Filing Receipt

Received - 2022-11-16 02:34:56 PM
Control Number - 53719
ItemNumber - 342

SOAH DOCKET NO. 473-22-04394
PUC DOCKET NO. 53719

APPLICATION OF ENTERGY TEXAS, INC. FOR AUTHORITY TO CHANGE RATES	§ § §	BEFORE THE STATE OFFICE OF ADMINISTRATIVE HEARINGS

REBUTTAL TESTIMONY

OF

ALLISON P. LOFTON

ON BEHALF OF

ENTERGY TEXAS, INC.

NOVEMBER 2022

ENTERGY TEXAS, INC.
REBUTTAL TESTIMONY OF ALLISON P. LOFTON
SOAH DOCKET NO. 473-22-04394
PUC DOCKET NO. 53719

TABLE OF CONTENTS

		Page
I.	Introduction and Purpose	1
II.	Response to Intervenors	2
	A. Cities Witnesses	2
	B. OPUC Witnesses	10
III.	Response to Staff	16
IV.	Conclusion	21

EXHIBITS

Exhibit APL-R-1	Overtime Payroll Charges Included in the Cost of Service
Exhibit APL-R-2	Adjustments to the Calculation of OPUC's Proposed Rider
Exhibit APL-R-3	Updated Incentive Compensation Amounts by Plan
Exhibit APL-R-4	Capitalized Incentive Compensation

1 **I. INTRODUCTION AND PURPOSE**

2 Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

3 A. My name is Allison P. Lofton. My business address is 639 Loyola Avenue,
4 New Orleans, Louisiana 70113. I am employed by Entergy Services, LLC
5 ("ESL"), the service company affiliate of Entergy Texas, Inc. ("ETI" or "the
6 Company"), as Manager, Regulatory Filings.

7

8 Q2. ARE YOU THE SAME ALLISON P. LOFTON WHO FILED DIRECT
9 TESTIMONY IN THIS CASE ON BEHALF OF ENTERGY TEXAS, INC.?

10 A. Yes.

11

12 Q3. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

13 A. The purpose of my rebuttal testimony is to respond to the recommendations in the
14 direct testimonies of Cities'[1] witnesses, Karl J. Nalepa and Mark E. Garrett,
15 witnesses Constance T. Cannady and Evan D. Evans for the Office of Public Utility
16 Counsel ("OPUC"), and witness Emily Sears for the Staff ("Staff") of the Public
17 Utility Commission of Texas ("PUCT" or "the Commission"). Specifically, I
18 assess the impact their proposals have on the cost of service and ETI's revenue
19 requirement in this case.

[1] Cities include the Cities of Anahuac, Beaumont, Bridge City, Cleveland, Dayton, Groves, Houston, Huntsville, Liberty, Montgomery, Navasota, Nederland, Oak Ridge North, Orange, Pine Forest, Pinehurst, Port Arthur, Port Neches, Roman Forest, Rose City, Shenandoah, Silsbee, Sour Lake, Splendora, Vidor, West Orange, and Willis.

1 **II. RESPONSE TO INTERVENORS**

2 **A. Cities Witnesses**

3 Q4. CITIES' WITNESS KARL J. NALEPA RECOMMENDS VARIOUS
4 ADJUSTMENTS TO ETI'S REQUESTED REVENUE REQUIREMENT.
5 PLEASE SUMMARIZE THE ADJUSTMENTS AND PROPOSED TOTAL
6 REDUCTION TO RATE BASE AND EXPENSE, RESULTING IN A TOTAL
7 COST OF SERVICE OF $1,077,734,342.[2]

8 A. Mr. Nalepa proposes several adjustments to ETI's requested revenue requirement
9 and are summarized in Table 1:

10 **Table 1: Karl J. Nalepa Revenue Requirement Adjustments**

Adjustment Description	Adjustment Amount
Remove DIC Regulatory Asset	$(8,019,571)
DIC Regulatory Asset Amortization	(2,673,190)
Incentive Compensation and related payroll taxes	(6,566,844)
Direct and Affiliate Payroll	(2,597,284)
Non-Qualified Retirement Plan	(1,329,421)
Under-Recovered Pension and OPEB Amortization	(1,532,659)
Storm Accrual/Self Insurance Reserve	(4,939,235)
D&O Insurance	(65,844)
COVID-19 Bad Debt	(978,016)
ROE Premium	(8,580,220)
Revised Depreciation Rates	(59,349,569)
Non-AMS Meter Amortization	(5,568,296)
Reduction to ROE	(52,110,799)

[2] Direct Testimony of Karl J. Nalepa ("Nalepa Direct") at 18:19-21.

