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**SOAH DOCKET NO. 473-24-12812
PUC DOCKET NO. 56165**

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

**AEP TEXAS INC.'S RESPONSE TO CITIES SERVED BY AEP TEXAS'
NINTH REQUEST FOR INFORMATION**

APRIL 10, 2024

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Question No. CITIES 9-1:

Refer to the Direct Testimony of Jeffery Stracener at 45-46 wherein he addresses the IJA and BIL grant funding.

- a. Confirm that the IJA, referred to by Witness Stracener at 45 as the Infrastructure Improvement and Jobs Act, actually is entitled the Infrastructure Investment and Jobs Act.
- b. Confirm that the BIL, referred to by Witness Stracener at 45, actually is the same as the IJA, not separate legislation, and that the two acronyms are used to refer to the same legislation. If this is not correct, then provide a corrected statement and provide all support relied on for your response.
- c. Provide a copy of each of the four applications made by AEPSC and/or AEP Texas distribution.
- d. If the four applications were made by AEPSC, then describe how the grant requests and/or funding when approved were allocated to AEP Texas.
- e. Describe the status of each of the four applications, including the timing of the receipt of grant funds.
- f. Describe the accounting for receipt of the grant funds and provide all accounting journal entries showing the date, amounts, accounts/subaccounts when the funds were or will be received.
- g. Indicate if, and if so, where (schedules, workpapers, and line items) the grant funds are reflected in the Company's claimed revenue requirement and the ratemaking components included in rate base and operating expenses. If none of the grant funds are reflected in the Company's claimed revenue requirement, then describe the Company's proposal to reflect such funds in future DCRF and TCOS filings. If none, then so state and explain why the Company has no such proposal.
- h. Provide a copy of all analyses performed by AEPSC and/or the Company to assess the value of the grants to the Company and/or its customers, including all analyses addressing potential savings in future capital expenditures and operating expenses. This request extends to analyses performed in support of the grants and all other analyses both before and after receipt of the grants. If none, then so state and describe the full extent of the Company's search for responsive analyses both at AEPSC and at the Company itself.

Response No. CITIES 9-1:

- a. Confirmed
- b. Confirmed
- c. Please see CITIES 9-1 Confidential Attachment 1, CITIES 9-1 Confidential Attachment 2, CITIES 9-1 Confidential Attachment 3, and CITIES 9-1 Confidential Attachment 4 for the four referenced applications.

CITIES 9-1 Confidential Attachment 1, CITIES 9-1 Confidential Attachment 2, CITIES 9-1 Confidential Attachment 3, and CITIES 9-1 Confidential Attachment 4 responsive to this request are CONFIDENTIAL under the terms of the Protective Order. This information is being provided electronically and a secure login to access the information will be provided upon request to individuals who have signed the Protective Order Certification.

- d. The applications in question were made by AEPSC. The Grid Resilience and Innovation Partnership (GRIP) grant that the Company was notified of award on is currently in the pre-award status and is allocated by retail customer counts.
- e. Undergrounding: The Company was unsuccessful in getting approval for Undergrounding in its Infrastructure Investment and Jobs Act (IIJA) grant application, and therefore, no grant funds will be received for this project.

DACR: The Company was unsuccessful in getting approval for DACR.

SCADA: The Company was unsuccessful in getting approval for SCADA.

ADMS DERMS: This grant is still in pre-award status. AEPSC expects to be in award status within 30-90 days. The DOE has recently provided us "typical" terms and conditions to review. Grant funds should be released on a rolling basis thereafter through the deployment period targeted to end in 2025.

