

that SPS used adjusted 4CP system load factors in its Schedule O-1.6 is similarly uncontested. Given SPS's reliance upon the SWEPCO case as precedent for the use of 4CP to calculate the system load factor, the ALJs recommend that that Commission use the unadjusted 4CP load factor.

2. 4CP vs. 3CP

OPL witness Mr. Griffey took the position that SPS is actually a 3CP system as opposed to a 4CP system, and recommended using the AED-3CP approach with a 1CP system load factor for the AED methodology.⁷⁵⁹ Mr. Griffey based his recommendation on his determination that SPS's weather data for September varies considerably and that the large swings in temperatures drive different cost allocations across classes. He contended that the 3CP method would eliminate the weather adjustment issues and load research errors he found in September.⁷⁶⁰ OPL argues SPS cannot allocate the impacts in September because either its load research is inadequate or its weather adjustments are flawed. Mr. Griffey noted SPS's current weather-normalized residential demand for the summer as compared with its calculation from the previous rate case, and opined that the 12% decrease in September makes that month an "outlier."⁷⁶¹ Whatever may be the cause of this discrepancy, OPL contends that a 3CP approach would solve the problem.

In response, SPS witness Ms. Marks testified that Mr. Griffey's opinion relies too much on his determination that the relative number of cooling degree days in September is lower than the number for June, July, and August. She maintained that the weather data shows that September temperatures are much more like July and August in the first week or so of the month; that the peak occurs most frequently during that week; and that as the weather cools later in the month there are fewer cooling degree days. Because the peak occurs during the first week

⁷⁵⁹ OPL Ex. 4, Griffey direct at Bates 45. Under this approach, the coincident peak demands for June, July, and August, but not September, would be used in developing the allocator.

⁷⁶⁰ OPL Ex. 4, Griffey direct at Bates 43, 45.

⁷⁶¹ OPL Ex. 4, Griffey direct at Bates 43.

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

PROPOSAL FOR DECISION

PAGE 229

of September in all but one year of the 10-year period reviewed, Ms. Marks testified that SPS properly uses the 4CP approach for allocating demand costs.⁷⁶² Further, Mr. Luth pointed out that in the Test Year, the unadjusted peak in September was higher than the unadjusted peak in June, indicating that SPS is a 4CP utility.⁷⁶³

OPUC witness Mr. Marcus agrees with SPS on this issue. He noted that the peak day weather shows that the peak day in September is on average only slightly cooler than the other three months, and is on average the fourth highest peak temperature of the year. He also observed that September's peak has been over 100 degrees at several weather stations on multiple occasions, and exceeded the peak day temperatures during one of the other three summer months in three of the last six years.⁷⁶⁴

The ALJs are not persuaded by Mr. Griffey's testimony. The Test Year data shows that September's peak was higher than June's, the monthly peaks in September of almost every year occur in the first week of that month, and the September peak day temperatures have exceeded the peak day temperatures in the other summer months half of the past six years. The preponderance of the evidence shows that SPS is a 4CP utility and that Mr. Griffey's recommendation should be rejected.

B. Radial Lines

Radial transmission lines (RTLs) are transmission lines that are not part of the SPS's looped network transmission system. They are used to directly serve specific loads.⁷⁶⁵ SPS proposes to change the method in which RTL costs are allocated in this case from the method it used in previous rate cases. Specifically, in prior cases, SPS allocated the costs of an RTL that serves more than one class to the classes that take service from that RTL on a pro rata basis

⁷⁶² SPS Ex. 58, Marks rebuttal at 24-25.

⁷⁶³ SPS Ex. 57, Luth rebuttal at 18.

⁷⁶⁴ OPUC Ex. 17, Marcus rebuttal at 11.

⁷⁶⁵ SPS Ex. 54, Luth direct at 35.

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

PROPOSAL FOR DECISION

PAGE 230

based on each class's total contribution to the Texas retail AED-4CP.⁷⁶⁶ For this case, SPS proposes to allocate the costs of such RTLs to all classes on the basis of AED-4CP, regardless of whether a class takes service from the RTL.⁷⁶⁷

SPS proposes to change its methodology for allocating RTL costs because it does not have adequate load research data to identify actual peak loads of each class for the loads served from each RTL. Further, SPS argues that it is unreasonable to assume each class's contribution to the total Texas retail AED-4CP allocation factor is reflective of the specific loads served from each RTL. Therefore, Mr. Evans decided that SPS's former methodology "assumed a level of precision that could not be reasonably supported."⁷⁶⁸ According to Mr. Evans, although SPS does have some information as to what classes are taking service from its RTLs, it does not have sufficient information on the relative demands each class places on the RTLs, and without coincident peak load data for each class, SPS cannot reasonably assign costs to the classes that take service from the RTLs. Regarding the calculations necessary to more accurately determine class demand on RTLs, Mr. Evans testified that the acquisition and upkeep of the additional demand and usage information required to reasonably perform the calculations would require significant effort and expense. SPS did not have time to conduct such a study prior to filing this case.⁷⁶⁹

1. Opposition to and Support for SPS's New Methodology

TIEC, OPL, DOE, and ARC oppose this change in SPS's methodology for allocating RTL costs, as do Staff and OPUC, although the parties' proposals for allocation of these costs differ. TIEC, OPL, DOE, and ARC contend that SPS should continue using its prior methodology of only allocating costs of an RTL to the classes that take service from that RTL.

⁷⁶⁶ SPS Ex. 61, Evans rebuttal at 26. As in previous rate cases, SPS proposes to assign the entire cost of an RTL that serves only one customer class to only that class. No party opposes this method of allocating such costs.

⁷⁶⁷ SPS Ex. 61, Evans rebuttal at 26.

⁷⁶⁸ SPS Ex. 61, Evans rebuttal at 27.

⁷⁶⁹ SPS Ex. 61, Evans rebuttal at 28-29.

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

PROPOSAL FOR DECISION

PAGE 231

Staff and OPUC, arguing that transmission lines are transmission lines, whether radial or looped, propose that SPS eliminate the distinction between RTLs and other transmission investments, so that RTL costs are allocated on the basis of AED-4CP transmission demands.⁷⁷⁰

According to TIEC witness Mr. Pollock, because only the customers actually connected to an RTL receive service from it, the costs of that line should be directly assigned to the customers or classes that receive service. He testified that it would be inappropriate to charge any of those costs to classes not connected to the RTL.⁷⁷¹ Both he and OPL witness Mr. Griffey took issue with SPS proposing to allocate nearly one-third of the costs for the eight RTLs in SPS's Texas service area not directly assigned to the one customer class that they serve to the 115 kv LGS-T class, when only one RTL out of 77 in the SPS system actually serves that class.⁷⁷² Mr. Pollock noted that the one RTL serving the larger LGS-T class represents approximately \$58,333 of investment, but SPS proposes to allocate \$15 million of all RTL lines invested to the large LGS-T class, which in his view is "wholly inappropriate."⁷⁷³ According to Mr. Griffey, SPS's new methodology results in an increase of over \$1 million in costs borne by the two LGS-T subclasses while almost all other classes would pay less.⁷⁷⁴

Mr. Pollock also maintained that SPS does know which classes are served from RTLs and which are not. He stated that SPS has no less load data for its RTLs now than it did when it directly assigned RTL costs in previous cases. Mr. Pollock opined that lack of additional load data is not a basis for abandoning SPS's previously accepted approach to RTL cost allocation, which is consistent with cost-causation, and that SPS's proposed methodology in this case is inconsistent with cost-causation.⁷⁷⁵ Mr. Griffey agrees, and noted the general principle of cost allocation that costs should generally be directly assigned to the customers giving rise to the

⁷⁷⁰ Staff Ex. 1A, Murphy direct at 46.

⁷⁷¹ TIEC Ex. 2, Pollock direct at 29.

⁷⁷² TIEC Ex. 2, Pollock direct at 29-30; OPL Ex. 4, Griffey direct at Bates 30.

⁷⁷³ TIEC Ex. 2, Pollock direct at 32.

⁷⁷⁴ OPL Ex. 2, Pollock direct at 30-31.

⁷⁷⁵ TIEC Ex. 2, Pollock direct at 31-32.

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

PROPOSAL FOR DECISION

PAGE 232

costs.⁷⁷⁶ Mr. Griffey also offered his recommendation that SPS could use the interval data recorder data for the customers on their RTLs who have them and use class-wide profiles for the scalar-metered customers to complete the allocation among classes connected to the RTLs. He stated that the calculations involved are trivial, and he noted that Mr. Evans said they could be done.⁷⁷⁷ According to Griffey, the change in methodology proposed by SPS “is an example of the perfect being the enemy of the good,” there is no reason to require perfect data before directly assigning costs to a class, and SPS’s proposal will require customers on RTLs to not only pay for the lines they use, but also a pro rata share of all other lines.⁷⁷⁸

On cross-rebuttal, Mr. Pollock testified that RTLs should be considered distribution investment because, even though these lines may be operated at transmission voltage, they fail the FERC Seven-Factor Test, which applies to wholesale costs in the SPP.⁷⁷⁹ Therefore, Mr. Pollock contended that RTLs should not be allocated to customers taking transmission service unless they are served from a specific RTL.⁷⁸⁰ Mr. Pollock recommended that the allocation of RTL investment should only be to those classes and corresponding loads that are served from the RTLs. He offered allocation factors for the RTLs based on SPS’s previous methodology. Under Mr. Pollock’s approach, RTLs serving only one class are directly assigned to that class, and RTLs serving multiple classes are allocated to those classes relative to their AED-4CP demands.⁷⁸¹ Mr. Griffey also proposed directly assigning costs of RTLs to the classes that use the RTLs, and maintained that when costs can be directly assigned, they generally should be directly assigned absent a compelling reason not to, which is absent here.⁷⁸²

Staff witness Mr. Murphy pointed out that the Commission has never reviewed or

⁷⁷⁶ OPL Ex. 4, Griffey direct at Bates 29.

⁷⁷⁷ OPL Ex. 4, Griffey direct at Bates 29.

⁷⁷⁸ OPL Ex. 4, Griffey direct at Bates 32.

⁷⁷⁹ TIEC Ex. 3, Pollock rebuttal at 10-11.

⁷⁸⁰ TIEC Ex. 3, Pollock rebuttal at 11-12.

⁷⁸¹ TIEC Ex. 2, Pollock direct at 33; TIEC Ex. JP-5-CA.

⁷⁸² OPL Ex. 4, Griffey direct at Bates 33; OPL Ex. 5, Griffey rebuttal at Bates 10.

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

PROPOSAL FOR DECISION

PAGE 233

approved SPS's approach of distinguishing transmission lines between those that are part of a looped system and those that are not for cost allocation purposes. To his knowledge, no other transmission service provider recognizes such distinction for cost allocation purposes. Mr. Murphy indicated that approval of SPS's proposal would make SPS the only regulated utility in Texas whose retail rates reflect a degree of locational transmission pricing. He expressed concern that locational transmission pricing could make SPS's system less efficient and more costly. According to Mr. Murphy, locational transmission pricing should reflect costs of imposing demand on the integrated system at capacity-constrained times in congested areas, but that SPS's pricing is based on the costs of RTLs located where the customer connects without regard to the costs that connection could impose on the integrated system, even though SPS admits RTLs can increase congestion charges on non-radial parts of the system.⁷⁸³

Mr. Murphy also noted concerns regarding inequitable results from direct assignment of RTL costs while allocating other transmission service costs using different methodologies. He cited as an example a situation in which RTL costs are directly assigned but O&M expenses are allocated based on the costs of the lines. Because more depreciated RTLs may require more O&M, common costs would be under-allocated to customers receiving service from less costly RTLs (or not served at all from RTLs) and over-allocated to customers receiving service from more costly radial lines. Mr. Murphy testified that this type of inequitable result is addressed for other Texas utilities by pooling the costs of the transmission system and then allocating the system-wide transmission costs based on demand for transmission services. Mr. Murphy's recommendation is to have SPS's RTL costs be allocated among classes in proportion to AED-4CP transmission demands without regard to looping or the location of class loads.⁷⁸⁴

OPUC witness Mr. Marcus agrees with Staff's proposal, arguing that all transmission lines should be treated the same for cost allocation purposes, whether looped or radial, just as they are in the rest of Texas. He took the position that it is not clear that RTLs affect only their own demand and not the demand on the remainder of the system relative to looped portions of

⁷⁸³ Staff Ex. 1A, Murphy direct at 39-44.

⁷⁸⁴ Staff Ex. 1A, Murphy direct at 44-46.

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

PROPOSAL FOR DECISION

PAGE 234

the system. Further, he testified that even though it is clear what customers are on which RTL, the cost causation is not that simple, because it is unclear how an RTL affects loads on the remainder of the system or how the rest of the system was constructed. He noted that looped transmission lines could serve similar customer groups as RTLs, but those costs would be allocated differently under SPS's approach. Quantitatively, because SPS uses the standard transmission allocation factor for all but a few lines, the results of adopting Staff's recommendation are almost identical to those of SPS's proposed methodology.⁷⁸⁵

On rebuttal, Mr. Evans opposed TIEC's and OPL's complaints regarding SPS's proposal for cost allocation for RTLs. Mr. Evans noted the small percentage of overall non-fuel revenue requirement and total transmission revenue requirements represented by the RTL revenue requirement and the small percentage of these revenue requirements allocated to LGS-T in relation to the total LGS-T non-fuel revenue requirement and total transmission revenue requirement allocated to LGS-T. He opined that SPS's former method for allocating RTLs assumed a level of precision that could not be supported. Mr. Evans further maintained that SPS's approach of only directly assigning RTL costs that serve customers from a single class is consistent with the method used in this case and historically recognized for directly assigning RTLs costs between jurisdictions.⁷⁸⁶ Mr. Luth also suggested that the Commission should treat RTLs as a system resource because all classes can connect to them and because 99% of the billings to customers taking service from RTLs contribute to the recovery of costs other than RTLs.⁷⁸⁷

2. ALJs' Analysis

In keeping with the general principle that the revenue requirement should be distributed among the customer classes in accordance with how each class incurs the costs, the ALJs recommend that the Commission not adopt SPS's proposal for allocation of RTL costs. The approach suggested by SPS will, without question, allocate costs of RTLs to classes that do not

⁷⁸⁵ OPUC Ex. 17, Marcus rebuttal at 17-18.

⁷⁸⁶ SPS Ex. 61, Evans rebuttal at 30.

⁷⁸⁷ SPS Ex. 57, Luth rebuttal at 20.

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

PROPOSAL FOR DECISION

PAGE 235

take service from those RTLs, thereby shifting costs from classes that caused them to classes that did not. While there are circumstances and factors which can justify departure from the cost causation principle in setting rates, the ALJs do not find this to be such a situation. SPS argues that allocating the costs of RTLs serving more than one class should be allocated to all classes because it does not have enough reliable data to adequately allocate costs between the classes that actually take service from these RTLs. However, it is undisputed that SPS knows what classes take from what RTLs and which do not, and that it has some data regarding the relative loads each class taking such service puts on each RTL. Given these facts, it cuts too far against basic cost causation principles to decide to allocate costs of these multi-class RTLs to classes that do not take service from them. Although it might seem unreasonable for SPS to assign costs to just the classes that take service from the RTLs based on the data that SPS had at the time it filed this case, it has done so previously, and it is more reasonable than allocating costs to classes that do not take service from the RTLs.

Further, the ALJs find that Staff's concerns regarding TIEC's and OPL's proposal are misplaced. First, it is unclear whether the Commission analyzed the issue of direct assignment of RTL cost allocation in the most recently litigated rate cases, and SPS has allocated RTL costs in this manner in its previous rate cases. As to Staff's argument that direct assignment of RTLs costs creates locational transmission pricing concerns, the ALJs agree with Mr. Griffey's position that because the costs of RTLs that serve more than one class are allocated to each of those classes as a whole and not to the specific customers within that class that take service from the RTL, there will not be locational transmission pricing under this scenario. Significantly, Mr. Pollock explained that RTLs are not considered part of the bulk electrical system in the SPP, and that costs of radial lines are directly assigned to each SPP member. Further, he stated that under FERC rules, which govern wholesale costs of utilities in the SPP, RTLs provide distribution service rather than transmission service and would thus not be allocated to transmission level loads. This testimony was undisputed and not contradicted. Finally, Staff's adoption of SPS's argument that its peak load data prevents SPS from "reasonably" assigning costs of an RTL between or among multiple classes taking service from that RTL as a basis to allocate the costs among all classes does not correspond to the cost causation principle that

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

PROPOSAL FOR DECISION

PAGE 236

governs the Commission's cost allocation decisions.

SPS's witness Mr. Luth admitted that the "direct assignment of RTL costs is appropriate because only those customer classes who use those facilities are allocated the costs of those facilities."⁷⁸⁸ Staff repeatedly emphasized throughout its testimony and briefing that cost causation is the "guiding principle" in setting rates. Both SPS's and Staff's proposals then divert from the concept of allocating costs to the classes that cause them with respect to RTLs based on reasoning that does not warrant such a departure, especially given the effect that the proposals would have in terms of the dollar amounts allocated to classes above and beyond their actual costs incurred in their usage of the RTLs.⁷⁸⁹ Therefore, the ALJs recommend the Commission reject SPS's proposal and order that RTL costs be allocated to the classes that take service from the RTLs, as was done in SPS's prior rate case.

C. General Plant and Intangible Plant

General and Intangible Plant (G&I Plant) costs involve indirect common costs necessary to operate SPS's utility system. G&I Plant costs include organizational support costs (such as office space, computers, and phones). Given that these costs are primarily related to employee needs, and that the level of salaries and wages recorded in operation and maintenance accounts is known and allocation factors were developed based on that information, SPS proposes to allocate the G&I Plant costs among the classes using the Salaries and Wages Excluding Administrative and General (SALWAGXAG) factor.⁷⁹⁰

⁷⁸⁸ SPS Ex. 54, Luth direct at 44.

⁷⁸⁹ Under the direct assignment approach, the LGS-T customers would be allocated only \$4000 of RTL costs, but under SPS's proposal, LGS-T customers would be allocated over \$1.1 million of RTL costs. Tr. at 982, 1,014-1,018. The result using Staff's proposal would be basically the same as SPS's. OPL Ex. 5, Griffey rebuttal at Bates 11-12.

⁷⁹⁰ SPS Ex. 54, Luth direct at 47-48.

AXM takes issue with SPS's approach and recommends that the Production, Transmission and Distribution Plant allocator be used to allocate the G&I Plant costs.⁷⁹¹ AXM witness Mr. Johnson recommended that SPS use a plant-based allocator to allocate G&I Plant costs instead of a labor-based allocator. He looked to the NARUC Cost Allocation Manual to support his position, and suggested that use of the labor-based allocator, while appropriate for pensions and benefits, can distort results if used to spread general costs across SPS's major functions.⁷⁹² Specifically, Mr. Johnson testified that a labor allocator over-assigns costs to functions that are more labor than capital intensive.⁷⁹³ He pointed out that transmission comprises 34% of total plant but only 11% of salary and wages, which he attributes to transmission's greater reliance on contract labor and/or payments to third parties, costs which are excluded from the labor allocator. According to Mr. Johnson, the SALWAGXAG allocation method puts a burden on distribution customers disproportionately greater than SPS's investment to serve those classes, so he contends the broader allocation basis is more equitable.⁷⁹⁴ Mr. Johnson also referred to the RFPs for TDUs to show that the Commission understands that plant-based allocators are appropriate to allocate general plant costs.⁷⁹⁵

SPS claims that using the labor allocator to allocate G&I Plant costs is more consistent with the cost causation principle because such costs are driven by employee needs. SPS witness Ms. Blair pointed out that Intangible Plant is encompassed within FERC Account 303, consisting mainly of software systems that support SPS's accounting, human resources, outage and work management, resource management, and customer billing.⁷⁹⁶ She opined that it is logical to allocate such costs based on operating labor since that is what the software systems support, and not physical plant. Contrary to Mr. Johnson's argument, Ms. Blair testified that the NARUC Cost Allocation Manual provides that use of a labor allocator for G&I Plant costs is appropriate.

⁷⁹¹ AXM Ex. 6, Johnson direct at 16.

⁷⁹² AXM Ex. 6, Johnson direct at 8.

⁷⁹³ AXM Ex. 6, Johnson direct at 9.

⁷⁹⁴ AXM Ex. 6, Johnson direct at 17.

⁷⁹⁵ AXM Ex. 6, Johnson direct at 9.

⁷⁹⁶ SPS Ex. 53, Blair rebuttal at 21-22.

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

PROPOSAL FOR DECISION

PAGE 238

Further, Ms. Blair contended that General Plant account categories such as Office Furniture and Equipment; Transportation Equipment; Communications Equipment; Laboratory Equipment; Power Operated Equipment; and Tools, Shop, and Garage Equipment are costs caused by employees' needs for desks, chairs, cars, phones, computers, tools, power equipment, and laboratory equipment, and not by power plants or transmission lines in service. Finally, Ms. Blair noted that the amounts of costs for structures and improvements relate directly to how many structures are needed for housing employees and the size of such structures.⁷⁹⁷

Just as with the issue regarding jurisdictional allocation of G&I Plant costs, the ALJs find the preponderance of the evidence supports SPS's proposal to allocate such costs among the classes using a labor-based allocator. It is clear from the testimony that the vast majority of the costs included within this category relate primarily to ensuring that employees have what they need to do their jobs. Further, the NARUC manual contemplates the use of a labor allocator for allocation of these costs. Despite the TDU's RFP calling for a plant-based allocator to allocate general plant costs, the form is not a rule and does not apply to vertically integrated utilities such as SPS. The ALJs therefore recommend that the Commission adopt SPS's proposal to use the SALWAGXAG factor to allocate G&I Plant costs among the classes.

D. Miscellaneous Revenue

1. Miscellaneous Revenue from Service Charges and Returned Check Fees

OPUC witness Mr. Marcus disagreed with SPS's allocation of revenue from connection charges and returned check fees based on distribution plant in service. SPS allocates this revenue based on the distribution plant allocator because it originates from customers taking service at distribution voltage. Mr. Marcus pointed out that these charges are imposed to collect costs SPS incurs in field service accounts, which are largely allocated by numbers of customers, and that SPS identified that 96% of returned checks came from the residential class. In order to

⁷⁹⁷ SPS Ex. 53, Blair rebuttal at 22-23.

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

PROPOSAL FOR DECISION

PAGE 239

reflect that these revenues derive primarily from the residential class to defray costs caused by that class, Mr. Marcus recommended that SPS use the weighted customer allocation factor that it uses for Account 903, customer accounts and service except meter reading. Using this factor results in a 79% allocation of these revenues to residential as opposed to a 49% allocation under SPS's approach.⁷⁹⁸

In response, SPS witness Mr. Luth testified that the distribution plant allocator is more appropriate for miscellaneous service charges and returned check fees because it is a broad-based allocation of system costs to process returned checks.⁷⁹⁹ He further explained that using the distribution plant allocator for these revenues is consistent with SPS treating uncollectible expenses as a system cost on the uncollectible expense side rather than an expense attributable to a single class.⁸⁰⁰

OPUC takes the position that the broad system allocation of these revenues proposed by SPS is only appropriate if the uncollectible account expenses are treated as system overhead and not assigned directly to classes as Staff and TIEC recommend. Otherwise, OPUC contends that allocating these revenues in the same proportion as costs in Account 903 is more reasonable given that these revenues defray costs from this account related to service of residential customers.

Based on the ALJs' analysis of the allocation of uncollectible account costs in FERC Account 904, below, the ALJs also find that it is more appropriate and consistent with cost causation principles to allocate service charges and returned check fees broadly across all classes based on revenue. Therefore, the ALJs recommend the Commission approve SPS's proposal for allocation of these revenues.

2. Mutual Aid Reimbursement Revenue

⁷⁹⁸ OPUC Ex. 14, Marcus direct at 22-23.

⁷⁹⁹ SPS Ex. 57, Luth rebuttal at 35.

⁸⁰⁰ Tr. at 1,862-1,863.

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

PROPOSAL FOR DECISION

PAGE 240

When SPS provides mutual aid provided by SPS to other utilities to help with natural disaster response, agreements with those utilities call for SPS to receive reimbursement for such assistance. On behalf of OPUC, Mr. Marcus also suggested that the reimbursement of this aid should be allocated to classes by distribution plant, instead of on a total plant basis as SPS proposes. He believes that line crews do most of the aid work and thus it is reasonable to allocate the revenue to classes by distribution plant just as SPS did to jurisdictions.⁸⁰¹ SPS contends that Mr. Marcus's recommendation does not account for the other employees and staff involved in the aid operations, and therefore that the total plant allocation method should be applied for this revenue.