1 Q5. DID MR. NALEPA'S PROPOSED ADJUSTMENTS INCLUDE ALL
2 ATTENDANT FLOW-THROUGH IMPACTS?
3 A. No, they did not. For example, Mr. Nalepa's calculation did not include the flow-
4 through impact to current income taxes associated with depreciation expense. This
5 impact results in a change of approximately $(3.0) million to Federal Income Taxes
6 to Mr. Nalepa's proposed adjustments. If the Commission should agree
7 Mr. Nalepa's proposed adjustments, all appropriate flow-through impacts must be
8 considered.
9
10 Q6. WHY DID CITIES' WITNESS MR. NALEPA RECOMMEND THAT THE
11 COMMISSION NOT APPROVE ETI'S PROPOSED REDUCTION OF THE
12 AMORTIZATION PERIOD FOR NON-ADVANCED METER SYSTEM
13 ("AMS") METERS TO THREE YEARS?[3]
14 A. Mr. Nalepa contends that the Commission has already authorized the Company to
15 amortize the non-AMS meters over the remaining life at the time the Final Order
16 in Docket No. 47416 was issued.

---

[3] *Id.* at 11:4-6.

1 Q7. DO YOU AGREE WITH MR. NALEPA'S CONCLUSION THAT ETI DID NOT
2 PROVIDE AN EXPLANATION FOR ITS PROPOSAL TO REDUCE THE
3 AMORTIZATION PERIOD TO THREE YEARS?[4]
4 A. No. In my direct testimony, I discuss the proposed reduction in the amortization
5 period. Specifically, three years is consistent with the other amortization periods
6 included in our base rate case. This period is based on a reasonable estimate of the
7 future cadence of the Company's base rate case filings.
8
9 Q8. HAS THE COMPANY CONSIDERED ANOTHER AMORTIZATION PERIOD?
10 A. If the Commission disagrees with the Company's proposed three-year amortization
11 period, ETI would not oppose adjusting the amortization period to a seven-year
12 amortization period. A seven-year amortization period would align with the future
13 expiration of the AMS Surcharge. The non-AMS meters were retired, and the
14 remaining net book value of the meters was moved to a regulatory asset to be
15 amortized over the remaining life of the meters, in a manner consistent with the
16 depreciation of the meters. However, the non-AMS meters are no longer providing
17 service to ETI customers, and it is reasonable to seek recovery of the non-AMS
18 meters over a shorter amortization period.

---

[4] *Id.* at 11:12.

1 Q9. WHAT DOES CITIES' WITNESS MR. NALEPA RECOMMEND REGARDING
2 ETI'S PROPOSED TREATMENT OF DISTRIBUTION INVESTED CAPITAL
3 LOST RECOVERY?[5]

4 A. Mr. Nalepa's recommendations in his direct testimony follow similar arguments
5 made in Docket No. 50714, *Application of Entergy Texas, Inc. to Amend Its*
6 *Distribution Cost Recovery Factor*. He is relying on the recommendation of the
7 Administrative Law Judges ("ALJs") in the Proposal for Decision ("PFD") and the
8 Commission's Order from Docket 50714, which disallowed ETI's proposal to
9 include the regulatory asset for the non-AMS meters in its Distribution Cost
10 Recovery Factor ("DCRF") for recovery. Doing so would have made the Company
11 whole in recovery of the costs of the non-AMS meters. However, in this
12 proceeding, ETI is requesting a *new* regulatory asset in the amount of $8.0 million,
13 which is equivalent to the amount of DCRF recovery the Company would have
14 received had the non-AMS meter regulatory asset been included in the DCRF as
15 requested in Docket No. 50714. Instead, the distribution invested capital ("DIC")
16 included in the DCRF was offset by the amount associated with the non-AMS
17 meters that was reclassified from DIC (a credit to DIC) to the regulatory asset (a
18 debit to the regulatory asset). As a result, ETI was prohibited from recovering some
19 incremental DIC through the DCRF on a timely basis. Because ETI was prohibited
20 from recovering all of the DIC for its non-AMS assets through the DCRF in Docket

[5] *Id.* at 12:1-7.

