

PUC DOCKET NO. _____

PUBLIC UTILITY COMMISSION OF TEXAS

APPLICATION OF
AEP TEXAS NORTH COMPANY
TO ADJUST
ENERGY EFFICIENCY COST RECOVERY FACTOR AND RELATED RELIEF

DIRECT TESTIMONY OF
JENNIFER L. JACKSON
FOR
AEP TEXAS NORTH COMPANY

APRIL 29, 2011

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1 I. INTRODUCTION AND PURPOSE

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

3 A. My name is Jennifer L. Jackson. I am a Regulatory Consultant in Regulated Pricing
4 and Analysis, part of the American Electric Power Service Corporation (AEPSC)
5 Regulatory Services Department, 212 East Sixth Street, Tulsa, Oklahoma 74119-
6 1295.

7 Q. PLEASE BRIEFLY DESCRIBE THE AEPSC REGULATORY SERVICES
8 DEPARTMENT AND YOUR CURRENT JOB RESPONSIBILITIES.

9 A. AEPSC Regulatory Services is part of the American Electric Power Company, Inc.
10 (AEP). Among its activities, Regulatory Services provides coordination and tariff-
11 related services to the eleven AEP operating companies, including AEP Texas North
12 Company (TNC or Company). As a Regulatory Consultant for AEPSC, my job duties
13 include providing testimony, rate review analysis and support, pricing design,
14 implementation of pricing programs, and regulatory compliance for the AEP
15 operating companies. I have been involved in regulatory rate review and pricing
16 design proceedings since 1991 in all four of the AEP West state jurisdictions:
17 Arkansas, Louisiana, Oklahoma, and Texas. I have a Bachelor of Business
18 Administration Degree with an emphasis in Marketing from Texas Tech University.

1 Q. HAVE YOU PREVIOUSLY SPONSORED TESTIMONY BEFORE THIS
2 COMMISSION?

3 A. Yes, I have previously sponsored testimony before the Public Utility Commission of
4 Texas (PUC or Commission). The specific dockets in which I have sponsored
5 testimony are listed in Attachment A to this testimony.

6 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

7 A. The purpose of my testimony is to support the calculation of the annual re-
8 determination of TNC's Energy Efficiency Cost Recovery Factor (EECRF) factors,
9 proposed to be effective December 30, 2011 (the commencement of TNC's January
10 2012 billing month). The adjusted factors are proposed based on PUC SUBST.
11 R. 25.181(f) (amended and effective December 1, 2010), which among other things
12 provides for a cost recovery factor to compensate a utility for reasonable expenditures
13 on energy efficiency programs as well as a performance bonus for exceeding its goals.

14 Q. HOW IS YOUR TESTIMONY ORGANIZED?

15 A. My testimony will be presented in the following order:

- 16 ▪ I first discuss the schedules that I am sponsoring.
- 17 ▪ I then discuss the amount of energy efficiency program costs included in the
18 current TNC base rates and the assignment of the energy efficiency costs to the
19 classes.
- 20 ▪ I then discuss the components included in the determination of the proposed
21 EECRF. Those components are: 1) the recovery of TNC's projected 2012 costs
22 for its energy efficiency programs in excess of the amount expressly included in
23 TNC's base rates; 2) the under-recovery of TNC's actual expenditures for its 2010
24 energy efficiency programs in excess of the amount expressly in TNC's base rates
25 and the 2010 EECRF; and 3) TNC's performance bonus achieved for its 2010
26 energy efficiency results.

1 ▪ Finally, I discuss the calculation of the rate class adjusted EECRF cost recovery
2 factors.

3 Q. WHAT SCHEDULES THAT ACCOMPANY TNC'S FILING DO YOU SPONSOR?

4 A. I sponsor the following schedules:

Schedule	Description
Schedule C	Development of Class EECRF Cost Recovery Factors
Schedule D	Updated EECRF Rider
Schedule L	Development of Forecasted Billing Units

5

6 I also co-sponsor Schedule B with TNC witness Billy G. Berny.

7 Schedule C shows the allocation of the energy efficiency costs included in
8 base rates and the allocation of the total costs above those included in base rates to the
9 classes including the projected 2012 program costs in excess of the amount expressly
10 included in TNC's base rate order, the under-recovery of 2010 energy efficiency
11 program costs and TNC's 2010 performance bonus. Schedule C also lists the 2012
12 forecasted billing units used in the development of the class EECRF factors and
13 provides the calculation of the proposed class EECRF factors. Schedule D contains
14 the adjusted Rider EECRF, which sets forth the adjusted energy efficiency cost
15 recovery factors by rate class. Schedule L is a workpaper detailing the development
16 of the forecasted billing units for 2012, including billing determinants for the most
17 recent full year, January through December of 2010, and for the revenue year in which
18 the EECRF is proposed to be in effect, January through December 2012.

