

**BEFORE THE
ARKANSAS PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF THE APPLICATION)
OF SOUTHWESTERN ELECTRIC POWER)
COMPANY FOR APPROVAL OF)
REVISIONS TO ITS ENERGY COST) DOCKET NO. 14-022-TF
RECOVERY RIDER TO ADDRESS THE)
IMPACT OF THE SOUTHWEST POWER)
POOL INTEGRATED MARKETPLACE)**

**REPLY TESTIMONY OF
THOMAS P. BRICE
ON BEHALF OF
SOUTHWESTERN ELECTRIC POWER COMPANY
December 09, 2014**

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION IN THE COMPANY.

A. My name is Thomas P. Brice, and my position is Director, Regulatory Services for Southwestern Electric Power Company (SWEPCO or Company). My business address is 428 Travis Street, Shreveport, Louisiana 71101.

Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I graduated from the University of Louisiana at Monroe (formerly Northeast Louisiana University) in 1985 with a Bachelor of Business Administration in Accounting and a minor in Finance. I am a certified public accountant and certified internal auditor. I am a member of the American Institute of Certified Public Accountants and the Louisiana State Society of Certified Public Accountants. I have 29 years of experience in the electric and natural gas utility industries.

After graduation, I was employed by Arkla, Inc., which at the time was a vertically integrated natural gas company, in the internal audit department. Upon my departure in 1992, I was a senior auditor with primary responsibilities in contract and joint venture auditing.

In 1992, I was employed by SWEPCO as an audit manager and soon thereafter assumed the responsibilities of audit director on an interim basis in early 1993. My primary responsibilities as audit manager/interim audit director included managing the day-to-day operation of the department, ensuring successful completion of the annual audit plan, and reporting annual audit results to SWEPCO's Board of Directors.

1 From 1994 through 2004, I worked as a senior consultant for SWEPCO in the
2 areas of planning and analysis, business ventures and regulatory services. During this
3 period of time, I had the opportunity to manage a diverse set of projects for the Company.

4 In 2004, I assumed the position of Director, Business Operations Support. I was
5 responsible for the Company's financial plans and coordination with other organizations
6 within the American Electric Power Company, Inc. (AEP) system on matters directly
7 affecting SWEPCO's financial and operational results.

8 In June 2010, I assumed my current responsibilities of Director, Regulatory
9 Services.

10 **Q. WHAT ARE YOUR CURRENT JOB RESPONSIBILITIES?**

11 **A.** I am responsible for SWEPCO regulatory matters in Arkansas, Louisiana and Texas. I
12 have responsibility for the preparation, filing, and litigation of regulatory cases.
13 Additionally, I am responsible for regulatory interactions, monitoring of regulatory
14 filings, participation in rulemakings, rate and tariff administration, and ensuring
15 compliance with regulatory requirements.

16 **Q. HAVE YOU APPEARED AS A WITNESS BEFORE ANY REGULATORY**
17 **COMMISSION?**

18 **A.** Yes. I filed testimony before the Arkansas Public Service Commission (APSC or
19 Commission), the Louisiana Public Service Commission (LPSC), and the Public Utility
20 Commission of Texas (PUCT) in the certification proceedings for the John W. Turk, Jr.
21 power plant in Hempstead County, Arkansas. I also filed testimony before the APSC and
22 LPSC in the certification proceedings for the J. Lamar Stall unit at Arsenal Hill. I filed
23 testimony before the LPSC in the investigation of SWEPCO's Revenue Requirement

1 Review conducted pursuant to the LPSC Merger Order U-23327. Exhibit TPB -1
2 reflects the matters in which I have appeared as a witness.

3 **PURPOSE OF TESTIMONY**

4 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 **A.** My testimony is being filed in response to the recommendations contained in the
6 testimony of Staff witness Regina L. Butler filed in this docket on November 24, 2014.