1 No. 50714, it is appropriate the Commission approves recovery in this case as ETI
2 requests.[6] It is my understanding, based on the Commission's decisions related to
3 these matters, that there has been no determination that the Company should be
4 disallowed any costs related to either its AMS or non-AMS meter. Yet, that would
5 be the effect of Mr. Nalepa's position.
6
7 Q10. CITIES' WITNESS MARK E. GARRETT PROPOSES THAT THE
8 COMMISSION DISALLOW RECOVERY OF RESTRICTED STOCK
9 EXPENSES IN THE AMOUNT OF $2,516,320 BASED ON A CLAIM THAT
10 THEY ARE RELATED TO THE COMPANY'S FINANCIAL
11 PERFORMANCE.[7] IS THIS AMOUNT TIED TO THE FINANCIAL
12 PERFORMANCE OF ETI?
13 A. No. According to Commission precedent, restricted stock awards are not based on
14 financial measures. Restricted stock expense is included in the requested cost of
15 service because restricted stock is awarded to various levels of employees in the
16 organization regardless of the Company's financial performance. The restricted
17 stock awards vest over a three-year period with the employee receiving one-third
18 of the compensation each year. Please see Section III of the Rebuttal Testimony of
19 Jennifer A. Raeder for a discussion of the appropriate recovery of restricted stock
20 expense and the nature of these expenses. Expenses for the restricted stock awards

---

[6] *See Application of Entergy Texas, Inc. to Amend Its Distribution Cost Recovery Factor,* Docket No. 47416, Final Order, Finding of Fact 37 (Oct. 16, 2020).

[7] Direct Testimony of Mark E. Garrett ("Garrett Direct") at 6.

1 were also included in the Company's 2018 rate case, Docket No. 48371. The
2 Company is not requesting recovery of the Stock Options nor the Performance
3 Units program, which are different types of programs from the Restricted Stock
4 awards that are available to ETI and ESL employees.
5
6 Q11. IN HIS DIRECT TESTIMONY, CITIES WITNESS MR. GARRETT ASSERTS
7 THAT THE PAYROLL ADJUSTMENT TO INCLUDE MERIT AND
8 INCENTIVE COMPENSATION FOR 2022 IS A POST-TEST YEAR
9 ADJUSTMENT, AND, THEREFORE, IT SHOULD NOT BE INCLUDED IN
10 ETI'S COST OF SERVICE FOR THE TEST YEAR.[8] DO YOU AGREE WITH
11 HIS ASSESSMENT OF THIS PAYROLL ADJUSTMENT?
12 A. No. The merit and incentive compensation for 2022 are reasonably known and
13 measurable, and, therefore, it is appropriate to include these costs in ETI's proposed
14 payroll adjustment to the Test Year payroll expenses in the cost of service. ETI has
15 requested this treatment in prior rate cases, and it has been approved by the
16 Commission in Docket Nos. 39896, 41791, and 48371. Specifically, in Docket
17 No. 39896, ETI's last fully-litigated rate case, in the PFD, the ALJs disagreed with
18 Mr. Garrett's position that ETI's payroll adjustment to include merit increases that
19 occurred after the Test Year was a post-Test Year adjustment and should be
20 disallowed. In the Order in that docket, the Commission concurred with the ALJs

---

[8] *Id.* at 11:1-7.

1 findings in the PFD.[9]

2

3 Q12. IS MR. GARRETT'S POSITION ON TREATMENT OF THE PAYROLL
4 ADJUSTMENT TO INCLUDE MERIT INCREASES CONSISTENT WITH HIS
5 RECOMMENDATION FOR OTHER ADJUSTMENTS REGARDING 2022
6 INFORMATION?[10]

7 A. No. Although Mr. Garrett recommends that the payroll adjustment to include merit
8 increases is a post-Test Year adjustment and should be disallowed, Mr. Garret does
9 not argue that ETI's proposed adjustment to pension expense, which is based on
10 actuarial estimates for 2022 (post-Test Year), should be disallowed. ETI's
11 adjustment reflects a decrease to the Test Year pension expense based on 2022
12 amounts recorded on ETI's books and records similar to the merit increases known
13 in 2022. To have different treatment for these two adjustments amounts to cherry
14 picking by only proposing to disallow the payroll expense, which is an increase,
15 while keeping the pension expense adjustment based on 2022 actuarial statements
16 reflecting a decrease to expense.

