# ARKANSAS PUBLIC SERVICE COMMISSION

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| IN THE MATTER OF THE APPLICATION OF SOUTHWESTERN ELECTRIC POWER COMPANY FOR APPROVAL TO ACQUIRE A WIND GENERATING FACILITY AND TO CONSTRUCT A DEDICATED GENERATION TIE LINE | ) ) ) ) ) ) | DOCKET NO. 17-038-U<br>ORDER NO. 11 |

## ORDER

In this Order, the Arkansas Public Service Commission (Commission) approves, with certain modifications and conditions, the *Joint Stipulation and Settlement Agreement* (Settlement Agreement or Agreement) reached between the Southwestern Electric Power Company's (SWEPCO or the Company), Wal-Mart Stores Arkansas, LLC and Sam's West, Inc. (collectively, Walmart), the Attorney General of Arkansas (AG), and the General Staff (Staff) of the Commission (collectively, the Settling Parties) regarding SWEPCO's acquisition of a wind generating facility and construction of a dedicated generation tie line, the Wind Catcher Energy Connection Project (Wind Facility or the Project). The Settling Parties presented substantial evidence that the Project (with the settlement guarantees and ratepayer protections), will lower SWEPCO's overall cost to serve customers, continue SWEPCO's strategy of diversifying its generation mix as outlined in its 2015 integrated resource plan (IRP), and serve the renewable goals of SWEPCO's customers. More particularly, the net present value savings of the Project is $1.495 billion, with an Arkansas jurisdictional share of nineteen percent, or approximately $290 million. For a typical residential customer using 1000 kWh, the monthly bill is projected to decrease by $2.46 (2.55%) in 2021, $2.97 (3.08%) in 2022, and $2.75 (2.85%) in 2023. The evidence additionally shows that the risks to

ratepayers are diminished by the guarantees and significant ratepayer protections made by SWEPCO in the Settlement. The evidence also shows that a decision on the Wind Catcher Asset Rider (WCA Rider) is premature at this time.



## I. Procedural History

On July 31, 2017, SWEPCO filed with the Commission an *Application* for approval of SWEPCO's acquisition of a wind generating facility and for construction of a dedicated generation tie line, along with the Direct Testimony of Brian D. Weber, Jay F. Godfrey, Jhannes P. Pfeifenberger, John O. Aaron[1], Karl R. Bletzacker, Kelly D. Pearce[2], Michael L. Bright, Paul Chodak, Renee V. Hawkins, Robert W. Bradish, and Venita McCellon-Allen.[3] On August 3, 2017, the AG filed a notice of intent to participate. Walmart was granted a joint intervention by Order No. 2. South Central MCN, LLC (South Central) was granted a limited intervention by Order No. 4, as clarified by Order No. 6. The remaining party to the Docket is the General Staff (Staff) of the Commission.

[1] Errata to Mr. Aaron's Direct Testimony was filed on August 22 and November 28, 2017.
[2] Errata to Mr. Pearce's Direct Testimony was filed on November 28, 2017.
[3] Errata to Ms. McCellon-Allen's Direct Testimony was filed on November 28, 2017.

On October 20, 2017, The City of Prescott filed a Statement of Limited Appearance.

On December 5, 2017, Staff filed Direct Testimony of Judy Kay Lindholm, Gerrilynn Wolfe, and John G. Athas, the AG filed the Direct Testimony of William Perea Marcus and Kevin D. Woodruff, and Walmart filed the Direct Testimony of Steve W. Chriss.

On January 9, 2018, SWEPCO filed the Rebuttal Testimony of Mr. Chodak, Thomas P. Brice, Mr. Aaron, Mr. Bletzacker, Mr. Pfeifenberger, Thomas A. Finn, C. Richard Ross, Richard G. Smead, Mr. Pearce, Mr. Bradish, Mr. Bright, Mr. Godfrey, and Mr. Weber. On January 23, 2018, SWEPCO filed the Revised Rebuttal Testimony of Mr. Chodak, Mr. Brice, and Mr. Pearce.

On February 8, 2018, the AG filed the Surrebuttal Testimony of Mr. Marcus and Mr. Woodruff and Staff filed the Surrebuttal Testimony of Ms. Wolfe, Mr. Athas, and Ms. Lindholm. On February 9, 2018, Walmart filed the Surrebuttal Testimony of Mr. Chriss.[4]

On February 13, 2018, SWEPCO filed the Surrebuttal Testimony of Mr. Aaron, Mr. Brice, and Mr. Pearce.

On February 20, 2018, SWEPCO, Staff, the AG, and Walmart filed a *Joint Motion to Approve Settlement Agreement and to Waive Hearing* with a proposed Settlement Agreement attached. On February 21, 2018, SWEPCO filed the Settlement Testimony of Mr. Brice, the AG filed the Settlement Testimony of Sarah Page Tacker, and Staff filed

[4] Order No. 8 accepted the late filing of Mr. Chriss.

the Settlement Testimony of Regina L. Butler. On February 22, 2018, Walmart filed the Settlement Testimony of Mr. Chriss.

On February 26, 2018, South Central filed the Settlement Testimony of Kevin Hopper.[5] On February 27, 2018, the City of Prescott withdrew its statement of limited appearance.

On March 1, 2018, the Commission held a public evidentiary hearing at its offices in Little Rock, Arkansas to consider the Agreement.

Over one thousand public comments have been received as of the date of this Order. Nineteen comments supported the Project. The remainder opposed the Project. In addition, three persons offered public comments at the hearing supporting the Project.

On March 7, 2018, SWEPCO filed a revised Direct Exhibit JOA-3 showing the Wind Catcher revenue impact on rate classes and the jurisdictional allocation.

## II. Positions of the Parties Prior to Settlement

### SWEPCO Direct

McCellon-Allen – Direct

SWEPCO witness McCellon-Allen testifies that SWEPCO and its sister company Public Service Company of Oklahoma (PSO) (collectively, the Companies) have entered into the Membership Interests Purchase Agreement (MIPA) with States Edge Wind Holdings I LLC to acquire States Edge Wind I LLC, an Invenergy single-purpose subsidiary. She states that the subsidiary will own all of the rights and assets associated with the Wind Facility. She confirms that the agreement is subject to regulatory

[5] The testimony was to explain the basis for South Central not supporting the Settlement.

approvals and other conditions. Ms. McCellon-Allen testifies that the Companies have also contracted with Quanta Services (Quanta) for the construction of a dedicated 350 to 380-mile Tie Line (Gen-Tie) to interconnect the Wind Facility to the American Electric Power (AEP) Load Zone in Tulsa. She says that SWEPCO will own 70 percent and PSO will own 30 percent of the Project. McCellon-Allen Direct at 7.

Ms. McCellon-Allen represents that the Wind Facility is located in the Oklahoma Panhandle and will be capable of delivering 1,900 MWs (2,000 MW nameplate) of wind power with an expected net capacity factor of 51 percent. She says that Invenergy started construction in 2016, and plans to complete the Wind Facility in the third quarter of 2020; adhering to this timeline makes the Wind Facility eligible for 100 percent of the federal Production Tax Credit (PTC). She explains that the Wind Facility includes 800 General Electric model 2.5 MW wind turbine generators and that it is anticipated that a significant number of turbine blades, towers, and generator frames will be manufactured in Arkansas, Louisiana, and Texas. According to Ms. McCellon-Allen, SWEPCO estimates its share of the energy generated will be approximately 6.1 million MWh annually, which is expected to save SWEPCO customers approximately $1.9 billion (NPV over the life of the Project) compared to market purchases. *Id.* at 8.

Witness McCellon-Allen testifies that the total cost of the Project is estimated to be $4.526 billion, with SWEPCO's share at $3.168 billion and Arkansas ratepayers' share at $607 million (approximately 19 percent of SWEPCO's 70 percent share). *Id.* at 9.

Ms. McCellon-Allen requests that the Commission:

- find that SWEPCO's purchase of the Wind Facility and construction of the dedicated Gen-Tie is in the public interest under Arkansas Code Annotated § 23-

18-701, et seq., and the proposed WCA Rider that will provide recovery of the costs associated with the Project once it reaches commercial operation and before it can be included in the base rates of the Company through a general rate case and complies with the requirements of Arkansas Code Annotated § 23-18-703(a)(4);

- approve SWEPCO's request to include any PTCs deferred for ratemaking purposes in a regulatory liability that is included in rate base, or earns interest at the Company's pre-tax Weighted Average Cost of Capital (WACC) from the commercial operation date of the Project and thereafter;

- approve SWEPCO's request to include any unrealized PTCs in a deferred tax asset included in rate base in the event the PTCs cannot be fully utilized in a given year(s) as discussed by SWEPCO witness John O. Aaron;

- approve the requested depreciation rates for the Wind Facility and associated Gen-Tie; and,

- issue a final order by April 30, 2018, to enable the commercial operation of the Wind Facility and associated Gen-Tie prior to January 1, 2021.

*Id.* at 10-11.

Ms. McCellon-Allen discusses the transaction with Invenergy, the Gen-Tie, and the Quanta contract. *Id.* at 11-13. She notes that SWEPCO will be responsible for 70 percent of all operation and maintenance costs and receive a 70 percent share in all savings (fuel, off-system sales, etc.). *Id.* at 13-14.

Ms. McCellon-Allen states that on August 7, 2016, SWEPCO issued a request for proposal (RFP) to evaluate the purchase of wind assets in the Southwest Power Pool (SPP) and received numerous bids; at the same time, PSO also issued an RFP to purchase wind energy under a Purchased Power Agreement (PPA). She explains that SWEPCO was surprised to see the bids were much lower than the average production cost for their current generation portfolio. *Id.* at 14-15.

Ms. McCellon-Allen says the Project is not the result of SWEPCO's August RFP but came about quickly as a result of the step-down in the PTCs available for wind

production. She states that the step-down of the PTC created a hard deadline for wind project developers which incentivized them to begin aggressively marketing their projects. Ms. McCellon-Allen asserts that Invenergy reached out to AEP to market their leases in Oklahoma and that after discussions with Invenergy, SWEPCO realized its customers would benefit from accelerating renewable energy purchases it had contemplated in its most recent IRP filings. In order to expedite the process, Ms. McCellon-Allen notes that SWEPCO received approval on July 26, 2017, from the Louisiana Public Service Commission (LPSC) to waive the requirements under the LPSC's 2002 Market Based Mechanism Order. *Id.* at 15-16.

Ms. McCellon-Allen believes the Project satisfies the Commission's resource planning guidelines and refers to SWEPCO's 2015 IRP that included the addition of 1,200 MWs of wind resources and 842 MWs of solar resources by 2034. She says accelerating the acquisition of additional wind generation allows SWEPCO to purchase lower cost, reliable energy for its customers. *Id.* at 16-17.

Ms. McCellon-Allen states that SPP lacks sufficient transmission resources to deliver wind energy from the Oklahoma Panhandle to the major load centers. She says the Wind Facility along with the Gen-Tie will provide clean, low-cost energy and will mitigate fuel price volatility, transmission congestion and curtailment, and other market uncertainties. *Id.* at 12-13. Ms. McCellon-Allen asserts that the Project will produce a forecasted $1.6 to $2.4 billion of net present value savings for customers using the range of natural gas price assumptions. She notes that SWEPCO compared the Project to two options: (1) Under the first option, which assumes SWEPCO does not acquire any wind generation and instead purchases its energy supply from SPP Integrated Market

resources, SWEPCO would realize a NPV savings of $1,942 million over the life of the Project; (2) Under the second option, which assumes SWEPCO purchases 1,900 MWs of wind generation from various locations within SPP but did not build the accompanying tie line, SWEPCO would realize a NPV savings of $686 million over the life of the Project. *Id.* at 17-19. She testifies that SWEPCO has independently verified Invenergy's assessment of the Wind Facility, that SWEPCO's Board of Directors has approved the acquisition, and that the project is in the public interest as it will enhance SWEPCO's ability to provide low-cost energy to its customers. *Id.* at 20-21.

Witness McCellon-Allen indicates that SWEPCO is proposing the WCA Rider to become effective when the Project goes in service and to end when the Commission includes the Project in base rates. She explains that the WCA Rider would include depreciation, return, operation and maintenance expense (O&M), and property taxes, net of PTCs. She says that SWEPCO requests depreciation rates for the Wind Facility reflecting a life of 25 years and 50 years for the Gen-Tie and notes that SWEPCO does not currently have a wind farm and therefore does not have an applicable rate to apply. She states that SWEPCO also plans to seek approval of a Renewable Energy Credit (REC) rider program through which customers will be able purchase the RECs produced by the Wind Facility (the proceeds of which would be credited as a further reduction to fuel costs). Ms. McCellon-Allen says the Project's cost benefit analysis does not include revenue from RECs. *Id.* at 22-23.

<u>Aaron – Direct</u>

SWEPCO witness Aaron quantifies the impact of purchasing the Project on SWEPCO's costs and rates. He testifies that the Project is expected to result in energy

savings that more than offset the fixed cost revenue requirement from the beginning of commercial operations. He states that SWEPCO is proposing to recover its costs through a rider that is similar to SWEPCO's existing Alternative Generation Recovery Rider for the J. Lamar Stall power plant. He testifies the rider will terminate when the Project has been included in base rates through a general rate case. Aaron Direct at 5.

Mr. Aaron testifies that the annual revenue requirement includes a return on and of capital investment, O&M, and taxes, the estimated generation cost savings due to the addition of the Project to SWEPCO's existing generation costs, and the offset resulting from the federal PTCs. He states that this is similar to the standard cost-of-service formula applied during a rate case. Mr. Aaron testifies that the Project depreciation expense is based on a 25-year life for the wind turbines and a 50-year life for the generator tie line, with the pre-tax return based on the cost of capital and ratios from SWEPCO's last rate case, Docket No. 09-008-U, which included a 10.25 percent return on equity (ROE). He testifies that when the Project is included in SWEPCO's Arkansas rates, the then-Commission-approved ROE, other cost of capital rates, and cost of capital ratios will be used in the revenue requirement calculation. *Id.* at 6-7.