7 **Q. PLEASE DESCRIBE THE RECOMMENDATIONS MADE IN THE**
8 **TESTIMONY OF STAFF WITNESS REGINA L. BUTLER REGARDING**
9 **SWEPCO'S PROPOSAL TO MODIFY RIDER ECR TO CHANGE THE JOHN**
10 **W. TURK, JR. GENERATING PLANT ADJUSTMENT AND TO REMOVE THE**
11 **ADJUSTMENT RELATED TO THE FORMER VEMCO LOAD.**

12 **A.** Ms. Butler recommends approval of SWEPCO's request to modify Rider ECR to update
13 the Arkansas adjustment calculation associated with the John W. Turk, Jr. generating
14 plant and to remove the adjustment pertaining to former Valley Electric Membership
15 Corporation (VEMCO) load.

16 **Q. PLEASE DESCRIBE THE ADDITIONAL RECOMMENDATIONS MADE BY**
17 **MS. BUTLER.**

18 **A.** Beginning on page 6 of her testimony, Ms. Butler states that she identified an error in
19 SWEPCO's calculation of margins from off-system sales transactions in 2006 and 2010
20 that require a correction. Specifically, Ms. Butler notes that the current margins sharing
21 mechanism in SWEPCO's Rider ECR includes provisions for retail ratepayers to be
22 credited a minimum level of margins of \$758,600 in each year. If SWEPCO's margins
23 exceed \$758,600, then the Company is allowed to retain a percentage of the excess

1 margins. The Company retains 15% of margins between \$758,600 and \$1,167,078 and
2 retains 50% of the margins in excess of \$1,167,078. Ms. Butler states that while
3 reviewing the historical margins sharing, she determined that ratepayers were not credited
4 with the required minimum level of margins for calendar years 2006 and 2010. She
5 recommends that SWEPCO credit ratepayers through its next Rider ECR update with
6 \$817,410, plus interest.

7 **Q. WHAT IS YOUR RESPONSE TO MS. BUTLER'S RECOMMENDATION?**

8 **A.** I agree that an error was made, and ratepayers should be credited \$817,410, plus interest,
9 through SWEPCO's next Rider ECR update.

10 **Q. MS. BUTLER ALSO RECOMMENDS CHANGES TO THE CURRENT OFF-
11 SYSTEM SALES MARGIN SHARING PROVISION. PLEASE RESPOND.**

12 **A.** Ms. Butler states that two significant changes have occurred since the current off-system
13 sales margin sharing mechanism was established: Southwest Power Pool (SPP)
14 implemented its Integrated Marketplace on March 1, 2014, and AEP revised its System
15 Integration Agreement to reflect changed operations as the result of the implementation
16 of the SPP Integrated Marketplace. In light of these changed circumstances, Ms. Butler
17 recommends that the current sharing arrangement be replaced with a mechanism that on
18 an annual basis will credit customers with 100% of off-system sales margins up to \$1.2
19 million, and thereafter ratepayers and shareholders would share margins 90% and 10%,
20 respectively. She proposes that this revised mechanism remain in place for three years or
21 until the Company's next general rate case, whichever is sooner. Ms. Butler further
22 recommends that overall net annual losses from off-system sales transactions be borne by
23 SWEPCO.

1 **Q. WHAT IS SWEPCO'S RESPONSE TO THOSE RECOMMENDATIONS?**

2 **A.** SWEPCO agrees that Ms. Butler's recommendations are reasonable, and the Company
3 will make the revisions to Rider ECR that she recommends.

4 **Q. PLEASE DESCRIBE THE REPORTING AND RECORDKEEPING**
5 **REQUIREMENTS RECOMMENDED BY MS. BUTLER.**

6 **A.** Ms. Butler recommends reporting and recordkeeping requirements in order to have
7 detailed information regarding market transactions for future evaluation of the interim
8 off-system sales margin sharing mechanism that she proposes. Specifically, she
9 recommends that the Company file a report with its annual Rider ECR filing which
10 provides the summation of all day-ahead and real-time transactions, centered around the
11 SPP energy market, and forward transactions, which will be made outside the SPP energy
12 market beyond the day-ahead time horizon, including total shareholder off-system sales
13 margin allocations, for each month in the preceding calendar year. She also recommends
14 that SWEPCO keep records that will allow the Company to file a cost of service study in
15 its next rate case, identifying the costs associated with its marketing and trading
16 operations compared to the benefits associated with off-system sales margins received by
17 Arkansas ratepayers.