---

9 *See Application of Entergy Texas, Inc. for Authority to Change Rates, Reconcile Fuel Costs, and Obtain Deferred Accounting Treatment*, Docket No. 39896, Order on Rehearing, Finding of Fact No. 124 (Nov. 2, 2012).

10 *Id.* at 48:18 – 49:3.

1 Q13. PLEASE EXPLAIN CITIES' WITNESS MR. GARRETT'S POSITION ON HOW
2 ACCRUED INCENTIVE AMOUNTS ARE RECOVERED IF EARNINGS PER
3 SHARE ("EPS") GOALS ARE REDUCED OR NOT MET.[11]

4 A. Mr. Garrett asserts in his direct testimony that if EPS goals are not met and accrued,
5 incentive amounts will be over collected, any over collection will be retained by
6 Entergy's shareholders.

7

8 Q14. IS MR. GARRETT'S UNDERSTANDING OF HOW INCENTIVE AMOUNTS
9 ASSOCIATED WITH EPS GOALS ARE ACCRUED AND RECOVERED
10 CORRECT?[12]

11 A. No. True-up entries for incentive amounts are recorded on the Company's books
12 to adjust the accrued amounts accordingly. As a result, the amount of incentive
13 compensation included in rates is based on actual results achieved by the Company.
14 Therefore, there would be no over recovery.

---

[11] *Id.* at 13:1-6.

[12] *Id.* at 11:1-7.

1 **B. <u>OPUC Witnesses</u>**

2 Q15. OPUC'S WITNESSES IN THIS PROCEEDING RECOMMEND VARIOUS
3 ADJUSTMENTS TO ETI'S REQUESTED REVENUE REQUIREMENT.
4 PLEASE SUMMARIZE THE ADJUSTMENTS AND PROPOSED TOTAL
5 REDUCTION TO RATE BASE AND EXPENSE.

6 A. The adjustments proposed by OPUC's witnesses in their direct testimonies are
7 described below in Table 2:

8 **Table 2: OPUC Adjustments to the Revenue Requirement**

Adjustment Description	Amount
Remove plant deactivations and include in Retiring Plant Rate Rider	$(188,933,067)
Remove O&M and Depreciation for retiring plants and include in the Retiring Plant Rate Rider	(89,755,168)
Over/Under Reserves for NQ Pension and OPEB	(6,850,089)
Pension/OPEB amortization expense	(12,552,823)
Overtime Payroll – use 5-year Avg.	(891,933)
Short Term Incentive Compensation	(3,309,262)
Related Payroll Tax and Benefits	(184,174)

9 Q16. DOES OPUC'S CALCULATION PROVIDED IN THEIR DIRECT
10 TESTIMONIES ACCURATELY REFLECT THE ADJUSTMENTS THEY
11 HAVE RECOMMENDED?

12 A. No. OPUC's calculation of the change in ETI's revenue requirement based on its
13 proposed adjustments to the cost of service does not include all attendant flow-
14 through impacts. As these adjustments are not appropriate to make to ETI's cost
15 of service, I will not address each error specifically. However, should the
16 Commission agree with OPUC's positions, all appropriate flow-through impacts

1 will need to be factored into the overall change in ETI's requested cost of service.

2

3 Q17. DO YOU HAVE CONCERNS WITH SPECIFIC ADJUSTMENTS PROPOSED
4 BY OPUC THAT YOU WOULD LIKE TO ADDRESS?

5 A. Yes. I have concerns with several of the proposed adjustments and will address
6 each one below. I will explain why amounts calculated by OPUC are not correct
7 and should not be disallowed for recovery.