Mr. Aaron testifies that in the first year, there will be an estimated $43.6 million reduction in Arkansas retail net energy costs (fuel costs reduced by off-system sales) associated with the kWh production from the Project. To identify the energy benefits of the Project, he compared the total generation from the baseline case (without the Project) to the Project case (with the Project included). He states that consistent with SWEPCO's current fuel cost recovery, 90 percent of off-system sales margins are returned to ratepayers and reflected in the energy cost savings in the rate impact

analysis. He notes that the federal PTCs received are included as an additional benefit to offset the Project's revenue requirement. Mr. Aaron testifies that PTCs will be generated for the first ten years of commercial operation. *Id.* at 7-8.

Witness Aaron testifies that the Project revenue requirement will increase after year ten due to the expiration of the PTCs. To moderate the impact of this increase, he requests the Commission approve the deferral of some of the PTCs in a regulatory liability that will be used to offset the revenue requirement in years 11 through 18 (2031-2038). He proposes to offset the revenue requirement by the full PTC amount in the first three years (2021-2023) and defer a portion of the PTCs in a regulated liability in years four through ten (2024-2030). The deferred PTCs will be used to offset the revenue requirement in years 11 through 18 (2031-2038). Mr. Aaron testifies that SWEPCO is requesting that any unrealized PTCs be included in a deferred tax asset account that is included in rate base in subsequent base rate proceedings. *Id.* at 8.

Mr. Aaron testifies that SWEPCO allocated the Project revenue requirement to the Arkansas jurisdiction and retail classes using 2021 estimated kW demand, consistent with the allocation of production investments in SWEPCO's past base rate proceedings in Arkansas. He testifies that actual Arkansas jurisdictional and class demand allocation factors will be used when the Project is recovered in SWEPCO's rates. He states that fuel costs are allocated to the Arkansas retail jurisdiction using estimated Arkansas kWh sales at the generator, which is consistent with SWEPCO's current fuel cost recovery in Arkansas. *Id.* at 9.

Mr. Aaron states that the Arkansas share of the Project revenue requirement (offset by the PTCs) is approximately $28.1 million and the fuel savings is approximately

$43.6 million, which results in net savings of $15.5 million in the first year. According to Mr. Aaron, a typical residential customer using 1000 kWh would be expected to see a net decrease in the bill of 3.51 percent in 2021, 4.51 percent in 2022, and 5.13 percent in 2023. *Id.* at 9.

Mr. Aaron explains that the WCA Rider is designed to recover the Project's revenue requirement after commencement of commercial operation until it is included in SWEPCO's base rates through a general rate case. He points out that the WCA Rider includes a true-up mechanism, interim recovery of the costs associated with the operation of the Project, and the PTCs. He states that SWEPCO will follow the traditional over/under accounting in which actual costs will be compared to revenues received. *Id.* at 10.

Mr. Aaron says that WCA Rider costs will be allocated to the Arkansas jurisdiction using the most current jurisdictional and class production demand allocators approved at the time the WCA begins. He states that recovery will be on a kWh usage basis for the residential class and on a percentage of base revenue for all other classes, which is consistent with SWEPCO's existing Alternative Generation Recovery Rider for the J. Lamar Stall generating plant. Mr. Aaron testifies that forecasted billing determinants will be used for the five major rate classes. *Id.* at 11. He proposes that the expected Project energy savings will flow through SWEPCO's current Energy Cost Recover (ECR) Rider. He testifies that SWEPCO will file revised WCA Factors 90 days prior to the first billing cycle for the January 2021 revenue month, which will remain in effect for twelve months and will expire unless a request for

updated factors is filed by SWEPCO, until updated factors are approved by the Commission, or until the generating facility is included in base rates. *Id.* at 12.

Bletzacker – Direct

SWEPCO witness Bletzacker sponsors the Long-Term North American Energy Market Forecast (Fundamentals Forecast) used by SWEPCO witnesses Pearce and Pfeifenberger for certain elements of their analyses. He describes how the market forecasts are derived and testifies that no subsequent Fundamentals Forecast has been undertaken. Bletzacker Direct at 2-3.

Mr. Bletzacker testifies the Fundamentals Forecast is a long-term, weather-normalized commodity market forecast which includes a Base Case, Lower Band, Upper Band, and No Carbon cases, which he describes along with the tools used in the development of the Fundamentals Forecast. *Id.* at 3-6.

Mr. Bletzacker avers that it is important to recognize that the Fundamentals Forecast is weather-normalized and important to take into consideration various factors when comparing actual results to a weather-normalized forecast. He testifies the model is widely used by utilities and describes why NYMEX futures are not a reliable forecast of future, weather-normalized, long-term energy market fundamentals. *Id.* at 6-8. Mr. Bletzacker also describes why natural gas prices and potential $CO_2$ allowance prices are important to a Fundamentals Forecast. *Id.* at 8-9. He testifies the most important features of his Fundamentals Forecast are natural gas and $CO_2$ mitigation. He states that relatively low-cost natural gas will continue to grow as shale gas technology becomes more widespread. For $CO_2$ mitigation, he testifies he used a $CO_2$ allowance price to achieve national mass-based emission targets similar to those proposed in the

Clean Power Plan. Mr. Bletzacker notes that near-term low natural gas prices do not necessarily indicate that prices will remain low for a long time and describes a variety of reasons for natural gas prices to deviate from fundamental price. *Id.* at 9-11.

Bradish – Direct

SWEPCO witness Bradish uses "Gen-Tie" to refer to three components: (1) The 350-380 mile 765 kV generation-tie line; (2) The Proposed Western 345 kV to 765 kV Generation Substation; and (3) The Proposed Tulsa North 765 kV to 345 kV Generation Substation. He states that Gen-Tie has a projected completion date of 2020 and will be constructed via a fixed-price Engineer, Procure, Construct (EPC) contract with a subsidiary of Quanta. Bradish Direct at 6. He provides an overview of the Gen-Tie and notes that the Tulsa North substation was chosen to allow delivery into the AEP load zone with relatively few network upgrades, providing the most benefits to customers, net of costs. Mr. Bradish testifies that in order to interconnect directly to the SPP system significant upgrades or additions would have been needed to the infrastructure and significant grid congestion would be expected, which is typical for the high-value wind areas of the SPP. *Id.* at 7.

Witness Bradish states that the Gen-Tie will provide savings for customers by enabling the Companies to procure renewable wind energy at a significantly lower cost than wholesale energy prices, without incurring curtailments. According to a 2016 SPP study, the Woodward, Oklahoma and Texas Panhandle areas were the most constrained areas in SPP. Bradish Direct at 8-9.

Mr. Bradish testifies that two fiber optic repeater stations will be necessary to assure consistent communications and safe operation and that all equipment installed

will meet current AEP transmission standards. *Id.* at 9-10. He states that a 765 kV line was the least expensive and most efficient solution to transfer the wind energy on a dollar per delivered MW basis and can also be expanded if needed in the future. *Id.* at 10-11. Mr. Bradish says that the Companies considered using AEP's BOLD double-circuit 345 kV line design but rejected it because of increased construction and maintenance costs. *Id.* at 11-12. He testifies that the Companies also evaluated a DC generation-tie line but rejected it due to higher projected cost and reduced operational performance. *Id.* at 12. In addition, he cites to several advantages of the 765 kV line over the 345 kV option. *Id.* at 12-15. Finally, he observes that the 765 kV line design offers reliability advantages due to the physical separation of phases and single-phase switching. *Id.* at 15-17.

Witness Bradish testifies that the design life of the Gen-Tie is about 50 years and if the Wind Facility is not renewed or re-powered, it could be interconnected with other facilities in the wind-resource-rich part of SPP and be integrated into the SPP system where west to east transmission capability is needed and expected to increase. He states that even if other transmission lines are added to SPP, it will not decrease the usefulness of the Gen-Tie because it traverses an area that is constrained and has a high level of congestion. *Id.* at 17-22.

Mr. Bradish states that SPP does not need to approve the Gen-Tie line but the Wind Facility interconnection must go through the SPP Generation Interconnection Process. He testifies that Invenergy has submitted the request and the results of the impact study should be available within 12-18 months, followed by the Facility Study approximately six months later. SWEPCO has separately estimated that network

upgrades of approximately $50 million will be needed and have included them in the project cost estimate. *Id.* at 22-25.

Bright – Direct

SWEPCO witness Bright provides an overview of the Wind Facility and Gen-Tie. Bright Direct at 5-6. He presents the construction activity milestones and estimates a commercial operation date (COD) in the fourth quarter 2020. Bright Direct at 6-7.

Mr. Bright testifies that the rights and assets to the Wind Facility are owned by States Edge Wind I LLC, which is owned by States Edge Wind I Holdings LLC (Invenergy). He states that the Companies entered into a MIPA for the purchase of 100 percent equity interest of States Edge Wind I LLC. *Id.* at 7. He also describes the Companies' role in project management and discusses AEP Service Corporation's (AEPSC) experience in project management for large-scale complex utility projects. *Id.* at 8-9.

Witness Bright briefly describes nine main components of the Wind Facility. He states that a temporary 345 kV electrical tie-line will be constructed to support the commissioning of the Wind Facility until the Gen-Tie line is built and commissioned. *Id.* at 10-11.

Mr. Bright testifies that Invenergy is responsible for all of the approvals for siting and permitting for the Wind facility, which he says are minimal for general permitting. He says that the environmental, cultural and wildlife studies and reviews have started and are in various phases of completion. *Id.* at 11-12. He provides a schedule for the Wind Facility after the Notice to Proceed (NTP) is issued which supports the Wind Facility qualifying for 100 percent of the PTC. *Id.* at 13-14.

Mr. Bright states that Invenergy must develop a Project Schedule that includes major project phases and the milestones and turnovers from one Contractor to another or to Invenergy. He indicates that Invenergy is responsible for procurement of all equipment and securing the necessary construction contracts and AEPSC will have personnel on-site to monitor progress. He testifies that Invenergy must provide completion certificates to AEPSC for twelve specific project steps and that the Companies retain review rights on all contracts prior to their execution. *Id.* at 14-16.

Witness Bright says the total capital cost for the Wind Facility is approximately $2.902 billion, which includes the purchase price, owner's costs, other estimated costs, and contingency. He discusses seven items in the MIPA that adjust the price of construction, namely, the Tulsa North Interconnection Facility, the Western 765 kV Generation Substation Completion Date, O&M Building Construction, Gen-Tie Line Scope Changes that Impact the Collection System Design, O&M Mobilization, the GridLiance Operating Fee, and Capital Spare Parts. *Id.* at 17-18. He says a contingency of $93.3 million has been allocated to address project risks. He confirms that the total installed capital cost includes an Allowance for Funds Used During Construction (AFUDC) of $1.920 million. *Id.* at 19.

Mr. Bright testifies that the O&M of the Wind Facility will be the responsibility of the Companies. He states that Invenergy Services has been contracted to perform On-Site O&M support and Remote Operation and Monitoring and discusses the O&M plan. *Id.* at 19-21. He discusses other ongoing capital and O&M costs beyond those for Invenergy and the 25-year forecast for ongoing capital. *Id.* at 21-22.

Chodak – Direct

SWEPCO witness Chodak provides the background on the Wind Facility, including the Gen-Tie line; explains the customer savings of approximately $2.9 billion in net present value dollars over the life of the project; addresses the needed time-line for regulatory approval; and explains how the Project addresses customers' requests for clean low-cost energy. Chodak Direct at 3.

Mr. Chodak describes the events that led to SWEPCO and PSO proposing the Project. He testifies that expedited consideration of this filing of no later than April 30, 2018, is required in order to realize the full value of the PTC. He testifies this Project will provide over eight million low-cost MWh per year of energy for SWEPCO and PSO customers over the 25-year life of the Project. He states that delivery of the energy into AEP's SPP zone creates additional savings for SWEPCO and PSO customers and other SPP customers by lowering the zonal energy price. Chodak Direct at 3-4.

Mr. Chodak testifies that wind resources are primarily an energy only resource and do not have the same dispatchability as traditional resources. He states AEP is bringing the Project forward because it will lower customer bills and will also hedge against increases in future fuel and power costs. *Id.* at 4-5.

Mr. Chodak provides a summary of the Project and testifies that AEP and the Quanta team developed the Gen-Tie as a feasible and cost-effective delivery solution. He discusses the MIPA and confirms that the Project is to be owned 70 percent by SWEPCO and 30 percent by PSO. *Id.* at 5-6. He describes the location of the Wind Facility, its construction history, and the fact that significant portions of the equipment

will be manufactured in Arkansas, Texas, and Louisiana. *Id.* at 6-7. He also discusses the Gen-Tie's location and structure. *Id.* at 7.

Mr. Chodak testifies that the ownership split between SWEPCO and PSO is based on the relative planned future additions of wind generation from the Companies' long-range plans. Once the Project is included in each Company's resource mix, he maintains that the ownership split results in both companies providing approximately 35-40 percent of their energy from renewable resources. *Id.* at 7.

Witness Chodak says that the Project is expected to provide approximately $2.9 billion in savings, net of cost and in net present value dollars, compared to market energy. He states that the combination of Panhandle wind and the Gen-Tie provides an additional approximately $1.1 billion in savings relative to other similar wind generation options. *Id.* at 8.

Mr. Chodak testifies that in 2021, the Project will deliver energy at an average cost of $30/MWh compared to a market price of $39/MWh and will also lower the locational marginal price (LMP) in the AEP load zone, which will benefit non-AEP customers. He states the Project will produce power at an average price of approximately $26/MWh in constant 2021 dollars over a 25-year period. He says that along with the proposed rate treatment, the Project will mitigate future fuel and energy cost escalation and provide more stable and predictable rates for over 25 years. *Id.* at 8.

Mr. Chodak states that the Project is expected to provide a net bill reduction to customers in the first year and result in over $7 billion (in nominal dollars) to both SWEPCO and PSO over the life of the Project. He testifies that the Project will also make their service territories more attractive to new economic development and that

current and potential customers have expressed an interest in low-cost energy to meet their sustainability goals. He says many companies have sustainability goals that include renewable energy as a key component and mentions UPS, Walmart, Tysons, and the University of Arkansas as companies with an interest in renewable energy sources. *Id.* at 9-10.

Mr. Chodak confirms that AEP is requesting that the Commission find that the purchase of the Wind Facility and construction of the Gen-Tie are in the public interest and approve the Project by April 30, 2018. He testifies that absent regulatory support, the large size and unique nature of the Project would represent significant financial risk to SWEPCO. He testifies that AEP is also seeking approval of the Project from the LPSC, the Public Utility Commission of Texas, and the Oklahoma Corporation Commission and asserts that support from all the state regulatory commissions is necessary for SWEPCO to make this approximately $4.5 billion investment. *Id.* at 10-11.

