECOM
18290	Entergy Gulf States	Int. on Tax Remand
18845	Central and South West Companies	Financial Condition of Resource Providers
21527	TXU Electric Company	Securitization
21528	Central Power and Light Company	Securitization
22344	Generic Unbundled Docket	Return on Equity
22355	Reliant Energy	ECOM Estimate
22352	Central Power and Light Company	Cost of Debt
22354	West Texas Utilities Company	Refinancing Costs
22350	TXU Electric Company	ECOM Estimate
26942	Texas-New Mexico Power Company	Reg Asset Treatment
29206	Texas-New Mexico Power Company	Stranded Costs & True-up Issues
29206	Texas-New Mexico Power Company	Int on Stranded Costs
29526	CenterPoint Energy Houston Electric	Stranded Costs & True-up Issues
29526	CenterPoint Energy Houston Electric	Int. on Stranded Costs
30485	CenterPoint Energy Houston Electric	Financing Order Attachment DT-1

**LIST OF TESTIMONIES
BY DARRYL TIETJEN (cont.)**

30706	CenterPoint Energy Houston Electric	Comp. Transition Charge
31056	AEP Texas Central Company	Stranded Costs & True-up Issues
31994	Texas-New Mexico Power Company	Comp. Transition Charge
32475	AEP Texas Central	Financing Order
32907	Entergy Gulf States, Inc.	Interest on Storm Costs
33106	Texas-New Mexico Power Company	Interest Rate on CTC
33586	Entergy Gulf States, Inc.	Financing Order
32795	\$5 Billion Stranded-Cost Threshold	Interest Amount
34448	CenterPoint Energy Houston Electric	Financing Order
34077	Oncor Electric Delivery and Texas Energy Future Holdings Limited Partnership	Support of Stipulation
35038	Texas-New Mexico Power Company	Tariff Filing
33891	Southwestern Electric Power Co.	CCN Application
36918	CenterPoint Energy Houston Electric	Restoration Costs
36931	Entergy Texas	Restoration Costs
39504	CenterPoint Energy Houston Electric	Remanded True-up Costs
39722	AEP Texas Central Company	Remanded True-up Costs
40627	Austin Energy	Rate Issues
45188	Oncor Electric Delivery Company, et al.	Federal Inc. Taxes; Cost of Capital
46238	NextEra, Oncor	Federal Income Taxes
45414	Sharyland Utilities, et al.	Federal Income Taxes
46936	Southwestern Public Service Co.	Wind Facilities—Rate Treatment
46936	Southwestern Public Service Co.	Testimony in Support of Stipulation
46957	Oncor Electric Delivery Company	Testimony in Support of Stipulation (included in AIS item #420)
47527	Southwestern Public Service Company	Testimony in Support of Stipulation
48401	Texas-New Mexico Power Company	Testimony in Support of Stipulation Attachment DT-1

**LIST OF TESTIMONIES
BY DARRYL TIETJEN (cont.)**

48439	Entergy Texas	Testimony in Support of Stipulation (Rate Case Exp)
48929	Oncor Electric Delivery Company, Sharyland Utilities, LP, et al.	Rate-Related Issues
49308	AEP Texas, Inc.	Testimony in Support of Stipulation (Financing Order)
49421	CenterPoint Energy Houston Electric, LLC	Financial Protection Measures; Securitization-Related ADFIT
49421	CenterPoint Energy Houston Electric, LLC	Testimony in Support of Stipulation
49494	AEP Texas	Financial Protection Measures; Securitization-Related ADFIT
49494	AEP Texas	Testimony in Support of Stipulation
49831	Southwestern Public Service Company	Testimony in Support of Stipulation
49849	El Paso Electric Company, et al.	Accounting Issues
49849	El Paso Electric Company, et al.	Testimony in Support of Stipulation
49923	Corix Utilities	Testimony in Support of Stipulation
50945	Comanche Peak Power Company	Testimony in Support of Supplemented Application
51100	Lubbock Power & Light	Testimony in Support of Stipulation
51611	Sharyland Utilities	Testimony in Support of Stipulation
51321	ERCOT—Default Charges	Securitization Issues
51322	ERCOT—Uplift Charges	Securitization Issues
52302	Entergy Texas	Testimony in Support of Stipulation (Financing Order)
51802	Southwestern Public Service	Testimony in Support of Stipulation