8

9 Q18. OPUC WITNESS CONSTANCE T. CANNADY RECOMMENDS
10 ADJUSTMENTS TO THE COST OF SERVICE TO REMOVE OVERTIME
11 PAYROLL EXPENSES SHE DEEMS NOT ONGOING, SPECIFICALLY
12 BRINGING MONTGOMERY COUNTY POWER STATION ONLINE AND
13 COSTS ASSOCIATION WITH HURRICANE LAURA.[13] IS HER
14 CHARACTERIZATION OF THESE PAYROLL OVERTIME CHARGES
15 ACCURATE?

16 A. Ms. Cannady is asserting that overtime payroll charges for 2020 and 2021 are
17 significantly higher than prior years and recommends that the Company use a 5-
18 year average for overtime payroll. The amounts that Ms. Cannady relies on in her
19 analysis are the total amounts for overtime payroll recorded on the Company's
20 books to various FERC accounts during the test year and prior years. These
21 amounts are reflected in Schedule G-1.1 in accordance with the instructions in the

---

[13] Direct Testimony of Constance T. Cannady ("Cannady Direct") at 31:6-10.

1 Rate Filing Package. The amounts reflected in Schedule G-1.1 differ from the
2 amounts included in the Company's costs of service (1) because not all FERC
3 accounts are included in the cost of service and (2) some of the overtime payroll
4 charges are removed from the cost of service in pro forma adjustments, including
5 the overtime charges for Hurricane Laura. When considering these differences, the
6 actual amount of overtime payroll charges included in the Company's cost of
7 service is approximately $9.5 million. This amount is significantly less than the
8 five-year average amount proposed by Ms. Cannady. If the Commission were to
9 agree with OPUC's position to average overtime charges over a five-year period in
10 the cost of service, instead of a reduction to overtime expense as recommended by
11 Ms. Cannady, an adjustment of approximately $2.9 million to increase ETI's
12 overtime payroll charges, including related payroll taxes and benefits, will be
13 required to comply. Because Ms. Cannady is basing her recommendation using
14 amounts that are not included in ETI's requested costs of service, her proposed
15 disallowance is not correct. See Exhibit APL-R-1 for my calculation of overtime
16 payroll charges included in the cost of service.
17
18 Q19. IN HER DIRECT TESTIMONY, MS. CANNADY PROPOSES TO MOVE
19 CERTAIN NET PLANT BALANCE, OPERATIONS AND MAINTENANCE
20 ("O&M") EXPENSE, DEPRECIATION, FUEL INVENTORY AMOUNTS, AND
21 OTHER RELATED AMOUNTS INTO A SEPARATE RIDER.[14] IS HER

[14] *Id.* at 13:18 – 14:2.

1 CALCULATION OF THE ADJUSTMENT TO REMOVE THESE AMOUNTS
2 CORRECT?
3 A. From my review, there are several issues with Ms. Cannady's net plant adjustment
4 for the generation units shown on Exhibit CTC-2a. First, I am unable to validate
5 her calculation of the accumulated depreciation amount for Big Cajun 2 Unit 3 due
6 to a formula error. Secondly, her net plant adjustment assumes a March 31, 2023
7 date for the change to base rates, but ETI's relate back date for the base rates to be
8 set by this proceeding is December 3, 2022. The relate back period should apply
9 to Ms. Cannady's proposed rider as well as base rates. Lastly, Ms. Cannady did
10 not calculate the adjustment to Accumulated Deferred Federal Income Tax
11 ("ADFIT") associated with the net plant balances for the generation units to be
12 adjusted. I have recalculated her adjustment using my assumptions on Exhibit
13 APL-R-2. If the Commission were to agree with OPUC's recommendation on a
14 Retiring Plant Rate Recovery rider, as reflected on Exhibit APL-R-2, I first
15 recalculated the correct amounts to be adjusted from base rates for each of the
16 retiring generating units. Next, I recalculated the amounts that would appropriately
17 be reflected in and recovered through the proposed Retiring Plant Rate Recovery
18 Rider. My calculation assumes new base rates and the proposed rider are effective
19 December 3, 2022, and I have recalculated the accumulated depreciation for each
20 of the units through that date to determine the net plant balance of each generating
21 unit that will be recovered through the rider. Next, I calculated the estimated
22 ADFIT associated with the net plant balances. Lastly, I used the proposed