II. ADJUSTED ENERGY EFFICIENCY COST
RECOVERY REVENUE REQUIREMENT

Q. WHY IS TNC REQUESTING APPROVAL OF AN ADJUSTED EECRF?

A. TNC filed for and received approval for its initial Schedule EECRF – Energy Efficiency Cost Recovery Factor in Docket No. 36959. TNC also filed for an adjustment to its EECRF in Docket No. 38209. In the current adjustment request, TNC is requesting recovery of the 2012 projected energy efficiency program costs in excess of the amount expressly included in TNC’s base rates; an adjustment to the EECRF factors for the under-recovery of actual energy efficiency program costs spent in 2010; and TNC’s 2010 performance bonus for demand reduction that exceeded the minimum goal to be achieved in 2010. Accordingly, TNC is requesting Commission approval of an adjusted Rider EECRF.

Q. WHAT AMOUNT EXPRESSLY SPECIFIED AS ENERGY EFFICIENCY COSTS IS INCLUDED IN TNC’S BASE RATES?

A. The Commission’s final order in Docket No. 33310 expressly included \$1,294,430 of energy efficiency program funding in base rates.

Q. HOW WERE THE ENERGY EFFICIENCY COSTS THAT ARE INCLUDED IN TNC’S BASE RATES ALLOCATED TO THE CLASSES?

A. The total energy efficiency program costs approved to be recovered through base rates were functionalized to both the distribution function and the customer service function. The majority (99%) of the energy efficiency program costs recovered in TNC’s base rates is included in the base distribution rates. Only a small portion of the total costs is recovered through the customer service function. The energy

1 efficiency costs included in TNC's current distribution base rates were allocated to
2 the classes based on class 4 coincident peak (4CP) demands, the allocator used in
3 Docket No. 33310 to allocate transmission expenses to the classes.

4 The energy efficiency costs included in the customer service function were
5 allocated to the classes based upon total customers. Schedule C shows the allocation
6 factors by function and the amounts included in base rates for each function by class.

7 Q. WHAT RELIEF DOES TNC SEEK IN THIS PROCEEDING?

8 A. TNC, through this application, is requesting an adjustment to increase the EECRF
9 cost recovery factors by \$423,743 to reflect:

- 10 ▪ recovery of \$768,593 in energy efficiency program costs projected to
11 be incurred in 2012 that exceed costs for energy efficiency included in
12 its base rates;
- 13 ▪ recovery of \$188,470 to account for the under-recovery of EECRF
14 revenues for actual energy efficiency costs incurred for its 2010
15 programs; and
- 16 ▪ recovery of \$447,620 representing TNC's performance bonus for
17 achieving demand reduction that exceeded its goal to be achieved in
18 2010.

19 In sum, TNC is requesting Commission approval of adjusted EECRF cost recovery
20 factors as provided for in PUC SUBST. R. 25.181(f)(1) that include \$1,404,683 in
21 energy efficiency costs.

22 Q. HOW ARE THE ENERGY EFFICIENCY PROGRAM COSTS THAT ARE
23 SOUGHT TO BE INCLUDED IN THE EECRF ASSIGNED TO EACH CLASS?

24 A. The energy efficiency program, research and development (R&D), and administrative
25 costs, and the TNC performance bonus sought to be recovered through the adjusted

1 EECRF are allocated to the customer classes based on a weighted 4CP transmission
2 demand allocator updated to adjust for any changes in class composition since the
3 original allocators were determined in Docket No. 33310. The factor approved in the
4 Final Order in Docket No. 36959 used this same allocation method.