Mr. Chodak testifies the timing of approval is critical for the Project because the customer benefits are significantly impacted by the value the PTCs provide. He states that Invenergy has taken and is taking the necessary steps regarding the commencement and continuing progress of construction to ensure receipt of 100 percent PTC. He testifies that to enable commercial operation prior to January 1, 2021, significant investments will need to be incurred beginning in mid-2018. He says SWEPCO and AEP are committed to preserve the eligibility for full PTC through mid-2018, but cannot commit to the significant investments beyond that point without the requested commission approvals. *Id.* at 11-12.

Godfrey – Direct

SWEPCO witness Godfrey testifies that the main benefit for pursuing the purchase of the 2,000 MW wind facility now is receiving 100 percent of the federal PTC. He provides additional detail on the nature of the PTC, when it expires and how it applies to the proposed purchase of the facility. He states that because Invenergy began construction on the facility prior to December 31, 2016, the facility is eligible for 100 percent of the PTC. He then gives a brief description of the location and resources available to the facility. Godfrey Direct at 6-8.

Mr. Godfrey provides a detailed overview of the MIPA. He states that on July 26, 2017, the Companies and Invenergy entered into the MIPA, which governs the construction of the wind facility by Invenergy and the Companies' purchase of 100 percent of the equity interests of States Edge Wind I LLC (Project Company), a single purpose entity that will own the rights and assets associated with the wind facility. SWEPCO and PSO will share the benefit and cost of the wind facility with ownership shares of 70 percent and 30 percent, respectively. Mr. Godfrey provides more detail of the transaction. He says that the total purchase price for the 2,000 MW wind facility is $2.694 billion or approximately $1,347/kW and that the Companies' purchase obligations are conditioned on regulatory approval by the commissions in Arkansas, Louisiana, Texas, and Oklahoma. He testifies that the Notice to Proceed (NTP) is to be issued to Invenergy by the Companies after certain NTP precedents or requirements have been satisfied. He details the closing process, termination scenarios, and land leases and discusses the due diligence undertaken, which has not identified any significant issues and which will continue. *Id.* at 9-15.

Mr. Godfrey indicates that of the many areas reviewed during the Companies' due diligence process, the forecasted annual production is the most impactful to the economic analysis completed by SWEPCO. He states that Invenergy retained DNV-GL for an independent assessment of the wind resource and forecasted energy production for the Wind Facility, which was verified by SWEPCO and consultant Simon Wind. *Id.* at 15-17.

Hawkins – Direct

SWEPCO witness Hawkins gives an overview of how SWEPCO intends to finance the project, stating that the ownership percentages for the Project are targeted at 70 percent for SWEPCO and 30 percent for PSO. She states SWEPCO intends to use a combination of short- and long-term debt and equity contributions from its parent, AEP, to fund the project with a capital structure of approximately 52-54 percent debt and 46-48 percent equity, consistent with SWEPCO's current capital structure. In addition, she notes SWEPCO may enter into a revolving credit agreement to initially fund the construction expenditures prior to issuing long-term debt. Ms. Hawkins discusses financing currently authorized by the Federal Energy Regulatory Commission (FERC) and applications with FERC to issue approximately $1.7 billion in new debt to finance this transaction. Hawkins Direct at 5-7.

Ms. Hawkins does not expect this transaction to impact SWEPCO's credit rating, pointing to a Moody's report that indicates that rate-based wind projects are a credit positive for utilities and reviewing SWEPCO's current credit rating by Moody's and S&P. She opines that a rider is necessary to recover the costs and return as soon as assets go into service, since upon completion of the Project, SWEPCO's assets will grow by 49

percent and the absence of timely recovery of the costs of these assets would negatively impact earnings, cash flow, and financial metrics relied upon by credit rating agencies. *Id.* at 7-9.

Witness Hawkins proposes that the ROE be based on the Commission-approved ROE in effect during the recovery period and that with the establishment of the rider, the ROE can be updated when a new ROE is established through a traditional rate proceeding. She points out that for the purposes of the analysis presented, a 10.5 percent ROE was used. *Id.* at 9.

Ms. Hawkins sponsors the discount rate of 7.55 percent used by Mr. Pearce in his analysis, which is based on the average Weighted Average Cost of Capital approved in SWEPCO's jurisdictions. *Id.* at 9-10.

Pearce – Direct

SWEPCO witness Pearce presents the forecasted benefits, projected costs, and resulting net customer savings of the Project, explaining its components. He discusses how the Project aligns with SWEPCO's 2015 IRP and how SWEPCO developed a new, updated baseline case for the 25-year life of the Wind Facility for the purposes of determining the economics of the Project, instead of the shorter-term IRP. Pearce Direct at 6-8.

Mr. Pearce discusses the methodology used to determine the net benefits of the Project. He states SWEPCO developed two scenarios: 1) a baseline scenario which assumed no new wind resource additions for SWEPCO (Base Case) and 2) a change-case scenario that included the Project (Project Case), and then compared the difference or "delta" between the two cases for the period modeled (2021 – 2045). Consistent with

the 2015 IRP, Natural Gas Combined Cycle (NGCC) units were assumed as additions to SWEPCO's resources in both cases as needed to maintain the SPP mandated 12 percent reserve margin. Mr. Pearce then elaborates on the details of each scenario. In addition, he discusses modifications to the models, which include calculating and incorporating long-term LMPs for SPP, which were developed by Brattle Group, forecasted Off-System Sales (OSS), and forecasted values for capacity. *Id.* at 9-13.

Mr. Pearce briefly discusses the estimated costs for the Project and notes that the PTCs will be available for 10 years after the resource is placed in service. He states the levelized cost of power from the Wind Facility net of the PTCs is forecasted to be $12.09/MWh. He says the total cost of capital for the Project is based on a composite of SWEPCO's three state retail jurisdictions and its wholesale generation agreements including interest expense, capital structure, and ROE (for Arkansas, 10.25 percent based on Docket No. 09-008-U, its last rate case). He states the Wind Facility was modeled using a 25-year depreciable life, consistent with existing wind projects, and that the Gen-Tie line is depreciated using a 50-year service life. *Id.* at 13-15.

Mr. Pearce details the sensitivity analysis performed by SWEPCO on forecasted natural gas prices for its analysis. He states that the lower natural gas price scenario decreased the net benefits by 18 percent, while the higher natural gas price scenario increased the net benefits by 21 percent over the life of the project. *Id.* at 15.

Mr. Pearce details the Generic Wind Case, where SWEPCO considered the feasibility of attempting to capture the PTCs without the Gen-Tie Line. He presents the results which show the Project would produce approximately $685 million more in customer savings than the Generic Wind Case, compared to the baseline scenario. He

also elaborates on possible curtailments by SPP and other possible constraint-related issues should the Gen-Tie Line not be constructed, and notes that it is uncertain if potential future transmission projects might mitigate the congestion and curtailment costs. *Id.* at 16-18.

Witness Pearce discusses the effect of the project on SWEPCO's sources and uses of energy and the value of OSS and avoided energy purchases made possible by the Project. He states that SWEPCO's existing generation units are impacted very little by the Project and notes that a large part of the fuel savings comes from delaying the construction of new NGCCs. *Id.* at 19-20.

Mr. Pearce testifies that when the PTCs expire after the first 10 years of operation, benefits significantly drop in 2031, leading to a one-time increase in year-over-year revenue requirement. To mitigate this, Mr. Pearce proposes establishing a regulatory liability to defer some of the PTCs beginning in 2024 through 2030 and then flow the value of the deferred PTCs back to its customers beginning in 2013. *Id.* at 20-22.

Mr. Pearce concludes that the forecasted net benefit to Arkansas retail customers is approximately $377 million over the 25-year life of the Project. *Id.* at 23.

<u>Pfeifenberger – Direct</u>

Mr. Pfeifenberger selected two alternate scenarios to compare to the Project, the Base Case and Generic Wind Case. He explains that the Base Case or baseline approach assumes that SWEPCO will meet its future energy needs without the development or purchase of future wind resources between 2021 and 2045 and that the Generic Wind Case assumes SWEPCO will purchase 1,900 MW of wind generation delivered from 24

different sites across the SPP footprint using SPP's existing and planned regional transmission system. He notes that the comparison between the Project Case and the Base Case quantifies the net benefits of physically delivering to Tulsa 1,900 MW of high quality wind from the panhandle region of Oklahoma, while the comparison between the Project Case and the Generic Wind Case identifies the savings that can be realized through the Project relative to purchasing 1,900 MW of generic wind generation with delivery to the SPP system at the wind plants' various SPP locations. Pfeifenberger Direct at 6-7.

Mr. Pfeifenberger says the analysis calculated the following benefits: adjusted production cost savings, additional congestion and loss savings, including reduced quantity of transmission loss savings, wind curtailment cost savings, and avoided/deferred capacity cost savings. *Id.* at 7-8. In performing his analysis, Mr. Pfeifenberger used both PROMOD and PLEXOS modeling software, which he explains in detail. *Id.* at 9-14. To estimate PPA prices for generic wind in SPP, he used the U.S. Energy Information Administration's 2017 Annual Energy Outlook (AEO) report. He calculated a levelized cost for wind energy of $18.62/MWh in 2021, escalating at 2.25 percent annually for 25 years. *Id.* at 9-12.

Mr. Pfeifenberger used SPP's Future 3, which assumed no cost on carbon emission by thermal generation resources and made a few modifications to key assumptions, which he details. *Id.* at 14-15. He explains why it was necessary to use both PROMOD and PLEXOS to model the scenarios. *Id.* at 16-18. To assess the cost and benefits of the scenarios over the entire 25-year horizon from 2021 through 2045 and for each of the two companies, Mr. Pfeifenberger used PLEXOS in conjunction with

SPP's PROMOD models to capture the impact on the individual operating companies as well as the impact of the additional wind generation on the transmission system and the associated locational marginal prices. He also describes how he extrapolated SPP's 2020 and 2025 data over the entire 25-year horizon and provides a flow chart illustrating how PROMOD and PLEXOS were incorporated. *Id.* at 18-22.

Mr. Pfeifenberger describes the benefit metrics used in his analysis, which are quantified by SWEPCO witness Pearce, and describes how each benefit metric was calculated. He calculates the annual average values of the 2020 and 2025 PROMOD simulation results for the Base Case, the Project Case, and the Generic Wind Case. *Id.* at 22-26. He explains why he separately estimated future wind curtailment levels and describes his assumption for estimating anticipated future wind generation curtailment levels. *Id.* at 26-29. Mr. Pfeifenberger explains how he estimated the prices of generic future wind procurements in SPP and calculates a levelized cost of wind energy of $18.62/MWh in 2021, escalating at 2.25 percent annually for 25 years, which he supports as reasonable. *Id.* at 29-31.

<u>Weber - Direct</u>

SWEPCO witness Weber provides an overview of the Gen-Tie components and estimates the cost of the Gen-Tie as $1.624 billion, including $148 million of AFUDC. Weber Direct at 6-7. He discusses the qualifications of the contractor, Quanta, and describes the nature of the EPC contract as a fixed-price contract which includes all engineering, procurement, and construction. *Id.* at 8-11. Mr. Weber testifies that the EPC contract is favorable to customers by guaranteeing completion by 2020 and by providing more certainty and lower costs when compared to recent large-scale projects

that were competitively bid through the more traditional procurement process. He points out that AEPSC retained certain obligations beyond the typical design reviews and construction monitoring. *Id.* at 12.

Mr. Weber lists four categories of additional costs which are not included in the fixed-priced contract that bring the total expected cost to $1.624 billion: obtaining land rights, internal labor and overheads related to project oversight, allowance for unknown risks and variances in costs, and AFUDC. *Id.* at 12-13. He outlines AEPSC's plan to monitor progress and quality through a team of dedicated professionals. *Id.* at 13.

Mr. Weber testifies that project work is currently in progress under eight limited notices to proceed (LNTPs). He says that beginning work under the LNTPs ensures final completion of the project before the December 31, 2020, safe harbor date for the wind production tax credit. He discusses the costs of the first eight LNTPs and adds that an additional ninth LNTP will be issued by August 18, 2018, to guarantee the completion date of December 15, 2020. He explains that utilizing the LNTPs allowed essential work to proceed while necessary regulatory approvals are obtained. *Id.* at 14-15.

Mr. Weber lists the key project milestones and points out that the EPC contract provides for damage payments for each day that the Gen-Tie is not substantially complete by December 15, 2020. The EPC Contract provides a three year warranty after completion on all installed equipment. *Id.* at 15-16.

Witness Weber testifies that state and federal agencies will require permits and/or consultations that impact initiation of construction. He confirms that Oklahoma does not have a specific siting process or siting application requirement for the overall

approval of the route alignment. He discusses AEPSC's iterative siting process that will be followed by the Contractor to develop the final route for the Gen-Tie and provides an overview of the permitting requirements and activities, the land rights acquisition requirements, and other authorizations needed. *Id.* at 16-19.

**Walmart Direct**

Chriss – Direct

Walmart witness Chriss describes Walmart's operations in Arkansas, Texas, Louisiana, and Oklahoma and Walmart's renewable energy goals. Chriss Direct at 4-6.

Concerning Rider WCA, Mr. Chriss testifies that he believes the appropriate forum for consideration of cost recovery is a general rate case, as all costs, benefits, and risks can be systematically considered. He points out that there are other relevant factors, such as authorized ROE, that would be considered in a rate case that would not be a consideration at the time recovery begins under the proposed fuel rate recovery process. *Id.* at 9-10. He states that SWEPCO's proposed recovery through Rider WCA reduces the shareholders' risk, so SWEPCO should be required to guarantee specific reductions in revenue requirement for 2021, 2022, and 2023. *Id.* at 10-11.

Mr. Chriss recommends that SWEPCO's proposed cost allocation for Wind Catcher and Gen-Tie costs be approved. *Id.* at 11. He also recommends that the costs proposed to be included in Rider WCA are related to generation assets and are properly allocated on the production demand factor and charged to demand-metered customers through a $/kW demand charge rather than a factor applied to the $/kWh energy charge. *Id.* at 12. He opines that costs allocated on a demand basis should be recovered on a demand basis. *Id.* at 12-15.