The ALJs are not persuaded that SPS's proposed allocation methodology for these costs is unreasonable. Therefore, the ALJs recommend the Commission adopt SPS's proposed allocation method for this category of revenue.

E. Electric Vehicle and Fuel Tax Credit

SPS accepted TIEC witness Mr. Pollock's proposal, and SPS witness Mr. Luth allocated electric vehicle and fuel tax credits on labor expense as overhead costs.⁸⁰² Therefore, it is recommended that the Commission accept SPS's allocation of these credits, as indicated in SPS's rebuttal testimony.

F. Separating Residential Service and Residential Service With Electric Space Heating Subclasses for Purposes of Allocating Distribution Costs

Based on its proposal to use only one residential rate class, OPUC witness Mr. Marcus defined the non-coincident peak (NCP) demand as the highest load for the entire residential class instead of the sum of the highest loads for the Residential Service (RTX) and Residential Service

⁸⁰¹ OPUC Ex. 14, Marcus direct at 23.

⁸⁰² SPS Ex. 57, Luth rebuttal at 10.

with Electric Space Heating (RSH) subclasses. He opined that SPS should allocate costs and design rates for all residential customers as a single class, as opposed to designing rates based on the end uses of the residential distribution service. Instead of revising SPS's CCOSS to remove the residential subclasses and substitute in OPUC's proposed single residential class, Mr. Marcus proportionately reduced the NCP demand in each subclass to run the model, and then added them together.⁸⁰³ SPS witness Mr. Luth disagreed with this approach. He maintained that the NCP values for each subclass should stand alone given the different usage characteristics in each.⁸⁰⁴

Consistent with the ALJs' analysis and recommendation below, the ALJs find that, for this rate case, there should be different rates for the RTX and RSH subclasses. Given the differing load characteristics between these two types of customers, the ALJs agree with SPS that the NCP values for each subclass should stand alone for purposes of allocating distribution costs. The ALJs recommend the Commission deny OPUC's proposal to use the highest NCP for the two residential subclasses combined and scale down the demand proportionately for each class, and instead accept SPS's proposal to allocate distribution costs separately to each residential subclass based on each subclass's own NCP.

G. Labor Expense Allocator

SPS agreed with Staff witness Mr. Murphy regarding exclusion of certain labor expense items from the calculation of the PAYXAG allocators, and corrected this calculation issue in its rebuttal CCOSS.⁸⁰⁵ OPUC asserts that Staff may not have made all the corrections to the calculation of PAYXAG and that OPUC's recommendations should be implemented.⁸⁰⁶ The ALJs concur with OPUC and recommend that the Commission should accept SPS's calculation of the labor expense allocator, with Staff's and OPUC's corrections.

⁸⁰³ OPUC Ex. 14, Marcus direct at 10.

⁸⁰⁴ SPS Ex. 57, Luth rebuttal at 30.

⁸⁰⁵ PAYXAG is payroll excluding administrative and general labor expense. According to Staff witness Mr. Murphy, SPS refers to this allocation factor as SALWAGXAG. Staff Ex. 1A, Murphy direct at 14, n. 8.

⁸⁰⁶ OPUC's recommended corrections are outlined in OPUC Ex. 1 at 72.

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

PROPOSAL FOR DECISION

PAGE 242

H. Salary and Wage Expense for Lighting Services

SPS witness Mr. Luth adjusted its class cost allocations based on calendar year 2014 cost of service, making FERC Account 585 a Street Lighting cost and FERC Account 587 a Guard Lighting cost, after AXM pointed out that SPS had incorrectly assigned customer installation costs to street lighting and street lighting salary cost to guard lighting.⁸⁰⁷ Given this correction, the Commission should allocate salary and wage expense for street lighting as reflected in Mr. Luth's rebuttal testimony.

I. Distribution Substations Allocator

SPS proposes to use a class NCP method for allocation of distribution substation costs among classes because (a) substations are sized to handle loads in specific localized areas of the system; and (b) the substations transform the transmission voltage they receive to distribution voltage for customers taking service at distribution voltage. Given these facts, Mr. Luth asserted that the NCP allocation better reflects the end-use load characteristics of the transformation provided at the substation. This proposal marks a change from prior rate cases in which SPS used the AED-4CP methodology for allocating such costs.⁸⁰⁸

Mr. Luth indicated that equipment installed in the vicinity of customer locations must be able to handle local distribution demands, while the transmission system handles broader demand over the entire system with multiple transmission lines which are typically integrated. Thus, using the NCP allocator is consistent with the methodology used and approved by other Texas electric utilities.⁸⁰⁹

State Agencies and AXM both disagree with SPS's change and argue that it should continue to use AED-4CP methodology for allocating substation costs. AXM witness Mr. Johnson opined that the change is a step backward in terms of achieving cost causation. He

⁸⁰⁷ SPS Ex. 57, Luth rebuttal at 10.

⁸⁰⁸ SPS Ex. 54, Luth direct at 45-46.

⁸⁰⁹ SPS Ex. 54, Luth direct at 46.

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

PROPOSAL FOR DECISION

PAGE 243

explained that as lines move from residential and customer to larger distribution feeders, the accumulated load becomes more diverse. When those feeders connect to the substations, Mr. Johnson stated, the aggregated loads can encompass multiple classes and are thus less localized. He characterized the relationship between the sum of class NCP demands and the size of the facility at the substation as “weak,” and maintained that it is more reasonable to apply a coincident peak allocator which is aligned with transmission. He also noted that SPS designs its substations to carry power from adjacent substations in emergency situations and to re-energize their feeders, such that the substation size will exceed the loads typical for local service. Finally, he indicated that the transmission supply characteristics and economics play important roles in the planning and design of the substations. All of these facts, in Mr. Johnson’s view, support SPS’s prior position that substations are transition points within the transmission system.⁸¹⁰

State Agencies witness Ms. Pevoto agreed with this view, contending that the substations are extensions of the transmission system that serve all but the large general services classes. She pointed out that the substations are located close to and are directly connected to the transmission system at transmission voltage level. Ms. Pevoto explained that even though there is a step down in voltage at the substations, it is not to a localized level, because the substations must be capable of handling the system peak for the majority of the classes together.⁸¹¹

In rebuttal, Mr. Luth characterized the substations as the “door” from the transmission system to the distribution system for service to distribution voltage customers. As such, they are the end of, and not an extension of, the transmission system. He also explained that the size of a substation is essentially unrelated to its purpose, which is to transform transmission voltage to distribution voltage, making the NCP allocation more reasonable than AED-4CP allocation. Luth explained that substations are designed to meet peak loads served through each individual station, which are often not coincident with system peaks. He contended that because AED-4CP is a system-wide allocator used to measure class loads relative to other class loads at the time of system peak, it is only appropriate for resources that provide service across the entire system,

⁸¹⁰ AXM Ex. 6, Johnson direct at 20.

⁸¹¹ State Agencies Ex. 1, Pevoto direct at 14-15.

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

PROPOSAL FOR DECISION

PAGE 244

while NCP is the maximum load for a class, independent of the system peak.⁸¹²

OPUC supports SPS's proposal to move from the AED-4CP allocation method to an NCP allocation method for distribution substation costs. OPUC witness Mr. Marcus indicated that SPS has been the outlier among Texas utilities in terms of its previous use of AED-4CP to allocate substation costs and, because substations are designed to serve local loads, the change to the NCP allocator is appropriate and reasonable.

The ALJs note it is undisputed that the distribution substations are built to provide distribution voltage to localized areas. The testimony from Mr. Johnson and Ms. Pevoto focuses on (a) the substations' proximity and connection to the transmission system; (b) the substations' ability to handle load that exceeds the demand of the local area it serves; and (c) that the substations are extensions of the transmission system. However, neither AXM nor State Agencies dispute the primary function of the substations as described by SPS, or that other utilities use the NCP method for allocating substation costs. The ALJs agree with SPS that the NCP allocator better conforms to the end usage of the transmission voltage that the substations handle. As Ms. Pevoto testified, the AED-4CP is the methodology used to allocate transmission capacity costs, and the substations do not serve transmission voltage customers. Therefore, the ALJs recommend that the Commission approve the use of the NCP allocator for allocating distribution substation costs.

J. Account 368 – Distribution Line Transformers

SPS accepted OPUC's proposed separation of transformers and capacitors recorded in FERC Account 368. The ALJs recommend the Commission approve class cost allocation that distinguishes between transformers and capacitors as proposed by Mr. Marcus.

K. Account 556 – System Control and Dispatching-Generation

⁸¹² SPS Ex. 57, Luth rebuttal at 27-29.

SPS incurs costs for system control and dispatching of its production system, and it proposes to allocate these costs based on 12CP demands.⁸¹³ TIEC witness Mr. Pollock testified that load dispatching expenses pertain to SPS's handling of its production assets, and thus the dispatching costs recorded in FERC Account 556 should be allocated in the same manner as those assets (i.e., using the AED-4CP production allocator).⁸¹⁴ State Agencies witness Ms. Pevoto agreed with TIEC, maintaining that it is more reasonable to use an allocator that includes both average demand and peak demand for these costs since load dispatching involves and is particularly important for handling peak demand in addition to average energy usage. She noted that the 12CP allocator does not take peak load into consideration.⁸¹⁵

SPS witness Mr. Luth and OPUC witness Mr. Marcus countered these arguments by noting that load dispatching happens every hour of every day all year long in order to meet reliability requirements, both during peak times and at low-demand times and all situations in between.⁸¹⁶ Mr. Luth explained that dispatching is not driven by peak load conditions; it is primarily a demand-based decision when considered over the course of a year. He took the position that the 12CP allocator balances a higher emphasis on demand because it comports with the year-round nature of power supply dispatch.⁸¹⁷ Mr. Marcus pointed out that the AED-4CP allocator proposed by TIEC and State Agencies actually does not recognize average demand, due to the mathematics of the methodology.⁸¹⁸

The ALJs are not persuaded that SPS's method is unreasonable. While it is true, and SPS does not dispute, that load dispatching must ensure reliability of the system at times of peak demand, it is also without question that load dispatching occurs every hour of every day as well.

⁸¹³ SPS Ex. 57, Luth rebuttal at 30.

⁸¹⁴ TIEC Ex. 2, Pollock direct at 37

⁸¹⁵ State Agencies Ex. 1, Pevoto direct at 10-11.

⁸¹⁶ SPS Ex. 57, Luth rebuttal at 31; OPUC Ex. 17, Marcus rebuttal at 23.

⁸¹⁷ SPS Ex. 57, Luth rebuttal at 32.

⁸¹⁸ OPUC Ex. 14, Marcus direct at 11-12.

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

PROPOSAL FOR DECISION

PAGE 246

Given that peak demand does not occur nearly as often as typical average demands, and that the peak demand usages are included in each class's average demand over the course of a year, the ALJs agree with SPS that the 12CP year-round allocator is more appropriate given the balance between dispatching load to meet average usage and dispatching load to meet maximum annual peak demand over the course of a year. Therefore, the ALJs recommend the Commission approve allocation of the FERC Account 556 costs using the 12CP allocator.

L. Accounts 561.1-.3 – Load Dispatch-Transmission

SPS also proposes using an average demand methodology to allocate load dispatching costs pertaining to transmission recorded in FERC Account 561.⁸¹⁹ TIEC witness Mr. Pollock again objected. He opined that the load dispatching costs should be allocated the same as the underlying transmission assets.⁸²⁰ State Agencies witness Ms. Pevoto agreed that because load dispatching must ensure that both peak demand and average usage are met, the AED-4CP allocator is most appropriate for allocating transmission-related dispatching expenses.⁸²¹ SPS witness Mr. Luth countered that the annual line loss-adjusted kWh allocation of FERC Account 561 expenses (a) reflects that SPS dispatches load all year, at the high-peak, low-peak, and all times in between, to ensure reliability, and (b) represents each class's use of SPS's system over the course of a year.⁸²²

For the same reasons set forth in the previous section concerning allocation of FERC Account 556 expenses, the ALJs recommend the Commission approve SPS's use of an average demand allocator for allocating transmission-related dispatching costs.

⁸¹⁹ SPS Ex. 57, Luth rebuttal at 20-31.

⁸²⁰ TIEC Ex. 2, Pollock direct at 37.

⁸²¹ State Agencies Ex. 1, Pevoto direct at 11.

⁸²² SPS Ex. 57, Luth rebuttal at 31-32.

M. Accounts 575.1, .2, .5, .6, .7, and .8 - Regional Market Expenses

SPP charges SPS regional market expenses to participate in the SPP day-ahead, real-time, and ancillary services markets. These expenses also include administration fees and miscellaneous supervision and rent charges. According to TIEC witness Mr. Pollock, \$3.5 million of the \$3.7 million in regional market expenses for Texas retail are the SPP administration fees.⁸²³ SPS proposes to allocate these costs based largely on the transmission demand allocator (DTRAN) because the majority of the costs represent charges from SPP based on transmission peaks. SPS allocates smaller amounts of these expenses according to an energy allocator to reflect the hour-by-hour regional market monitoring done by its employees.⁸²⁴

Although Mr. Pollock agreed with SPS's allocation of the SPP administrative charges, he took issue with allocating the remaining regional expenses, which he characterizes as consisting primarily of SPS administrative costs, on an energy basis. He contended these costs are related to SPS's management of its generation and transmission assets. Therefore, they should be allocated in the same manner as transmission-plant costs, using the AED-4CP allocation method.⁸²⁵

SPS witness Mr. Luth disagreed, noting that regional marketing expenses pertain to ensuring the reliability to SPS's transmission system, which is critical every hour of every day, all year long, both at peak and off-peak times. Because costs of ensuring reliability occur throughout the year and not just at peak demand times, Mr. Luth maintained that average usage throughout the year is the appropriate way to allocate these costs.⁸²⁶

The evidence established that regional marketing expenses are caused by SPS's daily

⁸²³ TIEC Ex. 2, Pollock direct at 38.

⁸²⁴ SPS Ex. 54, Luth direct at 55.

⁸²⁵ TIEC Ex. 2, Pollock direct at 38-39.

⁸²⁶ SPS Ex. 57, Luth rebuttal at 33.

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

PROPOSAL FOR DECISION

PAGE 248

operations undertaken to provide transmission system reliability. While they do not vary with kWh usage, the average demand allocation method weights the allocation of these costs on the basis of usage throughout the year, including during peak demand times, which is reasonable given how these costs are incurred. Therefore, the ALJs recommend the Commission approve SPS's allocation of those regional market expenses not charged by SPP on an energy basis using the DTRAN allocator.

N. Account 581 – Load Dispatching-Distribution

The arguments and evidence pertaining to the allocation of costs booked in FERC Account 581 for distribution-related load dispatching are the same from SPS, OPUC, TIEC, and State Agencies as they were for the FERC 561 Accounts. For the same reasons set forth in the PFD above, the ALJs recommend the Commission approve SPS's proposal for allocation of these costs using an average demand allocator.⁸²⁷

O. Account 593 – Distribution Maintenance of Overhead Lines

SPS used the proportion of total overhead plant costs to classify FERC Account 593 vegetation management costs related to overhead lines as 89.17% primary and 10.83% secondary. OPUC witness Mr. Marcus recommended that these costs be classified as 98% primary and 2% secondary to reflect that SPS's guidelines indicate it only trims secondary distribution lines under hazardous conditions. The guidelines state that secondary lines are not routinely pruned unless overbuilt primary lines exist.⁸²⁸ Therefore, OPUC argues that SPS trims

⁸²⁷ OPUC witness Mr. Marcus testified that SPS's model actually used a substation demand-based allocation factor for this account. SPS did not dispute this in its briefing, and the ALJs would recommend that this error be corrected in the number-running process.

⁸²⁸ OPUC Ex. 18 at 55.

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

PROPOSAL FOR DECISION

PAGE 249

trees for the primary system regardless of whether secondary lines exist at a particular location, and does not trim for the secondary system if primary lines do not exist as a location. SPS witness Mr. Luth testified in response that the proportion that SPS proposes takes into account the fact that secondary lines exist under primary lines in many areas, and vegetation management on a primary line in those areas constitutes vegetation management on the secondary line.⁸²⁹

SPS concedes that most vegetation management occurs on the primary distribution system, but the testimony shows that in numerous areas there are secondary lines under the primary lines. Under those circumstances, the secondary distribution system benefits from vegetation maintenance on the primary lines such that some of the costs should be allocated to the secondary system. However, there is no evidence that SPS conducts vegetation management due to secondary lines needing clearance if there is not an overbuilt primary present. The guidelines governing SPS indicate that there is no routine pruning on secondary lines. It is unclear how allocating vegetation management costs between primary and secondary distribution based on total overhead plant costs promotes rates based on cost causation principles. Simply because the secondary system occasionally benefits from tree trimming does not prove that the secondary system caused the expense of the trimming. The ALJs agree with OPUC that based on the evidence in the record, any costs of vegetation management caused by the secondary system are very minimal, and recommend the Commission adopt Mr. Marcus's proposed allocation of these costs at 98% primary and 2% secondary.

P. Account 902 – Meter Reading Costs

SPS proposes allocation of meter reading costs based on a weighted count of the number of meters that could be read in a day for each class.⁸³⁰ SPS witness Mr. Luth explained that more meters could be read in a day for classes where the customers are closer together, such as residential, small commercial, municipal, and schools, while larger demand-metered customers in the industrial and large commercial classes are much less concentrated and require more time

⁸²⁹ SPS Ex. 57, Luth rebuttal at 30.

⁸³⁰ SPS Ex. 54, Luth direct at 56.

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

PROPOSAL FOR DECISION

PAGE 250

to have their meters read. To determine how many meters could be read in a day for purposes of determining the proper weighting, Mr. Luth had “conversations and communications with the meter reading manager” at SPS and relied on his judgment based on daily and weekly interactions with meter reading crews.⁸³¹

According to OPUC witness Mr. Marcus, SPS’s proposed weighting is reasonable, because it takes longer to read demand meters and such meters are farther apart than meters for the classes of smaller customers. Mr. Marcus also notes that large commercial and industrial demand meters are more complex to read, and that even for interval data recorder meters where a meter reader need not be present, there are significant costs of telemetry, phone bills, and meter data management incurred by the meter readers.⁸³²

SPS purports to assign a weight of 5.97517 to the Secondary General, Primary General, and the LGS-T classes.⁸³³ TIEC and State Agencies contend that this weighting has an insufficient basis. TIEC argues that FERC Account 902 does not include the cost of reading interval data recorder meters, which it claims are used by most industrial customers and which do not require physical meter reading. TIEC points to Mr. Luth’s deposition testimony in which he concedes that, for some of SPS’s commercial and industrial customers, no one has to go out and read the meters because they are telemetered, and the cost of the equipment used to read these meters is not included in this account.⁸³⁴ Therefore, TIEC contends, industrial customers do not cause most of the costs incurred in this account, which includes costs of meter reading when performed by employees engaged in meter reading.⁸³⁵ TIEC proposes that SPS continue using the customer count allocation that it has used in the past for allocating meter reading costs.

State Agencies witness Ms. Pevoto concurred with TIEC’s position that SPS failed to

⁸³¹ SPS Ex. 54, Luth direct at 56; Tr. at 874-875, 997.

⁸³² OPUC Ex. 14, Marcus direct at 18.

⁸³³ State Agencies Ex. 1, Pevoto direct at 16.

⁸³⁴ TIEC Ex. 65 at 83.

⁸³⁵ 18 C.F.R. § 367.9020(a).

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

PROPOSAL FOR DECISION

PAGE 251

engage in a sufficient analysis to support the proposed weighting. According to Ms. Pevoto, SPS assumed, based on personal observations of a manager regarding windshield time between residential and commercial/industrial customers, that 70% of meter reading costs are for residential and small commercial and 30% are for large commercial and industrial in its development of the 5.97517 weighting.⁸³⁶

SPS contends that, through Mr. Luth's testimony, it has met its burden to make a prima facie case regarding the cost causation drivers for meter reading costs, such that the burden shifted to TIEC and State Agencies to prove that SPS's meter reading study was flawed. SPS claims that TIEC's and State Agencies' evidence in that regard amounts to no more than conclusory statements that the study was inadequate. Mr. Luth maintained that the information gathered from the meter reading manager concerning time spent reading meters is an appropriate study and supports the weighting of the costs that SPS proposes.⁸³⁷

Given that the costs in FERC Account 902 relate to employees' labor in performing meter reading activity, it is reasonable to determine how much time is spent reading residential and small commercial meters versus large commercial and industrial meters. Although no in-depth study was performed, SPS gathered the pertinent information from an experienced employee. There is no evidence in the record regarding how many large commercial and industrial customers have meters that must be read at the customers' locations as opposed to the number of such customers that are telemetered. But, there is no indication that SPS failed to account for those numbers when it developed its proposed weighting. Further, neither TIEC nor State Agencies offered evidence to rebut Mr. Luth's testimony that it takes longer, and thus costs more, to read the meters of large commercial and industrial customers than those of residential and small commercial customers. Therefore, the ALJs find that SPS made a prima facie case that its proposed assignment of 30% of meter reading costs to the large commercial and industrial classes is reasonable from a cost causation standpoint. The ALJs find that TIEC and State Agencies failed to prove that the basis for the assignment was unreasonable based on the

⁸³⁶ State Agencies Ex. 1, Pevoto direct at 16-17.

⁸³⁷ Tr. at 996-997; SPS Ex. 57, Luth rebuttal at 35.

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

PROPOSAL FOR DECISION

PAGE 252

cost causation principle. The ALJs recommend the Commission approve SPS's proposed allocation of these costs in FERC Account 902.

Q. Account 904 – Uncollectible Accounts

SPS proposes to allocate uncollectible account expenses in FERC Account 904 to all classes according to present base rate sales revenue by class.⁸³⁸ SPS witness Mr. Luth explained that these costs are caused by non-paying former customers. He testified that customers within a class that pay their bills are no more the cause of costs incurred as the result of unpaid bills from other former customers in that class than any of the other customers in other classes.⁸³⁹ Therefore, SPS contends it would be unfair to allocate the costs of a former residential customer not paying its bill to the residential class because the other customers in the residential class are no more responsible for those costs than the customers in the large commercial and industrial classes.

TIEC and Staff disagree with SPS's approach and recommend that uncollectible accounts be assigned to the customer classes that are the source of the debt. TIEC witness Mr. Pollock opined that direct allocation of uncollectible account expenses would properly reflect cost causation because these costs are a consequence of doing business with specific customers. He pointed out that the residential class contributed a much greater percentage of uncollectible account expenses than did the commercial and industrial classes, so that allocating these costs to all classes on the basis of each class's total revenue requirement is inequitable.⁸⁴⁰ Staff witness Mr. Murphy agreed, testifying that customers, not revenues, are the cause of these expenses. He too recommends that these costs be allocated first to the categories of classes in proportion to their actual historical bad debt expense from 2010 to 2014 and among the classes within those categories in proportion to proposed revenues.⁸⁴¹ TIEC and Staff point out that, over the years,

⁸³⁸ SPS Ex. 54, Luth direct at 56; SPS Ex. 57, Luth rebuttal at 23.

⁸³⁹ SPS Ex. 57, Luth rebuttal at 23.

⁸⁴⁰ TIEC Ex. 2, Pollock direct at 40-41.

⁸⁴¹ Staff Ex. 1A, Murphy direct at 36-38.

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

PROPOSAL FOR DECISION

PAGE 253

the residential class has consistently been the originator of these expense. Therefore, it is improper cost shifting to assign more than 22% of these costs to the LGS-T classes when 90% of the expenses came from residential customers.⁸⁴²

AXM and OPUC agree with SPS's proposed allocation methodology. AXM witness Mr. Johnson testified that the Commission has consistently allocated uncollectible account expenses on a revenue basis for the last 25 years, and Staff advocated for such allocation during most of that time. Mr. Johnson criticized Staff's proposed direct assignment, noting that SPS does not track uncollectible expenses by class. Given these data constraints, Mr. Murphy proposes to allocate costs to municipal and school customers, which are the least likely customers to default.⁸⁴³ OPUC witness Mr. Marcus sides with SPS. He believes that residential customers who pay their bills should not be required to take a larger responsibility for paying uncollectible account expenses than customers in other classes who also pay their bills.⁸⁴⁴

Both sides of this particular issue make valid and persuasive arguments. Clearly, residential customers who pay their bills do not cause the expense of other residential customers who don't pay their bills any more than any other SPS customer. However, looking at the issue more broadly, it is also clear that the residential class as a whole is, and has historically been, the primary source of uncollectible account expenses. Commission precedent shows that these costs have typically been allocated to each class by its revenue requirement, with the Commission explicitly noting the unfairness to both the majority of residential customers and the industrial and large commercial customers of allocating these costs directly to the classes to which the non-paying customers belonged.⁸⁴⁵ It is difficult to determine from the evidence whether there is anything inherent to the residential class that actually causes these expenses, but the evidence is clear that they mostly originate from customers within this class.

