

DOCKET NO. _____

PUBLIC UTILITY COMMISSION OF TEXAS

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

DIRECT TESTIMONY OF
JENNIFER L. JACKSON
FOR
AEP TEXAS CENTRAL 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 Central
12 Company (TCC 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
8 redetermination of TCC's Energy Efficiency Cost Recovery Factor (EECRF) factors,
9 proposed to be effective December 30, 2011 (the commencement of TCC's January
10 2012 billing month). The adjusted factors are proposed based on PUC SUBST. R.
11 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 TCC base rates and the assignment of the energy efficiency costs to the
19 classes.
- 20 ▪ I then discuss the three components included in the determination of the
21 adjusted EECRF. Those components are: 1) the recovery of TCC's projected
22 2012 costs for its energy efficiency programs in excess of the amount
23 expressly included in TCC's base rates; 2) the over-recovery of TCC's actual
24 revenues for its 2010 energy efficiency programs in excess of the amount
25 expressly included in TCC's base rates and the 2010 EECRF; and 3) TCC's
26 performance bonus achieved for its 2010 energy efficiency results.

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

3 Q. WHAT SCHEDULES THAT ACCOMPANY TCC'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 TCC witness Billy G. Berny.

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

II. ADJUSTED ENERGY EFFICIENCY COST RECOVERY
REVENUE REQUIREMENT

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

A. TCC filed for and received approval for its initial Schedule E ECRF – Energy Efficiency Cost Recovery Factor in Docket No. 35627. TCC also filed for an adjustment to its EECRF in Docket Nos. 36960 and 38208. In the current adjustment request, TCC is requesting recovery of the 2012 projected energy efficiency program costs in excess of the amount expressly included in TCC’s base rates, an adjustment to the EECRF factors for the over-recovery of actual energy efficiency program costs spent in 2010, and TCC’s 2010 performance bonus for demand reduction that exceeded the minimum goal to be achieved in 2010. Accordingly, TCC is requesting Commission approval of an adjusted Rider EECRF.

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

A. The Commission’s final order in Docket No. 33309 expressly included \$6,334,949 of energy efficiency program funding in base rates.

Q. HOW WERE THE ENERGY EFFICIENCY COSTS THAT ARE INCLUDED IN TCC’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 TCC’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 efficiency

1 costs included in TCC's current distribution base rates were allocated to the classes
2 based on class 4 coincident peak (4CP) demands, the allocator used and approved in
3 Docket No. 33309 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 IS TCC REQUESTING THROUGH THE ADJUSTED EECRF?

8 A. TCC, through this application, is requesting Commission approval of an adjustment
9 to decrease the EECRF cost recovery factors by \$1,892,923 to reflect:

- 10 ▪ recovery of \$7,118,795 in energy efficiency program costs projected to
11 be incurred in 2012 that exceed costs for energy efficiency expressly
12 included in its base rates;
- 13 ▪ return of \$2,562,212 to account for the over-recovery of EECRF
14 revenues in excess of actual energy efficiency costs incurred for its
15 2010 programs; and
- 16 ▪ recovery of \$2,579,657 representing TCC's performance bonus for
17 achieving demand reduction that exceeded its goal to be achieved in
18 2010.

19 In sum, TCC is requesting Commission approval of adjusted EECRF cost
20 recovery factors as provided for in PUC SUBST. R. 25.181(f)(1)(C) that include
21 \$7,136,240 in energy efficiency costs.

22 Q. HOW ARE THE COSTS SOUGHT TO BE RECOVERED THROUGH THE
23 EECRF ASSIGNED TO EACH CLASS?

24 A. The energy efficiency program, research and development (R&D), and administrative
25 costs, and the TCC 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. 33309. This allocation
4 methodology was first approved in the Final Order in Docket No. 35627 and is in
5 accordance with PUC SUBST. R. 25.181(f)(3).

6 The transmission service rate class of customers is not assigned energy
7 efficiency program costs through the EECRF because those customers taking service
8 at 69 kilovolts and above are not eligible for participation in the 2012 energy
9 efficiency programs.