**AG Direct**

Marcus – Direct

AG Witness Marcus supports using the 4CP allocation to jurisdictions and energy for class allocation within Arkansas and discusses why an energy-related class allocation factor is appropriate for the Wind Production Plant. Marcus Direct at 6-9. He recommends a 30-year depreciable life for the wind generators instead of the 25-years proposed by SWEPCO, which would reduce the revenue requirements in the early years by approximately $2.6 million each year, although offset by higher rate base in later years. *Id.* at 10.

Mr. Marcus discusses the risk and cost to ratepayers that is created by SWEPCO's proposed treatment of PTC-related issues and recommends sharing that risk. He states that the treatment of the net operating loss (NOL) for unused PTCs that are allowed for recovery will also need to be revised to reflect the Modified Balance Sheet Approach (MBSA) used to set rate base and rate of return in Arkansas. He recommends that the deferred portion of the PTC be incorporated to reduce rates on an exact recovery basis and ratepayers should be paid interest. *Id.* at 11-12. Mr. Marcus says that any reduction in PTC receipts in any given year due to the project being delayed past 2020 should be shared such that 50 percent of the risk is not borne by ratepayers. *Id.* at 13.

Mr. Marcus discusses the current method for sharing net margins on market based sales above $1.2 million between SWEPCO and ratepayers. He testifies that expected increases in off-system sales by this project will raise SWEPCO's rate of return above its currently authorized ROE and thus recommends increasing the off-system

sales threshold from $1.2 million to at least $5 million on an annualized basis once Wind Catcher is in service to reduce concerns regarding risk. *Id.* at 13-14.

Woodruff – Direct

AG witness Woodruff states that in assessing SWEPCO's Proposal, the Commission should consider two implications of the costs and benefits presented by SWEPCO: that the Project would impose significant costs on customers and provide them significant benefits, and that the Project's net benefits are trivial without the PTCs. Even in SWEPCO's base case, the ability to capture the PTCs is critical to cost effectiveness. Woodruff Direct at 5-8. In addition to the costs and benefits of the Project, he highlights other significant impacts on SWEPCO's electric system. He states the Project would create a dramatic shift in SWEPCO's electric energy resource mix but will not proportionately affect the operation of SWEPCO's generation resources because SWEPCO plans to make substantially more sales of power into the energy market managed by SPP. He concludes that the major impact of Wind Catcher energy is to increase SWEPCO's wholesale power sales, so the Commission should assess the uncertainty of the benefits and consider whether it should revise SWEPCO's policy on off-system sales. *Id.* at 8-11. He also points out that the Project will increase SWEPCO's net plant by 49 percent and impact SWEPCO and its shareholders and customers for years. *Id.* at 11-12.

Mr. Woodruff states that SWEPCO is seeking rushed consideration of a Project that was not contemplated in its last IRP. He voices concern that the small window requested for the Commission to approve such a drastic change to SWEPCO's electric

system could deny parties and the Commission the time needed to evaluate this historic Proposal. *Id.* at 12.

Mr. Woodruff states that he does not know at this time if SWEPCO's argument that the Project would provide net benefits to its customers is believable. He states that SWEPCO's claim that the Project will reduce customer costs is plausible, particularly given the potential for customers to gain the benefits of PTCs. However, he states there are several risks that could diminish the Projects potential value. *Id.* at 13. One overarching risk he points out is the fact that if the Project is approved, SWEPCO realizes an expanded rate base and related earnings, which are large fixed amounts. However, he notes that customer benefits will be subject to significant uncertainties and is concerned about this allocation of the Project's financial risks. *Id.* at 13-14.

Witness Woodruff discusses three categories of risks: risks that have been quantified to a useful degree by SWEPCO, risks that have been identified but not quantified fully and should be addressed further, and risks to the Project's value that SPP should address to provide a fuller record for the Commission to make its decision. *Id.* at 14-16. He also points out that although SWEPCO contends the Project will provide local employment, that argument is not yet enforceable by this Commission. *Id.* at 16.

Mr. Woodruff recommends the Commission address these risks regarding the Project's value by requiring SWEPCO and SPP to provide additional information and imposing mitigating conditions on its approval of the Project, should it choose to approve the Project. *Id.* at 17-18. He observes that Project completion by 2021 instead of 2020 would still yield 80 percent of maximum PTCs and suggests this delay may give

the extra time needed for evaluation by the parties and the Commission while still yielding significant benefits for customers. *Id.* at 18.

As a broad observation, Mr. Woodruff testifies that the Project provides a substantial benefit to SWEPCO shareholders without them assuming the bulk of the Project's risk, which he asserts is borne by SWEPCO ratepayers. *Id.* at 18-20. He states that the benefits of the Project largely depend on the substitution of PTC-subsidized wind energy for thermal generation and the sale of excess wind energy into the wholesale markets, and all else being equal, the more the Project generates, the greater the benefits. However, he argues that wind generation is variable so the Project's capacity factor is unknown at this time and explains the effect that different capacity factors could have on the Project's benefits. He surmises that assumption of a minimum capacity factor could protect customers. *Id.* at 20-23.

Mr. Woodruff states that the price of natural gas tends to be a driver of electricity prices in SPP's markets and he expects that will continue in the future. He asserts that with additional data from discovery, SWEPCO has provided sufficient data to assess gas price risks. He provides an analysis of the data given by SWEPCO and concludes the Commission should take into consideration that natural gas prices could remain low for a few years when assessing the risk of the Project. *Id.* at 23-29.

Mr. Woodruff states that future changes in federal tax law, particularly changes in the level of corporate income tax and future PTCs, could have a significant impact on the Project's value. However, he recommends the Commission direct SWEPCO to re-calculate the Project's benefits should changes to the tax law pass Congress and the President sign it into law. *Id.* at 29-30.

Mr. Woodruff discusses some possible scenarios that could lead to the Project not capturing all of the PTCs and thus not yielding the full benefits claimed by SWEPCO. While he acknowledges that SWEPCO has made some provisions in construction contracts to mitigate risks of less-than-full PTC recovery, he points out that no analysis was performed to determine the impact of less-than-full recovery. To address the PTC recovery risks, he recommends that the Commission assess the value of the Project under some reduced PTC scenarios that reflect potential risks and ensure customers receive the PTC benefits regardless of whether AEP is able to receive the full values of PTCs, perhaps through a shareholder guarantee. *Id.* at 30-34.

Mr. Woodruff asserts that SWEPCO's analysis does not consider the possible addition of additional wind asset development in SPP and the corresponding impact on SPP market prices (and thus impact on Project benefits). He recommends that the Commission ask SWEPCO to analyze the impact of additional near-term wind development on the Project's benefits. *Id.* at 35-38.

Witness Woodruff states SWEPCO should be asked to quantify potential costs to SWEPCO customers for integrating variable wind generation into SWEPCO's system. He states that unlike conventional generation, the variability of wind generation could cause additional costs when integrating unknown quantities of energy into the SPP system, such as maintaining additional operating reserves. He recommends that the Commission ask SPP to provide such information. *Id.* at 38-40.

Mr. Woodruff discusses potential additional transmission investments that will be needed downstream from where the proposed Gen-tie line will connect with the AEP system. He recommends that the Commission request additional information from SPP

regarding possible additional transmission investments that could stem from the Project. *Id.* at 40-43.

Mr. Woodruff points out that the Commission cannot rely on SWEPCO's claims that the Project would increase local employment or use wind turbines manufacturers in Arkansas because SWEPCO does not have the ability to require either. He recommends that the Commission condition approval on guarantees that some amount of manufacturing would occur in Arkansas. *Id.* at 43-44.

Mr. Woodruff states that at this time he is not prepared to say if the Project would provide net benefits to Arkansas ratepayers. He then reiterates his list of nine recommendations, including a delay of the proceeding in order to provide a more thorough review of all of the information. *Id.* at 44-46.

**Staff Direct**

Athas – Direct

Staff witness Athas says at present, he cannot make a recommendation for or against the Project. He argues that SWEPCO has not demonstrated that the Wind Catcher Project is among the least cost alternatives that would provide 1,330 MW of wind capacity for the SWEPCO system. Mr. Athas recommends that SWEPCO include in its rebuttal testimony analyses and testimony addressing its justification for acquiring the assets of the Wind Facility and associated Gen-Tie line compared to the Generic Wind Case as well as the bids received from the 2016 RFPs of SWEPCO and PSO, which should enable him to determine whether the Project is in the public interest. Athas Direct at 8.

Mr. Athas testifies that in SWEPCO's most recent IRP (December 1, 2015), SWEPCO's preferred option was to add renewables to reduce its reliance on coal and natural gas generation. To accomplish this, he observes that the IRP proposed adding 200 MW of wind starting in 2017 then gradually increasing that amount to 1,200 MW by 2032. Mr. Athas says the timeframe and the amount of additional wind proposed in the Wind Catcher Project seem reasonable when compared to what was recommended in the IRP. Athas Direct at 12-15.

Mr. Athas says the methodologies used by SWEPCO to calculate the benefits seem reasonable, and therefore the avoided costs and revenue requirement values appear to be justifiable. He does point out that the avoided costs benefits are essentially equal to the revenue requirement for the Project, so the Project is breakeven before considering the benefits from the PTCs. Therefore, he concludes that it is important to consider the risk of not receiving 100 percent of the PTCs and what impact that will have on the net benefits of the Project. *Id.* at 16-17.

Mr. Athas goes on to describe the scenarios used by SWEPCO to evaluate the Project's benefits and discusses the benefits analyzed, the determination of costs and savings, the revenue requirement components, and the projected O&M costs. *Id.* at 18-25. He explains the qualifications for the PTC and the phase-out schedule of the PTC. *Id.* at 25-27. Mr. Athas points out that SWEPCO has not conducted any cost benefit analysis using the assumption that the Project would only receive a percentage of the PTC or no PTC at all. However, he used SWEPCO's cash flow analysis and did his own cost benefit analysis of the Project's viability assuming SWEPCO only received 80 percent of the PTC, 60 percent of the PTC, 40 percent of the PTC and 0 percent of the

PTC. The results of Mr. Athas' analysis show that the Project has positive benefits regardless of the PTC amount in both the baseline and high natural gas price scenarios and has positive benefits in the low natural gas scenario unless the Project receives zero PTCs. *Id.* at 27-29.

Mr. Athas says receiving the full benefit of the PTCs is crucial to making the Project economically viable. That said, he thinks it is unlikely that SWEPCO will fail to qualify for less than 80 percent of the PTC since the Project was started before the cut-off date and because the IRS allows for excusable disruptions to construction. In addition, Mr. Athas believes SWEPCO has taken reasonable measures in its MIPA contracts to protect ratepayers from any burden due to the potential loss of the PTCs. *Id.* at 30-31.

Mr. Athas notes that SWEPCO performed sensitivity analyses using high and low natural gas price forecasts and testing the value of the Project compared to a "generic" wind case. He testifies that SWEPCO estimated that the lower natural gas price forecast lowers the Project's net benefit by 18 percent while the high natural gas price forecast increases the benefits by 21 percent; however, when the project is compared to SWEPCO's generic wind case which purchases wind power via PPAs, the Project Case is still beneficial but at a lesser amount of just under $700 million. He asserts that if the Project was only able to qualify for 60 percent of the PTC, it would not be beneficial to pursue the Wind Catcher Project and bring this significant amount of wind energy into the system earlier than anticipated by the IRP. *Id.* at 32-35.

Although Mr. Athas says SWEPCO's cost benefit analysis of the Project is reasonable, he also says SWEPCO has not demonstrated that the Project is the least cost

alternative to meet the identified need. He says SWEPCO has only shown that the Project is cheaper than two alternatives, neither of which is an option available in the market today. *Id.* at 35-38. Mr. Athas analyzed SWEPCO's RFP bids using SWEPCO's responses to data requests. He examined the bids on a cost per kilowatt basis and a levelized cost of electricity (LCOE) basis and notes that the Project compared favorably on a levelized cost of electricity basis. Mr. Athas says he was not provided enough information from SWEPCO to be able to analyze why the Wind Catcher Project has a higher capital cost but a lower LCOE. He concludes that his comparisons indicate that the Project might compare favorably to an aggregation of the projects bid into the RFPs. *Id.* at 38-41.

Mr. Athas summarizes his findings, concludes that SWEPCO has not demonstrated that the Wind Catcher Project is among the least cost alternatives, and recommends that SWEPCO supplement the record with analyses addressing its justification for acquiring the Project compared to the generic wind case and the 2016 RFP bids. *Id.* at 41-44.

<u>Lindholm – Direct</u>

Staff witness Lindholm testifies that Rider WCA would become effective after the facility becomes operational and would continue until new rates are implemented in a subsequent rate case filing. She states that the costs recovered through Rider WCA include O&M expenses, depreciation expense, and a return on the assets and would be offset by the PTCs associated with the output of the facility. She testifies that the proposed rider includes a true-up provision that compares actual costs to the revenue received through the rider. She observes that SWEPCO proposes using the most current

jurisdictional and class production demand allocators approved at the time Rider WCA begins to allocate costs to the Arkansas jurisdiction. She states that the proposed rates would recover the revenue requirement on a kWh basis for residential customers and as a percentage of base rates for all other classes. Lindholm Direct at 4-5.

Ms. Lindholm testifies that because Staff witness Athas is unable to make a determination that the Project is in the public interest at this time, she is unable to recommend approval of Rider WCA and approval of the proposed Rider WCA is premature at this time. *Id.* at 5. She testifies that if the Commission finds the Project is in the public interest, she recommends two modifications to Rider WCA: changing the proposed demand allocation factor to an energy allocation factor and recovery on a per kWh basis for all classes. *Id.* at 5-6.

Ms. Lindholm recommends an energy allocation factor in order to be consistent with the allocation of other wind resources recovered in Arkansas rates. She states that although SWEPCO witness Aaron testifies that a demand allocation approach is consistent with other production assets filed by SWEPCO in Arkansas, SWEPCO has not previously requested recovery of a wind resource in an Arkansas base rate proceeding. In addition, she notes that SWEPCO witness Chodak testifies that wind is primarily an energy only resource, which is unlike traditional generation resources. She recommends SWEPCO modify Rider WCA to reflect an energy allocation factor. *Id.* at 6. Ms. Lindholm recommends recovery on a kWh basis to be consistent with recent exact recovery riders approved by the Commission for generation assets. *Id.* at 6-7.