1 depreciation rates reflected in Company witness Dane A. Watson's direct testimony
2 to calculate the depreciation expense to be recovered through the rider. The results
3 of my recalculation of the annual revenue requirement for the proposed rider are
4 reflected on Exhibit APL-R-2.
5
6 Q20. DO OPUC WITNESS MS. CANNADY'S PROPOSED RIDER AND
7 ASSOCIATED IMPACTS TO ETI'S REVENUE REQUIREMENT INCLUDE
8 ALL FLOW-THROUGH IMPACTS?
9 A. No. However, my recalculation in Exhibit APL-R-2 does include the flow through
10 impacts.
11
12 Q21. IN HIS DIRECT TESTIMONY, WHY DOES OPUC WITNESS EVAN D.
13 EVANS PROPOSE TO REMOVE THE COSTS ASSOCIATED WITH THE HEB
14 BACK-UP GENERATORS FROM THE COST OF SERVICE?[15]
15 A. Mr. Evans claims that ETI did not quantify the value of the benefits provided by
16 the HEB generators. He recommends the costs associated with the HEB generators
17 be removed from the cost of service and that the consideration of these costs be
18 moved to ETI's recent filing in Docket No. 53992, *Entergy Texas, Inc.'s Statement*
19 *of Intent and Application for Approval of Rate Schedule UODG (Utility-Owned*
20 *Distributed Generation)*. ETI witness Stuart Barret addresses these issues in more
21 detail in his Rebuttal Testimony.

---

[15] Direct Testimony of Evan Evans ("Evans Direct") at 13:18-22.

1 Q22. DO YOU AGREE WITH THIS RECOMMENDATION?

2 A. No. The HEB generators should remain in ETI's rate base as they are used and
3 useful invested capital in providing services to the customers. The Company does
4 not currently have an approved alternative mechanism to recover the costs, and they
5 are appropriately included in the cost of service. Although ETI has filed an
6 application for approval of a tariff to facilitate recovery of similar back-up
7 generation service at customer locations in Docket No. 53992, the application is
8 still pending before the Commission and does not address the specific assets that
9 have already been deployed, which are the HEB generators included in ETI's base
10 rate case. If the Commission were to agree with Mr. Evans's proposal, in addition
11 to the costs of the generators, the O&M and Test Year revenues received through
12 the Additional Facilities Charges ("AFC") Rider should be removed, along with all
13 flow-through impacts, including taxes, depreciation, property taxes, and ADIT,
14 among others.

15

16 Q23. MR. EVANS RECOMMENDS POTENTIAL ADJUSTMENTS ASSOCIATED
17 WITH AMS DEPLOYMENT DUE TO ASSOCIATED INCREASES IN THE
18 CUSTOMER CHARGE.[16] HAS AMS DEPLOYMENT INCREASED THE
19 CUSTOMER CHARGE AS MR. EVANS CLAIMS?

20 A. No. The drivers underlying the proposed increase to the customer charges are not
21 the result of AMS deployment, but the culmination of several contributing factors,

---

[16] *Id.* at 18:11 – 19:8.

1 including the acceleration of recovery of existing non-AMS meters. Specifically,
2 the drivers are increases related to Distribution and Customer Service Contracts and
3 Depreciation and Amortization. The costs of the AMS meters or any delay in
4 operational benefits are not the drivers of any increase in customer charges. The
5 estimated benefits of AMS meters are included in the surcharge; therefore,
6 customers are getting the benefit of the deployment. For a response to Mr. Evans's
7 criticisms of ETI's AMS deployment, please see the rebuttal testimony of
8 Mr. Barrett.
9

10 **III. RESPONSE TO STAFF**

11 Q24. STAFF RECOMMENDS VARIOUS ADJUSTMENTS TO ETI'S REQUESTED
12 REVENUE REQUIREMENT. SUMMARIZE THE ADJUSTMENTS AND
13 PROPOSED TOTAL REDUCTION TO RATE BASE AND EXPENSE,
14 RESULTING IN A REDUCTION TO ETI'S REVENUE REQUIREMENT OF
15 APPROXIMATELY $51 MILLION.