18 **Q. WHAT IS SWEPCO'S RESPONSE TO THESE RECOMMENDATIONS?**

19 **A.** SWEPCO agrees to implement the proposed reporting and recordkeeping
20 recommendations.

21 **Q. WHAT OTHER REVISIONS TO RIDER ECR DOES MS. BUTLER**
22 **RECOMMEND?**

SOUTHWESTERN ELECTRIC POWER COMPANY

DOCKET NO. 14-022-TF

REPLY TESTIMONY OF THOMAS P. BRICE

1 **A.** Ms. Butler recommends that the Commission’s directives in Order No. 2, Docket No. 14-
2 012-TF, regarding recovery of environmental chemical costs be incorporated into Rider
3 ECR. She further recommends that Rider ECR be revised to address the requirements of
4 Order No. 1, Docket No. 14-080-U, which authorizes deferral of environmental chemical
5 costs incurred at the Dolet Hills and Pirkey power plants. Ms. Butler also recommended
6 that the Revised ECR tariff included as Exhibit RLB-1 be approved effective January 1,
7 2015. SWEPCO supports these recommendations.

8 **Q. DOES THAT CONCLUDE YOUR TESTIMONY?**

9 **A.** Yes.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing testimony has been served on all parties of record via the Commission’s EFS system this 9th day of December, 2014.

/s/ Stephen K. Cuffman
Stephen K. Cuffman

**Testimony
EXHIBIT TPB-1**

<u>Docket #</u>	<u>Jurisdiction</u>	<u>Purpose</u>
06-154-U	APSC	In the matter of the application of Southwestern Electric Power Company for a certificate of environmental compatibility and public need for the construction, ownership, operation and maintenance of a coal-fired baseload generating facility in Hempstead County, Arkansas
06-120-U	APSC	In the matter of the application of Southwestern Electric Power Company for authority to construct a natural gas-fired combined cycle intermediate generating facility in the state of Louisiana
U-29702	LPSC	Certification of Mattison (Tontitown) Plant—Application of Southwestern Electric Power Company for certification of contracts for the purchase of capacity and to purchase, operate, own and install peaking, intermediate and baseload generating facilities in accordance with the Commission's General Order dated September 20, 1983.
U-29702	LPSC	Certification of Stall Unit at Arsenal Hill—Application of Southwestern Electric Power Company for certification of contracts for the purchase of capacity and to purchase, operate, own and install peaking, intermediate and baseload generating facilities in accordance with the Commission's General Order dated September 20, 1983.
U-29702	LPSC	Certification of Turk (Hempstead Plant)—Application of Southwestern Electric Power Company for certification of contracts for the purchase of capacity and to purchase, operate, own and install peaking, intermediate and baseload generating facilities in accordance with the Commission's General Order dated September 20, 1983.
33891	PUCT	Application of Southwestern Electric Power Company for a certificate of convenience and necessity authorization for a coal-fired power plant in Arkansas
U-30975	LPSC	Joint Application of Cleco Power LLC and Southwestern Electric Power Company for: (I) Authorization to Enter into a Proposed Agreement with North American Coal to Purchase the Permit, Leases, and Reserves Associated with the Oxbow Mine; (II) Authorization to Include the Permit, Leases, and Reserves in Jurisdictional Rate Base and Related Rate Making Treatments; and (III) Expedited Treatment.
U-29702	LPSC	Settlement testimony for approval of Contra AFUDC (CWIP) recovery—Application of Southwestern