Ms. Lindholm testifies that the proposed Rider WCA does not addresses how remedies paid to SWEPCO under the MIPA for the potential loss of the PTC revenues

due to construction delays would be passed on to Arkansas ratepayers. She recommends modification of Rider WCA to specify that such refunds would be passed on to ratepayers through the rider. *Id.* at 7.

Witness Lindholm testifies that SWEPCO proposes to defer, for ratemaking purposes, some of the value of the PTCs beginning in 2024 through 2030 by establishing a regulatory liability and return the value to customers beginning in 2031. In addition, she also points out that SWEPCO proposes that for any year it cannot fully use the PTCs, it would create a deferred tax asset that would be included in subsequent base rate proceedings. Ms. Lindholm testifies that while this treatment of deferred PTCs appears to be reasonable, she is concerned that the treatment may conflict with prior Commission orders. She testifies that for similar riders, the Commission has ruled that the most recent Commission-approved before tax rate of return on rate base (ROR) should be used. Allowing updates to Current, Accrued and Other Liabilities (CAOL) to reflect changes to the PTC would alter the ROR in the rider, which would be inconsistent with prior Commission decisions. She testifies that one of the tenets underlying prior decisions is that rider recovery of plant investments should be administratively efficient and the complexities associated with setting the ROR should be reserved for a general rate case. Ms. Lindholm recommends the PTC shaping issue be addressed in SWEPCO's next rate case and that Rider WCA not include any PTC shaping at this time. *Id.* at 7-9.

Ms. Lindholm testifies that SWEPCO has indicated it will file a general rate case in 2018 or 2019, which may impact the need for, or the terms and conditions of, Rider WCA. She states that the Arkansas Clean Energy Development Act allows for temporary recovery of an energy or renewable resource. However, Ms. Lindholm testifies that

because the proposed in-service date for this acquisition is December 2020, there is no urgency in finalizing the particulars of Rider WCA at this time. She states that if the Commission finds, in this proceeding, that the Project is in the public interest, SWEPCO can propose the specifics provisions of the PTC shaping in its next rate case proceeding. *Id.* at 9.

Ms. Lindholm testifies that with one exception, the costs SWEPCO proposes to include are consistent with costs recoverable in base rates. She testifies that SWEPCO proposes to include an Asset Retirement Obligation (ARO) that represents removal costs which are a legal obligation required in the land leases. Because SWEPCO has not submitted a study to support the ARO costs, she recommends that the Rider WCA revenue requirement not include the costs associated with the ARO. *Id.* at 9-10.

Wolfe – Direct

Staff witness Wolfe addresses SWEPCO's requested depreciation rates for the Wind Facility and the Gen-Tie Line. She reviewed the service lives and net salvage percentages that SWEPCO used in developing its proposed depreciation rates and, as a reasonableness check, she compared those to other wind plants within and outside the Arkansas jurisdiction. Wolfe Direct at 4.

Ms. Wolfe agrees with the depreciation rate requested for the Wind Facility of 3.815 percent. She notes it was based on a 25-year service life and includes a salvage credit, which she testifies is reasonable. *Id.* at 5.

For the Gen-Tie Line, Ms. Wolfe testifies that she does not agree with SWEPCO's requested depreciation rate of 2.27 percent. She states that SWEPCO included a terminal net salvage component in the requested Gen-Tie Line depreciation rate without

supporting it with a dismantlement cost study. Ms. Wolfe states that Staff has consistently requested that a dismantlement cost study be submitted when depreciation rates include terminal net salvage values. She instead recommends a 2 percent depreciation rate for the Gen-Tie Line, computed on a straight line basis over SWEPCO's proposed 50 year service life. *Id.*at 5-6.

Ms. Wolfe states that SWEPCO included an ARO for the Wind Facility in its total depreciation expense but did not submit a cost study in support of the ARO costs. She recommends that for any future depreciation rate change requests that include terminal net salvage, SWEPCO should be required to submit a comprehensive dismantlement study in support of the requested depreciation rate. *Id.* at 6-7.

**SWEPCO Rebuttal**

Aaron – Rebuttal

Mr. Aaron testifies that SWEPCO's jurisdictional allocation was based on a forecast of 2021 peak demand. He states that a consistent allocation among SWEPCO's four jurisdictions ensures there is not an over- or under-allocation of costs to any one jurisdiction. While an estimated peak demand was used in SWEPCO's analysis, he notes SWEPCO will use the Arkansas jurisdictional production demand allocation in effect when the Project's costs are recovered. Aaron Rebuttal at 4.

Mr. Aaron disagrees with Staff's recommendation to use a jurisdictional energy allocation factor because a consistent allocation among SWEPCO's four jurisdictions ensures there is not an over- or under-allocation to any one jurisdiction. *Id.* at 5. He states that the class allocation should reflect the method that would be used if the Project was included in base rates, which is on a production demand basis. *Id.* at 5-6.

Mr. Aaron testifies that SWEPCO has changed its preferred recovery method for the WCA Rider to use kWh for the residential class and kW demand for the other classes that have demand-based billing, which addresses the issues raised by Walmart witness Chriss. *Id.* at 6-7.

Witness Aaron states that the situation identified by Staff witness Lindholm dealing with compensation by Invenergy for potential loss of PTCs as well as all other differences between actual costs and estimated costs will be captured in the true-up provision. *Id.* at 7. He agrees with Staff's recommendation to address the PTC shaping in SWEPCO's next base rate case and states that any deferred tax asset and regulatory liability associated with PTCs that should be reflected in the current, accrued and other liabilities can be addressed at that time. *Id.* at 8.

Mr. Aaron disagrees with Staff witness Wolfe's recommendation that the Wind Facility's depreciation expenses exclude recovery of the ARO because SWEPCO did not submit a study supporting the ARO costs. He states that ARO costs are an appropriate component of depreciation expense. He also disagrees with Staff witness Wolfe's recommendation that the Gen-Tie line's depreciation expenses exclude recovery of removal costs because SWEPCO did not submit a dismantlement cost study. He testifies that completion of a final study should not result in excluding these costs from recovery. Mr. Aaron notes that SWEPCO will file the requested WCA factors approximately 90 days before the requested effective date, as described in the WCA Rider. He testifies that the ARO costs and the recently completed study as well as dismantlement costs and supporting study can be reviewed along with Project costs and calculations to determine if the requested recovery is appropriate. *Id.* at 8-9.

Bletzacker – Rebuttal

SWEPCO witness Bletzacker responds to positions of AG witness Woodruff and validates "that NYMEX futures prices are not developed in a manner that considers the long term nor are they comparable to SWEPCO's forecast of long-term energy market fundamentals." In addition, he responds to the AG's comparison of SWEPCO's natural gas price forecast to the Energy Information Administration's (EIA) 2017 AEO of natural gas prices. Bletzacker Rebuttal at 3.

In response to AG witness Woodruff, Mr. Bletzacker testifies that NYMEX futures are not a reliable forecast of long-term energy market fundamentals. Bletzacker Rebuttal at 4-6. He testifies that participants in the NYMEX natural gas futures market are hedging the price spread and are not concerned with the current or future spot market of the commodity and that a significant amount of the trading activity does not incorporate insight about the future spot price of natural gas into the NYMEX strip prices. *Id.* at 7.

Mr. Bletzacker disagrees with AG witness Woodruff's conclusion that a comparison of SWEPCO's natural gas price forecasts to EIA's 2017 AEO of natural gas prices suggests that SWEPCO's forecast is too high, potentially over-estimating the Project's benefits. He concludes the following:

- SWEPCO's forecast range is at or below the centerline of EIA's bounding range of plausible cases.
- Beyond 2035, SWEPCO's forecast escalation is minimal and beyond 2040, EIA's is also minimal.

- The forecasts of SWEPCO and EIA demonstrate a rise in natural gas prices between 2025 and 2035 in response to potential carbon regulations.
- Neither forecast substitutes NYMEX natural gas futures for model-driven, fundamentals-based assessments of natural gas supply, demand and the resulting price.
- EIA's bounding range of plausible cases suggests there is more risk to the upside than downside for long-term natural gas prices.

*Id.* at 7-9. Mr. Bletzacker also contends that the Massachusetts Institute of Technology study also reinforces the soundness of SWEPCO's natural gas price forecast, which includes the potential for shale abundance and the availability of reasonably-priced natural gas supply for the long term. *Id.* at 9-10.

Bradish – Rebuttal

SWEPCO witness Bradish responds to AG witness Woodruff's concerns about the risk of additional reliability investments being required. In response to Staff witness Athas, he also discusses alternatives to the Gen-Tie line that SWEPCO considered. Bradish Rebuttal at 3 (incorrectly labeled as page 9).

Mr. Bradish states that SWEPCO included $50 million for estimated transmission upgrades at the Tulsa interconnection point and acknowledges that SPP will need to complete its Facility Study to determine the final scope of necessary upgrades. He states that Mr. Woodruff's position would present an unworkable expectation in which utilities may not file generation certification applications until future transmission interconnection upgrades are known with certitude. Mr. Bradish testifies Invenergy has submitted the interconnection requests to SPP, which have been

included in SPP's Definitive Interconnection System Impact Study, now in progress. An Interim Generator Interconnection Agreement request was also submitted by Invenergy to SPP. Bradish Rebuttal at 4-6.

In response to Staff, Witness Bradish points to the discussion in his Direct Testimony of the alternatives to the proposed Gen-Tie configuration considered by SWEPCO. *Id.* at 6-7.

Brice – Revised Rebuttal

In response to the AG's concerns about ratepayer risk, Mr. Brice says SWEPCO is proposing certain new cost, performance, and tax benefit guarantees based on SWEPCO's confidence in its substantial due diligence. The six guarantees are as follows:

1. Cost Cap. SWEPCO proposes a cost cap of $3.339 billion for the Wind Facility, Gen-Tie, and all SPP-assigned generation interconnection costs, excluding AFUDC, which is 109 percent of the estimated amount of SWEPCO's 70 percent share of the Project.
2. PTC Eligibility for 100 percent Value. Mr. Brice says the Project is being constructed on a very precise timeline and there are protections written into the Wind Facility and Gen-Tie contracts to ensure full eligibility for the PTCs. In the event of a delay, Mr. Brice says the Project would likely qualify under the IRS's safe harbor rule that allows for excusable disruptions. In addition to these protections, SWEPCO has contracted with Invenergy for an alternate point of interconnection to make sure the Wind Facility can be commissioned and reach

commercial operation even in the unlikely event the Gen-Tie has not achieved commercial operation by the end of 2020.

3. Performance Guarantee. SWEPCO will guarantee the Project will generate a minimum annual production of 5,481 GWh on a 5-year average. If the minimum production guarantee is not met, a make whole payment for the market value of the energy not delivered from the Project and the associated PTCs will be made to ratepayers.

4. Off-System Energy Sales and REC Margins. SWEPCO will flow 100 percent of the incremental off-system energy sales that would not have occurred but for the Project, and the net proceeds from the sale of RECs associated with the Project to customers through the ECR Rider.

5. Most Favored Nation. SWEPCO will notify the Commission if SWEPCO or PSO agrees with any of the other state jurisdictions, to terms more favorable to customers related to (1) the 5,481 GWH on a 5-year average associated with the Production Guarantee, (2) the PTC Eligibility, or (3) the Cost Cap percentage. SWEPCO will incorporate the more favorable terms into the guarantees for the benefit of Arkansas customers.

6. WCA Rider. SWEPCO offers to file a base rate case no later than 365 days after the Project reaches Commercial Operation. Project costs would be included in base rates and the WCA rider terminated, and PTCs would begin to flow through the Energy Cost Recovery Rider.

Brice Revised Rebuttal at 8-11.

Mr. Brice says SWEPCO is willing to provide ongoing construction reports and updates on the generator interconnection request submitted to the SPP. *Id.* at 12. He testifies that SWEPCO will do its best to encourage GE Renewable and Invenergy to use the manufacturing facilities located in Arkansas. But, he says they are third party vendors and SWEPCO cannot legally compel them to meet a specific number of jobs or components in a particular state. *Id.* at 12-13.

In response to Walmart, Mr. Brice says the six guarantees that SWEPCO is proposing should adequately address Walmart's concerns and therefore the savings guarantee is not necessary. *Id.* at 13.

In response to Staff witness Athas, Mr. Brice says a comparison of the Project to bids it received in its last RFP or to other current projects being developed in SPP would not be meaningful and would be comparing apples to oranges. He says the analysis of the RFP bids does not capture all of the SPP pricing impacts. He says SWEPCO intended for the Generic Wind Case to represent the economics of current projects in SPP. *Id.* 14-17.

<u>Bright - Rebuttal</u>

SWEPCO witness Bright testifies that the risk that the Wind Facility will not be completed on time and within scope is very small due mainly to protections built into the MIPA. Bright Rebuttal at 4-5. He states that the scope not included in the MIPA is approximately $208 million, of which $93 million has been allowed for contingencies. The remainder is for Owner's Costs, Other Estimated Costs and AFUDC. The build and transfer contract strategy for the Wind Facility shifts significant project risk to the developer, Invenergy. Bright Rebuttal at 5-6. Mr. Bright discusses Invenergy's

extensive experience developing wind farms and the Turbine Supply Agreement with GE in the MIPA for the delivery of the turbines. *Id.* at 7.

Mr. Bright discusses three layers of protection to ensure eligibility for the full PTC: (1) The precise construction timeline supported by the MIPA protections; (2) The IRS allowance for "excusable delays" that the project would probably qualify for if delayed; and (3) SWEPCO's contract with Invenergy for an alternate point of interconnection allows the Wind Farm to be commissioned and reach commercial operation if the Gen-Tie line is not yet operational. He states that SWEPCO would be receptive to a Commission request for ongoing construction status reports for the Wind Facility. *Id.* at 8.

Witness Bright disagrees with AG witness Marcus' recommendation of a 30-year depreciable life. He states that the 25-year design life is realistic and the O&M forecast is based on a 25 year operating horizon. *Id.* at 9-10.

Witness Bright provides a decommissioning plan for the Wind Facility, with a net decommissioning cost of $28.8 million, in response to Staff witness Wolfe's concerns; the plan results in lower net costs to decommission the Wind Facility and lowers the ARO amount presented in his direct testimony. *Id.* at 10.