- f. AEP Texas did not receive any grant funds during the test year. Please see the response to subpart d. The Company plans to credit Construction Work in Progress (net of any applicable taxes) for the receipt of any grant funds. AEPSC incurs charges to a grant specified work-order. After the charges are incurred to these grant work-orders for a particular month, approximately 90-120 days later, the grant funds will be received based on the grant percentage specified. These grant funds are credited against the CWIP on these grant work-orders (like aid-to-construction) minus applicable taxes.
- g. AEP Texas did not receive grant funds during the test year. The Company plans to apply the grant funds as a credit to the capital cost of projects net of any applicable taxes, therefore reducing the rate base in future filings.
- h. To understand the breadth and depth of the IIJA, the Company consulted the White House IIJA Guidebook to evaluate grant opportunities created as part of the Bi-Partisan Infrastructure Law (BIL). While AEPSC fully reviewed all topic areas contained in the Guidebook, specific attention was devoted to the Climate, Energy and Environment section. AEPSC matched grant programs with AEP Texas needs identifying programs that would aid in funding a more reliable and resilient grid. The GRIP program as administered by DOE most closely aligned with AEP Texas goals and needs. The program mandated a 100 percent cost match of federal funds, essentially creating a 50 percent coupon value or cost reduction benefiting customers for any projects included in an approved application.

A full copy of the White House IIJA Guidebook is available via: [Guidebook to the Bipartisan Infrastructure Law | Build.gov | The White House](#)

AEPSC also reviewed the White House IRA Guidebook, however the IRA is predominately focused on tax credits as opposed to grant programs.

Prepared By: Roque Martinez

Title: Mgr Dist System

Prepared By: Lincoln W. Whitlow

Title: Regulatory Consultant Sr

Sponsored By: Jeffery S. Stracener

Title: VP Dist Region Opers

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Question No. CITIES 9-2:

Refer to the Direct Testimony of Gilbert Hughes at 17-20 wherein he describes the Company's "engagement in various federal grant programs" funded by the IIJA and notes that AEPSC engaged specialized outside services to assist in the grant process.

- a. Provide the Company's test year expense by function (distribution and transmission), by department, and by FERC account/subaccount incurred in the grant process.
- b. Confirm the Company did not defer for accounting purposes the costs incurred in the grant process. If this is not correct, then provide a corrected statement and provide all support relied on for your response.
- c. Confirm the Company did not propose any ratemaking adjustments related to the costs incurred in the grant process. If this is not correct, then provide a corrected statement and provide all support relied on for your response.
- d. Describe whether the Company is able to use any of the grant funds to reimburse the costs it incurred in the grant process. Provide all support for your response.

Response No. CITIES 9-2:

- a. Please refer to Cities 9-2 Attachment 1 for requested information.
- b. There are no costs deferred at test year end related to this rate case.
- c. Please refer to Cities 9-2 Attachment 1. These grant costs did have proforma adjustments to remove certain of these costs from the Company's cost of service.
- d. AEP Texas has not received grant funds.

Note that in October 2023, American Electric Power Service Company was selected to receive a \$27.8 million grant under the Department of Energy's Grid Resilience and Innovation Partnerships program. The grant is for AEP's Advance Distribution Management System (ADMS) and Distributed Energy Resource Management System (DERMS) deployment. The grant is still under a pre-award status with expectation being awarded in Q2-2024. When awarded, AEP Texas will be allocated a portion of the grant funds. The grant allows for reimbursement of the cost incurred in the grant process and the Company plans to apply for reimbursement of such costs.