⁸⁴² Staff Ex. 1A, Murphy direct at 37, 39; Tr. at 941-42.

⁸⁴³ AXM Ex. 6A, Johnson rebuttal at 6-7.

⁸⁴⁴ OPUC Ex. 17, Marcus rebuttal at 20.

⁸⁴⁵ *Application of Entergy Gulf States, Inc. for Approval of its Transition to Competition Plan and the Tariffs Implementing the Plan, and for the Authority to Reconcile Fuel Costs, to Set Revised Fuel Factors, and to Recover a Surcharge for Underrecovered Fuel Costs*, Docket No. 16705, Second Order on Rehearing, FF 231 (Oct. 14, 1998).

The ALJs recommend that the Commission allocate the uncollectible expenses broadly across all classes based on revenue, because no paying customer regardless of class contributed more to these costs than any other paying customer.

R. Account 908 – Customer Assistance Expenses and Account 912 – Demonstrating and Selling Expenses – Major Account Representatives

SPS employs representatives who provide account assistance to its larger customers. SPS initially allocated costs incurred for these representatives by customer count in FERC Accounts 908 and 912, which are allocated in part to residential and Secondary General Service (SGS) customers. In response to OPUC witness Mr. Marcus's contention that these costs should be allocated solely to the larger customers these representatives serve, SPS proposed in rebuttal to reallocate these costs to the large commercial and industrial classes.⁸⁴⁶ Specifically, Mr. Marcus assigned \$582,047 (the Texas-jurisdictional percentage of the total costs in Accounts 908 and 912) to secondary general and primary and transmission customers. He then assigned a weighting factor of 10 to the primary and transmission classes to reflect that smaller secondary customers are usually not served by the representatives. Mr. Marcus also reallocated the remaining customer service and information costs in Account 908 to remove from the allocation 10% of secondary general service customers and all primary and transmission customers, to reflect that these customers are served by the representatives. Finally, Mr. Marcus recommended that the representative costs be collected on a demand or energy basis in the secondary general service class to reflect that the smaller customers in that class do not cause the costs.⁸⁴⁷

TIEC witness Mr. Pollock maintained that the method recommended by Mr. Marcus and ultimately used by SPS to allocate the major account representative costs is "entirely arbitrary." He indicated that directly assigning these representative costs is inappropriate unless other customer service costs that only benefit certain classes, such as call centers, are also directly

⁸⁴⁶ SPS Ex. 57, Luth rebuttal at 11.

⁸⁴⁷ OPUC Ex. 14, Marcus direct at 21-22.

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

PROPOSAL FOR DECISION

PAGE 255

assigned to those classes.⁸⁴⁸ Otherwise, TIEC argues, the direct assignment of some but not all customer service costs incurred for one or more but not all classes results in over-allocation of costs to certain classes. Mr. Pollock also took issue with Mr. Marcus's assumption regarding the classes that these representatives serve. According to Mr. Pollock, the assumption is based on nothing other than that there are large customers in the primary and transmission classes. He pointed out that some large customers take secondary service, and it is likely that oil and gas accounts are owned and controlled by primary and/or transmission customers. Mr. Pollock characterized Mr. Marcus's reallocation as piecemeal, contending that Mr. Marcus failed to propose a reallocation of call center costs to recognize that they are used primarily by smaller customers.⁸⁴⁹ OPUC, in reply, contends that call center costs are not booked in Account 908 but in Account 903, which also includes costs such as billing, collecting, and posting payments and related recordkeeping that are, at least in part, attributable to primary and transmission customers.

Given that costs of major account representatives are caused by the classes to which the customers served by these representatives belong, these costs should be allocated to those classes if possible. The preponderance of the evidence shows that these representatives serve larger customers and not customers in the residential and secondary general service classes. SPS followed Mr. Marcus's proposal to reallocate the costs of these services so that the classes that did not cause them will not pay for them. In doing so, SPS also reallocated all other customer service and information costs from Account 908 to remove from the allocation all primary and transmission customers because they are served by the representatives. The ALJs find that this allocation of these costs is fair, reasonable, and consistent with cost causation principles, and should thus be approved by the Commission.

S. Account 923 - Outside Services-Legal

⁸⁴⁸ TIEC Ex. 3, Pollock rebuttal at 28-29.

⁸⁴⁹ TIEC Ex. 3, Pollock rebuttal at 28-29.

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

PROPOSAL FOR DECISION

PAGE 256

SPS proposes the use of the SALWAGXAG allocator to allocate costs in FERC Account 923 for outside legal services.⁸⁵⁰ According to SPS witnesses Mr. Luth and Ms. Blair, this allocator is appropriate for that purpose because SPS only hires outside counsel to handle legal work that exceeds the capacity of its in-house counsel. Because in-house counsel costs are allocated based on labor, there is no reason to treat the outside counsel costs any differently.⁸⁵¹ Ms. Blair pointed out that there are other costs included in Account 923, such as those incurred for auditors, management consultants, and tax consultants. She testified that all of these costs are incurred because the work in these areas exceeds SPS's in-house capacity or because SPS does not have the necessary expertise in-house. Therefore, the costs are a substitution for existing labor and should be allocated as such.⁸⁵²

AXM witness Mr. Johnson disagreed with SPS's approach. He recommended that the total expense allocator Total Operation and Maintenance Expense excluding Fuel and Purchase Power (TOMXFPP) should be used because legal expenses for rate case litigation are included in FERC Account 928 and the outside legal services included in Account 923 relate to general corporate purposes. Therefore, the labor allocator is too narrow a basis, and total O&M expense provides a more complete and consistent basis for allocating these costs. Mr. Johnson also referred to the Commission's RFP for investor-owned TDUs, which specifies that TOMXFPP is the proper allocator for Account 923. Mr. Johnson took the position that labor allocators are more appropriate for accounts directly related to employee compensation and supervision. He also noted that salaries and wages are included within the O&M expenses used to calculate TOMXFPP. Moreover, labor allocation will disproportionately assign outside legal costs to retail customers.⁸⁵³ OPUC witness Mr. Marcus generally agreed with Mr. Johnson that, for purposes of class allocation, Account 923 costs should be allocated more broadly than by labor. Mr. Marcus also proposed removal of uncollectible accounts expenses and transmission

⁸⁵⁰ SPS Ex. 54, Luth direct, Att. RML-RD-4 at 49.

⁸⁵¹ SPS Ex. 57, Luth rebuttal at 25; SPS Ex. 53, Blair rebuttal at 27.

⁸⁵² SPS Ex. 53, Blair rebuttal at 27.

⁸⁵³ AMX Ex. 6, Johnson direct at 10-11.

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

PROPOSAL FOR DECISION

PAGE 257

wheeling expenses in the development of a new OMXFPP1 allocation factor.⁸⁵⁴

In rebuttal, Mr. Luth and Ms. Blair pointed out that SPS is a vertically-integrated utility and not a TDU, such that the RFP relied upon by Mr. Johnson is inapplicable. Regardless, according to Mr. Luth, the issues raised by Mr. Johnson relative to the RFP pertain to functionalization of costs and not allocation of costs among classes.⁸⁵⁵ TIEC witness Mr. Pollock also took the position that Mr. Johnson's proposal should be rejected. He testified that outside legal services are similar to other administrative and general expenses, most of which are allocated on previously-allocated labor expenses, and that Mr. Johnson showed no causal relationship between these expenses and previously-allocated O&M materials expenses, which include things like lubricants and generator cooling gases.⁸⁵⁶ Mr. Pollock noted that SWEPCO and ETI used a labor allocator for outside legal expenses in their most recent rate cases, which was approved by the Commission. In conclusion, Mr. Pollock maintained that Mr. Johnson's proposal is not consistent with cost causation principles.⁸⁵⁷

The ALJs find Mr. Johnson's arguments for a broader allocation of outside legal expenses ultimately unpersuasive. Although it does appear that the labor allocator does not uniformly distribute the costs among functions, the ALJs find that because the outside legal costs are incurred by SPS to supplement the in-house legal services that are allocated on a labor basis, there is no reason to allocate them any differently than the in-house legal expenses. Further, the allocation of outside legal costs on a labor basis is consistent with the approaches proposed by SWEPCO and ETI and approved by the Commission in those utilities' respective most recent rate cases. Therefore, the ALJs recommend that the Commission approve SPS's proposal to allocate outside legal service expenses among the classes using the SALWAGXAG allocator.

T. Contributions, Dues, and Donations

⁸⁵⁴ OPUC Ex. 17, Marcus rebuttal at 26. The OMXFPP factor is O&M less fuel and purchased power.

⁸⁵⁵ SPS Ex. 57, Luth rebuttal at 26.

⁸⁵⁶ TIEC Ex. 3, Pollock rebuttal at 29-30.

⁸⁵⁷ TIEC Ex. 3, Pollock rebuttal at 30.

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

PROPOSAL FOR DECISION

PAGE 258

SPS proposes allocations of contributions, dues, and donations among the classes using the SALWAGES labor allocator.⁸⁵⁸ SPS witness Mr. Luth testified that these costs are allocated to salaries and wages rather than total cost of service because the expenses concern improvement of communities and SPS employees. These costs also pertain to the provision of service to customers by SPS employees. Mr. Johnson opposed this methodology and proposed the use of the OMXFPP allocator, based on the same rationale he set forth for allocation of outside legal expenses. OPUC argues that because dues and contributions are intended to improve the company's image and standing in the community, it is important for these costs to be broadly allocated across the classes. In response, Mr. Luth maintained, and Mr. Pollock agreed, that these costs are tied to employee activity and not plant, given that employee participation or involvement is almost always related to the expenses.⁸⁵⁹

For the same reasons set out in the previous section, the ALJs do not find Mr. Johnson's argument persuasive and recommend the Commission adopt SPS's proposed allocation method for these costs.

U. Account 926 – Employee Pensions and Benefits

On rebuttal, SPS witness Mr. Luth agreed with TIEC witness Mr. Pollock that the class allocation methodology for employee pension and benefit costs included in FERC Account 926 should match the methodology (SALWAGXAG allocator) used for jurisdictional allocation.⁸⁶⁰ The ALJs recommend the Commission approve the allocation of these costs to the classes on the basis of SALWAGXAG.

V. Historical Energy Efficiency Costs

⁸⁵⁸ SPS Ex. 54, Luth direct, Att. RML-RD-4. The SALWAGES allocator is salary and wages.

⁸⁵⁹ SPS Ex. 54, Luth direct at 57; TIEC Ex. 3, Pollock rebuttal at 29-30.

⁸⁶⁰ OPUC points out in reply that after it corrected SPS's programming errors, there is no difference between the initial allocator used by SPS and the allocator used on rebuttal.

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

PROPOSAL FOR DECISION

PAGE 259

Until 2012, SPS recovered energy efficiency costs in its base rates. In Docket No. 35763, SPS's base rate case filed in 2008, the parties reached agreement that SPS could recover the energy efficiency costs incurred up to that point over a ten-year period.⁸⁶¹ For this case, SPS proposes the use of a production energy allocator to allocate the remaining unamortized portion of these historical energy efficiency costs.⁸⁶² Mr. Luth claimed that energy efficiency is a system resource because it can postpone the need for additional capacity costs. He pointed out that the historical energy efficiency costs were incurred under old energy efficiency rules which did not limit recovery of these costs to distribution-voltage customers, as the new rule does.⁸⁶³

Mr. Pollock testified that the allocation methodology proposed by SPS inappropriately allocates these historical energy efficiency costs to transmission-voltage customers because SPS did not design the energy efficiency programs for these customers.⁸⁶⁴ TIEC points out that LGS-T customers received no service from SPS's historical energy efficiency programs and therefore did not cause SPS to incur any such costs.⁸⁶⁵ Mr. Pollock indicated that industrial customers that take transmission voltage have their own incentives to perform energy efficiency measures, and those costs are borne solely by those customers. He further maintained that it is inequitable to charge these industrial customers for additional energy efficiency expenses which they did not cause and cannot directly take advantage of, while those customers bear the full cost of their own energy efficiency activities which might benefit other customers.⁸⁶⁶

AXM witness Mr. Johnson agreed with Mr. Luth. In his opinion, all SPS customers benefit from the reductions in demand achieved as a result of the energy efficiency programs, regardless of what classes participate in them. He pointed out that the cost of interruptible

⁸⁶¹ Docket No. 35763, Order, FF 22(a); SPS Ex. 53, Blair rebuttal at 55.

⁸⁶² SPS Ex. 54, Luth direct, Att. RML-RD-4 at 49.

⁸⁶³ SPS Ex. 57, Luth rebuttal at 33-34.

⁸⁶⁴ TIEC Ex. 2, Pollock direct at 43.

⁸⁶⁵ TIEC Ex. 72 at 9.

⁸⁶⁶ TIEC Ex. 2, Pollock direct at 44.

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

PROPOSAL FOR DECISION

PAGE 260

service credits are allocated to all classes on a production basis, even though such credits primarily benefit industrial customers. Mr. Johnson opined that the potential joint benefit flowing to all SPS customers from the historical energy efficiency programs supports SPS's proposed allocation of those costs.⁸⁶⁷ AXM also makes the argument that industrial customers could have availed themselves of the energy efficiency programs offered by SPS, citing 2005 amendments to 16 TAC § 25.181(e)(3)(D), which limited the percentage of the incentive for certain load management programs that Large Commercial and Industrial projects could take.

No party contests the fact that all customers in SPS's system, including those in the industrial classes, benefitted from customers' participation in SPS's historical energy efficiency programs. However, the preponderance of the evidence also shows that the LGS-T classes did not receive services from the energy efficiency programs prior to 2008, while other classes did. Given this fact, the ALJs find that the LGS-T classes did not cause the costs incurred by these programs, even though they may have benefitted to some extent from such programs. It is not clear from the evidence in the record that the LGS-T classes had the same opportunity to participate in the programs. Further, the ALJs find persuasive the uncontradicted testimony that industrial customers, for economic reasons, have the incentive to fund their own energy efficiency measures, which lower system peak demand and in the process benefit all other customers, but the costs of which are borne solely by the industrial customers. In keeping with the guiding principle of cost causation, the ALJs recommend that the Commission reject the allocation of SPS's historical energy efficiency costs to all classes, and recommend that these costs be allocated solely to the classes that received services from those programs using the energy allocator.

W. Municipal Franchise Fees

Municipal franchise fees (MFFs) are charges to electric utilities that municipalities can assess based on electricity usage within the boundaries of each municipality.⁸⁶⁸ SPS has two

⁸⁶⁷ AXM Ex. 6A, Johnson rebuttal at 11.

⁸⁶⁸ AXM Ex. 6, Johnson direct at 21.

levels of MFFs: (a) a base level of 2-3%, which is part of base rates for all customers except LGS-T customers located outside municipal boundaries, and (b) an incremental amount collected from only the customers in the particular franchise jurisdiction charging that amount.⁸⁶⁹ SPS proposes to allocate MFFs among the classes based on each class's relative responsibility for total revenues from inside city limits.⁸⁷⁰ TIEC agrees with SPS's approach, arguing that Commission precedent supports it and that cost causation demands it, given that the MFFs are incurred based on in-city usage and resulting revenue.⁸⁷¹

AXM witness Mr. Johnson recommended that the existing base level of MFFs be allocated to the classes based on total revenue, not just in-city revenue.⁸⁷² He claimed that prior to the passage of PURA § 33.008 in 1999, utilities in Texas typically allocated the MFF costs on the basis of class shares of total revenues. Mr. Johnson also proposed to include the incremental assessments beyond the base MFFs in the base rates, but allocate those charges based on in-city revenues to account for each city's discretionary option to make them. He cited the Commission decision in Docket No. 16705, in which it found ETI's allocation of franchise taxes based on total revenues to be reasonable, and maintained that such decision was consistent with basic rate-making principles.⁸⁷³ Mr. Johnson contended that all classes should pay a pro rata share of the MFFs, because these costs are just as integral to generation and delivery as the land beneath electrical wires and the generation plants, both of which are recoverable from all classes. He also referred to the SWEPCO PFD, in which the ALJs found MFFs to be a cost of doing business and compared them to taxes in finding that the utility had the right to include such expense in base rates.⁸⁷⁴ Mr. Johnson opined that allocating the base MFFs based only on in-city revenue amounts to geographic rate-making, which is precluded because SPS is regulated on an average cost basis. He maintained that MFFs should be allocated without regard to urban and rural

⁸⁶⁹ SPS Ex. 6 at 56.

⁸⁷⁰ SPS Ex. 57, Luth rebuttal at 22; AXM Ex. 6, Johnson direct at 21.

⁸⁷¹ SPS Ex. 57, Luth rebuttal at 22.

⁸⁷² AXM Ex. 6, Johnson direct at 22; Tr. at 1563.

⁸⁷³ AXM Ex. 6, Johnson direct at 22, *citing* Docket No. 16705, Second Order on Rehearing at 95-96.

⁸⁷⁴ AXM Ex. 6, Johnson direct at 23, *citing* Docket No. 40443, PFD at 257.

differentials to be consistent with Commission practice and the remainder of SPS's CCOSS.⁸⁷⁵

TIEC argues that Mr. Johnson's views and recommendations are incompatible with Commission precedent. Specifically, TIEC points to the Order on Rehearing in Docket No. 40443, in which the Commission found that MFFs are taxes levied by municipalities.⁸⁷⁶ Mr. Pollock opined that this finding is contrary to Mr. Johnson's position that MFFs are user fees.⁸⁷⁷ He further asserted that, as taxes, MFFs should be allocated in the same way as miscellaneous gross receipts taxes (MGRT) were in the recent SWEPCO and ETI rate cases, on in-city revenue.⁸⁷⁸ Mr. Pollock also pointed out that Mr. Johnson is not contesting SPS's proposal in this case to allocate MGRT directly to the classes based on in-city revenues. According to Mr. Pollock, MFFs are caused solely by the revenues SPS collects from customers taking service within municipal boundaries. Based on Commission precedent in the ETI, SWEPCO, Reliant Energy, and TXU rate cases and on cost causation principles, MFFs should be allocated as proposed by SPS.⁸⁷⁹ TIEC also refers to Mr. Johnson's testimony in the SWEPCO case, in which he conceded that this method of allocating MFFs is consistent with Commission precedent.⁸⁸⁰

According to Commission precedent, MFFs are considered taxes levied based on the amount of electricity sold within a city's boundaries. The preponderance of the evidence shows that MFFs are incurred based solely on in-city electricity usage and the resulting revenues collected. The evidence is lacking to support a finding that customers taking electricity outside the limits of all municipalities played any role in causing MFFs. Although the Commission did find in Docket No. 16705 that allocation of MFFs based on total revenues is reasonable, there has not been a determination that allocation based on in-city revenues is unreasonable or contrary

⁸⁷⁵ AXM Ex. 6, Johnson direct at 23-24.

⁸⁷⁶ TIEC Ex. 98.

⁸⁷⁷ Tr. at 1,575.

⁸⁷⁸ TIEC Ex. 3, Pollock rebuttal at 14-15.

⁸⁷⁹ TIEC Ex. 3, Pollock rebuttal at 15-16.

⁸⁸⁰ TIEC Ex. 97.

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

PROPOSAL FOR DECISION

PAGE 263

to cost causation principles. To the contrary, in four more recent rate cases, the Commission approved allocation of MFFs based on in-city revenues. The ALJs do not find any basis in this case to deviate from this more current precedent. Therefore, based on cost causation principles, the ALJs find SPS's proposal to be reasonable and appropriate. The ALJs recommend approval of SPS's proposal to allocate the costs of MFFs to the classes based upon their respective shares of SPS's in-city revenues from electricity sales.

XIV. DETERMINATION OF CUSTOMER CLASSES FOR ALLOCATION AND RATE DESIGN PURPOSES

The Commission's rules define both "customer class" and "rate class," and require that customers be organized into rate classes based on both cost causation principles and fairness and equity to customers within the classes.⁸⁸¹ SPS argues that the applicable rule governing rate design is unclear with respect to whether rates must be "sufficient, equitable, and consistent in application" to each "customer class" or each "rate class," because the rule does not use either defined term.⁸⁸² OPUC notes how the Commission in the past has accepted that the terms can often be used interchangeably in arguing that determination of the appropriate classes for cost allocation and rate design is not a mechanical exercise but one involving a balance between cost causation and fairness. SPS agrees that given the lack of clarity, the class issue should be handled pragmatically with a common-sense approach on a case-by-case basis.

A. SPS's Proposed Customer Classification

In its CCOSS, SPS proposed to allocate costs and distribute its revenue requirement among twelve separate customer classes:

⁸⁸¹ 16 TAC § 25.5(23), (100); § 22.243(b); Staff Ex. 1B, Murphy rebuttal at 83; *see also Application of West Texas Utilities Company for Approval of Unbundled Cost of Service Rate Pursuant to PURA § 39.201 and Public Utility Commission Substantive Rule § 25.344*, Docket No. 22354, Order at 26 (Oct. 25, 2001) ("[T]he primary principles to be considered in the design of transmission and distribution rates are cost causation, simplicity, and equity to customers within the given rate classes.")

⁸⁸² 16 TAC § 25.234(a).

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

PROPOSAL FOR DECISION

PAGE 264

1. Residential Service;
2. Residential Service with Electric Space Heating;⁸⁸³
3. Small General Service;
4. Secondary General Service;
5. Primary General Service;
6. Large General Service – Transmission, 69-115kV;
7. Large General Service – Transmission, 115kV+;
8. Small Municipal and School Service;
9. Large Municipal Service;
10. Large School Service;
11. Municipal and State Street Lighting; and
12. Guard and Flood Lighting Service.⁸⁸⁴

SPS also breaks down the Large Municipal Service and Large School Service classes into primary and secondary to make sure that customers are not allocated costs from parts of SPS's distribution system that those customers do not use.⁸⁸⁵

B. Parties' Positions

Staff recommends that SPS's proposed classification of customers for cost allocation and revenue distribution be adopted by the Commission for this case because they are consistent with cost causation principles. However, for revenue distribution in future rate cases, Staff witness Mr. Murphy sets out his recommendations regarding the expansion of SPS's rate classes, which he contended would be more consistent with the Commission's definition of "rate class."⁸⁸⁶

TIEC and OPL take issue with SPS's proposal for setting target revenues and designing rates for the Commercial and Industrial (C&I) classes (Secondary General Service, Primary

⁸⁸³ SPS contends that Residential Service with Electric Space Heating is not a stand-alone class but is treated separately in the CCOSS because these customers have different usage characteristics than those taking under Residential Service. Rates for Residential Service and Residential Service with Electric Space Heating are both included on the same tariff sheet. SPS Ex. 1, Schedule Q8.8 at Sheet IV-3, Electric Tariff – Residential Service.

⁸⁸⁴ SPS Ex. 54, Luth direct at 38; Staff Ex. 1A, Murphy direct at 48. For rate design purposes, SPS proposes to create separate classes for Guard Lighting and Flood Lighting, as well as a Restricted Outdoor Lighting Service subclass and Municipal & State Street Lighting Service subclass from the Municipal and State Street Lighting class.

⁸⁸⁵ SPS Ex. 54, Luth direct at 39.

⁸⁸⁶ These recommendations are discussed further in Section XV.C., supra.

General Service, LGS-T 69-115kV, and LGS-T 115kV+). In its two prior rate cases, according to TIEC and OPL, SPS combined the C&I classes together for these purposes. In this case, however, TIEC and OPL contend that for revenue distribution, SPS combines the LGS-T classes together and separately combines the Secondary General Service and the Primary General Service classes. TIEC and OPL note that according to SPS's evidence, this change results in a shift of almost \$10 million in costs to the LGS-T classes.⁸⁸⁷

For revenue distribution purposes, AXM, based on testimony from its witness Mr. Johnson, proposes grouping SPS's proposed individual classes into the following major classes: Residential, Secondary, Primary, Large General Service, Public, and Lighting. Mr. Johnson contends that such grouping mitigates rate shock and recognizes customer migration between individual classes. AXM points to the SWEPCO decision as support for its grouping approach.

OPUC also cited to the SWEPCO Order in arguing that grouping rate classes into larger "major class groupings" is reasonable to avoid unusual circumstances in the CCOSS, but accepts SPS's proposed classes because the Residential and Small General Service classes were appropriately classified.

C. Treatment of C&I Classes

SPS proposes to allocate costs separately to the C&I classes using the AED-4CP allocator, and then distribute the class revenue increase by calculating the class revenue targets based on the same approach.⁸⁸⁸ SPS witness Mr. Luth explained that the capacity costs for Primary and Secondary General Service were combined and then distributed based on line loss-adjusted billing demands. The capacity costs for the two LGS-T classes were combined and distributed on the same basis.⁸⁸⁹ This represents a change in methodology from the past two SPS rate cases. In those cases, SPS allocated costs to the C&I classes as a whole using AED-4CP.