16 A.

Adjustment Description	Amount
Rate Base adjustments: Capitalized Incentive Compensation $(12.4)M; Rate of Return 6.34 %; and Working Cash Adjustment of $1.2M resulting a reduction in the return on invested capital of $(31.1)M.	$(31,100,504)
Remove incentive compensation based on financial measures	(5,898,760)
Adjust amortization period of NQ Pension/OPEB over/under	(2,862,080)
Adjust COVID-19 Bad Debt amortization period	(918,162)
Adjustment to non-revenue-related taxes	(525,122)
Adjustment to revenue related taxes	(1,223,465)
Adjustment to federal income taxes	(8,175,336)

1 Q25. DOES STAFF'S CALCULATION ACCURATELY REFLECT ALL OF THE
2 IMPACTS OF THEIR PROPOSED ADJUSTMENTS?
3 A. No. Staff's proposed adjustments do not include all attendant flow-through
4 impacts. Should the Commission agree with all of Staff's positions, all appropriate
5 flow-through impacts must be considered and included in the calculations.
6
7 Q26. STAFF WITNESS EMILY SEARS RECOMMENDS THE DISALLOWANCE
8 OF UNASSIGNED AMOUNTS OF INCENTIVE COMPENSATION BY PLAN.
9 WHAT ARE YOUR CONCLUSIONS REGARDING MS. SEARS'S
10 RECOMMENDATION? [17]
11 A. Incentive compensation amounts are not always recorded on the Company's books
12 by incentive plan. Normal recurring incentive compensation accrual entries are
13 recorded by incentive plan. Non-recurring entries, such as corrections to incentive
14 compensation transactions and journal entries to true-up incentive compensation
15 accrual amounts to actual results, are not recorded by incentive plan. For those
16 amounts that are recorded without an incentive plan assignment, a reasonable
17 method is to allocate the unassigned amounts to the incentive plans based on a
18 percent of total for each of the six plans. Accordingly, I have re-allocated the
19 incentive compensation amounts that were not initially assigned to an incentive
20 plan, and the results of the re-allocation are reflected in Exhibit APL-R-3. Rather
21 than a proposed 100% disallowance of these previously unassigned amounts, I

[17] *See* Direct Testimony of Emily Sears ("Sears Direct") at 21:13-23.

1 recommend Ms. Sears consider these updated results by incentive plan in her
2 analysis.
3
4 Q27. STAFF WITNESS MS. SEARS STATES IN HER TESTIMONY THAT ETI DID
5 NOT REMOVE DIRECT CAPITALIZED INCENTIVE COMPENSATION
6 FROM THE COST OF SERVICE. IS THIS ACCURATE?[18]
7 A. No. ETI removes the portion of capitalized incentive compensation deemed
8 disallowed by the Commission through an adjustment on its books, and the amounts
9 reflected in the cost of service are net of these adjustments. The adjustments to
10 capitalized incentive compensation are based on the Final Order in Docket
11 No. 39896. The total amount of capitalized incentive that has been removed from
12 the December 31, 2021 balances is approximately $(5.2) million.
13
14 Q28. PLEASE EXPLAIN STAFF WITNESS MS. SEARS'S POSITION ON THE
15 ALLOCATED CAPITALIZED LONG-TERM INCENTIVE
16 COMPENSATION.[19]
17 A. In her direct testimony, Staff witness Ms. Sears recommends that ETI's allocated
18 capitalized long-term incentive compensation be disallowed. Ms. Sears
19 differentiates ETI's capitalized long-term incentive compensation from
20 SWEPCO's long-term incentive compensation plan approved by the Commission

---

[18] *Id.* at 22:8.

[19] *Id.* at 22:20 – 23:7.

1 to be recovered in their recent base rate proceeding because ETI's plan is not strictly
2 tied to vesting conditions. See the rebuttal testimony of Jennifer A. Raeder for a
3 description of the nature of ETI's capitalized long-term incentive compensation
4 plan. Ms. Sears specifically calls out amounts from 2018 through 2020 to be
5 disallowed. However, these amounts are already removed from the cost of service.
6 The amounts she proposes to disallow for long-term incentive compensation for
7 2018 through 2021 reflect the amounts that were capitalized during those years.
8 Further, as stated in ETI's response to OPUC 5-2, the amounts reflected are before
9 any exclusions for disallowed incentive compensation. ETI makes adjustments on
10 its books for capitalized amounts that are deemed disallowed by the Commission
11 based on the results of Docket No. 39896. Therefore, ETI's Test Year end balances
12 for Plant in Service already reflect the removal of these amounts.
13
14 Q29. DO YOU HAVE CHANGES TO STAFF'S PROPOSED DISALLOWANCE OF
15 THE DIRECT AND ALLOCATED CAPITALIZED INCENTIVE
16 COMPENSATION?
17 A. Yes. Exhibit APL-R-4 reflects my revisions to Ms. Sears's calculations.
18 Specifically, I have reallocated the capitalized incentive compensation amounts that
19 were not assigned to an incentive plan in the cost of service. I have also reflected
20 the amount of capitalized incentive compensation that is adjusted on the Company's
21 books and reflected in the Test Year end balances.