<u>Chodak – Revised Rebuttal</u>

Mr. Chodak testifies for SWEPCO that the arguments of other parties boil down to the assertion that not all of the projected costs and savings can be forecasted with complete accuracy at this time. He testifies this is true for any generation project and many transmission projects and that the existence of some uncertainty about future costs and revenues is not a reason to reject the Project. In an effort to meet the

concerns, he confirms that SWEPCO is proposing the guarantees explained by SWEPCO witness Brice. Mr. Chodak testifies that if the Project meets only these guarantees and reflects the deferred tax asset, the project benefit is still $260 million under SWEPCO's lower band natural gas price case with the newly enacted 21 percent federal corporate tax rate. He states that these guarantees assure that customers will benefit from the Project, and he recommends the Commission approve the Project. Chodak Revised Rebuttal at 4-5.

Mr. Chodak testifies that although AEP will still be able to use 100 percent of the PTCs, the timing on when the credit can be used has changed. He confirms the return on the deferred tax asset would reduce the customer benefits of the project. *Id.* at 5-6. He states that AEP's annual tax appetite and the tax asset cannot be accurately forecast with precision, so in order to provide assurance as to the cost of the deferred tax asset, AEP has developed a cost sharing mechanism with a ceiling on the size of the deferred tax asset. He states this limits the customer benefits impact and provides certainty concerning the potential impact to the overall customer benefit. AEP proposes the following:

- Limiting the return on any Wind Catcher deferred tax asset to a combination of SWEPCO's then-approved weighted average cost of capital on 60 percent of the deferred asset balance and the current cost of debt on 40 percent of the deferred asset balance.
- A cap on the Wind Catcher deferred tax asset balance that shall not exceed a cumulative, annual average of $560 million.

- If the PTCs are not used after year 13 of the project, SWEPCO agrees to no return on the asset through retail rates after year 13.

*Id.* at 6-7.

Mr. Chodak explains that in order to offset any impact of the deferred tax asset, SWEPCO agrees to the following: (1) Lowering the cost cap guarantee from 110 percent to 109 percent[6]; (2) Committing to not seeking recovery in rates of project costs above the 109 percent cost cap; and (3) Increasing the production guarantee to 5,481 GWh, a 44.7 percent capacity factor. He testifies that the commitments with respect to a deferred tax asset, cost cap, and production guarantee preserves the benefits level of approximately $260 million. *Id.* at 7.

Mr. Chodak disagrees with Staff witness Athas' characterization that SWEPCO's analysis was not comprehensive and points out that AEP undertook a significant modeling analysis to more precisely quantify the value of the Project to customers, as described in the Direct and Rebuttal Testimonies of SWEPCO witnesses Pearce and Pfeifenberger. Mr. Chodak testifies that these analyses support that the Project is one that is expected to provide net customer benefits. *Id.* at 7-8.

Mr. Chodak testifies that the contracts for the construction of the Wind Facility and Gen-Tie include refined project cost estimates, as well as significant risk protections for customers, as discussed in the Direct and Rebuttal Testimonies of SWEPCO witnesses Godfrey and Weber. He states SWEPCO conducted robust due diligence before deciding that the Project was expected to provide significant net benefits to

[6] SWEPCO's original Rebuttal Testimony of Mr. Brice proposed a cost cap of 110 percent but the cap was revised to 109 percent in Mr. Brice's Revised Surrebuttal, which was filed to address the effects of the Tax Cuts and Jobs Act of 2017.

customers and should be pursued. *Id.* at 8-9. He verifies that, as discussed by SWEPCO witnesses Pearce and Brice, SWEPCO made the comparison of the Project to two wind energy RFPs and the generic wind case, as requested by Staff witness Athas. He concludes that the comparison shows significant benefits of the Project over both the two wind energy RFPs and the generic wind case. *Id.* at 9.

Mr. Chodak testifies that the delay to 2021 suggested by the AG would unnecessarily jeopardize the 100 percent level of PTCs and would also jeopardize the contractual relationships with Invenergy and Quanta. *Id.*at 9-10. He states that SWEPCO has agreed to all of the conditions recommended by the AG with one exception: SWEPCO cannot agree to a requirement that a portion of the Project's components be built in Arkansas. He testifies that SWEPCO has in good faith stated that it expects a portion of the components will be built in Arkansas but SWEPCO does not have control over GE and Invenergy and cannot make commitments on their behalf. *Id.* at 10.

Finn – Rebuttal

Mr. Finn says the AG's risk assessment of the Project not qualifying for 100 percent of the PTC is due to their misunderstanding of the requirements for claiming the PTC. Finn Rebuttal at 4-5. He explains the two methods used to determine if a wind facility qualifies for 100 percent of the PTC and the two methods available to satisfy the continuity requirement and how SWEPCO satisfies the tests. *Id.* at 5-7. Mr. Finn says in the unlikely case the Project is not in service by the 2021 commercial operation date, SWEPCO intends to qualify for the full PTCs through the facts and circumstances analysis concerning continuous construction or excusable delays. *Id.* at

7-8. He agrees with AG witness Woodruff's assertion that Federal tax cut will reduce but not eliminate the benefits created by the Project. *Id.* at 9.

Godfrey – Revised Rebuttal

SWEPCO witness Godfrey addresses AG Witness Woodruff's concerns over the risk associated with the capacity factor of the Wind Facility and its impact on the benefits generated for customers. He gives a full description of the due diligence process SWEPCO took to verify the capacity factor projections. He also reiterates SWEPCO's guarantee that the Project will produce a minimum annual energy at the bus-bar of 5,179 GWh on a five-year average. Finally, Witness Godfrey describes the experience PSO has with wind farms in general and describes the O&M Service Agreement SWEPCO has with Invenergy Services to maintain the capacity factor for the long-term. Godfrey Revised Rebuttal at 4-8.

Mr. Godfrey states he does not agree with Staff witness Athas' comparison of the Project to PSO's 2016 RFP and SWEPCO's 2016 RFP because it is comparing two different products. He suggests that SWEPCO and PSO customers would bear the risk in the PPA scenario, and that risk would be mitigated utilizing the Project. *Id.* at 8-11.

Pearce – Revised Rebuttal

SWEPCO witness Pearce addresses Staff Witness Athas' comparison of the Project to the SWEPCO 2016 Wind RFP. He discusses the Wind RFP process and presents an analysis performed by SWEPCO which shows that the weighted average price of the least cost projects in the RFP totaling to 1900 MW of wind energy is comparable to the projected price of wind from the Project. He also makes a case for the

Gen-Tie line saving on expected congestion costs in SPP that would be incurred in the RFP scenario. Pearce Revised Rebuttal at 4-6.

Mr. Pearce states that SWEPCO identified minor corrections to calculations in its analysis related to the PTC rounding and off-system sales which decrease the forecasted net benefits of the Project for SWEPCO customers under the base case by roughly 0.1 percent from $1,942 million to $1,940 million. He testifies that the recent changes in the federal corporate tax rate from 35 percent to 21 percent will reduce the forecasted net benefits of the Project by approximately $245 million on a total Company net present value basis, but the net benefits to customers are still expected to range from $1.4 billion (low gas case) to $2.0 billion (high gas case). He states the forecasted deferred tax asset associated with the Project's expected production would further reduce Project net benefits to customers by $300 million. *Id.* at 6-9.

Mr. Pearce presents an economic analysis which shows that customers would still receive benefits of $579 million under SWEPCO's Base Case Gas Case and $260 million under SWEPCO's Low Gas Case scenarios, even with a 21 percent Federal Corporate Income Tax Rate. *Id.* at 9-10.

He concludes that SWEPCO has presented extensive analysis based on a wide range of scenarios and sensitivities and including the reduced corporate tax rate of 21 percent. He states that all of these analyses indicate the Project will yield substantial benefits for customers and provide a reasonable risk-reward range of outcomes. In addition, the suite of guarantees offered by SWEPCO will significantly mitigate the risks associated with the Project. *Id.* at 10.

Pfeifenberger – Rebuttal

Mr. Pfeifenberger agrees that additional wind projects will likely lower energy prices in SPP. But, he says the lower prices will only be seen in the western region where the wind generators are located. Mr. Pfeifenberger says Wind Catcher would not be affected by increased congestion because it will have the dedicated Gen-Tie line. Instead, additional wind development in SPP would likely increase the Wind Catcher's economic benefits compared to alternate wind options. Pfeifenberger Rebuttal at 5-6.

Mr. Pfeifenberger estimates that an additional 6,000 MW of wind would reduce market prices in AEP's load zone by less than 5 percent. *Id.* at 6-8. He says adding new wind would increase congestion charges in the Generic Wind Case, making Wind Catcher look that much better. *Id.* at 8-9. He points out that the 2017 average congestion charge is already significantly higher than the congestion charges used for the generic wind locations in the 2025 Base Case simulations, which he says highlights the conservative assumptions used in the 2025 PROMOD simulations. *Id.* at 13-14.

Ross - Rebuttal

In response to AG witness Woodruff, Mr. Ross states that SWEPCO conducted a preliminary analysis of the impacts on SPP Operating Reserves resulting from the Wind Catcher project to determine how often the Wind Catcher Project would generate at MW levels that potentially would lead SPP to consider carrying additional Operating Reserves during those hours. The analysis showed no impact on SPP Operating Reserves for approximately 45 percent of the hours of the year. For the remaining hours, SWEPCO anticipates that a significant portion of the additional Operating Reserves could be met from other SWEPCO resources at little or no additional

incremental cost. Additional Operating Reserve requirements not carried by SWEPCO's own resources may result in additional costs which are expected to be less than $210,000 per year for SWEPCO. Ross Rebuttal at 5-6.

Smead – Rebuttal

SWEPCO witness Smead supports SWEPCO witness Bletzacker's rebuttal of AG witness Woodruff's assertions that the natural gas price estimates used in SWEPCO's application were too high. He states that his analysis supports the reasonableness of SWEPCO's natural gas price analysis for the purpose for which it was intended and adds explanations of fallacies with Mr. Woodruff's references and reliance on the forward gas market as a price predictor. Smead Rebuttal at 3-9.

Mr. Smead states he believes the natural gas prices presented by SWEPCO are reasonable for assessing the long-term costs and benefits of the Wind Catcher proposal. He addresses Mr. Woodruff's conclusions and describes why he feels they differ from SWEPCO's conclusions. *Id.* at 9-10. In response to Mr. Woodruff, he explains his analysis and states that if all EIA cases are used, the analysis would support SWEPCO's case. *Id.* at 11-16.

Witness Smead describes how SWEPCO's analysis, as well as the analysis of EIA in general, recognize and account for the shale revolution as a factor. He concludes that, for SWEPCO, an analysis that incorporates a variety of scenarios is the best way to make planning decisions, not to focus on the lower price scenarios presented by AG witness Woodruff. *Id.* at 16-19.

Mr. Smead discusses qualitative factors that affect long term planning using natural gas prices, discusses the effects of unanticipated changes to the natural gas

industry, and identifies and describes three that could increase natural gas prices over time. He then addresses several demand related factors that could cause natural gas prices to increase and concludes that all of these supply and demand related factors could cause an increase in natural gas prices, which is why it is important to base planning decisions on multiple scenarios and not the scenario that most closely resembles current market conditions. *Id.* at 19-30.

Mr. Smead rebuts AG witness Woodruff's analysis based on its overreliance on natural gas futures as an informed price predictor. *Id.* at 30-36. He concludes that SWEPCO's analysis fulfills the multi-scenario approach to support long-term capital choices and opines that its analysis is reasonable. *Id.* at 37.

Weber - Rebuttal

SWEPCO witness Brian D. Weber responds to AG witness Woodruff's concerns about risks of completing the Gen-Tie and to his recommendations to provide ongoing construction status reports. Weber Rebuttal at 3. Mr. Weber states that AEP understands the work and effort associated with scoping a project for success. He affirms that SWEPCO is confident that completion of the Gen-Tie on time and within scope is achievable and discusses the many steps taken to ensure Gen-Tie success. He also discusses protection in the EPC contract against risks impacting cost or schedule by virtue of its fixed Contract Price. He testifies that SWEPCO is willing to provide ongoing status reports regarding the Gen-Tie and recommends that these be issued quarterly to align with customary reporting for major projects to regional bodies such as SPP. *Id.* at 4-9.

**Walmart Surrebuttal**

Chriss – Surrebuttal

Mr. Chriss makes the following new and revised recommendations:

- Due to concerns raised by other parties in this docket regarding uncertainties around cost and risk, Walmart does not oppose a Commission finding that approval of SWEPCO's proposed acquisition of Wind Catcher and Gen Tie is in the public interest subject to the Commission finding that the proposal will provide net positive benefits.
- Walmart does not oppose recovery through the proposed Rider WCA, subject to the following condition: the Commission should recognize the shift of risk from SWEPCO's shareholders to ratepayers and require SWEPCO to guarantee that the reductions in revenue requirement charged to customers in any year in which the WCA Rider is in effect reflect the Arkansas jurisdictional portion of SWEPCO's revised estimated customer benefits for that year per the base case in Rebuttal Exhibit KDP-2.
- To the extent the Commission approves a "most favored nation" guarantee, the boundaries should be extended to include customer benefits that are set by Commission order in Oklahoma, Texas, and/or Louisiana.
- To the extent the Commission finds that it is appropriate to allow SWEPCO to earn a return on the deferred tax asset, that return should be limited to SWEPCO's cost of debt for the entire asset.

Chriss Surrebuttal at 5-6.

Mr. Chriss summarizes his understanding of SWEPCO's revised proposal, which includes the guarantees made by SWEPCO. He also summarizes his understanding of the implications from the recent change in federal tax law, how the PTCs will be treated going forward, and the effect of both on the customer benefits of the proposed Project. *Id.* at 7-10. Mr. Chriss outlines Walmart's issues with the most favored nations guarantee and the treatment of the deferred tax asset. Regarding the deferred tax asset, he states SWEPCO has not produced any evidence that the deferred tax asset presents any incremental risk to shareholders that would require an equity return. Based on this, he recommends any return be based on the cost of debt. *Id.* at 10-12.