⁸⁸⁷ OPL Ex. 17; Tr. at 971-972.

⁸⁸⁸ SPS Ex. 61, Evans rebuttal at 34.

⁸⁸⁹ TIEC Ex. 65 at 88-89.

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

PROPOSAL FOR DECISION

PAGE 266

All costs were allocated to the C&I classes together, then SPS distributed revenue to the C&I classes based on billing demand.⁸⁹⁰ According to SPS witness Mr. Evans, allocating costs to the C&I classes based on AED-4CP but then distributing revenue on a billing demand basis is inconsistent. Also, the billing demands do not reflect cost causation relative to production and transmission plant. He testified that he is unaware of the Commission approving a fully-integrated electric utility's use of non-coincident billing demands to allocate costs between classes.⁸⁹¹ In argument, SPS notes that there are differences between the C&I classes in terms of load and usage characteristics that cause them to affect SPS's system differently, which justifies their differing treatments in cost allocation and rate design. SPS points out that Primary and Secondary General Services take electricity at distribution voltage, while the LGS-T classes take at transmission voltage. Given this difference, SPS contends that treating these classes the same for cost allocation and rate design purposes would be inconsistent with cost causation principles.

TIEC and OPL oppose SPS's proposed change in the distribution of revenue within the C&I classes. TIEC takes the position that SPS itself uses the term "C&I class" and that the Commission has recognized a C&I rate class in prior settlements and orders.⁸⁹² TIEC witness Mr. Pollock asserted that SPS should continue its practice of designing the rates for the C&I classes to recover the costs allocated to the C&I classes.⁸⁹³ TIEC explains that, in SPS's prior rate cases, SPS distributed production costs for the C&I classes based on billing determinants, and Staff witnesses in those cases raised no concerns with SPS's treatment of the C&I classes as a single rate class.⁸⁹⁴ TIEC and Mr. Pollock also note that other utilities combine secondary, primary and transmission services. In SWEPCO's case, the Commission approved (over Staff's objection) the combining of 17 subclasses into nine classes and assigned a single increase to the entire class.⁸⁹⁵ TIEC points out that Mr. Luth took the position, in prior rate cases, that treating

⁸⁹⁰ SPS Ex. 61, Evans rebuttal at 34.

⁸⁹¹ SPS Ex. 61, Evans rebuttal at 34-35.

⁸⁹² TIEC Ex. 28 at 32.

⁸⁹³ TIEC Ex. 2, Pollock direct at 53.

⁸⁹⁴ TIEC Ex. 65 at 89; Docket No. 32766, TIEC Ex. 99, Troxle direct at 22-24; Docket No. 35763, TIEC Ex. 102, Manning direct at 15-12, 25-31.

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

PROPOSAL FOR DECISION

PAGE 267

the C&I classes as a single rate class is reasonable and was a way to prevent irrational rates.⁸⁹⁶ Although Mr. Evans testified that SPS's prior approach did not reasonably reflect cost causation, TIEC contends that the evidence is lacking to support that position.

OPL also argues that SPS should retain its historical approach for cost allocation and revenue distribution. OPL asserts that SPS's proposed change in this case is arbitrary and careless, without proper basis, and unfairly burdens the LGS-T customers to the benefit of other classes. OPL witness Mr. Griffey opined that SPS's historical approach is more reasonable because it aligned costs within the C&I classes according to actual billing determinants, reflected the price signal received by the customers, and prevented incentives for customers to move among the rate classes.⁸⁹⁷ He further contended that SPS put forth no evidence to indicate that any relevant circumstances have changed since its last rate case to justify the proposed change and resulting adverse impacts on the LGS-T classes.⁸⁹⁸ OPL argues that SPS's witnesses are inconsistent in their testimony regarding the reasons and details of the proposed change, which OPL contends was made without a reasonable basis.

Staff approves and recommends adoption of SPS's proposed classification of customers for cost allocation and revenue distribution. Staff offers Mr. Murphy's testimony to explain its opposition to TIEC's and OPL's proposal to distribute revenue to the C&I classes as a whole as contrary to cost-causation principles.⁸⁹⁹ Mr. Murphy contended that the C&I classes have dissimilar service characteristics, specifically noting that the different customers within the class take service from different facilities.⁹⁰⁰ Considering the allocation of costs of the production,

⁸⁹⁵ TIEC Ex. 104 at 33; TIEC Ex. 3, Pollock rebuttal at 19; TIEC Ex. 80 at 267. Mr. Pollock further observed that ETI and EPE also combine secondary, primary, and transmission-voltage customers together in the same tariff. TIEC Ex. 3, Pollock rebuttal, Ex. JP-10-CA.

⁸⁹⁶ TIEC Ex. 65 at 92-93.

⁸⁹⁷ OPL Ex. 4, Griffey direct at Bates 21-22.

⁸⁹⁸ OPL Ex. 4, Griffey direct at Bates 21.

⁸⁹⁹ Staff Ex. 1B, Murphy rebuttal at 44, 52, 63.

⁹⁰⁰ Staff Ex. 1B, Murphy rebuttal at 24.

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

PROPOSAL FOR DECISION

PAGE 268

transmission, and distribution systems shared by the C&I classes based on billing demands, Mr. Murphy maintained that such approach fails to provide credits for relative load diversity.⁹⁰¹ To illustrate, Mr. Murphy opined that Secondary General Service customers, because of their high degree of load diversity, would bear a disproportionate share of capacity costs incurred to serve LGS-T customers, which impose more load on SPS's system during the peak times that drive SPS's capacity investments.⁹⁰² In Staff's view, the cost-shifting that Staff contends will occur under TIEC's and OPL's method fails to comport with cost causation principles.

TIEC takes issue with Staff witness Mr. Murphy's characterization of Mr. Pollock's testimony, and claims that Mr. Murphy is the outlier when it comes to his position regarding rate design for the consolidated C&I class. Again TIEC cites the SWEPCO decision to support its position that the concept of granularity has been considered and rejected by the Commission. In summation, TIEC argues that if the Commission decides to reverse course and accept Mr. Murphy's "maximum granularity approach," there should be sufficient evidence in the record to support such a dramatic change in policy, which is lacking here.

In reply, SPS takes the position that there is more than one reasonable methodology for allocation and distribution of costs and revenue amongst the classes. In fact, there may be a range of reasonable approaches, some more reasonable than others. Responding to OPL witness Mr. Griffey, Mr. Evans testified that, although using billing determinants is appropriate for rate design, they are not appropriate to allocate costs to classes to determine the revenue requirement by class. According to Mr. Evans, the approach advocated by Mr. Griffey would distort the calculated performance of each rate class and hide inter-class subsidies, which was the reason Mr. Evans called for the change. He testified that the proposed allocation approach uses the same allocator for all classes, treats them fairly, and provides a clear picture of the cost of service for each class.⁹⁰³ SPS witness Mr. Luth also disagreed with Mr. Griffey. Mr. Luth stated that there will be no incentives to move among classes because the Secondary General Service

⁹⁰¹ Staff Ex. 1B, Murphy rebuttal at 44.

⁹⁰² Staff Ex. 1B, Murphy rebuttal at 52, Table BTM-13.

⁹⁰³ SPS Ex. 61, Evans rebuttal at 37-38.

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

PROPOSAL FOR DECISION

PAGE 269

demand charge is higher than the Primary General Service demand charge, which is higher than the LGS-T demand charges.⁹⁰⁴ He compared the average demand of the C&I classes in an attempt to show that the Primary General Service and Secondary General Service customers are much more alike than the LGS-T customers and should therefore be grouped separately. Mr. Luth pointed out that Primary General Service's average of 80 kW billed per month and Secondary General Service's average of 43 kW billed per month are considerably lower than the LGS-T average of 16,900 kW billed per month.⁹⁰⁵

SPS also takes issue with TIEC's reliance on prior Commission orders approving uncontested settlements that combined primary, secondary and transmission-voltage customers together for revenue distribution purposes. SPS argues that TIEC disclaimed the precedential value of such orders on other issues in this case, where those orders contradicted TIEC's position on those issues. Furthermore, SPS notes that Staff agrees with SPS: combining all of the C&I classes together and distributing revenue to all four of them based on billing demands could tend to obscure inter-class cost shifting.

D. ALJs' Analysis

The ALJs agree with SPS and Staff that Commission precedent does not mandate that the C&I classes be grouped together into a single class for purposes of revenue distribution. However, in the ETI and SWEPCO rate cases, the Commission approved classes which included customers who took service at different voltages. Nevertheless, the ALJs find that SPS has proposed a method for grouping the C&I classes for cost allocation and revenue distribution purposes that more closely allocate costs according to cost causation principles than did its previous methodologies, which were not litigated in its last three rate cases.

TIEC cited the ETI case in support of its position that the C&I classes should continue to be grouped together for revenue distribution purposes. But the ALJs determine that the issue of

⁹⁰⁴ SPS Ex. 57, Luth rebuttal at 41, 43.

⁹⁰⁵ SPS Ex. 57, Luth rebuttal at 42.

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

PROPOSAL FOR DECISION

PAGE 270

how costs would be allocated and revenue requirements distributed amongst and between Primary and Secondary General and the LGS-T classes was not raised by the parties in that case. There is no discussion in the PFD from that case as to what methodology ETI used with regard to revenue distribution between those classes or whether another method might be more consistent with cost causation principles. Likewise, although other utilities have tariffs which include classes together that take service at different voltages, there is no evidence that similar issues were raised before the Commission before those tariffs were approved.

The ALJs find that the method SPS seeks to use for distributing revenues among the C&I classes is more reasonable than the approach it used in prior rate cases. SPS's method also takes into consideration Staff's position that cost allocation and revenue distribution should happen at a more granular level when possible. The ALJs found persuasive SPS's and Staff's argument that combining customers at different voltage levels for purposes of revenue distribution can distort the performance of the rate classes and potentially hide subsidies between the classes that are grouped. The preponderance of the evidence indicates that SPS's proposal (a) will reduce the possibility of subsidies; (b) properly takes into consideration the differences in the characteristics between the C&I classes and their respective effects on the SPS system; and (c) closely follows cost causation principles. TIEC's and OPL's evidence in opposition to the rationale provided by SPS for making the proposed changed is simply lacking. Therefore, the ALJs recommend that the Commission adopt SPS's proposed classification of its customers for purposes of cost allocations and revenue distribution. The ALJs further recommend adoption of SPS's approach for distributing revenue among the C&I classes.

XV. REVENUE DISTRIBUTION

A. Gradualism Adjustment

1. Background

SPS proposes that the maximum rate increase for any one class be capped at 200% of the

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

PROPOSAL FOR DECISION

PAGE 271

system average increase for base revenue, and that no class should receive a rate reduction.⁹⁰⁶ According to SPS, this approach will prevent short-term adverse impacts of a rate change on certain customers and promote rate stability. At the same time, it will recognize the Commission's policy of moving all classes towards cost-based rates. In its most previous rate case, SPS recommended a 150% cap in retail base rate increases. SPS increased the recommended percentage here to move more aggressively towards cost of service based rates and eliminate inter-class subsidies.⁹⁰⁷

TIEC and OPL propose a 150% cap in line with SPS's previous rate case recommendation. AXM proposes a cap of 175%. Pioneer and Staff propose that no cap be applied. DOE, OPUC, and Walmart support a cap, the amount of which is dependent on the amount of rate increase and the impact of the increase on each class. SPS made clear that it does not agree with Pioneer's or Staff's recommendations, but that it would not object if the Commission decided not to adopt a gradualism adjustment. SPS also does not oppose a smaller cap, in line with TIEC's, OPL's, or AXM's recommendations.

2. Parties' Positions

a. TIEC and OPL

TIEC argues that its proposed 150% cap is consistent with SPS practice and Commission precedent, both in contested rate cases and those that have settled. In the ETI case, the Commission adopted the ALJs' PFD, which stated that 1.5 to 1.75 times the system average has been considered by the Commission as an appropriate ceiling for a rate increase.⁹⁰⁸ TIEC contends that a smaller cap is appropriate here to avoid an unduly harsh increase on any particular class given the two large increases in the past two years, which amounted to a greater

⁹⁰⁶ SPS Ex. 54, Luth direct at 60; SPS Ex. 61, Evans rebuttal at 32.

⁹⁰⁷ SPS Ex. 54, Luth direct at 61.

⁹⁰⁸ Docket No. 39896, PFD at 282-290.

than 20% increase for LGS-T customers.⁹⁰⁹ Pointing out the judgment calls, assumptions, and imperfections inherent in any CCOSS, TIEC claims that the costs of service as determined in this case by SPS are approximations. According to TIEC, the costs can vary wildly from year-to-year depending on unusual circumstances affecting usage. Therefore, the Commission's policy of moving to cost of service-based rates must be tempered by the shortcomings of the data and the analysis.⁹¹⁰

OPL's arguments against SPS's gradualism proposal mirror the bases for its objection to SPS's methodology for distributing revenue to the C&I classes: (a) the proposal is inconsistent with SPS's past practices; (b) it results in adverse effects to the LGS-T classes; (c) it is arbitrary in nature; and (d) it is contrary to Commission precedent. OPL notes the numerous changes in methodology SPS proposes with its CCOSS in this rate case, and that SPS previously took the position that its now-abandoned approaches to cost allocation were and continue to be reasonable. Based on these facts, OPL argues that a more significant gradualism adjustment is warranted to prevent the significant increase in costs that will otherwise shift to LGS-T customers based on the methodological changes alone. In agreement with TIEC, OPL points out the limits and inaccuracies that are part of CCOSSs. OPL contends that gradualism is essential to smooth out the rough edges created by SPS's proposed CCOSS, given that it measures sunk rather than marginal costs. OPL characterizes SPS's proposed gradualism adjustment, from a 150% to a 200% cap, as unfair and prejudicial to only the LGS-T classes.

b. Pioneer

Pioneer takes the position that any gradualism adjustment will result in Residential and Primary General Service customers subsidizing the LGS-T classes to an unreasonable degree. Therefore, no cap on any class's rate increase should be imposed, or, in the alternative, such cap should only apply to the lighting classes. While acknowledging Commission precedent for implementing a gradualism adjustment, Pioneer stresses the Commission's policy towards

⁹⁰⁹ Docket No. 40824, Order, Exh. A at 15, Exh. C at 251; Docket No. 42004, Order, FF 38(a).

⁹¹⁰ Tr. at 1,495, 1,481; TIEC Ex. 82 at FF 287; Staff Ex. 1B, Murphy rebuttal, Att. BTM-4 at 90.91.

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

PROPOSAL FOR DECISION

PAGE 273

moving to cost of service-based rates. Pioneer contends that rate case decisions over the last 10 years support its position that no gradualism adjustment should be applied here. Further, Pioneer points to testimony from nearly every expert in this case which expresses the importance of setting rates based on cost of service. Pioneer focuses on Mr. Pollock's testimony that cost of service-based rates send proper price signals and promote equity, engineering efficiency, stability, and conservation, and that subsidization is inequitable.⁹¹¹

Pioneer argues that although gradualism would mitigate the rate increases to the LGS-T classes, it will simultaneously (a) intensify the rate increase to the Residential and Primary General Service classes; (b) move all classes' rates away from a cost of service basis; and (c) distort or destroy necessary price signals. Pioneer witness Karl Nalepa testified that based on SPS's rebuttal filings, a cap of 200% of the system average increase for base revenue would shift \$8.68 million from the LGS-T classes to the other rate classes. According to SPS's CCOSS, in SPS's direct case the Primary General Service class should see a \$5.7 million rate increase, but if a 200% gradualism adjustment is applied, it would see a \$7.8 million increase, or 35% more than the class's cost of service.⁹¹² Pioneer points out that Mr. Pollock, Mr. Etheridge, Mr. Griffey, and Mr. Johnson all conceded that application of a gradualism adjustment would force Residential and Primary General Service (PGS) classes to subsidize the LGS-T classes.⁹¹³

Given that SPS filed this rate case to recoup costs of transmission-level investment that was primarily made to serve transmission-level classes such as LGS-T, Pioneer contends that the subsidization of the LGS-T classes by the Residential and PGS classes is particularly unfair and inequitable.⁹¹⁴ Pioneer asserts that when the Commission has approved implementation of a gradualism adjustment, it has done so to minimize the effect of excessive rate increases on residential, municipal, and lighting classes with limited incomes and inelastic demand.⁹¹⁵

⁹¹¹ TIEC Ex. 2, Pollock direct at 49.

⁹¹² Pioneer Ex. 7, Nalepa direct at 14.

⁹¹³ Tr. at 570-580, 1,397-1,409, 1,443-1,464, 1,534-1,536.

⁹¹⁴ SPS Ex. 61, Evans rebuttal at 14-15.

⁹¹⁵ Docket No. 40443; Docket No. 39896; Docket No. 38339, PFD at 8, 147; Order on Rehearing at 33, FF 175;

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

PROPOSAL FOR DECISION

PAGE 274

Pioneer argues that that there is no good policy basis to require distribution-level customers to subsidize transmission-level customers.⁹¹⁶

Pioneer makes the point that SPS's reduction of the requested increase by \$22 million from its original to its rebuttal case has brought the increases to the LGS-T classes down to dollar amounts and percentage increases which are below the initial gradualism-limited increase that SPS represented in the Application are reasonable.⁹¹⁷ Based on this evidence, Pioneer takes the position that a gradualism adjustment is unnecessary and that it is reasonable to move all classes to cost of service-based rates. Further, Pioneer argues that increasing the subsidies to be paid by the Primary General Service and Residential classes to the LGS-T classes while simultaneously decreasing the revenue requirements cannot be supported. Moreover, given the overall amount of revenue increase sought by SPS in its rebuttal case, Pioneer asserts that the dollar amounts of these subsidies are unreasonably excessive and fail to meet PURA requirements for just and reasonable rates.⁹¹⁸

Responding to the position of Mr. Griffey and Mr. Luth that LGS-T customers could reduce consumption or leave SPS's system if no gradualism adjustment is applied, Pioneer contends there is no evidence in the record to warrant such concern. Further, Pioneer claims that if LGS-T customers reduce their consumption, they would be properly responding to price signals from cost of service-based rates and promoting conservation and efficiency in the system.⁹¹⁹ If SPS's CCOSS is accurate, LGS-T customers' current rates are below costs, which could have encouraged over-consumption, which could have led to SPS having to invest in more transmission capacity and file several rate cases over a relatively short period of time. If this is

Docket No. 35717, PFD at 224-225; Docket No. 33309; *Application of AEP Texas Central Company for Authority to Change Rates*, Docket No. 28840; *Petition of Public Utility Commission of Texas (Staff) to Inquire Into the Reasonableness of the Rates and Services of Cap Rock Energy Corporation*, Docket No. 28813; Tr. at 816.

⁹¹⁶ SPS Ex. 54, Luth direct at 60; TIEC Ex. 65 at 138-139; OPL Ex. 4, Griffey direct at Bates 5-11; OPL Ex. 5, Griffey rebuttal at Bates 6-9.

⁹¹⁷ Pioneer Ex. 1; Tr. at 824-828, 1,005-1,006.

⁹¹⁸ PURA § 36.003.

⁹¹⁹ Tr. at 1,381, Pioneer Ex. 7, Nalepa direct at 14-15; TIEC Ex. 2, Pollock direct at 50.

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

PROPOSAL FOR DECISION

PAGE 275

the case, Pioneer argues that a reduction in LGS-T class consumption would reflect these customers' true demand and avoid some of the investment SPS believes it will need to make.⁹²⁰

Pioneer proposes that because SPS has not litigated a rate case in over 23 years, this case represents an opportunity for the Commission to reset the rates for each SPS class on a true cost of service basis. If it does so, then moving forward the parties can use those base rates as precedent for working towards settlements in future rate cases.⁹²¹

As to the concept that gradualism adjustments should be used to prevent or alleviate rate shock, or a rate increase for a class or classes that substantially exceeds the rate increase impact on the SPS system as a whole, Pioneer takes the position that there is no rate shock in this case. It argues that in determining whether rate shock exists so as to justify gradualism, the entire rate change to be experienced by the class or classes promoting the adjustment, as affected by other issues such as fuel and other revenue, must be examined.⁹²² Specifically in this case, because of SPS's fuel factor changes, the LGS-T classes will see an 8.7% rate reduction with a 6.7% Total Retail rate reduction.⁹²³ Given this decline in the LGS-T class rate, Pioneer contends that a gradualism adjustment is unwarranted. In further support of its argument that no rate shock exists in this case, Pioneer again points to SPS's representation in its Application that a \$28 million increase in the LGS-T class rates, as adjusted for SPS's gradualism proposal, was reasonable.⁹²⁴

In rebuttal to Pioneer's arguments, TIEC notes that Mr. Nalepa has consistently advocated for the application of gradualism adjustments in several prior rate cases before the Commission.⁹²⁵ TIEC also points out Mr. Nalepa's testimony regarding the range of

⁹²⁰ TIEC Ex. 2, Pollock direct at 49-50; Tr. at 1,439-1,444, 1,378-1,382, 1,412-1,413, 604-606.

⁹²¹ Tr. at 1,008-1,009, 1,537-1,539.

⁹²² Tr. 1476, 1590-1492, 1902-1906; *Application of Texas Utilities Electric Company for Authority to Change Rates*, Docket No. 9300, Examiner's Report at 398-400 (June 12, 1991).

⁹²³ Tr. at 1,902; SPS Ex. 61, Evans rebuttal, Att. EDE-RD-1.

⁹²⁴ Tr. at 826; Pioneer Ex. 1 at 24.

⁹²⁵ Tr. at 1,085; OPL Ex. 32 at 12.

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

PROPOSAL FOR DECISION

PAGE 276

reasonableness in cost allocation methodologies. Further, TIEC makes reference to Mr. Nalepa's criticism of SPS's CCOSS for its significant shifting of costs resulting in unreasonable instability in cost allocation and resulting rates.⁹²⁶ TIEC quotes three Examiner's Reports which refer to Mr. Pollock having advocated for gradualism adjustments to be applied in prior rate cases in an effort to create contrast with Pioneer's characterization of his prior positions. Responding to Pioneer's position that SPS's gradualism proposal became more improper as its requested rate increase was reduced, TIEC argues that gradualism constraints have been applied to whatever rate increase was ultimately approved. According to TIEC, the movement toward cost of service-based rates is a function of the size of the final rate increase approved here, if any. TIEC notes that the Commission has even applied gradualism adjustments in a case with an ultimate base rate decrease.⁹²⁷ TIEC points out that the PFDs in SWEPCO and ETI both recognized Commission precedent for application of gradualism adjustments, and explains that gradualism was not applied in cases of TDUs in the Electric Reliability Council of Texas region, for different reasons that would not apply here.⁹²⁸

OPL also replied to Pioneer's arguments against gradualism by emphasizing the imprecision and subjective nature of CCOSS. According to OPL, what Pioneer calls a "subsidy" is simply a situation in which a class pays less than what the CCOSS indicates. OPL contends that its proposed gradualism adjustment takes into consideration the fact that SPS's CCOSS does not perfectly reflect costs. Moreover, OPL asserts that because the cap at issue applies to base rates, Pioneer's argument regarding fuel costs and their effect on the total bills for LGS-T customers is irrelevant and inapplicable. OPL points out Mr. Luth's testimony that fuel costs are subject to change on short notice and can rise rapidly. Therefore, any benefit on base rates and corresponding basis for Pioneer's gradualism proposal could be fleeting.⁹²⁹

⁹²⁶ Tr. at 1,084, 1,086-1,087; Pioneer Ex. 7, Nalepa direct at 6-10.

⁹²⁷ Docket No. 5640 at FF 37.

⁹²⁸ TIEC Ex. 80 at 268; Docket No. 39896, PFD at 283-284; Docket No. 28840, Order at 23.

⁹²⁹ Tr. at 992.