1 Q30. HAS PART OF THE CAPITALIZED INCENTIVE COMPENSATION
2 RECOMMENDED TO BE DISALLOWED BY STAFF ALREADY BEEN
3 EXCLUDED FROM ETI'S COST OF SERVICE?[20]
4 A. Yes. If the Commission were to approve the Staff's recommendation to disallow
5 50% of the incentive funded on financial metrics, it should consider that a portion
6 of the capitalized incentive compensation has already been excluded from the cost
7 of service based on the Order in Docket No. 39896. After considering the portion
8 already removed from the cost of service, and re-allocation of the unassigned
9 amounts, the correct amount of the Staff's proposed capitalized incentive comp to
10 be disallowed is approximately $5.6 million.
11
12 Q31. STAFF WITNESS MS. SEARS RECOMMENDS EXTENDING THE COVID
13 BAD DEBT EXPENSE AMORTIZATION FROM ETI'S PROPOSED THREE
14 YEARS TO FOUR YEARS IN ORDER TO TRACK THE CADENCE OF BASE
15 RATE CASES. WHAT IS YOUR UNDERSTANDING OF WHEN ETI'S NEXT
16 BASE RATE CASE WILL BE FILED, AND DO YOU AGREE WITH
17 MS. SEAR'S RECOMMENDATION OF A FOUR-YEAR AMORTIZATION
18 PERIOD?[21]
19 A. As mentioned previously, there is no certainty around the timing of ETI's next base
20 rate case, whether it will be filed in the next two or four years or at some time in-

[20] *Id.* at 12:12-18.

[21] *Id.* at 19:18-24.

1 between. Four years is the *maximum* period between base rate cases. A three-year
2 period is a reasonable for amortizing these costs that were incurred over one and
3 half years. Additionally, a three-year amortization period has been approved for
4 other ETI Riders such as the Rate Case Expense ("RCE") riders.
5
6 **IV. <u>CONCLUSION</u>**

7 Q32. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?
8 A. Yes.

AFFIDAVIT OF ALLISON P. LOFTON

THE STATE OF LOUISIANA)
)
PARISH OF ORLEANS)

This day, Allison Lofton the affiant, appeared in person before me, a notary public, who knows the affiant to be the person whose signature appears below. The affiant stated under oath:

My name is Allison P. Lofton. I am of legal age and a resident of the State of Louisiana. The foregoing testimony and exhibits offered by me are true and correct, and the opinions stated therein are, to the best of my knowledge and belief, accurate, true and correct.

Allison P. Lofton

SUBSCRIBED AND SWORN TO BEFORE ME, notary public, on this the 16th day of November 2022.

Notary Public, State of Louisiana

My Commission expires:

Alyssa A. Maurice
LA Bar #28388-LA Notary 68053
Notary Public in and for the
State of Louisiana
Commission Issued for Life

See Native Excel file Lofton Rebuttal_Exhibit APL-R-1.

See Native Excel file Lofton Rebuttal_Exhibit APL-R-2.

See Native Excel file Lofton Rebuttal_Exhibit APL-R-3.

See Native Excel file Lofton Rebuttal_Exhibit APL-R-4.

The following files are not convertible:

Lofton Rebuttal_Exhibit APL-R-1.xlsx
Lofton Rebuttal_Exhibit APL-R-2.xlsx
Lofton Rebuttal_Exhibit APL-R-3.xlsx
Lofton Rebuttal_Exhibit APL-R-4.xlsx

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

Contact centralrecords@puc.texas.gov if you have any questions.