Prepared By: Rachelle Carlos

Title: Strategic Analysis Manager

Sponsored By: Gilbert Hughes

Title: VP External Affairs

Sponsored By: Brian J. Frantz

Title: Dir Accounting

Sponsored By: Aaron C. Thomas

Title: Accounting Sr Mgr

AEP TEXAS
AEPSC Grant Program Expense - Test Year ended September 30, 2023

Function	FERC Account	Department	Per Books Test Year		Adjusted Test Year	
			Amount	Proforma Adjustment	Amount	
Distribution	1830 - Prelimin Surv&Investgtn Chrgs	12151 Legal - Environment	1,017.07		1,017.07	
		13535 Grants & Broadband	0.00		0.00	
	1830 - Prelimin Surv&Investgtn Chrgs Total		1,017.07		1,017.07	
5000 - Oper Supervision & Engineering		10544 Legal - Transactions	33.90	(33.90)	0.00	
		10562 Federal Affairs	11,090.16	(11,090.16)	0.00	
		10764 Legal - GC's Office	4.33	(4.33)	0.00	
		10773 Environmental Services	39.58	(39.58)	0.00	
		10811 Regulatory Services	84.26	(84.26)	0.00	
		11143 GET PPC Project Controls	1,505.00	(1,505.00)	0.00	
		13257 Gen Major Projects	1,380.96	(1,380.96)	0.00	
		13426 Customer Solutions	8,754.19	(8,754.19)	0.00	
		13440 Project Solutions Admin	645.19	(645.19)	0.00	
		13534 Regulatory State Case Mgnt	45.47	(45.47)	0.00	
		13535 Grants & Broadband	35,042.01	(35,042.01)	0.00	
		13754 Regulatory Strategy	796.02	(796.02)	0.00	
		13763 Project Env Permit Management	241.45	(241.45)	0.00	
		13852 BOPA Solution Delivery	115.58	(115.58)	0.00	
		99910 Billings to Assoc Cos	7.36	(7.36)	0.00	
	5000 - Oper Supervision & Engineering Total		59,785.46	(59,785.46)	0.00	
	5880 - Miscellaneous Distribution Exp		339,021.93		339,021.93	
	5880 - Miscellaneous Distribution Exp Total		339,021.93		339,021.93	
	9200 - Administrative & Gen Salaries		10502 Renewables Env Spprt	570.09	(66.00)	504.09
			10544 Legal - Transactions	1,518.76	(27.55)	1,491.21
		10676 Env Programs & Reporting Svcs	15.36	(0.13)	15.23	
		10764 Legal - GC's Office	380.35	(1.81)	378.54	
		10773 Environmental Services	100.70	(0.48)	100.22	
		12151 Legal - Environment	983.98	(16.96)	967.02	
9200 - Administrative & Gen Salaries Total		3,569.24	(112.93)	3,456.31		
9230 - Outside Services Employed		10544 Legal - Transactions	2,266.90		2,266.90	
		13535 Grants & Broadband	138,052.59		138,052.59	
9230 - Outside Services Employed Total		140,319.49		140,319.49		
9260 - Employee Pensions & Benefits		143.86		143.86		
9260 - Employee Pensions & Benefits Total		143.86		143.86		
Distribution Total			543,857.05	(59,898.39)	483,958.66	
Transmission	1830 - Prelimin Surv&Investgtn Chrgs	12151 Legal - Environment	1,202.66		1,202.66	
	1830 - Prelimin Surv&Investgtn Chrgs Total		1,202.66		1,202.66	
	5000 - Oper Supervision & Engineering		10544 Legal - Transactions	40.22	(40.22)	0.00
		10562 Federal Affairs	13,152.43	(13,152.43)	0.00	
		10764 Legal - GC's Office	5.14	(5.14)	0.00	
		10773 Environmental Services	46.80	(46.80)	0.00	
		10811 Regulatory Services	100.10	(100.10)	0.00	
		11143 GET PPC Project Controls	1,775.70	(1,775.70)	0.00	
		13257 Gen Major Projects	1,637.87	(1,637.87)	0.00	
		13426 Customer Solutions	10,381.02	(10,381.02)	0.00	
		13440 Project Solutions Admin	762.99	(762.99)	0.00	
		13534 Regulatory State Case Mgnt	53.72	(53.72)	0.00	
		13535 Grants & Broadband	42,229.47	(42,229.47)	0.00	
		13754 Regulatory Strategy	946.72	(946.72)	0.00	
		13763 Project Env Permit Management	285.41	(285.41)	0.00	
		13852 BOPA Solution Delivery	137.66	(137.66)	0.00	
		99910 Billings to Assoc Cos	8.76	(8.76)	0.00	
5000 - Oper Supervision & Engineering Total		71,564.01	(71,564.01)	0.00		
5880 - Miscellaneous Distribution Exp		1,545.96		1,545.96		
5880 - Miscellaneous Distribution Exp Total		1,545.96		1,545.96		
9200 - Administrative & Gen Salaries		10502 Renewables Env Spprt	677.03	(78.37)	598.66	
		10544 Legal - Transactions	1,794.00	(32.55)	1,761.45	
		10676 Env Programs & Reporting Svcs	18.22	(0.16)	18.06	
		10764 Legal - GC's Office	449.90	(2.15)	447.75	
		10773 Environmental Services	119.65	(0.56)	119.09	
		12151 Legal - Environment	1,166.66	(20.10)	1,146.56	
	9200 - Administrative & Gen Salaries Total		4,225.46	(133.89)	4,091.57	
9230 - Outside Services Employed		10544 Legal - Transactions	2,661.51		2,661.51	
		13535 Grants & Broadband	163,329.26		163,329.26	
9230 - Outside Services Employed Total		165,990.77		165,990.77		
9260 - Employee Pensions & Benefits		170.99		170.99		
9260 - Employee Pensions & Benefits Total		170.99		170.99		
Transmission Total			244,699.85	(71,697.90)	173,001.95	
Grand Total			788,556.90	(131,596.29)	656,960.61	