**AG Surrebuttal**

Marcus – Surrebuttal

Witness Marcus observes that SWEPCO agreed to forgo the allocation to shareholders of the ten percent of margins from Wind Catcher off-system sales, which are the primary energy benefit of the project, which helps offset the reductions in tax benefits from the new tax law. *Id.* at 4. He states SWEPCO conducted significant analysis subsequent to the signing of the tax law and modified its proposal, and he generally agrees with SWEPCO's revised proposal for sharing the risk of AEP's lack of tax appetite to use the PTC to offset current taxes when available. However, he recommends reducing SWEPCO's recovery of the deferred tax asset to a 50-50 return/debt rate, which will further share this risk with shareholders and increase the project benefits by approximately $13 million NPV. He also recommends accepting SWEPCO's proposed caps and limits on return after 13 years. Mr. Marcus testifies an alternative option is available to the Commission to protect customers from this risk:

under the MBSA a portion, but not all, of the deferred tax asset could be moved into the capital structure, which would provide similar economic relief and also retain Arkansas' regulatory practice. *Id.* at 5-6.

Mr. Marcus states that another issue related to the PTC is whether ratepayers should receive the full value of the PTC when it is incurred or if some of the value should be deferred. He agrees with Staff that this issue does not have to be addressed now. However, he recommends that in the future the Commission should consider some PTC deferrals to move some PTC proceeds from years 6-10 to years 11-13 to smooth rate impacts and reduce the carrying costs on the deferred tax asset; this would not impact the net present value. *Id.* at 4-7.

Mr. Marcus believes that the risk to ratepayers of reduced PTCs due to project delays is significant. He continues to recommend a monetary guarantee be provided and the Commission should adopt a 50-50 sharing of any losses in PTC due to project delays. *Id.* at 8-9.

Mr. Marcus testifies that General Electric has stated that the wind turbines should be able to last 30 years if properly operated and maintained. He points to similar suggestions of a life of up to 30 years by Siemens for Siemens wind turbine generators. He also refers to testimony filed by Dane Watson in The Empire District Electric Company's Docket No. 17-061-U recommending a 30-year life for wind turbines. Witness Marcus states that if the older wind projects contained in Mr. Watson's analysis are removed the median life would be 30 years. Mr. Marcus states that the project's total benefits are higher if the plant lasts for 30 years. *Id.* at 9-10.

Mr. Marcus testifies that the AG and Staff propose an energy-based allocation for class allocation and that he uses demand-based allocation for the jurisdictional allocation to be consistent with the jurisdictional allocation used by SWEPCO in the other jurisdictions. He alleges that it is not necessary to use the same methods for jurisdictional and class allocations. Further, Mr. Marcus states that the Arkansas Commission treated wind production plant as energy related for class cost allocation in general rates cases involving OG&E. He concludes that allocating the wind plant to customer classes on an energy basis is consistent with the Commission's past actions. *Id.* at 11-15.

Woodruff – Surrebuttal

AG witness Woodruff begins by highlighting two significant reasons SWEPCO's Rebuttal Testimony updated the estimated benefits and risks related to the Project:

- SWEPCO agreed to include certain provisions in its proposal that help reduce risk to ratepayers; and
- SWEPCO prepared a revised estimate of the Project's benefits that reflects these risk-mitigating provisions and the impact of the Tax Cuts and Jobs Act of 2017 signed into law after the parties filed Direct Testimony.

Mr. Woodruff then presents SWEPCO's latest estimate of the benefits of the project and interprets the table line-by-line and discusses the changes in benefits from Direct to Rebuttal Testimony. He asserts that, while the reduction in benefits is substantial (mainly due to the Tax Cut and Jobs Act of 2017), the Project appears to still yield benefits for ratepayers. Woodruff Surrebuttal at 4-7.

AG witness Woodruff reviews SWEPCO's amended proposal and states that the offers address the AG's concerns in part, but not entirely.

He then recommends that the Commission accept (should it choose to approve the Project) SWEPCO's offer to provide construction progress reports and the amendments on off-system sales, PTC eligibility, and the most favored nations provisions with some clarifications. He recommends that the amendment on the cost cap be enhanced to 107.5 percent and that the amendment on the minimum capacity factor, or performance guarantee, be enhanced in four areas. *Id.* at 8-20.

Witness Woodruff states that SWEPCO's response on future natural gas prices only provided additional reasons for concerns over continued low gas prices. He says that SWEPCO's rebuttal did not dissuade him from thinking that the Commission should view current Henry Hub prices as a "caution" about the potential for gas prices to remain low for an extended period of time. Mr. Woodruff provides a response to SWEPCO witness Smead's dispute of using natural gas futures as a predictor and explains why his concerns about continued low natural gas prices should require a response. Specifically, he presents a comparison of the forecasts used by SWEPCO to the International Energy Agency (IEA) forecasts provided by Mr. Smead and states he is "baffled" by Mr. Smead's description of the two as "consistent." Mr. Woodruff continues to explain his reservations with accepting SWEPCO's proposed long-term gas prices. He recommends the Commission ask SWEPCO to provide a forecast of the Project's value using the IEA/Navigant gas price estimates. He states that assessing the Project's value under an alternative pair of long-term gas prices would provide value. *Id.* at 20-28.

Witness Woodruff states that at this time he is not prepared to say if the Project would provide net benefits to Arkansas ratepayers commensurate with its risks. To protect customer benefits, should the Commission decide to approve the Project, he suggests the following steps be taken:

1. The Commission should accept SWEPCO's proposals to:
    a. Make routine reports on the progress on the construction of the Project, including the Gen-Tie Line.
    b. Allocate all margins from Off-System Sales attributable to the Project to customers, instead of just 90 percent (though some clarifications to this proposal are needed).
    c. Provide a guarantee the Project will be eligible for 100 percent of potential PTCs (though some clarifications to this proposal are needed).
    d. Provide Arkansas "most favored nation" status as to proposals SWEPCO or PSO agree to in other states regarding its proposed cost cap, PTC eligibility guarantee, and Performance Guarantee (though this proposal might also be extended to other matters)
2. The Commission should require the following enhancements to these SWEPCO proposals:
    a. Reduce the cost cap from 109 percent to 107.5 percent of the Project's costs.
    b. As to the Performance Guarantee that the Project will generate at a minimum capacity factor:
        i. Provide examples of how the *force majeure* and "make whole" provisions of the Performance Guarantee will be implemented.
        ii. Exclude from *force majeure* provisions any curtailments of Project energy SPP may require to manage system reliability.
        iii. Clarify the P-Values and related Project capacity factors to be used to implement the Performance Guarantee.
3. The Commission should require SWEPCO to report on the impact of the Project on employment in Arkansas.

*Id.* at 28-29.

**<u>Staff Surrebuttal</u>**

<u>Athas – Surrebuttal</u>

Staff witness Athas notes that in rebuttal testimony, SWEPCO responded to his recommendation that SWEPCO consider other market-based proposals such as those received through its 2016 RFP. In response to Mr. Athas' request to compare Wind

Catcher to the 2016 RFP bids, he says that SWEPCO provided analysis that showed the average price among the RFP bids was about 2 percent lower than the Generic Wind Case. Mr. Athas says this analysis demonstrates that Wind Catcher would compare favorably to other market opportunities. Athas Surrebuttal at 6-9.

Mr. Athas says SWEPCO's six guarantees adequately reduce the risks to customers. *Id.* at 10-11. He performed his own analysis and says SWEPCO overestimated the benefit of Wind Catcher; he believes the additional benefit to Wind Catcher is $661 million rather than $1.64 billion . *Id.* at 11-13.

Mr. Athas says SWEPCO's rebuttal testimony and responses to Staff's discovery questions have addressed the concerns he raised in his direct testimony. He therefore recommends that the Commission find that the Wind Catcher Project is in the public interest. *Id.* at 13.

Lindholm – Surrebuttal

Ms. Lindholm recommends approving Rider WCA with certain modifications. Lindholm Surrebuttal at 2. She continues to recommend addressing PTC shaping in SWEPCO's next rate case, which SWEPCO says will be filed in 2018 or 2019. Ms. Lindholm says PTC shaping requires setting up a regulatory liability which would cause a change to Current, Accrued, and Other Liabilities (CAOL) and the approved rate of return (ROR). This proceeding is not addressing changes to the ROR; therefore, she notes, SWEPCO has agreed with Staff to postpone the PTC shaping issue until the next rate case. *Id.* at 3.

Ms. Lindholm recommends that in SWEPCO's next general rate case, the parties address the issues of the effect of the Tax Cuts and Jobs Act of 2017 on full utilization of

the PTCs by SWEPCO in the year earned and that the appropriate treatment of any related deferred tax asset also be addressed in SWEPCO's next general rate case. *Id.* at 4. She continues to recommend that the Rider WCA revenue requirement not include any ARO costs. Ms. Lindholm points out that SWEPCO will file a rate case before Rider WCA will be implemented and says addressing the issue in SWEPCO's next general rate case will give Staff time to fully analyze the cost study and applicable supporting documentation SWEPCO filed on January 9, 2018, and make an informed recommendation as to the appropriate treatment of ARO costs. *Id.* at 4-6.

Ms. Lindholm agrees with AG witness Marcus' recommendation to use the 4CP demand allocator to allocate the Arkansas revenue requirement costs. Staff also agrees with the AG's recommendation to modify the language in Rider WCA to state that "most current demand allocators" will be used to allocate costs. This will capture any changes made in the general rate case expected to occur between now and when Rider WCA goes into effect. *Id.* at 6-8. She accepts SWEPCO's offer to flow through to ratepayers via the ECR Rider 100% of the incremental off-system sales margins attributable to the Project as well as the net proceeds from the sale of RECs. *Id.* at 8-9. Finally, she recommends adding a footnote to the Annual Determination section of Rider WCA to indicate that the True-up Adjustment calculation will include any applicable compensation remedies. *Id.* at 9-10.

<u>Wolfe – Surrebuttal</u>

Staff witness Wolfe testifies that the dismantlement cost study for the Wind Facility sponsored by SWEPCO witness Bright was first presented in his rebuttal testimony and only addresses the Wind Facility. She states that SWEPCO is seeking to

recover ARO costs under Accounting Standards Codification 410-20 resulting from removal costs it will incur under its legal obligation in the land leases for the Wind Facility as a separate depreciation expense. She generally agrees with the recovery of reasonable and prudently incurred ARO costs, but that the ARO for Wind Catcher should be addressed in a future rate proceeding because the rider will not go into effect until 2021 and the 25 year life of the assets allows ample time for recovery of those costs. Wolfe Surrebuttal at 2-5.

Ms. Wolfe continues to support a 25-year life for the Wind Facility as requested by SWEPCO. She testifies that her analysis included comparing the requested life to the service lives of other wind facilities, both Arkansas jurisdictional and nationwide. *Id.* at 5.

**SWEPCO Sur-surrebuttal**

Brice Sur-surrebuttal

Mr. Brice clarifies how the off-system sales guarantee will be calculated. He says when OSS in megawatt-hours in any hour is equal to or less than SWEPCO's portion of the actual production from the Wind facility delivered to the AEP load zone, 100 percent of the OSS margins would be credited for the benefit of customers in the ECR Rider. When the OSS in any hour is greater than SWEPCO's portion of the actual production from the Wind facility delivered to the AEP load zone, customers will receive 100 percent of the margins for the megawatt-hours equal to the Wind facility production and the remaining OSS margins will be allocated pursuant to the existing OSS margins sharing agreement approved by the Commission. Brice Sur-Surrebuttal at 3-4.

Mr. Brice states that SWEPCO does not agree with the AG's recommendation for a cost cap of 107.5 percent compared to SWEPCO's offer of 109 percent. SWEPCO estimates customers will still save as much as $260 million in a conservative scenario using the Lower Band Case, factoring in the 21 percent Federal tax rate, and the project costs of 109 percent. *Id.* at 4. He discusses what events would qualify as *force majeure* and what events would not qualify and says lack of wind velocity would not be a *force majeure* event, but does argue that SPP-directed curtailments would be a *force majeure* event. *Id.* at 4-6.

Mr. Brice says the performance guarantee is straightforward and that additional information requested by Mr. Woodruff such as P-Values and capacity factors is not necessary. He states if the minimum production guarantee is not met, customers will receive a make-whole payment for the market value of the energy not delivered and the associated PTCs. *Id.* at 6. He testifies that SWEPCO is willing to provide whatever reports the Commission orders on employment data related to the construction of Wind Catcher. *Id.* at 6-7.

Mr. Brice indicates that SWEPCO does not agree with the AG's recommendation to share any losses in PTCs 50/50 between customers and shareholders due to construction delays because SWEPCO's production guarantee adequately covers risk to customers. He says SWEPCO's guarantee eliminates any risk to customers of not receiving 100 percent of the PTCs. *Id.* at 8. Mr. Brice argues that SWEPCO's proposed guarantees adequately protect customers and that Walmart's change to expand SWEPCO's guarantee to include any customer benefits that are set by Commissions in Oklahoma, Texas, and or Louisiana is not necessary. *Id.* at 8-9. He explains that

SWEPCO does not agree with the AG's proposal to calculate the deferred tax asset using a 50/50 split between equity and debt and continues to argue that SWEPCO's proposal to use 60/40 equity to debt split is fair. *Id.* at 7-8. He disagrees with Walmart and argues that not getting a return on the asset would reduce SWEPCO's realized rate of return. *Id.* at 9-10.

Aaron Sur-surrebuttal

Witness Aaron continues to support including ARO costs recovery in the current docket. He testifies that SWEPCO will file a final study supporting ARO costs with the Commission at the time SWEPCO requests approval of the initial Rider WCA factors. The support for the ARO costs can be reviewed at that time to determine the appropriateness of the request. Further, he recommends not delaying the cost recovery request to a rate case proceeding because the Wind Facility may not be in-service to be included in those rate cases. Aaron Sur-Surrebuttal at 4-5.

Mr. Aaron continues to recommend including removal costs for the Gen-Tie line in the depreciation rates for recovery when the Rider WCA is implemented. He states that the requested WCA factors will be filed approximately 90 days prior to the requested effective date. Regarding AG witness Marcus' 30-year depreciable life for the Wind Facility, witness Aaron points to SWEPCO witness Bright's rebuttal testimony as clear support for SWEPCO recommended 25-year life. *Id.* at 5.