5 The transmission service rate class of customers is not allocated energy
6 efficiency program costs through the EECRF because those customers taking service
7 at 69 kilovolts and above are not eligible for participation in the 2012 energy
8 efficiency programs, as shown in Schedule I.

9 Q. HOW IS TNC ASSIGNING THE 2010 UNDER-RECOVERY TO THE CLASSES?

10 A. The 2010 under-recovery is assigned back to the classes in the same manner in which
11 the 2010 program costs were assigned--on a direct-assignment basis. The specifics of
12 the class assignment of the under-recovery are shown on filed Schedule C.

13 Q. DOES THE METHOD OF ALLOCATING ENERGY EFFICIENCY PROGRAM,
14 R&D, AND ADMINISTRATIVE COSTS DIFFER FROM THE METHOD
15 APPROVED IN TNC'S LAST EECRF FILING?

16 A. Yes. TNC has resumed the use of a weighted 4CP demand allocator based on the
17 December 2010 revision to PUC SUBST. R. 25.181(f)(3), which states:

18 The EECRF shall be calculated to recover the costs
19 associated with programs under this section from the
20 customer classes that receive services under the
21 programs.

22 The previous language from that same section stated:

23 The EECRF shall be calculated to recover the costs
24 associated with each program from the customer
25 classes that receive services under each program.

1 The previous language was interpreted by PUC Staff to require the Company to
2 recover the costs associated with each program from the customer classes that receive
3 services under each program using a program-by-program direct-assignment
4 methodology. TNC argued in rebuttal testimony against program-by-program direct
5 assignment and stated that until TNC can effectively remove all energy efficiency
6 costs from base rates to be collected through the Rider EECRF, it is reasonable to
7 treat the allocation of the energy efficiency program costs recovered through the Rider
8 EECRF in a manner similar to the base rate cost allocation. However, in the Final
9 Order from Docket No. 36959, the Commission declined to adopt the ALJ's
10 recommendation regarding the allocation of program costs, R&D costs and
11 administrative costs on a demand allocation basis and ordered TNC to allocate costs
12 on a program-by-program direct-assignment basis. TNC submitted a revised EECRF
13 complying with the Final Order.

14 Since the language of this section was amended and effective December 1,
15 2010, TNC asserts that the amended language allows TNC to mirror the allocation
16 methodology of energy efficiency costs expressly included in TNC's base rates based
17 on its Docket No. 33310 rate case order.

18
19 III. DEVELOPMENT OF CLASS ENERGY
20 EFFICIENCY COST RECOVERY FACTORS

21 Q. WHAT ARE THE COMPONENTS NEEDED TO DEVELOP THE ADJUSTED
22 ENERGY EFFICIENCY COST RECOVERY FACTORS?

1 A. The components needed to develop the EECRF cost recovery factors include: (1) the
2 amount of energy efficiency revenue requirement included in base rates, (2) the
3 projected 2012 energy efficiency program budget provided in Schedule A, (3) the
4 over- or under-recovery associated with the 2010 energy efficiency programs, (4)
5 TNC's performance bonus for results achieved during 2010, (5) the class allocation
6 factors, and (6) the forecasted billing units by class for 2012.

7 Q. IS TNC CURRENTLY RECOVERING REVENUE THROUGH AN EECRF?

8 A. Yes. TNC began collecting revenue through its current EECRF in the billing month
9 of January 2011.

10 Q. IS THE 2010 EECRF REVENUE A COMPONENT OF THE CALCULATION OF
11 THE 2012 EECRF?

12 A. Yes. TNC under-recovered its 2010 EECRF revenue by \$188,470 based on the actual
13 2010 energy efficiency program costs of \$2,238,101 and the collected 2010 energy
14 efficiency program revenue of \$2,049,631. As stated above, the under-recovery will
15 be assigned back to the customer classes in the same manner as the 2010 program
16 costs above those costs expressly included in base rates were assigned to the classes.

17 Q. WHAT BILLING UNIT IS TNC PROPOSING TO USE TO RECOVER THE
18 ENERGY EFFICIENCY COSTS?

19 A. As was approved in Docket Nos. 36959 and 38209, TNC is proposing to continue to
20 use an energy charge (kWh) for recovery of energy efficiency costs for all classes of
21 customers included in the EECRF. TNC has supplied forecasted 2012 kWh data for
22 all classes in Schedule L.