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Question No. CITIES 9-3:

Refer to the Direct Testimony of Linda Schlessman at 10 wherein she describes the Company's request to recover a deficient ADIT related to the over/under recovery of securitization revenues.

- a. Identify the AEP Texas affiliated Special Purpose Entity (SPE) that acquired the Company's stranded cost or other regulatory asset(s) with the proceeds from securitization financing.
- b. Confirm that AEP Texas acted as a collector for the SPE, both collecting on behalf of and as the agent for the SPE, the stranded cost or other cost recovery charges, and remitting to the collections to the SPE. If this is not correct, then provide a corrected statement and all support for the corrected statement. In addition, identify the docket number in which the Commission approved the stranded cost and/or other cost recovery and/or the docket number in which it approved the securitization financing and the rider used to recover the stranded and/or other costs.
- c. Confirm that the SPE, not AEP Texas as a standalone and unconsolidated entity, recorded the revenues related to the stranded and/or other cost securitization recovery rider. If this is not correct, then provide a corrected statement and all support for the corrected statement, including, but not limited to, the AEP Texas unconsolidated trial balance as of December 31, 2017 and/or each other relevant date, showing the underlying temporary difference and the related asset deficient ADIT.
- d. Indicate whether the ADIT related to the stranded and/or other costs that were securitized was included in the Company's calculation of the unprotected EDIT "balance which was established as part of Docket No. 49494." Provide all relevant references to the record in Docket No. 49494 that support your response.
- e. Provide all evidence relied on for the statement that: "The re-measurement of this item from 35% to 21% resulted in a deficient accumulated deferred income tax balance of \$6,445,486 because the Company paid taxes at 35% and recovered revenue for those taxes at 21%." In your response, address the manner in which the Company's rates were reduced to reflect the 21% income tax rate and provide all support relied on for this statement.
- f. Provide a detailed description as to how "This balance was inadvertently excluded from the unprotected balance which was established as part of Docket No. 49494." In your response, address what was different about this temporary difference and the related asset deficient ADIT such that the ADIT was "inadvertently excluded."

Response No. CITIES 9-3:

- a. The relevant special purpose entities are AEP Texas Central Transition Funding LLC and AEP Texas Central Transition Funding III.
- b. Confirmed. PUC Docket No. 49308
- c. Confirmed for financial reporting purposes. However, for tax purposes, the special purpose entities are disregarded and treated the same as AEP Texas.
- d. The ADIT related to the stranded and/or other costs that were securitized was not included in the Company's calculation of the unprotected EDIT balance which was established as part of Docket No. 49494. Also see subpart (f) of this response.
- e. As of December 31, 2017, prior to the remeasurement of ADIT from 35% to 21%, the Company recorded a deferred tax asset on its books in the amount of \$16,113,715 related to the over recovery of securitization revenues. The deferred tax asset represented revenues that were over collected, and would be later refunded, but were subject to federal income tax through December 31, 2017 at the higher tax rate. To properly remeasure the deferred tax asset from a tax rate of 35% (the rate at which the income was taxed) to a tax rate of 21% (the rate at which the tax deduction related to a refund would be taxed) the deferred tax asset was reduced to reflect the 40% reduction in the income tax rate ($\$16,113,715 \times 40\%$ reduction to rate = $\$6,445,486$). Docket No. 49494 and other cases since have reflected federal income taxes at a rate of 21% in the cost of service and/or in the tax gross-up for cost recovery.
- f. While the deferred tax asset and deficient ADIT for the special purpose entities are recorded on the ledger of the distribution functional books of the Company, the sub-ledger system tracks ADIT and excess/deficient ADIT on separate business units for the distribution function and the special purpose entities. These separate business units are consolidated to result in the balance reflected on the ledger in the distribution functional books. The balance established in Docket No. 49494 included the balance on the distribution business unit, but inadvertently excluded the business units associated with the special purpose entities.