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

PROPOSAL FOR DECISION

PAGE 277

c. AXM

AXM witness Mr. Johnson proposed limiting the increase for any class to 175% of the system average increase.⁹³⁰ AXM argues that the gradualism adjustment is necessary and reasonable because it moderates rate increases and mitigates rate shock. According to AXM, if the Commission adopted SPS's proposed rate increase without gradualism, Street and Municipal Lighting would incur a 30.9% base revenue increase. Mr. Johnson testified that this would have a severe adverse effect on local governmental budgets.⁹³¹ AXM cites the Order on Rehearing in a recent Oncor rate case in which the Commission found that the lighting class performs public good and has unique demand characteristics. These facts made it reasonable for Oncor to limit the class's rate increase to 10%.⁹³² AXM explains that its proposed gradualism adjustment recognizes the inexact nature of the CCOSS results and the subjectivity involved in the underlying assumptions for the CCOSS. The adjustment also moderates unreasonable rate increases that might result from the hotly disputed CCOSS in this case.⁹³³

d. OPUC

OPUC did not make a specific recommendation as to whether a gradualism adjustment is appropriate in this case. Nevertheless, OPUC witness Mr. Marcus testified that the determination of whether to apply gradualism should consider its impact on the total bill, and not just the base rates. Therefore, more gradualism would be appropriate for classes such as Residential and Small General Service, whose base rates comprise a larger portion of their costs.⁹³⁴ Further, Mr. Marcus maintained that gradualism should consider the level of rate change in terms of cents per kWh in addition to the base rate percentage increase. Otherwise, it

⁹³⁰ AXM Ex. 6, Johnson direct at 28.

⁹³¹ AXM Ex. 6, Johnson direct at 25.

⁹³² AXM Ex. 35 at 32.

⁹³³ AXM Ex. 6, Johnson direct at 25.

⁹³⁴ OPUC Ex. 14, Marcus direct at 27.

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

PROPOSAL FOR DECISION

PAGE 278

could be applied to a class receiving a higher percentage increase, to the detriment of a class receiving a lower percentage increase but a higher increase in cents per kWh.⁹³⁵

Mr. Marcus contended that setting a cap based on a percentage of the system average base rate increase is unworkable when the increase is relatively small. In such a situation, Mr. Marcus suggested an adjustment based on a fixed percentage over the system average rate change. Further, he proposed capping the increase as a result of using the gradualism adjustment, also by a fixed percentage, on customers otherwise receiving a decrease in base rates.⁹³⁶

e. Staff

Staff takes the position that a gradualism adjustment in this case is unnecessary because (a) there is no rate shock sufficient to justify its application, and (b) the recent decrease in fuel factors result in overall decreases in total billings for several customers, including those in the LGS-T classes.⁹³⁷ Citing the ETI Order, Staff asserts that the critical issue in determining whether gradualism is appropriate is “whether the utility’s proposed increase is so out of proportion or harsh to a particular class that some form of gradualism should be applied.”⁹³⁸ According to Staff, SPS’s proposed rate increases are not high enough to justify any gradualism adjustment. The increases as calculated by SPS, without a gradualism adjustment, are as follows:

Customer Class	Base Rate Increase	Percentage Increase
Residential Service	\$5,653,632	4.37%
Residential Service with Space Heating	\$2,765,315	5.46%
Small General Service	\$1,316,792	6.96%
Secondary General Service	\$(1,497,539)	-1.39%
Primary General Service	\$4,308,542	6.42%

⁹³⁵ OPUC Ex. 14, Marcus direct at 26-27.

⁹³⁶ OPUC Ex. 14, Marcus direct at 26.

⁹³⁷ Tr. at 991, 1,741; SPS Ex. 61, Evans rebuttal at 14, Att. EDE-RD-R1.

⁹³⁸ Docket No. 39896, PFD at 284, adopted in Order.

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

PROPOSAL FOR DECISION

PAGE 279

Large General Service – Transmission 69 kV	\$4,244,220	22.09%
Large General Service – Transmission 115+ kV	\$22,396,447	24.10%
Small School and Municipal Service	\$19,899	1.67%
Large Municipal Service	\$66,259	0.89%
Large School Service	\$1,057,022	11.02%
Street Lighting	\$717,250	16.44%
Guard Lighting	\$1,027,156	30.90%
Total	\$42,074,996	8.22%

Staff witness Mr. Murphy compared the highest percentage increases proposed (22.09% for LGS-T 69kV, 24.10% for LGS-T 115kV+, and 30.90% for Guard Lighting) to those in the SWEPCO case. In doing so, he found them consistent with the Commission's Order in that case, which approved a 20.9% increase for SWEPCO's residential class and a 29.2% increase for SWEPCO's lighting and power class. Mr. Murphy opined that the SWEPCO precedent applies and calls for rejection of gradualism in this proceeding. Alternatively, if the Commission finds gradualism is necessary, Mr. Murphy stated that the class revenue increases should be limited to 20% on a percentage basis instead of an adjustment based on the overall system average increase or decrease.⁹³⁹

f. SPS Rebuttal

SPS argues that Mr. Pollock has long advocated for cost of service-based rates during his repeated testimony in rate cases before the Commission, and that his advocacy in this regard supports SPS's 200% proposed cap. Concerning the argument that SPS's proposal will cause industrial customers to migrate from the SPS system, causing rates to rise across the board for all other customers, SPS witness Mr. Evans indicated that lower fuel and purchased power costs will reduce the bills for LGS-T customers. Moreover, their total bills will actually be much lower than previous rates, given the reduced fuel factors implemented by SPS.⁹⁴⁰ SPS also argues that the higher cap is proper as to LGS-T customers because of their disproportionate effect on the

⁹³⁹ Staff Ex. 1A, Murphy direct at 53-54.

⁹⁴⁰ SPS Ex. 61, Evans rebuttal at 13; SPS Ex. 6.

capital expansion SPS must incur to account for these classes' increased load. Mr. Evans explained that many of the new service requests require construction or expansion of SPS facilities for oil and gas production in areas without significant electric infrastructure.⁹⁴¹ Finally, Mr. Evans took the position that SPS should not base its gradualism adjustment on the needs of customers with the ability to self-generate or acquire different service. According to Mr. Evans, that consideration is contrary to the Commission's policy of moving to cost of service-based rates. Further, it conflicts with Mr. Griffey's position that revenue distribution should seek to achieve fairness between the classes.⁹⁴²

3. ALJs' Analysis

Contrary to Pioneer's argument, the Commission explicitly found in 2005 that the concept of gradualism is not abandoned. In the two most recent rate cases, the Commission supported the application of a gradualism adjustment. Whether a gradualism adjustment should be applied in a particular case depends on whether a proposed increase is out of proportion or harsh to a particular class. The overall size of the rate increase that is ultimately approved also should be considered. In the SWEPCO case, while the rate increases to several classes were significant, so was the overall system average. The realignment of the rate classes by SWEPCO resulted in rate increases that did not exceed 1.5 times the overall system average for any particular class, so no gradualism was necessary. The same was true in the ETI case, where setting rates based on cost of service resulted in no class receiving an increase of more than 1.5 times the overall system average.

In this proceeding, consistent with their recommendations regarding SPS's base rate increase and based on the percentage increases reflected in SPS's rebuttal case, the ALJs recommend that the Commission adopt SPS's proposal to implement a 200% gradualism cap. Such an adjustment represents a compromise between the Commission's goal of moving to cost of service-based rates while accounting for (a) the undisputed uncertainties regarding the

⁹⁴¹ SPS Ex. 61, Evans rebuttal at 14.

⁹⁴² SPS Ex. 61, Evans rebuttal at 14; OPL Ex. 4, Griffey direct at Bates 9.

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

PROPOSAL FOR DECISION

PAGE 281

accuracy of the CCOSS results; (b) the valid concerns raised by highly-qualified experts representing parties across the board concerning various aspects of the new CCOSS methodology employed by SPS, and (c) the rate increases flowing from the CCOSS for the Municipal and State Street Lighting Service class (almost four times the system average increase) and the LGS-T classes (almost three times the system average increase). Commission precedent supports this recommendation, and it strikes a balance between the competing policies involved.

B. Proposed Revenue Distribution

For its classes, SPS proposes the following distribution of the base rate increase of \$42,074,996, plus a 200% gradualism adjustment and reallocation of the excess amount beyond that cap (\$7.6 million) to other classes based on cost of service-based increase applicable to each class unaffected by the cap:⁹⁴³

Customer Class	Base Rate Increase	Percentage Increase
Residential Service	\$8,319,374	6.43%
Residential Service with Space Heating	\$4,069,187	8.04%
Small General Service	\$1,937,672	10.24%
Secondary General Service	0	0
Primary General Service	\$6,340,061	9.45%
Large General Service – Transmission 69 kV	\$3,159,552	16.44%
Large General Service – Transmission 115+ kV	\$15,281,704	16.44%
Small School and Municipal Service	\$29,282	2.45%
Large Municipal Service	\$97,501	1.31%
Large School Service	\$1,576,697	16.44%
Street Lighting	\$717,480	16.44%
Guard Lighting	\$546,484	16.44%
Total	\$42,074,996	8.22%

Staff's proposal is slightly different given its dispute with SPS's proposed revenue requirement and rate of return. Using Mr. Murphy's proposed customer classes and cost

⁹⁴³ SPS Ex. 54, Luth direct at 61; SPS Ex. 57, Luth rebuttal, Att. RML-RD-R4 at 2.

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

PROPOSAL FOR DECISION

PAGE 282

allocations, and without implementation of a gradualism cap, Staff recommended the following revenue distribution:⁹⁴⁴

Class	Proposed Revenues	Cost of Service
Residential	\$128,949,527	\$128,949,527
Residential Service with Electric Space Heating	\$48,976,962	\$48,976,962
Small General Service	\$16,952,837	\$16,952,837
Secondary General Service	\$100,127,445	\$100,127,445
Primary General Service	\$62,734,539	\$62,734,539
Large General Service-Transmission, 69-115kV	\$22,685,182	\$22,685,182
Large General Service-Transmission, 115kV+	\$104,031,823	\$104,031,823
Small Municipal & School Service	\$1,187,824	\$1,187,824
Large Municipal Service	\$7,621,416	\$7,621,416
Large School Service	\$9,443,914	\$9,443,914
Municipal & State Street Lighting	\$4,507,211	\$4,507,211
Guard & Flood Lighting Service	\$4,495,759	\$4,495,759

Based on Mr. Johnson's testimony and recommendations for grouping of classes and gradualism adjustments, AXM offers its own proposed revenue distribution, set forth in Attachments to Mr. Johnson's direct testimony.⁹⁴⁵

For the reasons set forth in this Section and Section XIV, above, the ALJs recommend, in accordance with their previous recommendations regarding the various issues raised on cost allocation, that the Commission adopt SPS's proposed distribution of the base rate increase. Such distribution is reasonable because it appropriately balances the concepts of gradualism and cost causation.

C. Classes for Revenue Distribution in Future Cases

Staff asserts that the Commission's Final Order in this case should specifically identify SPS's rate classes so as to reduce or eliminate uncertainty and potential disagreements in other

⁹⁴⁴ Staff Ex. 1C at 54.

⁹⁴⁵ AXM Ex. 6, Johnson direct, Atts. CJ-4 and CJ-5.

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

PROPOSAL FOR DECISION

PAGE 283

types of rate proceedings and decrease rate case expenses in those proceedings.⁹⁴⁶ Staff asserts that rate classes are necessary for calculating energy efficiency, distribution, and purchased power cost recovery factors.⁹⁴⁷ Staff's proposal for SPS's rate classes for standard electric service is as follows:⁹⁴⁸

1. Residential Service (Tariff sheet no. IV-3)⁹⁴⁹
2. Residential Service with Electric Space Heating (Tariff sheet no. IV-184)⁹⁵⁰
3. Small General Service (Tariff sheet no. IV-172)⁹⁵¹
4. Secondary General Service (Tariff sheet no. IV-18)⁹⁵²
5. Primary General Service (Tariff sheet no. IV-173)⁹⁵³
6. Large General Service-Transmission (Tariff sheet no. IV-108)⁹⁵⁴
7. Small Municipal & School Service (Tariff sheet no. IV-174)⁹⁵⁵
8. Large Municipal Service (Tariff sheet no. IV-175)⁹⁵⁶
9. Large School Service (Tariff sheet no. IV-182)⁹⁵⁷
10. Guard Lighting Service (Tariff sheet no. IV-65)⁹⁵⁸
11. Municipal & State Street Lighting Service (Tariff sheet no. IV-91)⁹⁵⁹
12. Flood Light Service (Tariff sheet no. IV-118)⁹⁶⁰
13. Restricted Outdoor Lighting Service (Tariff sheet no. IV-150)⁹⁶¹

⁹⁴⁶ Staff Ex. 1A, Murphy direct at 57.

⁹⁴⁷ 16 TAC § 25.181(c)(49), § 25.243(d), § 25.238(h).

⁹⁴⁸ Staff Ex. 1A, Murphy direct at 56-57.

⁹⁴⁹ SPS Ex. 1, Schedule Q-8.8 at 10.

⁹⁵⁰ SPS Ex. 1, Schedule Q-8.8 at 94.

⁹⁵¹ SPS Ex. 1, Schedule Q-8.8 at 61.

⁹⁵² SPS Ex. 1, Schedule Q-8.8 at 13.

⁹⁵³ SPS Ex. 1, Schedule Q-8.8 at 64.

⁹⁵⁴ SPS Ex. 1, Schedule Q-8.8 at 28.

⁹⁵⁵ SPS Ex. 1, Schedule Q-8.8 at 66.

⁹⁵⁶ SPS Ex. 1, Schedule Q-8.8 at 68.

⁹⁵⁷ SPS Ex. 1, Schedule Q-8.8 at 85.

⁹⁵⁸ SPS Ex. 1, Schedule Q-8.8 at 19.

⁹⁵⁹ SPS Ex. 1, Schedule Q-8.8 at 21.

⁹⁶⁰ SPS Ex. 1, Schedule Q-8.8 at 32.

⁹⁶¹ SPS Ex. 1, Schedule Q-8.8 at 35.

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

PROPOSAL FOR DECISION

PAGE 284

In addition to the standard electric service schedules listed above, SPS's Schedule Q lists the following requested base-rate rate schedules:

14. Service Agreement Summary (Bishop Hills Property Owners) (Tariff sheet no.-IV-56)⁹⁶²
15. Service Agreement Summary (Canadian River Municipal Water Authority) (Tariff sheet no. IV-61)⁹⁶³
16. Service Agreement Summary (Orion Engineered Carbons, LLC) (Tariff sheet no. IV-99)⁹⁶⁴
17. Service Agreement Summary (WRB Refining L.P.) (Tariff sheet no. IV-109)⁹⁶⁵
18. Service Agreement Summary (Highway Sign Lighting) (Tariff sheet no. IV-144)⁹⁶⁶
19. Primary Standby Service (Tariff sheet no. IV-179)⁹⁶⁷
20. Secondary Standby Service (Tariff sheet no. IV-180)⁹⁶⁸
21. Transmission Standby Service (Tariff sheet no. IV-181)⁹⁶⁹
22. Transmission Qualifying Facility Non-Firm Standby Service (Tariff sheet no. IV-183)⁹⁷⁰
23. General Service – Experimental Time of Use Rate (Tariff sheet no. IV-205)⁹⁷¹
24. General Service – Low Load Factor Rate (Tariff Sheet no. IV-206)⁹⁷²

Staff contends that each of these base rate schedules corresponds with a rate class.⁹⁷³

SPS asserts that for future energy efficiency cost recovery factor (EECRF) cases, the Commission should approve the 12 classes proposed by SPS set forth in Section XIV above.

⁹⁶² SPS Ex. 1, Schedule Q-8.8 at 15.

⁹⁶³ SPS Ex. 1, Schedule Q-8.8 at 17.

⁹⁶⁴ SPS Ex. 1, Schedule Q-8.8 at 25.

⁹⁶⁵ SPS Ex. 1, Schedule Q-8.8 at 31-31.

⁹⁶⁶ The tariff sheet for this schedule appears to have been omitted from Schedule Q-8.8, but this schedule is listed in the tariff sheet showing the table of service schedule. SPS Ex. 1, Schedule Q-8.8 at 6.

⁹⁶⁷ SPS Ex. 1, Schedule Q-8.8 at 71-74.

⁹⁶⁸ SPS Ex. 1, Schedule Q-8.8 at 75-78.

⁹⁶⁹ SPS Ex. 1, Schedule Q-8.8 at 79-82.

⁹⁷⁰ SPS Ex. 1, Schedule Q-8.8 at 88-93.

⁹⁷¹ SPS Ex. 1, Schedule Q-8.8 at 110-111.

⁹⁷² SPS Ex. 1, Schedule Q-8.8 at 112-114.

⁹⁷³ 16 TAC § 25.5(100).

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

PROPOSAL FOR DECISION

PAGE 285

Explaining that the Service Agreement Summary and Standby schedules apply to either a single customer or a small group of customers that actually fit within one of the 12 general classes, SPS argues that the schedules should not be considered separate rate classes in future EECRF cases.⁹⁷⁴ If they were, SPS contends, it would produce distortions and anomalous results in cost allocation in the EECRF proceedings. Finally, SPS seeks to reserve the right to propose rate classes in any future cases as it might deem necessary, and states that if it does propose to change the rate classes established in this case in the future, it will explain its reasons for doing so.

As previously discussed in their analysis under Section XIV, above, the ALJs recommend that the Commission approve the 12 rate classes set forth in SPS's proposal. The ALJs do not find it appropriate to determine parameters or requirements regarding rate classes to be used in future proceedings.

XVI. RATE DESIGN

A. Residential Service

1. Customer Charge

SPS proposes to increase the monthly service availability charge for residential customers by 25% to \$9.50. According to SPS witness Mr. Luth, the proposed increase will recover just over half of the difference between the current charge and the full customer component cost of service, which is \$11.42. SPS recovers the remaining difference in the cost of providing residential customers with service connections through the energy charge.⁹⁷⁵ OPUC witness Scott Palmer and AXM witness Mr. Johnson opposed any increase in the customer charge for residential customers. Staff witness Mr. Murphy proposed that the charge be raised to only \$8.75.⁹⁷⁶

⁹⁷⁴ SPS Ex. 57, Luth rebuttal at 59.

⁹⁷⁵ SPS Ex. 54, Luth direct at 74.

⁹⁷⁶ OPUC Ex. 20, Palmer direct at 10-11; AXM Ex. 6, Johnson direct at 28-29; Staff Ex. 1A, Murphy direct at 59.

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

PROPOSAL FOR DECISION

PAGE 286

In support of SPS's proposal, Mr. Luth explained that the increase amounts to just over \$.06 per day and still does not recover the entire customer-related costs for the Residential class. Under this scenario, Mr. Luth indicated that customers with average and above-average usage will pay more than their cost of service to support those customers who are below-average consumers. Moreover, SPS's proposal takes into consideration the higher percentage increase a low-usage customer would see if the charge was brought to cost.⁹⁷⁷ SPS contends it struck an appropriate balance between cost-based rates and mitigating the increase to the low-usage customers with its proposed increase.

According to Mr. Palmer, increasing the customer charge sends inadequate price signals to the consumer because the charge will be the same regardless of consumption, such that conservation is not encouraged. Further, he suggested that increases to the fixed customer charge can be difficult for lower-income customers to manage, because it cannot be altered through conservation. Mr. Palmer advocated for making up the cost difference with a slight increase to the energy charge and leaving the customer charge at its current amount.⁹⁷⁸

Mr. Johnson took a different tack in his opposition. He noted the proposed increase is more than double the overall percentage increase in residential revenues, even though this case is primarily driven by new transmission investment. Because customer-related costs are not the cause of the rate increase, recovering them through a raised customer charge is unreasonable and should be rejected. Mr. Johnson also argued that the customer charge should only recover costs that vary directly with the number of customers. However, SPS's customer unit cost includes costs which vary indirectly with the number of customers, including general overhead costs. Pursuant to his estimate of the customer charge directly related to the number of customers, which Mr. Johnson maintained is consistent with Commission precedent, the current charge is more than compensatory.⁹⁷⁹ He agreed with Mr. Palmer that the increase sends the wrong price signals. Mr. Johnson suggested that a lower customer charge ensures that more costs are

⁹⁷⁷ SPS Ex. 57, Luth rebuttal at 49.

⁹⁷⁸ OPUC Ex. 20, Palmer direct at 10-11.

⁹⁷⁹ AXM Ex. 6, Johnson direct at 23-24.

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

PROPOSAL FOR DECISION

PAGE 287

recovered through usage-sensitive charges such as kWh charges, which he claimed is more consistent with conservation goals and more equitable to low-usage customers.⁹⁸⁰ While he recommended leaving the customer charge at its current amount in the event of a revenue increase, Mr. Johnson testified that the customer charge should certainly not be raised any higher than the percentage increase in revenues for the residential class.⁹⁸¹

Staff witness Mr. Murphy recommended raising the residential customer charge to \$8.75. Based on Staff's calculation of SPS's cost of service, this amount is the midpoint between the current charge and the residential unit cost per customer. According to Mr. Murphy, the increased charge is necessary to make up for SPS's inability to recover residential demand costs through demand charges because most of its residential meters do not record demand.⁹⁸²

Although the arguments set forth by Mr. Palmer and Mr. Johnson have some merit, the cost of service to the residential class has increased. Therefore, the service connection charge for the residential class should also increase. Increasing the residential service charge closer to actual cost will alleviate some of the inequity of customers with higher load factors that use capacity more efficiently bearing some of the capacity costs caused by residential customers that use the system less efficiently. Given the Commission's goal of basing rates on cost of service, an argument could be made for increasing the service connection charge to the full, component cost of service, which the preponderance of the evidence shows is \$11.42 per month. However, given the consideration raised by Mr. Palmer and Mr. Johnson concerning (a) energy conservation incentives; (b) untoward effects on lower income customers; and (c) the connection between the residential class and some of the costs included in SPS's determination of the residential customer unit cost, the ALJs agree that SPS's proposal to raise the residential service connectivity charge to \$9.50 is an appropriate compromise and should be adopted.

⁹⁸⁰ AXM Ex. 6, Johnson direct at 24.

⁹⁸¹ AMX Ex. 6, Johnson direct at 31.

⁹⁸² Staff Ex. 1A, Murphy direct at 58-59.

2. Design of Residential Service with Electric Space Heating Rates

SPS proposes to offer to the RSH subclass a greater winter discount relative to the standard rate for the class. SPS already offers such a discount, but it requests an increase of .5 cents to the discount.⁹⁸³ SPS witness Mr. Luth explains that these customers have higher load factors in the winter such that SPS can lower the kWh rate for them, as compared to the general RSX subclass, and still recover its costs. According to Mr. Luth, reducing or eliminating the difference between the rates for the two classes would take the rates further away from, instead of closer to, cost of service-based rates. He notes such a move would be in conflict with Commission goals and principles.⁹⁸⁴

AXM witness Mr. Johnson took issue with SPS proposing both to close the RSH tariff to new customers and simultaneously increasing the discount rate for that subclass. He questioned the reasonableness of increasing the difference between the summer and winter rates. According Mr. Johnson, recent abnormally hot weather, should it continue, could result in excessive winter earnings for SPS and higher risk of customer disconnections during the summer months.⁹⁸⁵ OPUC witness Mr. Palmer also disagreed with SPS. In his opinion, increasing the differentials between the winter rates of RSH and RSX subclasses is inconsistent with SPS's intention to eventually eliminate the differences in rates between the two classes.⁹⁸⁶ OPUC argues that SPS's proposal encourages greater usage by RSH customers by increasing the differences in the rates between the RSH and RSX subclasses.

Ultimately, the ALJs find Mr. Johnson's and Mr. Palmer's arguments against the proposed increase in the winter discount for the RSH subclass unpersuasive. As to the consistency in SPS's approach to closing the RSH tariff and the proposed increase, no party opposed either the closing of the class to new customers in the future or the inclusion of RSH as

⁹⁸³ AXM Ex. 6, Johnson direct at 32.

⁹⁸⁴ SPS Ex. 57, Luth rebuttal at 50.

⁹⁸⁵ AXM Ex. 6, Johnson direct at 32-33.

⁹⁸⁶ OPUC Ex. 20, Palmer direct at 6.

a separate rate in the RSX tariff. The ALJs are likewise unconvinced that the increase in the winter discount for the RSH customers promotes energy consumption in violation of PURA. The evidence shows that the increase in discount is warranted due to previous demand in that class at the higher rate. Further, it is undisputed that the higher load factors in the winter months for the RSH customers would move the rates for the two classes further from cost if the discount was not increased in the amount proposed by SPS. The discount is necessary to achieve the Commission's goal of recovering costs from the customers who cause them. Therefore, the ALJs recommend the Commission approve SPS's request to increase the winter discount rate for the RSH customers by 0.5 cents per kWh.