1 Q. PLEASE DESCRIBE HOW THE 2012 FORECASTED BILLING UNITS USED IN
2 THE DEVELOPMENT OF THE EECRF FACTORS FOR BUDGET YEAR 2012
3 WERE DETERMINED.

4 A. As part of the normal course of business, AEP projects monthly kWh sales and
5 demand growth factors for each of its operating companies, including TNC. The
6 AEPSC Forecasting Department provided total retail and revenue class sales forecasts
7 for the projected energy efficiency budget year of January through December 2012.
8 Because the kWh sales are projected on a total retail and revenue class basis, kWh
9 data must be converted to distribution rate class forecasted kWh sales. Forecasted
10 kWh sales by distribution rate class were established by first determining each
11 distribution class's percentage of total retail sales based on twelve months of 2010
12 historical kWh sales data. Forecasted kWh sales by distribution rate class were then
13 calculated by multiplying each distribution rate class's percentage of total retail kWh
14 sales by the total retail forecasted kWh sales. The annual class projected kWh sales
15 were used to determine the adjusted 2012 EECRF factors. Schedule L specifies the
16 process for determining the projected kWh sales by distribution rate class.

17 Q. HOW WERE THE EECRF FACTORS DETERMINED USING 2012 PROJECTED
18 BILLING UNITS?

19 A. Once the adjusted EECRF rate class energy efficiency revenue requirement is
20 developed and the projected 2012 billing units have been determined, the EECRF
21 factors can be calculated by dividing the adjusted rate class EECRF energy efficiency
22 revenue requirement by the projected billing units for each class. The resulting rate

1 class factor will be listed in the updated Rider EECRF and will be applied to the
2 current month's billed kWh of each retail customer eligible for the EECRF during the
3 effective period of the updated factors. The adjusted EECRF factors are shown in
4 Schedule C and the adjusted Rider EECRF is contained in Schedule D.

5 Q. WERE SYSTEM AND LINE LOSSES USED TO DEVELOP THE EECRF
6 FACTORS?

7 A. No. TNC's kWh sales forecast for 2012 is based on energy delivered at the meter, so
8 it was not necessary to adjust the EECRF factor to reflect system and line losses.

9 Q. WHAT ARE THE PROPOSED 2012 EECRF RATE CLASS FACTORS?

10 A. The proposed 2012 EECRF factors by rate class are:

<u>Rate Class</u>	<u>Proposed kWh Factor</u>
Residential	\$0.000334
Secondary <= 10 kW	\$0.000284
Secondary > 10 kW	\$0.000303
Primary	\$0.000198

11

12 TNC is requesting Commission approval of an adjusted Rider EECRF containing the
13 proposed rate class kWh factors to be effective with the first billing cycle of January
14 2012.

1 IV. CONCLUSION

2 Q. PLEASE SUMMARIZE YOUR TESTIMONY AND STATE YOUR
3 RECOMMENDATION FOR TNC'S PROPOSED 2012 EECRF.

4 A. TNC's current base rates include \$1,294,430 of energy efficiency costs. TNC is
5 asking for recovery of \$1,404,683 through its proposed adjusted EECRF cost recovery
6 factors, which include:

- 7 ▪ projected 2012 energy efficiency programs costs of \$768,593 above those
8 expressly included in base rates;
- 9 ▪ recovery of the under-recovery of 2010 energy efficiency program costs
10 actually expended of \$188,470; and
- 11 ▪ TNC's performance bonus of \$447,620 for 2010 results achieved.

12 The allocation to the rate classes of the adjusted revenue requirement for the adjusted
13 EECRF cost recovery factors for 2012 to the classes is based on a weighted 4CP
14 demand allocator, adjusted based on the most recent projection of rate class kWh.
15 The recovery of the adjusted energy efficiency program costs is based on 2012
16 projected kWh sales for all rate classes subject to Rider EECRF. TNC proposes that
17 the EECRF rate schedule be effective December 30, 2011 (the commencement of
18 TNC's January 2012 billing month). The method of calculating the adjusted EECRF
19 cost recovery factors is in accordance with the PUC SUBST. R. 25.181(f) and TNC is
20 requesting that the proposed 2012 EECRF factors be approved as filed.

21 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

22 A. Yes, it does.