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Sponsored By: Linda M. Schlessman

Title: Tax Acctg & Reg Support Mgr

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Question No. CITIES 9-4:

Refer to the Direct Testimony of Linda Schlessman at 11-12 wherein she addresses the CAMT as the only identified tax effect due to the Inflation Reduction Act (IRA) that will affect the Company.

- a. Confirm there are additional tax effects due to the IRA that will or may affect the Company, including, but not limited to, various tax credits. If confirmed, then identify and describe each such additional tax effect and identify where in the Company's filing each such effect is reflected and the amounts of each such effect.
- b. Explain why the Company did not propose modifications to the Rider ITR to include the revenue equivalent effects of tax credits due to the IRA along with its proposal to include a return on the CAMT.

Response No. CITIES 9-4:

- a. The Company does not anticipate any additional tax effects due to the IRA. The IRA provides for various tax credits primarily related to the generation of electricity through the development of wind, solar, geothermal, etc. projects. The Company does not engage in electric power generation, but rather provides electric transmission and distribution services.
- b. The Company does not expect the IRA tax credits to apply to its transmission and distribution operations, and therefore did not propose modifications to the Rider ITR to include any such tax credits.

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Question No. CITIES 9-5:

Refer to the Direct Testimony of Jennifer Jackson at 30 wherein she addresses the Company's proposal to reinstate the Rider ITR established in Docket No. 49494, which expired in June 2021. Witness Jackson states: "AEP Texas is requesting to reinstate the ITR rider to return tax benefits associated with the TBBS as explained in the testimony of Company witness Schlessman."

- a. Confirm that Witness Schlessman also proposes a modification to the ITR Rider to include a return on the CAMT. If confirmed, explain why Witness Jackson did not include this additional proposed modification in her description of the purpose for reinstating the ITR rider and the costs that would be recovered in the proposed ITR rider.
- b. Refer to the Direct Testimony of Witness Schlessman at 12 lines 5 and 10 wherein she states twice: "The Company is proposing to include future CAMT within the Rider ITR." Refer to Witness Jackson's Exhibit JLJ-2 page 195-196 of 404, which is the Company's redlined version of the proposed Rider ITR. Indicate where in the proposed tariff there is any reference to the CAMT. If none, then explain why the Company's proposal to modify the ITR rider to include the CAMT is not incorporated into the redlined version of the tariff.

Response No. CITIES 9-5:

- a. It is confirmed that Witness Schlessman proposes a modification to the ITR Rider to allow for the equalization of the tax burden/benefit of the CAMT between the Company and customers. That is, to the extent the Company must pay the CAMT, it would collect it from customers through the ITR Rider, and then return the tax amount back to customers through the ITR when the Company is allowed to take a credit for the CAMT paid.
- b. There is no reference to the CAMT in the proposed tariff. The Company does not have a CAMT liability (or credit) for the test year end. So, the amount in the tariff would be \$0. The Company requests the Commission authorize the use of the ITR Rider during the period in which rates are in effect to equalize the timing of any future CAMT liability between the Company and customers. That is, the customers pay the CAMT when the Company pays the CAMT, and the customers get the corresponding CAMT credit when the Company can utilize the CAMT credit.

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