3. Residential Time Of Use Rate

SPS seeks to offer an alternative, experimental rate rider for residential customers based on time of use (TOU). As explained by Mr. Luth, these rates will include a service availability charge and an energy charge, as do RSX rates. However, there will be lower energy charges for off-peak hours and higher energy charges for on-peak hours. The service availability charge will be slightly higher to account for costs incurred in meter replacement and programming for the TOU option.⁹⁸⁷ Staff witness Mr. Murphy supported this offering because it provides incentives to decrease demand at peak times and shift demand to off-peak times. Under either scenario, SPS makes better use of its capacity and avoids or defers capacity investments, both of which help lower rates for all customers. However, Mr. Murphy urged the Commission to require SPS to develop a plan to communicate the value of the TOU rates to residential customers. He testified that these customers need to better understand how to track their usage and maximize potential savings under such rates.⁹⁸⁸ Mr. Luth explained that if such a requirement is approved as a condition for using the TOU rate rider, it would prevent SPS from immediately beginning communication with its customers regarding the benefits of the TOU rider.⁹⁸⁹

⁹⁸⁷ SPS Ex. 54, Luth direct at 74-75.

⁹⁸⁸ Staff Ex. 1A, Murphy direct at 59-60.

⁹⁸⁹ SPS Ex. 57, Luth rebuttal at 59-60.

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

PROPOSAL FOR DECISION

PAGE 290

Given SPS's testimony that it will notify its customers through bill inserts, website information, and direct contact from service representatives regarding the TOU rates and their advantages, the ALJs find that the Commission should not adopt Staff's recommended condition for approval of the TOU rider. Instead, the ALJs recommend the Commission approve the TOU rider as proposed by SPS.

4. Future of Residential Service with Electric Space Heating Class Membership

As previously discussed, SPS proposes to close the RSH tariff to new customers beginning January 1, 2016.⁹⁹⁰ No party opposes this proposal, but Mr. Murphy recommended that the Commission require SPS to develop a residential rate base design that would: (a) incentivize all residential customers to exhibit higher load factors during the summer and winter, regardless of end-use technologies, and (b) apply to all residential customers on a non-discriminatory basis.⁹⁹¹ SPS takes the position that the condition proposed by Staff would effectively end the RSH tariff even for customers that were in the class prior to its closing. To prevent rate shock, SPS contends that the RSH subclass should be phased out instead of eliminated altogether at once. In reply, Staff indicated that it is not proposing to completely eliminate the RSH subclass.

The ALJs recommend that the Commission approve SPS's plan to close the RSH tariff to new customers beginning January 1, 2016. The ALJs did not find Mr. Murphy's recommendation to be reasonable or appropriate at this time. In future cases, SPS will have to prove that its residential rate design produces just and reasonable rates. If it fails to do so, Staff will certainly have the opportunity to contest SPS's proposed rates.

⁹⁹⁰ SPS Ex. 54, Luth direct at 74.

⁹⁹¹ Staff Ex. 1A, Murphy direct at 61. Mr. Murphy offers the following as possible examples: applying TOU rates to all customers, winter and summer block rates, and residential demand rates. Staff Ex. 1A, Murphy direct at 61.

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

PROPOSAL FOR DECISION

PAGE 291

B. Small General Service

1. Design of Small General Service Rate

SPS proposes an increase of \$.03 per month in the customer charge for the SGS class. OPUC opposes the increase and argues that any need for an increase to reach the actual customer-related cost for the SGS class should be achieved through an increase in the energy charge. According to OPUC, using the energy charge to cover this cost allows customers to control their consumption and perceive appropriate and adequate price signals. SPS witness Mr. Evans disagreed with OPUC's position. He maintained that the increase will reflect the customer-related costs, and that rates should be cost-based unless there is a good reason, *i.e.* to avoid rate shock, to depart from that principle.⁹⁹² Given that the increase is so minimal, SPS argues that there are no reasons to depart from cost causation principles, and that the increase should therefore be approved.

The preponderance of the evidence shows that the proposed increase will meet the actual customer-related cost for the SGS class. Although OPUC rightly notes that energy charges provide price signals and allow customers to gauge their consumption, neither of these objectives takes precedence over the Commission's goal to base rates on costs when possible. Here, given the relative size of the increase, the ALJs find no justifiable basis to diverge from cost of service based rates. Therefore, the ALJs recommend the Commission approve SPS's proposed \$.03 increase to the service availability charge to the SGS class.

2. Small General Service Time of Use Rate

As it does with the residential class, SPS proposes an alternative and experimental TOU rate for the SGS class. No party opposes the implementation of such a program, but OPUC asserts that the rates for the TOU program should be based on its proposed revenue requirement

⁹⁹² SPS Ex. 61, Evans rebuttal at 10.

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

PROPOSAL FOR DECISION

PAGE 292

and rate design. Therefore, the customer charge proposed by SPS is slightly higher than the \$13.70 proposed by OPUC.

For reasons previously set forth, the ALJs recommend the Commission approve the SGS TOU rate program as proposed by SPS, including the corresponding customer charge.

C. Secondary General Service

Wal-Mart does not oppose SPS's proposed rate design for the SGS class if SPS's proposed rate increase is approved by the Commission. However, if the Commission approves a lower request, Wal-Mart witness Steve Chriss proposed that the Commission reduce the energy charge to match the revenue requirement ultimately approved.⁹⁹³ SPS rejects Mr. Chriss's proposal, arguing that all three types of billing determinants should be adjusted proportionately to the results of the adjusted CCOSS. According to SPS, this will avoid erroneous price signals and imposition of penalties on lower usage customers.

The ALJs find merit in SPS's argument for reducing all billing determinants proportionally to the CCOSS. Mr. Chriss did not offer any reasoning or basis for his proposal. Therefore, the ALJs recommend the Commission approve SPS's proposed rate design for the SGS class.

D. Primary General Service

Staff witness Mr. Murphy recommended that SPS include a demand ratchet provision to the Primary General Service (PGS) tariff. Under the demand ratchet, a customer's billing demand would be the greater of the customer's actual monthly maximum demand or 70% of its highest demand during the prior 11-month period. This is identical to a provision in SPS's LGS-T tariff.⁹⁹⁴

⁹⁹³ Wal-Mart Ex. 1, Chriss direct at 4.

⁹⁹⁴ Staff Ex. 1A, Murphy direct at 65.

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

PROPOSAL FOR DECISION

PAGE 293

Mr. Murphy maintained that the demand ratchet would more accurately assign cost responsibilities within the PGS class. He testified that the reason SPS's SGS demand rates are lower than the PGS demand rates is that the PGS rates are inflated without the imposition of a demand ratchet. According to Mr. Murphy, SPS is the only regulated electric utility in Texas whose PGS tariff does not include a demand ratchet. However, he acknowledges that some utilities do not apply their ratchet to all of their primary voltage customers.⁹⁹⁵ Without the ratchet, too much capacity cost is borne by customers with stable monthly loads and too little capacity cost is covered by customers with shifting monthly loads. This follows because capacity planning and investment happens over a long period of time, but billing for that capacity is determined on monthly maximum demands. Mr. Murphy opined that the results of capacity billing without a ratchet in place are unfair and inequitable. It also improperly penalizes efficient use of capacity.⁹⁹⁶

Mr. Murphy's proposal for a demand ratchet was made as a solution in response to his opposition to SPS's reallocation of pooled production, transmission, and distribution capacity costs in proportion to line loss-adjusted billing demands.⁹⁹⁷ According to Mr. Murphy, this adjustment, which Mr. Luth indicated was made to avoid sending inappropriate price signals and incentivizing PGS customers to seek SGS service at a lower demand rate, actually requires SGS customers to shoulder a portion of capacity costs actually incurred to serve PGS customers. Moreover, because capacity costs do not vary based on billing demands, allocating these costs on that basis does not take into account the SGS class's greater load diversity and more off-peak demand. Such demand does not drive SPS's capacity investments as much as on-peak demand, which PGS customers impose on the system more than SGS customers.⁹⁹⁸

⁹⁹⁵ Staff Ex. 1A, Murphy direct at 63, 66. According to Mr. Murphy, the tariffs of Oncor, Centerpoint, Texas New Mexico Power, AEP Texas Central, AEP Texas North, and Sharyland all contain a demand ratchet provision for their primary voltage customers. Staff Ex. 1A, Murphy direct at 66.

⁹⁹⁶ Staff Ex. 1A, Murphy direct at 63-64.

⁹⁹⁷ Staff Ex. 1A, Murphy direct at 61; SPS Ex. 54, Luth direct at 64.

⁹⁹⁸ Staff Ex. 1A, Murphy direct at 61-62.

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

PROPOSAL FOR DECISION

PAGE 294

SPS disagrees with Mr. Murphy's recommendation. Mr. Luth explained that SGS requires more transformation and secondary facilities than PGS. However, the production and transmission costs allocated to both classes are similar. Thus, cost of service based rates could result in a lower rate for SGS than PGS if SGS had higher load factors or lower relative loads during the four coincident peaks. Such a situation would not be logical, given that SGS requires more facilities for service than does PGS. Therefore, SGS should have a higher rate. A demand ratchet could result in PGS customers seeking service under the SGS tariff.

Mr. Luth proposed the reallocation of capacity costs on a billing demand basis.⁹⁹⁹ He explained that PGS customers have higher load factors than SGS customers and approximately twice the demand requirements. Therefore, recovery of demand-related costs from PGS customers is based on a smaller level of kW billing determinants, resulting in a demand-based rate for production, transmission and primary distribution costs that is higher than the relative difference in the costs allocated. Mr. Luth contended that grouping PGS and SGS customers together in calculating the kW demand charge addresses this problem. Further, the grouping prevents the possibility that the PGS kW demand charge would be higher than the kW demand charge for SGS, which, according to Mr. Luth, is an unreasonable result.¹⁰⁰⁰

Mr. Murphy contended that cost of service based rates for SGS demand would be higher than PGS demand rates because SGS and PGS are both served through the primary distribution system, but only SGS is served through the secondary distribution system.¹⁰⁰¹ Staff points out that both SPS's and Staff's CCOSS show that cost-based rates are higher for SGS than PGS. Also, the rate differentials between the two classes are similar to those for other vertically integrated utilities in Texas. Under cost-based rates, there would be no potential for rate migration and thus no need for the unorthodox pooling and reallocation of capacity costs.¹⁰⁰² Mr. Murphy opined that if any incentive exists for PGS customers to seek service under the SGS

⁹⁹⁹ SPS Ex. 54, Luth direct at 63-64.

¹⁰⁰⁰ SPS Ex. 57, Luth rebuttal at 52-53.

¹⁰⁰¹ Staff Ex. 1A, Murphy direct at 62.

¹⁰⁰² TIEC Ex. 3, Pollock rebuttal, Ex. JP-1-CA.

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

PROPOSAL FOR DECISION

PAGE 295

tariff, the demand ratchet is the more equitable manner to remedy this issue and is still consistent with cost causation. Staff offers the following table to illustrate the differences in the demand unit rates for PGS and SGS both with and without the implementation of the demand ratchet:¹⁰⁰³

Class	Demand unit cost with PGS demand ratchet	Demand unit cost without PGS demand ratchet
Primary general service	\$11.42	\$12.03
Secondary general service	\$12.33	\$12.33

On rebuttal, SPS contends that most PGS customers in SPS's system are not much larger than the SGS customers but are considerably smaller than the LGS-T customers. Mr. Luth noted that the proposed ratchet could cause adverse bill impacts on customers with significant off-peak seasonal loads or the smaller PGS customers. Mr. Luth further expressed concern that the demand ratchet would send improper signals to the seasonal customers with significant load in off-peak times. It could also present kW demand billing problems for the smaller PGS customers that the Rule of 80 is designed to ameliorate. Mr. Luth submitted that implementation of a demand ratchet should be thoroughly analyzed before use to determine particular effects on the customers bound to it. Also, different types of ratchets, i.e. ones based on summer maximum billing demands by customers, should be evaluated and compared to Staff's proposal.¹⁰⁰⁴

It appears that SPS's proposal to bundle the production, transmission and primary capacity costs for both SGS and PGS was made on the basis of a hypothetical situation that has not yet occurred wherein the SGS rates are actually lower than PGS rates. Mr. Luth's testimony is indecisive in this regard; he states that strict adherence to cost-based rates under certain demand situation "could" or "may" result in a lower rate for SGS. To the contrary, Staff asserts in its initial brief, and SPS does not dispute in its reply, that the CCOSS conducted by both Staff and SPS show that rates based on cost are higher for SGS than for PGS. This shows that even without a demand ratchet implemented in the PGS tariff, it costs less to take service at the PGS

¹⁰⁰³ Staff Ex. 1A, Murphy direct at 62-65.

¹⁰⁰⁴ SPS Ex. 57, Luth rebuttal at 51-52. The Rule of 80 is discussed further below in Section XVII.G.1.

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

PROPOSAL FOR DECISION

PAGE 296

rate than the SGS rate. Further, Staff points to the rate differentials between these two classes' demand rates at other vertically integrated utilities in Texas and shows that they are quite similar. Given these undisputed facts, and the Commission's policy to set rates based on cost of service whenever feasible, the ALJs disagree with the need to bundle and reallocate capacity costs as requested by SPS. However, the ALJs also agree with Mr. Luth that implementation of a demand ratchet can create problems for seasonal customers and smaller PGS customers. Additional analysis is needed to determine whether the effects on SPS's customers from implementation of the ratchet are such that a change to the PGS rate design in that manner is justified at this time.

Therefore, in keeping with cost causation principles, the ALJs recommend that the Commission reject both (a) SPS's adjustment to its revenue distribution by pooling the transmission of production, transmission, and primary capacity costs of both PGS and SGS and allocating them according to billing demand; and (b) Staff's recommendation to impose a demand ratchet on the PGS tariff.

E. LGS-T

Under SPS's proposed LGS-T tariff, as is the case under its current LGS-T tariff, SPS can lease substations to customers.¹⁰⁰⁵ Mr. Murphy testified that this provision could allow PGS customers to lease a substation and take LGS-T service if it determines the costs of the lease and LGS-T service are lower than PGS service. That situation, according to Mr. Murphy, would allow an SPS customer that connects at the primary substation to avoid paying for other parts of the primary distribution system that do not involve providing service to that customer.¹⁰⁰⁶ Arguing that standard practice is system-wide distribution rates as opposed to rates that vary based on specific facility costs, Mr. Murphy expressed concern that under SPS's substation lease rates, a customer pays different rates depending on the costs of the specific substations where the

¹⁰⁰⁵ SPS Ex. 1, Schedule Q-8.8 at 29.

¹⁰⁰⁶ Staff Ex. 1A, Murphy direct at 68.

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

PROPOSAL FOR DECISION

PAGE 297

customer connects to the system. As a method for addressing this issue, Mr. Murphy recommended that SPS include in its CCOSS a primary transformation service class or rate.¹⁰⁰⁷

SPS disagrees. According to SPS, Mr. Murphy's proposal fails to consider the differences in substation transformer costs for specific LGS-T customers. Mr. Luth explained that the transformation needs and related costs can vary considerably among LGS-T customers. Therefore, the current approach of leasing substations at replacement cost results in direct allocation of these substation costs to those specific customers that use them. Because LGS-T customers can also build their own substations instead of leasing from SPS, the rate class recommended by Mr. Murphy could preclude SPS from recovering costs of remote substations that serve only one LGS-T customer.¹⁰⁰⁸ SPS argues that Staff failed to show that SPS's current approach of leasing substations results in unjust and unreasonable rates. SPS further asserts that a determination of whether there should be a new rate class for primary transformation service in the next rate case, as suggested by Mr. Murphy, should be left to that next rate case and not decided by the Commission here.

OPUC notes that Staff's proposed rate class would change the economics of leasing versus constructing substations for LGS-T customers located in remote areas. Under Staff's proposal, according to OPUC, all substation costs would be averaged. Thus, old substations which are largely depreciated would be included in the embedded cost rate. OPUC argues that such a situation results in subsidization of new customers seeking high voltage but not wanting to build their own substations. Echoing SPS's concern, OPUC contends that averaging substation leases across the entire system customer base would prevent SPS from recovering the full cost of remote and new substations. OPUC seeks to avoid having residential and SGS customers pay any of these costs that could not be collected because certain substation owners receive service below the incremental cost of building their substations. Therefore, OPUC recommends preservation of the status quo regarding direct assignment of substation lease costs, because it is a reasonable practice.

¹⁰⁰⁷ Staff Ex. 1A, Murphy direct at 68-69.

¹⁰⁰⁸ SPS Ex. 57, Luth rebuttal at 60-61.

After considering the testimony and evidence on this issue, the ALJs find that SPS's current LGS-T tariff, which allows SPS to lease a substation to one or more customers, properly sets rates to the customers using the particular substations. Staff has not shown that SPS's methodology is problematic or in conflict with Commission precedent, rules, or general rate design policy. The ALJs find merit in OPUC's concerns regarding potential subsidization and cost-shifting that could result from the development of a primary transformation rate class, as recommended by Mr. Murphy. Further, SPS's approach ensures that all costs from remote substations are recovered from the LGS-T customers who use them, which comports with cost causation principles. Finally, as with several other proposals set forth by Staff, the ALJs find it inappropriate for the Commission to make decisions regarding rate classes for future rate cases in this proceeding. Therefore, the ALJs recommend that the Commission reject Mr. Murphy's proposal to require that SPS include in its CCOSS for its next base rate case a primary transformation service rate class.

F. Collection of Account 908 – Customer Assistance Expenses and Account 912 – Demonstration and Selling Expenses

OPUC witness Mr. Marcus proposed that major account representative costs assigned to SGS be recovered through demand and energy charges, and not a customer charge, to reflect that smaller SGS customers do not cause these costs.¹⁰⁰⁹ OPUC argues that it is unequitable to require smaller SGS customers, who do not receive this service, to pay the same amount as larger customers who do receive this service. SPS opposes Mr. Marcus's proposal, contending that there is no need to design SGS rates differently for just this one cost. Additionally, SPS argues that because major account representative costs are a customer-related cost, they should be recovered in part through a customer charge to the SGS class.

The ALJs agree with Mr. Marcus that recovery of major account representative costs should, if feasible, come from the SGS customers who caused such costs to be incurred. Using the demand and energy charges to recover these costs makes sense, because the larger SGS

¹⁰⁰⁹ OPUC Ex. 14, Marcus direct at 22.

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

PROPOSAL FOR DECISION

PAGE 299

customers who are served by the representatives will end up paying more of these costs than will the smaller SGS customers who do not receive this service. However, it is unclear from the record how much difference it would make, if any, in terms of how much the smaller customers would pay to recover these costs, if they were recovered through demand and energy charges instead of through the service availability charge. There has been no showing that recovery through the demand and energy charges alone would result in an appreciable savings to the SGS customers who do not receive the service. Therefore, given that account representatives are a service SPS makes available to its customers and is therefore a customer-related cost, the ALJs find that these costs should be recovered, in part, through the service availability charge. The ALJs recommend the Commission approve SPS's proposal for collection of account representative costs from the SGS class.

G. The Rule of 80 vs. The Rule of 70

The Rule of 80, as described in OPUC's brief, is a rate design mechanism used to limit a customer's demand charge to the monthly energy use divided by 80. As applied, it provides rate relief to customers with load factors less than approximately 11%. As explained by AXM witness Mr. Johnson, the Rule of 80 establishes a cap on demand charges equal to a customer's monthly kWh usage divided by 80. It is designed to protect low load SGS, Large Municipal Service, and Large School Service customers from high rates resulting from full exposure to monthly demand charges.¹⁰¹⁰ OPUC witness Mr. Marcus testified that low load factor customers' maximum demand has little relationship to SPS's system coincident peak or their class non-coincident peak. He further stated that a low load factor customer's usage during peak hours is typically a random spike in load (a water pump or an athletic field turned on just a few times a month) that results in very little cost incurred by SPS. Therefore, the Rule of 80 ameliorates the incongruence of these customers incurring a demand charge for these random spikes that considerably exceeds the costs imposed by such spikes.¹⁰¹¹

¹⁰¹⁰ AXM Ex. 6, Johnson direct at 33.

¹⁰¹¹ OPUC Ex. 14, Marcus direct at 28.

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

PROPOSAL FOR DECISION

PAGE 300

According to SPS, the tariffs it proposed in Docket No. 35407¹⁰¹² for these same customer classes contained a Rule of 80 mechanism. SPS now proposes to revise these tariffs to change the Rule of 80 to the Rule of 70 as an interim step towards its ultimate goal of eliminating the cap on billing metered demand.¹⁰¹³ SPS witness Mr. Luth explained that the cap does not consider when the low load factor customers' maximum demand occurs. This leads to a situation in which such a customer could receive a reduction in its rate for usage occurring at peak hours. According to Mr. Luth, the TOU and low load factor (LLF) rates can be used by these low load factor customers to still receive discounts, assuming they minimize on-peak demands.¹⁰¹⁴ SPS takes the position that low load factor customers need to learn how to better manage their loads, improve their load factors, and use the system more efficiently. SPS contends the Rule of 70 is a transition from the broad-based limit imposed by the Rule of 80 to rates that are based more on cost of service. The Rule of 70 is a reasonable step in the right direction because it allows for reduced billing for low average use, relative to capacity cost for providing service.¹⁰¹⁵

AXM recommends that the Rule of 80 be kept in place and SPS's proposal to move to the Rule of 70 be rejected. According to Mr. Johnson, the Rule of 70 would cause 8,611 of 11,605 SGS customers who are currently able to take advantage of the Rule of 80 to pay full demand charges. He testified that most of these customers will not fully understand SPS's proposed low load factor rate so as to take advantage of its availability.¹⁰¹⁶

OPUC agrees with AXM, arguing that the Rule of 80 better reflects cost causation of the low load factor customers than the alternative rates proposed by SPS. Based on Mr. Marcus's analysis of SPS data for demand-metered customers served at secondary voltage, customers with very low load factors, including those whose short-duration peak demand occurs during on-peak

¹⁰¹² *Application of Southwestern Public Service Company to Revise its Secondary General Service, Large Municipal Service, and Large School Service Tariffs*, Docket No. 35407, Order (May 23, 2008).

¹⁰¹³ SPS Ex. 54, Luth direct at 93.

¹⁰¹⁴ SPS Ex. 54, Luth direct at 93.

¹⁰¹⁵ SPS Ex. 57, Luth rebuttal at 45-46.

¹⁰¹⁶ AXM Ex. 6, Johnson direct at 35.

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

PROPOSAL FOR DECISION

PAGE 301

hours and thus would pay high rates under the LLF rider, have very low coincidence with system peak.¹⁰¹⁷ OPUC takes issue with Mr. Luth's position that if the low load factor customers reach their maximum demand during peak hours, they cause SPS to incur costs regardless of their load factor. OPUC argues that such a customer, who reaches a high load level for a few hours during peak demand, does not have the same "cost responsibility" as a customer with high load levels during each of the 522 on-peak hours. This is because the low load factor customer has lower coincidence and imposes less cost.

OPUC further argues that the TOU and LLF rates will likely not provide benefit to most Rule of 80 customers. It contends that TOU rates will have higher demand charges than those under Rule of 80 for customers using less than 59 kWh per kW in the summer months and 73 kWh per kW in the winter months, and would have sur-charged on-peak energy. Further, the LLF rate's ratcheted summer demand will only benefit customers with off-peak use but higher load factors than those benefitting from the Rule of 80. Therefore, OPUC argues, TOU and LLF do not provide the relief that these customers need, so the Rule of 80 is a more equitable and reasonable cost of service-based solution for the low load factor customers.

The ALJs are unconvinced that a move from the Rule of 80 to the Rule of 70 is appropriate and reasonable in this case. SPS admits that neither the Rule of 80 nor the Rule of 70 accounts for the timing of low load customers' maximum demand, so that both mechanisms could allow for billing reductions for usage during SPS system peaks. The undisputed evidence indicates that the move from the Rule of 80 to the Rule of 70 will greatly increase the number of low load factor customers, including municipal customers, that will have to pay full demand charges. While Mr. Luth points out that there are costs incurred when customers under the Rule of 80 or the Rule of 70 reach maximum demand during peak hours, these customers should still get a reduction in their demand charge. The reduction is warranted because the costs incurred by SPS as a result of the random spike(s) of demand from these customers at peak hours are considerably lower than the ordinary demand charge. Further, SPS load research data shows that

¹⁰¹⁷ OPUC Ex. 14, Marcus direct at 29-30.

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

PROPOSAL FOR DECISION

PAGE 302

low load factor customers have very low coincidence with the system peak, validating the use of the Rule of 80. Given these facts, the ALJs find that the Rule of 80 and the Rule of 70 are both generally consistent with cost of service based rates, and that it is unclear from the record that moving from the Rule of 80 to the Rule of 70 will bring rates closer to cost. Moreover, while the TOU and LLF experimental rates could eventually take the place of the Rule of 80 in future rate cases, even SPS concedes that it will take time to orient the low load factor customers to these new rate packages. Mr. Johnson and Mr. Marcus elucidated several valid concerns as to whether these new rates will provide the same type of mitigation from overly high demand charges to the majority of these customers as does the Rule of 80. Therefore, the ALJs recommend that the Commission reject SPS's proposal to apply the Rule of 70 to the tariffs for the Secondary General Service, Large Municipal Service, and Large School Service classes, and instead keep the Rule of 80 intact in those tariffs.