10 Q. HOW IS TCC ASSIGNING THE 2010 OVER-RECOVERY TO THE CLASSES?

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

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

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

19 The EECRF shall be calculated to recover the costs
20 associated with programs under this section from the
21 customer classes that receive services under the
22 programs.
23

24 The previous language from that same section stated:

25 The EECRF shall be calculated to recover the costs

1 associated with each program from the customer
2 classes that receive services under each program.
3 The previous language was interpreted by PUC Staff to require the Company to
4 recover the costs associated with each program from the customer classes that receive
5 services under each program using a program-by-program direct-assignment
6 methodology. TCC argued in rebuttal testimony against program-by-program direct
7 assignment and stated that until TCC can effectively remove all energy efficiency
8 costs from base rates to be collected through the Rider EECRF, it is reasonable to
9 treat the allocation of the energy efficiency program costs recovered through the Rider
10 EECRF in a manner similar to the base rate cost allocation. TCC's proposed demand
11 allocation methodology was affirmed by the Commission through its Final Order in
12 Docket No. 35627. However, in the Final Order from Docket No. 36960, the
13 Commission declined to adopt the ALJ's recommendation regarding the allocation of
14 program costs, R&D costs and administrative costs on a demand allocation basis and
15 ordered TCC to allocate costs on a program-by-program direct-assignment basis.
16 TCC submitted a revised EECRF complying with the Final Order

17 Since the language of this section was amended and effective December 1,
18 2010, TCC asserts that the amended language allows TCC to mirror the allocation
19 methodology of energy efficiency costs expressly included in TCC's base rates based
20 on its Docket No. 33309 rate case order.

III. DEVELOPMENT OF ADJUSTED CLASS
ENERGY EFFICIENCY COST RECOVERY FACTORS

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

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

Q. IS TCC CURRENTLY RECOVERING REVENUE THROUGH AN EECRF?

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

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

A. Yes. TCC over-recovered its 2010 EECRF revenue by \$2,562,212 based on the actual 2010 energy efficiency program costs of \$12,898,287 and the collected 2010 energy efficiency program revenue of \$15,460,499. As stated above, the over-recovery will be assigned back to the customer classes in the same manner as the 2010 program costs above those costs expressly included in base rates were assigned to the classes.

Q. WHAT BILLING UNIT IS TCC PROPOSING TO USE TO RECOVER THE ENERGY EFFICIENCY COSTS?

1 A. As was approved in Docket Nos. 35627, 36960 and 38208, TCC is proposing to
2 continue use of an energy charge (kWh) for recovery of energy efficiency costs for all
3 classes of customers included in the EECRF. TCC has supplied forecasted 2012 kWh
4 data for all classes in Schedule L.

5 Q. PLEASE DESCRIBE HOW THE 2012 FORECASTED BILLING UNITS USED IN
6 THE DEVELOPMENT OF THE EECRF FACTORS FOR BUDGET YEAR 2012
7 WERE DETERMINED.

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

21 Q. HOW WERE THE EECRF FACTORS DETERMINED USING 2012 PROJECTED
22 BILLING UNITS?

1 A. Once the adjusted EECRF class energy efficiency revenue requirement is developed
2 and the projected 2012 billing units have been determined, the EECRF factors can be
3 calculated by dividing the adjusted rate class EECRF energy efficiency revenue
4 requirement by the projected billing units for each class. The resulting rate class
5 factor is listed in the updated Rider EECRF and will be applied to the current month's
6 billed kWh of each retail customer eligible for the EECRF during the effective period
7 of the updated factors. The adjusted EECRF cost recovery factors are shown in
8 Schedule C and the adjusted Rider EECRF is contained in Schedule D.

9 Q. WERE SYSTEM AND LINE LOSSES USED TO DEVELOP THE EECRF
10 FACTORS?

11 A. No. TCC's kWh sales forecast for 2012 is based on energy delivered at the meter, so
12 it was not necessary to adjust the EECRF cost recovery factors to reflect system and
13 line losses.

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

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

Rate Class	Proposed kWh Factor
Residential	\$0.000555
Secondary <= 10 kW	\$0.000205
Secondary > 10 kW	\$0.000230
Primary	\$0.000187

1 TCC is requesting Commission approval of an adjusted Rider EECRF containing the
2 proposed rate class kWh factors to be effective with the first billing cycle of January
3 2012.

4
5 IV. CONCLUSION

6 Q. PLEASE SUMMARIZE YOUR TESTIMONY AND STATE YOUR
7 RECOMMENDATION FOR TCC'S PROPOSED 2012 EECRF.

8 A. TCC's current base rates include \$6,334,949 of energy efficiency costs. TCC is
9 asking for recovery of \$7,136,240 through its adjusted Rider EECRF, which includes:

- 10 ▪ projected 2012 energy efficiency programs costs of \$7,118,795 above
11 those expressly included in base rates;
- 12 ▪ the return of the over-recovery of 2010 energy efficiency revenues of
13 \$2,562,212 in excess of the 2010 energy efficiency program costs actually
14 expended; and
- 15 ▪ TCC's performance bonus of \$2,579,657 for 2010 results achieved.

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

1 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A. Yes, it does.