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<u>Docket #</u>	<u>Jurisdiction</u>	<u>Purpose</u>
		Electric Power Company for certification of contracts for the purchase of capacity and to purchase, operate, own and install peaking, intermediate and baseload generating facilities in accordance with the Commission's General Order dated September 20, 1983.
09-008-U	APSC	Rate increase settlement testimony in support of settlement—In the matter of the application of Southwestern Electric Power Company for approval of a general change in rates and tariffs
09-008-U	APSC	Settlement testimony in support of settlement— In the matter of the application of Southwestern Electric Power Company for approval of a general change in rates and tariffs
U-23327, Sub-docket A	LPSC	Approval of FRP plan settlement term sheet—Investigation of Southwestern Electric Power Company; Revenue Requirement Review and Affiliate Transaction Audit Conducted Pursuant to Merger Order U-23327, Docket No. U-23327, Sub-docket A.
37364	PUCT	Application for rate increase and CWIP Rider—Application of Southwestern Electric Power Company for authority to change rates
U-23327, Sub-docket C	LPSC	2007 Formula Rate Plan Test Year Settlement—Investigation of Southwestern Electric Power Company; Revenue Requirement Review and Affiliate Transaction Audit Conducted Pursuant to Merger Order U-23327, Docket No. U-23327, Sub-docket C.
U-23327, Sub-docket D	LPSC	2008 Formula Rate Plan Test Year Settlement—Investigation of Southwestern Electric Power Company; Revenue Requirement Review and Affiliate Transaction Audit Conducted Pursuant to Merger Order U-23327, Docket No. U-23327, Sub-docket D.
U-23327, Sub-docket F	LPSC	2008 Formula Rate Plan Test Year Settlement—Investigation of Southwestern Electric Power Company; Revenue Requirement Review and Affiliate Transaction Audit Conducted Pursuant to Merger Order U-23327, Docket No. U-23327, Sub-docket F
U-23327, Sub-docket E	LPSC	Settlement of 2003-2004 Fuel Audit - Investigation of Southwestern Electric Power Company; Fuel Audit conducted pursuant to Merger Order number U-23327 (General Order Number U-21497) Docket No. U-23327, Sub-docket-E.

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<u>Docket #</u>	<u>Jurisdiction</u>	<u>Purpose</u>
U-31351	LPSC	Joint application of Southwestern Electric Power Company and Valley Electric Membership Corporation for approval of VEMCO's voluntary plan of dissolution and subsequent sale of assets to SWEPCO.
U-32058	LPSC	Application of AEP Southwestern Transmission Company, Inc. (Transco) and Southwestern Electric Power Company for recognition of Transco as a public utility, with all rights and obligations attendant thereto, and to the extent necessary, with all necessary approval being granted to SWEPCO with powers of eminent domain and certified for the public convenience and necessity to own and operate transmission facilities in the state of Louisiana.
U-32220	LPSC	Application for Extension of Formula Rate Plan
U-32913	LPSC	Northeast Louisiana Power Cooperative, Inc., Panola Harrison Electric Cooperative, and Washington St. Tammany Electric Cooperative – In the matter of notification pursuant to the LPSC's Net Metering Order R-31417
U-33196	LPSC	CLECO Power, LLC and Southwestern Electric Power Company – Application for Certification of Messick-Layfield Transmission Project.
39708	PUCT	Application of Southwestern Electric Power Company for approval of Turk Rate Plan, Associated Rate Increase, and Deferred Accounting Order
40443	PUCT	Application of Southwestern Electric Power Company for Authority to Change Rates and Reconcile Fuel Costs
N/A	Texas Legislature	Testified before House State Affairs Committee and Senate B&C Committee on the status of transition to competition
07-150-U	APSC	Application for approval of the recapitalization of its preferred stock and transfer of SWEPCO's ownership from AEP Utilities, Inc., (AEP Utilities) to American Electric Power Company, Inc.
34960	PUCT	Application for approval of the recapitalization of its preferred stock and transfer of SWEPCO's ownership

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<u>Docket #</u>	<u>Jurisdiction</u>	<u>Purpose</u>
		from AEP Utilities, Inc., (AEP Utilities) to American Electric Power Company, Inc.
N/A	Federal Bankruptcy Court	Testified numerous times in the U.S. Bankruptcy Court during SWEPCO's efforts to acquire the non-nuclear generation assets of a bankrupt generation and transmission cooperative.