H. Amarillo Recycling

ARC is a family-owned scrap metal business that has been operating an electric-powered shredder since 2010 after significant financial investment by ARC to buy, construct, and install this shredder. The shredding of large pieces of metal with the shredder is a large portion of ARC's business. ARC employs over 30 people and, according to its President, Tony Buchanan, is an important part of the Amarillo and Texas Panhandle economy. When the shredder became operational in 2010, SPS allowed ARC to operate under the Interruptible Credit Option (ICO), which saves ARC approximately \$400,000 off its electric bill. ARC lost the benefits of the ICO in 2011 when the qualifications for the credit changed, leaving ARC at a competitive disadvantage with other recycling companies that took electricity at an average cost of \$0.10 per kWh, which was over three times less than ARC's cost to take service from SPS without the ICO.¹⁰¹⁸

¹⁰¹⁸ ARC Ex. 1, Buchanan direct at 1-2.

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

PROPOSAL FOR DECISION

PAGE 303

In SPS's last rate case, Docket No. 42004, SPS and ARC reached a compromise with the implementation of a tariff, Electric Tariff Sheet No. IV-199, that included a Service Agreement Summary (SAS) rate applicable only to ARC. Under the SAS, ARC can operate the shredder during off-peak hours during the summer months of June through September, which reduces its rate to \$0.15 per kWh. This rate is still 250% more than what ARC paid under the ICO. The SAS was a mutually beneficial arrangement, according to Mr. Buchanan, and ARC would pay a very high penalty for operating the shredder during summer peak hours. Mr. Buchanan asserts that under the proposed tariff for ARC in this case, the Class Cost should reflect a credit equal to at least the ICO credit.¹⁰¹⁹

SPS proposes to eliminate Electric Tariff Sheet No. IV-199 and the SAS. The SAS charges ARC at the PGS rate and allows for the Rule of 80 to apply, even though it typically does not apply to PGS customers. SPS witness Mr. Luth testified that the purpose of this proposal was to move generally away from customer-specific rates.¹⁰²⁰ According to Mr. Luth, ARC paid approximately \$348,000 less for service during the Test Year under the SAS than it would have taking service under the PGS tariff.¹⁰²¹ SPS seeks to replace this SAS rate with the optional LLF rate, which will be available to ARC and all other PGS customers with a 25% or less average monthly load factor.¹⁰²² If ARC provides load control similar to its current requirement, Mr. Luth calculated that its rate will increase by 9.32%. In comparison, the proposed increase for the PGS class is 12.75%.¹⁰²³

In response to SPS's proposal, Mr. Buchanan and ARC witness Paul Levy testified that ARC should be charged a rate that includes a credit similar to that for which it qualified up until 2011.¹⁰²⁴ ARC claims that while the proposed TOU and LLF rates will reduce its demand

¹⁰¹⁹ ARC Ex. 1, Buchanan direct at 2-3.

¹⁰²⁰ Tr. at 807.

¹⁰²¹ SPS Ex. 57, Luth rebuttal at 54.

¹⁰²² SPS Ex. 54, Luth direct at 71.

¹⁰²³ SPS Ex. 57, Luth rebuttal at 54.

¹⁰²⁴ ARC Ex. 1, Buchanan direct at 2-3; ARC Ex. 2, Levy direct at 2.

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

PROPOSAL FOR DECISION

PAGE 304

charge from its demand charge under the current SAS, the demand charge would still be 2.7 times what ARC paid under the 2010 ICO rider. Therefore, additional adjustments to the TOU and LLF off-peak demand price are necessary. To that end, Mr. Levy proposed a review of the allocation factors for the average base rate revenue demand charge of \$.02909 per kWh for primary C&I. According to Mr. Levy, this review should account for ARC's operation in off-peak hours during summer and prevent ARC from subsidizing other customers. Mr. Levy also took issue with ARC's base rate revenue demand charge being 5.1 times higher than the SPS average base rate revenue demand charge.¹⁰²⁵

OPUC witness Mr. Marcus also commented on SPS's proposal regarding ARC's tariff. He asserted that ARC, as a large PGS customer, should pay for the parts of SPS's distribution system that are sized for its maximum demand, either through a full demand charge on its distribution use or a special facilities contract. Mr. Marcus initially agreed that ARC should not have the benefit of the Rule of 80 by special contract. Rather, it should pay distribution demand charges at full level.¹⁰²⁶ However, in his cross-rebuttal testimony, Mr. Marcus recommended a special contract with a lower rate to account for ARC's ability to move its load off summer peak hours. Mr. Marcus explained his change of position by claiming that ARC addressed through testimony his concerns about its ability to shift its load and avoid on-peak operation.¹⁰²⁷

SPS points out that ARC's objective is to obtain rates at a level similar to the amounts it paid under the ICO applicable to ARC until 2011. Under its current tariff and the proposed LLF rate package, ARC does not operate during summer peak hours. Therefore, it could not contribute load to the lowering of peak demand as part of the ICO program, which applies only during summer months for primary voltage customers. Therefore, Mr. Luth argues, ARC's rates would actually rise if it elected to participate in the ICO program.¹⁰²⁸

¹⁰²⁵ ARC Ex. 2, Levy direct at 2.

¹⁰²⁶ OPUC Ex. 14, Marcus direct at 34-35.

¹⁰²⁷ OPUC Ex. 17, Marcus rebuttal at 26-27.

¹⁰²⁸ SPS Ex. 57, Luth rebuttal at 54.

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

PROPOSAL FOR DECISION

PAGE 305

The ALJs agree with SPS that ARC is seeking a benefit in terms of the ICO program that is simply no longer available. There is no evidence in the record to indicate that ARC is not being treated fairly, consistently, or equitably in terms of the rates that it will be offered under SPS's proposal as a member of the PGS class. The ALJs find no justification for a special tariff or SAS applicable solely to ARC. Clearly, under the LLF rate program, ARC can recognize benefits in terms of cost savings if it continues to control its load by operating during the summer off-peak hours. Furthermore, ARC will have the option to participate in the ICO program, although the evidence shows that it will not benefit from it as it did in the past. The ALJs find that ARC can still take advantage of lower rates if it continues to not operate its shredder during summer peak hours, just as any other lower load factor PGS customer can. The ALJs further find that the LLF rates represent a just and reasonable response to conservation efforts of customers such as ARC. Therefore, the ALJs recommend that the Commission approve SPS's proposal to delete Electric Tariff Sheet No. IV-199.

I. Substation Leases

SPS currently has approximately 60 customers taking service under the LGS-T tariff at either 69 kV or 115kV+. SPS's customers are responsible for the appropriate transformation and delivery facilities to serve the consuming facilities. Typically, the LGS-T customers will own their own substation, lease a substation from a third party, or lease all or part of an SPS substation. Customers seeking to take transmission-voltage service from SPS must enter into an Electric Service Agreement (ESA) with SPS.¹⁰²⁹

Staff witness David B. Smithson recommends that SPS's LGS-T tariff and its standard ESA be amended with language confirming that retail transmission customers and retail customers that lease substations are not guaranteed electric service quality or availability different from other retail customers.¹⁰³⁰ He testified that the ESA and the LGS-T should be modified and current ESAs renegotiated to reflect that some distribution voltage power from a

¹⁰²⁹ SPS Ex. 60, Seth Thomason rebuttal at 10-11.

¹⁰³⁰ Staff Ex. 3, Smithson direct at 4, 13.

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

PROPOSAL FOR DECISION

PAGE 306

distributed generation facility may be fed to a transmission customer sharing the same substation. Staff claims the measures Mr. Smithson proposes will reduce the likelihood of future interconnection disputes between distributed generation and SPS, and contends that they are appropriate for this case because it is simply a clarification in the ESA of a substation lessee's rights under 16 TAC § 25.51.

SPS argues that these issues were raised and litigated in a prior complaint case but ultimately left undecided by the Commission because the complaint was dismissed.¹⁰³¹ The issues pertained to: (a) the complaining party's right to interconnect to an SPS substation leased by another SPS customer (OPL); (b) how such interconnection might adversely affect the quality or character of OPL's service; and (c) whether the complaining party would shoulder the costs of upgrades at the substation to allow for OPL to maintain the quality and character of service contracted for in the ESA.¹⁰³² SPS contends that Staff seeks to re-litigate these issues, even though Staff did not file evidence in the complaint case and concluded that the complaint should be denied.¹⁰³³ SPS also points out that only 25 of its substations are subject to lease agreements and only one of those has a generation facility interconnected to it. In the only other situation similar to the one giving rise to the complaint that has occurred, interconnection was allowed.¹⁰³⁴ SPS witness Seth Thomason testified that SPS has a history of interconnecting distributed generation in accordance with Commission rules and has interconnected over 160 MW of distributed wind generation.¹⁰³⁵

SPS also argues that the changes recommended by Staff would be substantial, requiring 60 ESAs to be amended. Moreover, these customers would have to alter the character of their

¹⁰³¹ Staff Ex. 3, Smithson direct at 5.

¹⁰³² See *Complaint of Ascendant Renewable Energy Corp. against Southwestern Public Service Company*, Docket No. 40499, Proposed Conclusions of Law 9, 10 (Apr. 4, 2013); SPS Ex. 60 at 18. The ALJs note that a PFD was issued in this case. However, after the PFD's issuance, the complaining party did not pursue the matter and the Commission dismissed the case. Docket No. 40499, Order (May 21, 2013).

¹⁰³³ SPS Ex. 60, Thomason rebuttal, Att. SET-RD-R3 at 5.

¹⁰³⁴ SPS Ex. 60, Thomason rebuttal at 19.

¹⁰³⁵ SPS Ex. 60, Thomason rebuttal at 19-20.

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

PROPOSAL FOR DECISION

PAGE 307

service and might need to make mechanical or engineering changes to accommodate the change in circumstances. Mr. Thomason stated that the existence of substation leases and provision of electric service under the LGS-T tariff do not cause a problem for distributed generation interconnection.¹⁰³⁶ He cited the lack of evidence proffered by Mr. Smithson that customers have been denied interconnection to the SPS distribution system based on lease agreements with SPS and LGS-T customers. Under Mr. Smithson's proposal, existing and future customers would be forced to make changes to their service to solve this nonexistent problem. Mr. Thomason pointed to the ALJ's decision in the complaint case, which found there "is nothing in Rule 25.211 to suggest, . . . that an interconnection request takes precedence over the rights of other utility customers."¹⁰³⁷ Finally, SPS contends that a rulemaking proceeding would be the proper forum, and not this base rate case, for consideration of changes to SPS's leasing of substations.¹⁰³⁸

OPL witness Mr. Griffey agrees with SPS that Staff's recommendations should be rejected. Mr. Griffey claimed that Staff's recommendations would: (a) prevent the LGS-T customers from receiving the electric service that they contracted and paid for; and (b) potentially cause voltage fluctuations that exceeded service quality standards without implementation of necessary upgrades. Mr. Griffey noted the lack of evidence that the LGS-T tariff or ESAs with LGS-T customers are preventing interconnection of distributed generation in the SPS system. Finally, Mr. Griffey also took the position that the proper proceeding to address the issue would be a rulemaking in which all sides could be heard.¹⁰³⁹

The ALJs cannot support a recommendation to amend SPS's LGS-T tariff and the ESAs in the manner proposed by Staff. The argument put forth by Mr. Smithson relies almost solely on a set of facts and circumstances which led to a complaint against SPS that was found by a SOAH ALJ to be lacking in merit and which was ultimately dismissed. Even Mr. Smithson

¹⁰³⁶ SPS Ex. 60, Thomason rebuttal at 20.

¹⁰³⁷ SPS Ex. 60, Thomason rebuttal, Att. SET-RD-R1 at 20.

¹⁰³⁸ SPS Ex. 60, Thomason rebuttal at 22-23.

¹⁰³⁹ OPL Ex. 5, Griffey rebuttal at Bates 15-16, 20.

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

PROPOSAL FOR DECISION

PAGE 308

conceded that the issues have not been raised by any SPS customer. The ALJs find that Staff's recommendations should only be made, if at all, in a different proceeding, following development of a full record and with the input and argument, after proper notice, from all parties that would be affected, including the LGS-T customers already under contract with SPS to receive transmission-voltage power.

Moreover, there is insufficient evidence that the problem allegedly experienced by the complaining party in the prior case is a widespread concern among other SPS customers. Staff's recommendations are also unreasonable in light of the significant changes that would be required to implement them. Furthermore, the arguments made by Mr. Smithson were flushed out in a previous case and, although the Commission did not issue a final ruling, the ALJ found that the results of such arguments were not warranted. The ALJs recommend that Staff's proposed amendments to the LGS-T tariff and the ESAs between SPS and LGS-T customers be denied.

XVII. PROCEDURES AND MODEL FOR NUMBER RUNS AND COMPLIANCE TARIFF

SPS used a cost allocation method that differed from the method it used in its prior rate cases. According to Mr. Evans, the previous method was simple to use but not detailed or sophisticated enough to provide an accurate allocation of costs among classes. Specifically, he contended the prior model did not adequately address the extent to which each class contributes to certain costs. The method used in this case allocates costs to classes at the FERC account level instead of by function. Mr. Evans and Mr. Luth testified that this is the appropriate method for allocating embedded costs.¹⁰⁴⁰ SPS used software developed by Management Applications Consulting, Inc. (MAC) for its cost allocation model in this case.¹⁰⁴¹

Several parties took issue with the MAC model and the timing of SPS's disclosure of information regarding its use. TIEC argues that there was a "lack of transparency" concerning

¹⁰⁴⁰ SPS Ex. 61, Evans rebuttal at 39; TIEC Ex. 65 at 72.

¹⁰⁴¹ TIEC Ex. 65 at 101.

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

PROPOSAL FOR DECISION

PAGE 309

the changes SPS made to its CCOSS, and that it was unclear which changes to SPS's cost allocation were due to allocation factors and which were due to the use of the MAC model. According to TIEC, SPS actively withheld information and prevented the intervening parties from vetting the MAC software. TIEC witness Mr. Pollock also asserted that the model is extremely complicated.¹⁰⁴² TIEC points out that Mr. Luth even testified that it can require manual adjustments depending on the values that a party might seek to revise.¹⁰⁴³ Mr. Pollock contended that the MAC model should have been calibrated to the model developed in Docket No. 42004.¹⁰⁴⁴ In the end, TIEC concedes that the disagreements and problems with the MAC model are a moot point, because the cost allocation approved by the Commission will be calculated pursuant to the Commission's number-running process.

OPUC actually performed the calibration recommended by Mr. Pollock. In doing so, it found and corrected some calculation and spreadsheet programming errors.¹⁰⁴⁵ However, OPUC witness Mr. Marcus also stated that the MAC model is similar to others he has reviewed and used. He further testified that with OPUC's corrections, the MAC model and the Docket No. 42004 model produced results that were basically equivalent, when run with the same assumptions.¹⁰⁴⁶ Because of the flexibility in Staff's model and the MAC model, OPUC recommends that the Commission's number-running process begin with one of these two models, instead of the Docket No. 42004 model. OPUC also recommends certain changes be made to the allocation factor for Account 581.

The ALJs find that the MAC model used by SPS for its CCOSS is a reliable and acceptable tool for preparing a proposed CCOSS. Further, the ALJs recommend that the Commission use either the MAC model or Staff's model for the number-running process, and implement the change to the allocator for Account 581 as recommended by OPUC.

¹⁰⁴² TIEC Ex. 2, Pollock direct at 17.

¹⁰⁴³ Tr. at 870.

¹⁰⁴⁴ TIEC Ex. 2, Pollock direct at 18.

¹⁰⁴⁵ OPUC Ex. 17, Marcus rebuttal at 5, n. 4; OPUC Ex. 18 at 72.

¹⁰⁴⁶ OPUC Ex. 17, Marcus rebuttal at 5, Ex. WBM-CR-1.

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

PROPOSAL FOR DECISION

PAGE 310

XVIII. PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW, AND ORDERING PARAGRAPHS

A. Proposed Findings of Fact

Procedural History

1. Southwestern Public Service Company (SPS) is an investor-owned electric utility with a retail service area located in Texas.
2. SPS serves retail and wholesale electric customers in Texas and New Mexico. The New Mexico Public Regulation Commission regulates SPS's New Mexico retail operations. The Federal Energy Regulatory Commission (FERC) regulates SPS's wholesale electric operations.
3. On December 8, 2014, SPS filed with the Public Utility Commission of Texas (Commission) an application requesting approval of an increase in base rate charges for the Texas retail jurisdiction of \$64,746,197. SPS also requested approval of a set of proposed tariff schedules reflecting the increased rates and other revised terms.
4. The 12-month test year (Test Year) used in SPS's application runs from July 1, 2013, through June 30, 2014.
5. SPS provided notice by publication for four consecutive weeks before the effective date of the proposed rate change in newspapers having general circulation in each county of SPS's Texas service territory. SPS also mailed notice of its proposed rate change to all of its customers. Additionally, SPS timely served notice of its statement of intent to change rates on all municipalities retaining original jurisdiction over its rates and services.
6. The following parties were granted intervenor status in this docket: Alliance of Xcel Municipalities (AXM); Amarillo College; Amarillo Recycling Company, Inc. (ARC); Canadian River Municipal Water Authority; Golden Spread Electric Cooperative, Inc. (Golden Spread); Laurance Kriegel, an individual residential customer; Occidental Permian, Ltd.; Office of Public Utility Counsel; Pioneer Natural Resources USA, Inc.; State of Texas agencies and institutions of higher education; Texas Cotton Ginners' Association; Texas Industrial Energy Consumers; United States Department of Energy (DOE); and Wal-Mart Stores Texas, LLC and Sam's East, Inc.
7. On December 9, 2014, the Commission referred this case to the State Office of Administrative Hearings (SOAH).

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

PROPOSAL FOR DECISION

PAGE 311

8. In its initial filing, SPS requested approval of temporary rates to make the rates ultimately set in this case retroactive to January 12, 2015. At the prehearing conference held on December 19, 2014, SPS withdrew that request and agreed to extend the statutory deadline for the Commission's final order from June 11, 2015, to September 30, 2015. In addition, the parties agreed that the final rates set in this case will be made effective retroactive to June 11, 2015, for electric consumption occurring on and after that date.
9. On January 16, 2015, the Commission issued its Preliminary Order, identifying a non-exhaustive list of 47 issues to be addressed in this proceeding.
10. All of SPS's timely-filed petitions for review of the rate ordinances of the municipalities exercising original jurisdiction within SPS's service territory were consolidated for determination in this proceeding.
11. On March 2, 2015, SPS filed a case update, which reduced its requested base rate increase to \$58,852,473.
12. On March 9, 2015, the Administrative Law Judges (ALJs) issued SOAH Order No. 6 severing rate case expense issues that were incurred in connection with this docket into *Review of Rate Case Expenses Incurred by Southwestern Public Service Company and Municipalities in Docket No. 43695*, Docket No. 44498 (pending).
13. On March 30, 2015, the ALJs granted a motion to abate the case for 30 days, and SPS agreed to extend the statutory deadline from September 30, 2015, to October 30, 2015.
14. On April 27, 2015, SPS agreed to extend the statutory deadline to November 20, 2015.
15. On June 10, 2015, SPS filed a rebuttal cost of service, which reduced its requested base rate increase to \$42,074,996. That request did not include the rate case expense amounts that had been severed from this proceeding, Docket No. 43695.
16. The hearing on the merits convened on June 24, 2015, and concluded on July 2, 2015.
17. For the revenue requirement phase, initial post-hearing briefs were filed on July 24, 2015, and reply briefs were filed on August 5, 2015. For the cost allocation/rate design phase, initial post-hearing briefs were filed on July 28, 2015, and reply briefs were filed on August 7, 2015.
18. Between July 24, 2015, and August 7, 2015, the parties filed proposed findings of fact, conclusions of law, and ordering paragraphs.
19. On October 7, 2015, SPS agreed to extend the statutory deadline to December 4, 2015.

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

PROPOSAL FOR DECISION

PAGE 312

Jurisdictional Allocation

Adjustment for Golden Spread

20. In *Joint Petition of Southwestern Public Service Company and Golden Spread for Declaratory Order*, Docket No. 35820, Order at 8 (Mar. 5, 2010), the Commission declared that SPS's Replacement Power Sales Agreement with Golden Spread to reduce SPS's wholesale sales to Golden Spread "benefits Texas retail customers because a greater percentage of SPS's output will be generated by base load units with low fuel costs, thereby reducing the system average fuel costs for all of SPS's customers."
21. On June 1, 2015, SPS's contractual obligation to sell wholesale power to Golden Spread declined from 500 megawatts (MW) to 300 MW in accordance with the power sales agreement approved by the Commission in Docket No. 35820.
22. The reduction of SPS's wholesale load obligation from 500 MW to 300 MW changes the peak demand allocations among SPS's Texas retail, New Mexico retail, and wholesale jurisdictions.
23. SPS requested a known and measurable adjustment to its peak demand allocators to reflect the reduction in wholesale sales to Golden Spread.
24. The change in peak demand allocators is a known adjustment because it occurred before the beginning of the rate year.
25. The change in peak demand allocators is a measurable adjustment because SPS quantified the amount by which the change in peak demand allocators affects its revenue requirement.
26. The attendant impacts associated with the reduction in the Golden Spread wholesale sale obligation are reductions in system-average fuel costs, and Texas retail customers have been receiving those reduced system-average fuel costs since June 1, 2015.
27. It is reasonable to adjust the jurisdictional allocators to account for the reduction in the Golden Spread wholesale sales because the adjustment satisfies the known and measurable adjustment standard.

General and Intangible Plant

28. SPS allocates costs among its Texas retail, New Mexico retail, and wholesale jurisdictions.

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

PROPOSAL FOR DECISION

PAGE 313

29. SPS allocated General and Intangible Plant for jurisdictional purposes based on the Labor Excluding Administrative and General Expense (LABXAG) allocator.
30. The use of the LABXAG allocator is appropriate for allocating General and Intangible Plant among jurisdictions because the General and Intangible Plant costs are driven primarily by employee needs.
31. The use of the LABXAG allocator is also appropriate to allocate General and Intangible Plant costs among jurisdictions because SPS uses that allocator to allocate General and Intangible Plant in its New Mexico retail and wholesale jurisdictions.

Account 923 – Outside Service – Legal

32. SPS allocated FERC Account 923 – Outside Service – Legal costs for jurisdictional purposes based on the LABXAG allocator.
33. The use of the LABXAG allocator is appropriate to allocate Outside Service – Legal costs for jurisdictional purposes because SPS engages outside counsel to perform only the work that exceeds the capacity of its in-house legal staff, and the costs of the in-house legal staff are allocated based on labor.

Rate Base

Capital Additions as of the End of the Test Year

34. During the period from July 1, 2012, through June 30, 2014, SPS placed the following amounts of plant in service:

a. Production	\$204,502,143.67
b. Transmission	\$417,911,707.91
c. Distribution	\$120,646,272.79
d. General	\$ 51,185,115.18
e. Software	<u>\$ 21,515,105.63</u>
Total	\$815,760,345.18
35. Capital additions that were closed to plant in service between July 1, 2012, and June 30, 2014, are used and useful in providing service to the public, and the costs were prudently incurred.

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

PROPOSAL FOR DECISION

PAGE 314

Post Test Year Capital Additions

36. The Commission may approve post-test year adjustments to plant in service if a utility proves that they meet the requirements of 16 Texas Administrative Code (TAC) § 25.231(c)(2)(F).
37. In its initial filing, SPS requested post-test year adjustments to include in rate base a total of \$441,651,953 (total company) for numerous capital additions to be placed in service between July 1, 2014, and December 31, 2014. On March 2, 2015, SPS updated that amount to reflect actual expenditures of \$392,549,024.39.
38. None of the capital additions for which SPS sought a post-test year adjustment satisfies the requirement in 16 TAC § 25.231(c)(2)(F)(i)(II) that each addition comprise at least 10% of SPS's requested rate base, exclusive of the post-test year adjustments and construction work in progress (CWIP).
39. SPS's proposed post-test year adjustments to rate base do not satisfy the requirement in 16 TAC § 25.231(c)(2)(F)(ii)(I) that each post-test year plant adjustment be included in rate base at the reasonable test year-end CWIP balance.
40. Under 16 TAC § 25.3, the Commission may make good cause exceptions to its rules.
41. SPS requested good cause exceptions to 16 TAC § 25.231(c)(2)(F)(i)(II) and (ii)(I).
42. SPS's asserted basis for the good cause exceptions is the effect the post-test year adjustments would have on its financial integrity.
43. SPS has investment grade credit ratings and its credit outlook is rated as stable.
44. Even without the post-test year adjustments to rate base, SPS projects: (1) an earnings before interest, taxes, depreciation, and amortization for year 2015 that is higher than in any year between 2010 and 2014; (2) a funds for operations/debt ratio that is higher than in any year between 2010 and 2013; (3) a funds for operations/interest ratio that is higher than any year between 2010 and 2013; and (4) a better debt/capital ratio than in any year between 2010 and 2014.
45. SPS's requested post-test year adjustments to rate base are not necessary to its financial integrity, have little effect on SPS's key financial metrics, and are not necessary for SPS to be able to attract capital on reasonable terms.
46. SPS's proposed post-test year adjustments to rate base should be denied because they violate 16 TAC § 25.231(c)(2)(F)(i)(II) and (ii)(I) and SPS did not show good cause to grant its requested exceptions to those rule requirements.

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

PROPOSAL FOR DECISION

PAGE 315

Depreciation Reserve Balance

47. The depreciation reserve balance approved in this proceeding accurately reflects the depreciation rate approved by the Commission in this proceeding.
48. Software systems that were fully amortized on or before June 30, 2014, when the Test Year ended, should not be included in rate base.

Prepaid Pension Asset

49. A prepaid pension asset arises under Generally Accepted Accounting Principles (GAAP) in accordance with Statement of Financial Accounting Standards (FAS) 87. A prepaid pension asset reflects the amount by which the accumulated contributions to the pension fund exceed the accumulated FAS 87 pension cost.
50. Accounting in accordance with GAAP requires that the amount by which the cash contributions made to the pension trust exceed the accumulated pension cost to be recorded as a prepaid pension asset.
51. Investment income on the prepaid pension asset reduces qualified pension costs calculated under FAS 87, which benefits customers by reducing the amount of pension costs included in base rates.
52. SPS's 13-month prepaid pension asset calculated in accordance with GAAP is \$168.6 million (total company), after offsetting a non-qualified pension liability.
53. The prepaid pension asset is appropriately included in rate base because it represents a prepayment by SPS.
54. SPS properly included in rate base the accumulated deferred federal income tax (ADIT) liability associated with the prepaid pension asset.

FAS 106 and FAS 112 Liabilities

55. SPS's 13-month average FAS 106 and FAS 112 liabilities were \$17,391,011 (total company) and \$2,341,289 (total company), respectively.
56. The FAS 106 and FAS 112 liabilities should be included in rate base because they reflect amounts that customers have funded.

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

PROPOSAL FOR DECISION

PAGE 316

57. SPS properly included in rate base the ADIT assets associated with the FAS 106 and FAS 112 liabilities.

Cash Working Capital

58. Investor-owned utilities may include in rate base a reasonable allowance for cash working capital as determined by a lead-lag study conducted in accordance with 16 TAC § 25.231(c)(2)(B)(iii).
59. Cash working capital represents the amount of working capital, not specifically addressed in other rate base items, that is necessary to fund the gap between the time expenditures are made and the time corresponding revenues are received.
60. The lead-lag study conducted by SPS considered the actual operations of SPS, adjusted for known and measurable changes, and is consistent with 16 TAC § 25.231(c)(2)(B)(iii).
61. The cash working capital allowance associated with federal income tax expense was calculated by SPS consistently with the calculations of other negative balances and is proper.

Accumulated Deferred Federal Income Taxes

62. SPS properly included ADIT amounts in rate base, except that the amounts related to the deferred tax assets associated with SPS's bad debt reserve accruals and vacation accrual reserves should not be included in rate base.
63. SPS argued, but did not prove, that the deferred tax assets associated with bad debt reserve accruals and vacation accrual reserves should be included in rate base because the corresponding asset or liability balance recorded on SPS's balance sheet (*i.e.*, the reserve for uncollectible accounts and accrued liability to recognize employee vacations earned but not taken) is included in the cash working capital calculation.

Other Prepayments and Short-Term Assets

64. The following short-term assets should be included in rate base: fuel inventory of \$12,255,296; and materials and supplies of \$20,289,186 (both total company).
65. The following prepayment amounts (total company) should be included in rate base, in addition to the prepaid pension asset: insurance prepayments of \$2,847,487; transmission prepayments of \$172,814; auto licensing prepayments of \$56,568; information-

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

PROPOSAL FOR DECISION

PAGE 317

technology related prepayments of \$119,081; pollution emission prepayments of \$422,956; and other benefit prepayments of \$9,881.

Regulatory Assets

66. The unamortized amount of deferred pension and Other Post-Employment Benefits (OPEB) costs should be considered a regulatory asset and included in rate base.
67. The capitalized property tax attributable to CWIP that was in service by the end of the Test Year should be included in rate base.

Rate of Return

68. A return on common equity of 9.70% will allow SPS a reasonable opportunity to earn a reasonable return on its invested capital.
69. A 9.70% return on equity is consistent with SPS's business and regulatory risk.
70. SPS's proposed 5.98% cost of debt is reasonable.
71. It is unreasonable and inconsistent with Commission precedent to include short-term debt in SPS's capital structure.
72. The appropriate capital structure for SPS is 46.03% long-term debt and 53.97% common equity.
73. The costs incurred by SPS for interest rate swaps were reasonable and prudent. Therefore, no reduction to the cost of debt or the capital structure is warranted.
74. A capital structure composed of 46.03% debt and 53.97% equity is reasonable in light of SPS's business and regulatory risks.
75. A capital structure composed of 46.03% debt and 53.97% equity will help SPS attract capital from investors.
76. SPS's overall rate of return should be set as follows:

Capital Component	Capital Structure	Cost of Capital	Weighted Average Cost of Capital
Long-term Debt	46.03%	5.98%	2.75%
Common Equity	53.97%	9.70%	5.24%
Total	100.00%		7.99%

Operation & Maintenance Expenses

77. The final cost of service should reflect changes to the cost of service that affect other components of the revenue requirement, including but not limited to the Texas state gross receipts tax, the local gross receipts tax, and the PUC assessment tax.

Payroll Expense

78. SPS requested the following amounts for payroll expense on a total company basis: \$107,840,478 for base salaries; \$5,202,078 for Annual Incentive Plan (AIP) payments; \$1,343,457 for the Supplemental Incentive Plan (SIP) payments; and \$80,138 for the Spot On Award Recognition Program (Spot On) payments.
79. SPS requested an adjustment of 3% to base salary levels of non-bargaining employees to reflect the base salary increases that were scheduled to occur for those employees in March 2015.
80. The 3% base salary increases for non-bargaining employees occurred in March 2015.
81. The salary increases for non-bargaining employees are known because they actually were incurred in March 2015. These salary increases are measurable because the amount has been quantified. Therefore, the known and measurable adjustment to base salary levels for non-bargaining employees is approved and should be reflected in the cost of service.
82. Although SPS requested an adjustment of 3% to base salary levels of bargaining employees to reflect the base salary increases that are likely to result from the current negotiations between SPS and the employees' union, the 3% base salary increases for bargaining employees is not known and measurable. Therefore, this requested adjustment should be denied.
83. SPS removed the costs associated with the financial components of the AIP. The goals are appropriately set for purposes of determining eligibility for the AIP relate to operational performance.
84. A certain amount of incentives to achieve operational measures is reasonable and necessary to the provision of electric service. However, such incentives that exceed 25% of an individual's base salary are excessive. The Commission staff's (Staff) recommended adjustment to eliminate the portion of the AIP that exceeded 25% of an individual's base salary is reasonable and should be adopted.
85. The AIP amount that SPS has requested, as adjusted by Staff, is reasonable and necessary to the provision of electric service, and it should be included in the cost of service.

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

PROPOSAL FOR DECISION

PAGE 319

86. SPS's compensation levels should not be decreased to reflect a post-Test Year reduction in the number of SPS and Xcel Energy Services, Inc. (XES) employees because the number of employees is similar to or higher than the Test Year number of employees.
87. Because 45% of margins gained from energy trades is allocated to shareholders, and energy traders are eligible for the AIP, SPS's request for recovery of SIP payments to energy traders is unreasonable and not necessary for the provision of electric service. SPS's request for recovery of SIP payments should be denied.
88. SPS's proposed Spot On payments are reasonable and necessary to the provision of electric service, and those expenses should be included in the cost of service.

Pension and Related Benefits

89. SPS requested recovery of \$16,202,277 (total company) of qualified pension expenses based on the Test Year.
90. SPS's actuarially determined qualified pension expense for calendar year 2014 was \$14,308,146 (total company).
91. SPS's actuarially determined level of qualified pension expense for calendar year 2014 is representative of costs that are likely to prevail during the time rates set in this case are in effect. Therefore, \$14,308,146 of qualified pension expense should be included in the cost of service.
92. The \$14,308,146 represents the baseline amount for purposes of the Public Utility Regulatory Act (PURA), Texas Utilities Code § 36.065(b) on a going-forward basis for qualified pension expense.
93. SPS requested recovery of \$14,354,924 (total company) of active health care expense is based on the Test Year amount, adjusted for a 7% escalation rate.
94. SPS's actual active health care expense for calendar year 2014 was \$14,117,064 (total company).
95. SPS's actual level of active health and welfare expense for calendar year 2014 is representative of costs that are likely to prevail during the time rates set in this case are in effect. Therefore, \$14,117,064 of active health care expense should be included in the cost of service.
96. SPS requested recovery of \$250,653 (total company) of Test Year retiree medical expense calculated in accordance with FAS 87 (also known as OPEB).

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

PROPOSAL FOR DECISION

PAGE 320

97. SPS's actuarially determined retiree medical expense for calendar year 2014 was \$173,864 (total company).
98. SPS's actuarially determined level of retiree medical expense for calendar year 2014 is representative of costs that are likely to prevail during the time rates set in this case are in effect. Therefore, \$173,864 of active health care expense should be included in the cost of service.
99. The \$173,864 represents the baseline amount for purposes of PURA § 36.065(b) on a going-forward basis for retiree medical expense.
100. The following amounts of benefit expense (all total company) are reasonable and should be included in the cost of service: \$37,835 for self-insured long-term disability expense calculated in accordance with FAS 112; \$1,147,796 for third-party insured workers' compensation expense; \$2,668,145 for 401(k) matching expense; and \$243,704 for miscellaneous retirement-related costs.
101. SPS requested \$163,701 in Stock Equivalent Plan expenses that serve as compensation paid to the Xcel Energy Inc. (Xcel Energy) Board of Directors.
102. Xcel Energy is required to have a Board of Directors and provides to non-employee members of the Board of Directors compensation with equity shares through a Stock Equivalent Plan. Such costs are not necessary to the cost of providing electric service, and the amount requested by SPS of \$163,701 in expenses should be disallowed.
103. SPS has withdrawn its request for recovery of \$3,565 in Xcel Energy executives' benefits.
104. SPS's requested amount of \$634,765 for moving and relocation expenses, as adjusted downward by \$37,984, is reasonable and necessary to attract employees.

Deferred Pension and OPEB Expense Recovery

105. SPS is requesting recovery of \$3,583,510 of deferred pension and OPEB expense.
106. The amount of deferred pension and OPEB expense is reasonable and should be included in SPS's cost of service.
107. It is appropriate to amortize the deferred pension and OPEB expense over a two-year period.

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

PROPOSAL FOR DECISION

PAGE 321

Depreciation Expense

108. All of SPS's current depreciation rates were set in Commission orders that were based on negotiated settlements and are not precedential.
109. Except as otherwise stated below, SPS's depreciation study recommends appropriate and reasonable depreciation rates for SPS's Steam Production, Other Production, Transmission, Distribution, and General plant.
110. SPS's proposed service lives for Production Plant are reasonable, and are appropriately used to calculate SPS's Production Plant depreciation rates.
111. None of the parties proposed a net salvage value for Production Plant that was calculated using a plant-specific study of SPS's Production Plant.
112. The current positive 5% net salvage value for SPS's Production Plant was set in non-precedential Commission orders that were based on settlements in prior SPS rate cases.
113. The evidence does not support setting a positive net salvage value for SPS's Production Plant. SPS proved that its Production Plant has a negative net salvage value.
114. SPS did not propose the negative 8% net salvage value for Production Plant indicated by the dismantling cost study presented by SPS.
115. The model used in the dismantling cost study was originally developed for decommissioning nuclear plants, and SPS did not prove that the model had been appropriately adapted for use in estimating the cost of dismantling SPS's fossil plants.
116. The dismantling cost study contained a number of assumptions that overstate the net cost of dismantling SPS's fossil plants.
117. In rate cases for various Texas electric utilities, the Commission has approved a variety of net salvage values for Production Plant, including in many cases a negative 5% net salvage value. SPS proposed a negative 5% net salvage value based on the Commission orders approving a negative 5% net salvage value.
118. SPS did not prove that its Production Plant has a net salvage value of negative 5% or any negative number larger than negative 2%.
119. A negative 2% net salvage value is reasonable and appropriate based on the evidence and should be used for all of SPS's Production Plant.

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

PROPOSAL FOR DECISION

PAGE 322

120. Except for the net salvage value for Transmission Poles & Fixtures (Account 355), SPS's proposed service lives and net salvage values for Transmission Plant are reasonable and should be used to calculate SPS's Transmission Plant depreciation rates.
121. A net salvage value of negative 35% for Transmission Poles & Fixtures (Account 355) is reasonable and should be used to calculate SPS's depreciation rates for that account.
122. The evidence does not show that SPS should be ordered to conduct the study relating to Transmission Poles & Fixtures (Account 355) proposed by AXM.
123. SPS's proposed service lives and net salvage values for Distribution Plant are reasonable and should be used to calculate SPS's Distribution Plant depreciation rates.
124. Except for the average service lives for Transmission Equipment–Light Trucks (Account 392.02) and Transmission Equipment–Heavy Trucks (Account 392.04), SPS's proposed service lives for General Plant are reasonable and should be used to calculate SPS's General Plant depreciation rates.
125. SPS's proposed net salvage values for General Plant are reasonable, and are appropriately used to calculate SPS's General plant depreciation rates.
126. The evidence does not show that SPS should be ordered to conduct the study relating to Miscellaneous Intangible Plant (Account 303) Large Software Systems proposed by AXM.
127. An average service life of 12 years for Transmission Equipment–Light Trucks (Account 392.02) is reasonable and should be used to calculate SPS's depreciation rates for that account.
128. An average service life of 14 years for Transmission Equipment–Heavy Trucks (Account 392.04) is reasonable and should be used to calculate SPS's depreciation rates for that account.

Affiliate Charges

129. SPS's affiliates charged SPS \$89,746,387 for services during the Test Year. The vast majority of these operations and maintenance (O&M) expenses – \$89,669,175 – were for services rendered by XES. The remaining affiliate services were charged (or credited) to SPS by Northern States Power Company – Minnesota, or Public Service Company of Colorado.
130. After exclusions and pro forma adjustments, SPS sought to recover \$86,844,330 in O&M affiliate charges.

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

PROPOSAL FOR DECISION

PAGE 323

131. XES follows a number of processes to ensure that: (1) affiliate charges are reasonable; (2) SPS and other affiliates are charged the same rate for similar services; and (3) the charges approximate the costs incurred by XES to provide the services.
132. The processes followed by XES include: (1) use of service agreements to define the level of service required and the cost of those services; (2) direct billing of affiliate charges when possible; (3) use of reasonable allocation methodologies for charges that cannot be direct billed; (4) billing its services without any mark-up, *i.e.* at cost billing; and (5) use of budgeting processes and controls to control spending.
133. The affiliate charges were grouped into 44 classes.
134. SPS properly removed lobbying costs from the costs of the External Affairs affiliate class. SPS's remaining costs in the External Affairs class, which are 12.5% of the total costs of this affiliate class, are not lobbying costs and are properly recoverable.
135. During the Test Year, XES incurred legal costs to defend itself against several employment discrimination claims, none of which were found to have merit. The portion of these legal costs allocated to SPS was \$79,291 (total company). The employees in question were XES employees; all but one of the claims were asserted solely against XES; and no Xcel Energy operating companies were defendants. The XES employees in question performed jobs that benefited SPS, and it is appropriate that SPS pay its share of the defense costs for these claims.
136. Affiliate charges totaling \$203,474 (total company) were made to SPS using multiple six-digit work orders that contained "New Mexico" or locations within New Mexico in their titles. Six-digit work orders are used to directly charge costs to specific Xcel Energy operating companies, but not to specific retail jurisdictions. SPS failed to explain how these charges benefitted Texas retail customers, and they should be excluded.
137. A component of the shared facilities charges SPS incurred from affiliates included the carrying costs associated with those facilities. Because these carrying costs are unnecessary and unreasonable, \$1,564,659 should be removed from SPS's affiliate expense. SPS should also make a corresponding decrease to FERC account 922 of \$1,187,726 in revenue SPS has received related to carrying costs. This results in a net reduction of \$376,933 (total company).
138. SPS agreed to remove \$2,475 in Life Event costs, which were contained in multiple affiliate classes, from its application.
139. SPS agreed to remove a \$104 charge that was due to a timekeeping entry error from its application.
140. All remaining affiliate transactions for which recovery was sought were reasonable and necessary, were allowable, and were charged to SPS at a price no higher than was

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

PROPOSAL FOR DECISION

PAGE 324

charged by the supplying affiliate to other affiliates, and the rate charged was a reasonable approximation of the cost of providing the service.

Purchased Capacity Costs

141. SPS's capacity-related expenses generally include capacity or demand and non-fuel items, such as O&M expenses or turbine start charges. SPS's capacity-related expenses are reasonable and necessary and are appropriately included in base rates.
142. SPS's proposed changes to purchased power agreement expenses for decreases due to the expiration of purchased power agreements and cost increases based on contractual terms represent appropriate known and measurable adjustments to Test Year expenses.
143. Because the term of the second Calpine Energy Services Purchased Power Agreement (Calpine II) extends through May 31, 2019, but the Test Year only contained one month of Calpine II capacity costs, SPS's adjustment to annualize capacity costs for the Calpine II agreement is an appropriate known and measurable adjustment to Test Year expenses.

Coal Procurement Expenses

144. Because SPS's proposed changes to coal procurement costs reflect contractual terms, they represent appropriate known and measurable adjustments to Test Year expenses.
145. SPS's coal procurement expenses are reasonable and necessary.

SPP and Other Transmission Charges and Revenue

146. SPS is both a transmission owner and a transmission customer within the Southwest Power Pool (SPP).
147. As a transmission owner, SPS is subject to charges calculated in accordance with the SPP Open Access Transmission Tariff (OATT).
148. Transmission customers within SPP must pay Schedule 11 expenses related to transmission upgrades designated as Base Plan Upgrades.
149. Transmission owners that build Base Plan Upgrades are entitled to receive Schedule 11 revenues from SPP.

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

PROPOSAL FOR DECISION

PAGE 325

150. In the Test Year, SPS paid \$54,595,476 (total company) of Schedule 11 expenses, and it received \$60,836,125 (total company) of Schedule 11 revenues.
151. Instead of using its Test Year Schedule 11 expenses and revenues to calculate the cost of service, SPS used a calculation based on SPP's October 2014 Revenue Requirement and Rates (RRR) file, adjusted to reflect the return on equity that SPS proposes in this case instead of the return on equity authorized by FERC that underlies the October 2014 RRR file.
152. Using its method described above, and under the assumption that SPS's proposed post-test year adjustments to rate base are rejected, SPS calculated \$77,593,999 (total company) of Schedule 11 expenses and \$60,251,331 (total company) of Schedule 11 revenues.
153. SPS proposed that if the Commission adopts a return on equity different from that proposed by SPS, SPS's calculation of the Schedule 11 expenses and revenues be adjusted to use the return on equity the Commission sets in this case.
154. SPP changes its RRR files often. For example, SPP stopped using the October 2014 RRR file when its January 2015 RRR file update took effect, and the RRR file has changed several times since then.
155. Shifts in variables in the RRR file can cause an SPP member's Schedule 11 expenses net of its Schedule 11 revenues to be significantly higher or lower.
156. Under SPS's methodology, SPS's calculated Schedule 11 revenues and expenses would differ substantially depending on the RRR file used. For example, using the October 2014 RRR file would indicate a significant Schedule 11 net expense, and using the January 2015 RRR file would indicate a significant Schedule 11 net credit.
157. The October 2014 RRR file is not a known and measurable change to SPS's Test Year Schedule 11 revenues and expenses, and using the October 2014 RRR file to calculate SPS's Schedule 11 revenues and expenses would be unreasonable.
158. SPS's cost of service in this case should be determined using SPS's actual Schedule 11 revenues and expenses, which are based on the FERC return on equity that SPP actually used to calculate SPS's Schedule 11 revenues and expenses, not the hypothetical return SPS calculated to account for differences in the returns on equity approved by the Commission and FERC.
159. Differences in regulatory treatment by FERC and the Commission are not limited to setting different returns on equity at a particular time. The rate-setting methodologies used by FERC and the Commission differ in numerous respects.

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

PROPOSAL FOR DECISION

PAGE 326

160. SPS's actual Schedule 11 expenses and revenues for the Test Year are reasonable and necessary and should be used to calculate SPS's cost of service.
161. Schedule 1-A charges are charges applied to all transmission service under the SPP OATT to cover SPP's expenses related to its administration of the OATT.
162. SPS's Test Year Schedule 1-A charges were \$11,895,856 (total company). SPS removed \$3,294,127 attributable to wholesale load and increased the Schedule 1-A expenses by \$878,143 (total company) to account for the increase in the Schedule 1-A fee approved by the SPP Board of Directors in October 2014.
163. The adjustment proposed by SPS for Schedule 1-A charges is known because it has already occurred and SPS is currently paying the increased charge. The amount is also measurable because it is calculated on a megawatt-hour basis. The proposed Schedule 1A expense of \$9,479,871 (total company) is reasonable and should be included in the cost of service.
164. SPS incurred \$8,475,178 of costs during the Test Year for a transmission reservation across the Lamar Direct Current Tie, a transmission tie between SPS and Public Service Company of Colorado.
165. SPS proposed a known and measurable adjustment of \$390,182 to the Lamar Direct Current Tie Test Year costs to reflect that Public Service Company of Colorado's FERC-approved formula rate increased on January 1, 2015.
166. The adjustment is known because it has occurred and SPS is currently paying the higher rate approved by FERC. The adjustment is also measurable because it is charged on fixed amount of capacity.
167. SPS's requested amount of \$8,865,360 for Lamar Direct Current Tie costs is reasonable and should be included in the cost of service.
168. As a transmission owner within SPP, SPS received transmission revenues from transmission customers for point-to-point service under Schedule 7 and Schedule 8.
169. In the Test Year, SPS received \$4,869,637 of Schedule 7 and Schedule 8 revenues from SPP. SPS proposed to increase the revenues by \$457,850 to reflect higher transmission rates approved by FERC.
170. The adjustment is known because the increase in transmission rates has occurred, and it is measurable because it is charged on a megawatt-hour basis.
171. SPS's requested Schedule 7 and Schedule 8 revenue of \$5,327,487 is reasonable, and that amount should be included as a revenue credit in the SPS cost of service.

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

PROPOSAL FOR DECISION

PAGE 327

O&M Cost Containment

172. SPS presented a benchmarking study comparing its O&M costs to those of groups of peer utilities.
173. The benchmarking study presented by SPS shows that SPS's overall O&M expenses are reasonable compared to those of peer utilities.
174. SPS's benchmarking study did not include a comparison of O&M expense escalation rates.
175. DOE presented an O&M benchmarking study that compares SPS's administrative and general O&M expenses (A&G expenses) and distribution O&M expenses to those of a peer group of utilities.
176. SPS's and DOE's benchmarking studies were reasonably constructed and are reasonable tools for evaluating SPS's performance at managing O&M expense with respect to the matters analyzed in each study.
177. DOE's benchmarking study indicates that SPS ranks in the bottom or below average quintiles for controlling A&G expense escalation.
178. DOE's benchmarking study indicates that SPS ranks in the bottom or below average quintiles for controlling distribution O&M expense escalation.
179. Based on its benchmarking study, DOE proposed disallowances of \$17.2 million (total company) of A&G expense and \$3.2 million (total company) of distribution O&M expense.
180. DOE's proposed disallowances would apply the same standard to disallow SPS's A&G and distribution O&M expenses regardless of whether they are affiliate expenses.
181. DOE's benchmarking study analyzed only comparative cost growth rates, not circumstances underlying those growth rates. It did not analyze whether the increase in SPS's A&G and distribution O&M expenses resulted from imprudence.
182. The evidence does not show that the increases in SPS's A&G and distribution O&M expenses resulted from imprudence.
183. SPS presented some evidence of reasons its A&G and distribution O&M expenses have escalated.
184. DOE's proposed adjustments should not be made in this case.