Mr. Aaron accepts changing the class allocation of the Project revenue requirement to an energy basis. He reiterates his acceptance in his rebuttal testimony of Walmart witness Chriss' recommendation to include the Wind Catcher revenue

requirement charges in the kW demand charge for demand-metered customers. *Id.* at 5-6.

Mr. Aaron accepts Staff witness Lindholm's recommended changes to pages 8 and 10 of the Rider WCA language which reflect the class allocation on energy, clarifies the jurisdictional allocation, and clarifies refund issues regarding the costs included in Rider WCA. A redlined revised Rider WCA is attached to his sur-surrebuttal testimony as exhibit JOA-1SSR. *Id.* at 6.

Pearce Sur-surrebuttal

SWEPCO witness Pearce describes how SWEPCO will identify the off-system sales attributable to SWEPCO's portion of the Project and how those sales will be credited to customers. Pearce Sur-surrebuttal at 4. He states that it is highly probable the Project will qualify for 100 percent of the PTCs. He says that if under current law something causes the Project to not qualify for the 100 percent value of the PTC, then SWEPCO will provide the difference to customers, including the benefit of the tax gross up, as if the Project had earned the 100 percent value of the PTCs. *Id.* at 4. Mr. Pearce describes the conditions under which SWEPCO would compensate ratepayers should the capacity factor of the Project not realize its potential at the western busbar. He then describes how the Make Whole Payment would be calculated. *Id.* at 4-6.

**South Central**

South Central did not file Direct or Surrebuttal Testimony and thus took no position on SWEPCO's Application prior to the filing of the Settlement Agreement.

## III. Summary of Parties' Settlement Agreement and Settlement Positions

As discussed above, all parties except South Central filed an Agreement on February 20, 2018, which settled all litigated issues and asked the Commission to approve SWEPCO's Application as set forth in the testimony and exhibits of SWEPCO except for certain modifications. The Settlement provides as follows:

1. Terms

(a) Cost Cap. The Company commits to a total Company cost cap on investment for the Wind Facility, Gen-Tie and all SPP-assigned generation interconnection costs (collectively the "Wind Catcher Energy Connection" or "Project") of 107.5% of estimated cost, which is $3.29 billion, excluding AFUDC (the "Cost Cap"). The Cost Cap shall be increased solely to include additional Project costs reasonably incurred by the Company due to events of Force Majeure and Changes in Law affecting the costs of the Project. Otherwise, costs above the Cost Cap will not be recoverable through retail rates.

(b) PTC Guarantee. The Company will provide a guarantee, for cost recovery purposes, that the Project will be eligible to receive 100% of the Federal Production Tax Credits ("PTCs") for the actual output from the Wind Facility. The Stipulating Parties agree that the Company will be excused from this PTC Guarantee to the extent that it is prevented by any Change in Law affecting PTC value or eligibility.

(c) Net Capacity Factor Guarantee. As set forth in the Company's sur-surrebuttal testimony, the Company shall guarantee, for rate making purposes, a minimum net average capacity factor at the western bus-bar of 44.7% (P95) for each of the five consecutive five-year periods during the twenty five-year period of Project commercial operation.

The Stipulating Parties agree that the Company will be excused from the minimum average net capacity factor guarantee for each of the five consecutive five-year periods during the twenty-five year period of Project commercial operation to the extent that the minimum average net capacity factor guarantee is not met due to events of Force Majeure. Normal deviations in wind velocity shall not constitute an event of Force Majeure.

Any make whole payment due from the Company at the end of each of the five consecutive five-year periods during the twenty-five year

period of Project commercial operation will include incremental replacement energy costs (as measured at the eastern bus-bar of the Gen-Tie after losses) and PTCs (as measured at the western bus-bar of the Gen-Tie), and will flow to customers through the Company's Energy Cost Recovery Rider.

If the number of turbines comprising the completed Wind Farm is reduced as a result of the micro-siting process, the Stipulating Parties agree that the number of turbines comprising the Wind Farm will not decline by more than twenty turbines and that the nameplate capacity of the completed Wind Farm will not decline by more than fifty megawatts.

(d) Incremental Off-System Energy Sales Margins. As set forth in the Company's sur-surrebuttal testimony, one hundred percent of the incremental off-system energy sales margins that would not have occurred but for the Project and net proceeds from the sale of RECs associated with the Project will flow to customers through the Company's Energy Cost Recovery Rider, notwithstanding any provision of the Company's Energy Cost Recovery Rider that would otherwise allocate a portion of such incremental off-system energy sales to the Company.

(e) Most Favored Nations. The Company shall notify the Stipulating Parties if terms more favorable to customers related to (i) the Net Capacity Factor Guarantee, (ii) the PTC Guarantee, (iii) the Cost Cap percentage or (iv) any net benefits guarantee are agreed to by the Company in its regulatory proceedings in Louisiana and Texas seeking approval of the Project or by Public Service Company of Oklahoma ("PSO") in its commission proceeding seeking approval of the Project, and the respective terms of this Joint Stipulation shall be deemed to be modified to incorporate those more favorable terms. With respect to this most favored nations provision as it applies to any net benefits guarantee, it will be limited to the formulas used to calculate net customer benefits and not to any inputs. The Company's notice to the Stipulating Parties as set forth above will include a copy of the terms that the Company agreed to in the other jurisdictions and a discussion by the Company of their applicability to this Stipulation.

(f) Force Majeure Definition. "Force Majeure" as used herein means any event that is not within the Company's reasonable control. Examples of events of Force Majeure include (i) acts of God or the public enemy; (ii) the effects of severe weather (e.g., lightning; tornadoes; high winds, excepting normal deviations in wind velocity; or icing), (iii) delays in obtaining permits, licenses and real property rights that are necessary to construct and operate the Project, (iv) equipment failure or (v) the

inability of any Project vendor or supplier to fulfill its obligations to the Company so long as the cause thereof otherwise would qualify as an event of Force Majeure or is the result of labor strike, lockout or other labor issues. Events of Force Majeure shall not include (i) any event which could have been prevented, avoided or overcome as a result of the Company taking all reasonable precautions and measures pursuant to prudent industry practices to avoid the effect or occurrence of such event or (ii) any event caused by the Company's negligence.

(g) Change in Law Definition. "Change in Law" as used herein means the occurrence after January 1, 2018 of the adoption or taking effect of any Law and any change in any Law. "Law" means any law (including common law), statute, rule, regulation, order, judgment, binding decision, or decree issued or enforced by any branch (judicial, executive or legislative), agency or instrumentality of any state, federal, tribal or foreign government.

(h) Retail Customers. This Joint Stipulation is applicable only to the Company's Arkansas retail customers and all references to "customers" herein shall mean the Company's Arkansas retail customers.

(i) Jurisdictional Allocator. The Stipulating Parties agree that the costs of the Project shall be allocated among the Company's jurisdictions using the Company's demand allocator in effect at the time of the allocation, provided, however, that the Arkansas jurisdictional share of the costs of the Project will not increase if PSO or the Company's other jurisdictions do not participate in the Project.

(j) Allocation of Revenue Requirement to Arkansas Customer Classes. The Arkansas jurisdictional share of the revenue requirement of the Project will be allocated among the Company's Arkansas customer classes based on energy. At least within the lighting and power, pulp and paper mill, and large lighting and power classes, the class revenue requirement will be billed to customers on a kW demand basis.

2. Arkansas Regulatory Provisions. The Stipulating Parties agree to the additional Arkansas regulatory provisions set forth in Attachment 1 hereto. The Stipulating Parties also agree to the text of Rider WCA as set forth in Attachment 2 hereto.

3. Discovery. As between and among the Stipulating Parties, all requests for discovery are deemed satisfied.

Settlement at 1-4. Attachment 1 to the Settlement lists the Arkansas regulatory provisions concerning Rider WCA modifications, reporting provisions, and a provision

on filing a general rate case. *Id.* at 7-8. Attachment 2 to the Settlement sets forth the text of the proposed Rider WCA. *Id.* at 9-12.

**SWEPCO Settlement Testimony - Brice**

SWEPCO witness Brice testifies that the Settlement represents the agreement reached between all the parties that filed direct, rebuttal, sur-rebuttal and sur-surrebuttal testimony, noting that South Central did not file testimony, propound discovery, or participate in settlement discussions. He states that each of the signatory parties had meaningful input into the negotiations. Brice Settlement Testimony at 2-3. He recites the major components of the Settlement, including the non-severability clause. *Id.* at 3-5. He requests approval of the Settlement and a finding that SWEPCO's Application as modified by the Settlement is in the public interest. He testifies that the Commission should approve SWEPCO's acquisition of an interest in the Project and the proposed rate treatments because the Project will lower the overall cost to serve customers, continue SWEPCO's strategy of diversifying its generation mix as outlined in its 2015 IRP, and serve the renewable goals of SWEPCO's customers. He concludes that this filing provides a singular and significant opportunity to guarantee SWEPCO's customers lower electric bills for the next 25 years. *Id.* at 5-6.

**Walmart Settlement Testimony - Chriss**

Walmart witness Chriss confirms Walmart was an active participant in settlement discussions and recommends that the Commission approve the Settlement as a reasonable resolution of the issues in this Docket. He says that the Settlement is the result of arms-length negotiations between the parties, and addresses Walmart's issues

as presented in his direct and surrebuttal testimonies. Chriss Settlement Testimony at 2-3.

**AG Settlement Testimony - Tacker**

AG witness Tacker testifies that because of the significant ratepayer protections detailed in the Settlement, the AG considers the Wind Catcher Project to be in the public interest and, on that basis, recommends Commission approval of the Settlement. Tacker Settlement Testimony at 3. She provides a background of the Settlement and describes its terms. *Id.* at 4. She details how the Settlement addresses the concerns raised by the AG in the Docket and notes that it provides an additional benefit to ratepayers through the Most Favored Nations clause. *Id.* at 5-6.

**Staff Agreement Testimony -Butler**

Staff witness Butler testifies that the Settlement addresses and resolves all outstanding issues in this Docket related to SWEPCO's proposed Project and is supported by all parties except South Central. Butler Agreement Testimony at 4. She details the risk mitigation guarantees previously offered by SWEPCO and included in the Settlement. *Id.* at 4-7. She notes that Staff witness Athas had addressed SWEPCO's guarantees in his Surrebuttal Testimony, and that these guarantees are either the same or more favorable and should serve to reduce risks to ratepayers and to provide greater certainty that ratepayers will realize benefits from the Project. *Id.* at 8.

Ms. Butler describes the provisions of the Settlement related to the jurisdictional allocation and class allocation of the Project's revenue requirement and notes that the Settling Parties agree that the PTC shaping issue, including any changes to the WCA Rider, should be addressed in SWEPCO's next general rate case, which is expected to

occur later this year. *Id.* at 9. She explains the provisions addressing the recovery of ARO costs and the depreciation rate for the Wind Facility and Gen-Tie Line. *Id.* at 10-11. She notes that SWEPCO agreed to submit a depreciation study and a comprehensive dismantlement study with certain requests in its next general rate case. *Id.* at 11-12. Ms. Butler says that the appropriate treatment of SWEPCO's Accumulated Deferred Income Tax (ADIT) balance, including any changes to the WCA Rider, will be addressed in its next general rate case and discusses treatment in subsequent rate cases. *Id.* at 12-13. She points out the reporting required of SWEPCO and the agreement by SWEPCO to file a general rate case within one year of the Project commencing commercial operation if requested by Staff or the Commission. *Id.* at 13-14. Finally, she indicates that the Settlement contains a revised WCA Rider which includes all of the terms for cost recovery of the Project addressed in the Settlement but observes it will be revised in SWEPCO's next general rate case to include any updates related to cost recovery for the Project. She testifies that the Settlement represents a reasonable resolution of all of the issues in this proceeding and for that reason, she supports as reasonable the provisions of the Settlement and recommends that the Commission approve it. *Id.* at 14.

**South Central Settlement Testimony - Hopper**

South Central witness Hopper states that the purpose of his testimony is to explain the basis for South Central not supporting the Settlement. He testifies that South Central was not involved in the settlement discussions and did not sign the Settlement because the parties declined to recognize incumbent rights in the Settlement. Hopper Settlement Testimony at 4. Mr. Hopper states that incumbent rights are relevant to South Central's interests because much of the Project will be built in South

Central's Oklahoma transmission footprint. *Id.* at 5. He asserts that comprehensive transmission planning is essential to improve and maintain system reliability and accommodate increasing load in a provider's geographical footprint and that as the incumbent transmission provider in the Oklahoma panhandle, South Central is aware of the specific transmission needs of its customers as well as the system upgrades and expansion opportunities that would best serve those needs without compromising the existing system's integrity and reliability. He testifies that there was no opportunity for South Central to include near- and long-term needs of its customers in planning the Wind Catcher interconnection, notwithstanding that typically the local (host) transmission owner nearest to the wind farm is responsible for interconnection. *Id.* at 6. He contrasts this case with one in Texas in which SWEPCO asserted incumbent rights in its territory. In this case, he notes that South Central's involvement with the Wind Catcher Project is limited currently to its 50 MW Interconnection Agreement (IA) with Invenergy *Id.* at 6-7. He contends that South Central is far better positioned to own and operate the 345 kV collector facilities of the Project and respond to future requests to interconnect so that the Project will not suffer the same inefficiencies that SWEPCO argued against in Texas. *Id.* at 7-8.

Mr. Hopper testifies that South Central has not actively opposed SWEPCO's Application but sought to resolve the issue of incumbent rights in a cooperative manner. He states that South Central merely wishes to state for the record that the public interest has not been served by the unilateral actions of AEP, PSO, and SWEPCO to construct substantial new high-voltage facilities in South Central's transmission footprint and that this unilateral action by a foreign utility will foreclose cost-effective and efficient

transmission expansion and may well subject Arkansas and other SPP ratepayers to bearing substantial additional costs over time. He also notes that having those facilities in the Oklahoma panhandle will allow PSO to capture virtually any large retail load locating in the service territory where South Central provides wholesale distribution service. *Id.* at 8-9.

Mr. Hopper states that under FERC policy, the Project could be subject to FERC ratemaking and part of the SPP-controlled grid, with the Commission losing all ratemaking authority to FERC. He maintains that the usurpation of incumbent rights and foreclosure of thoughtful, cost-effective planning for high-voltage transmission in the Oklahoma Panhandle did not have to happen. *Id.* at 9. He clarifies that South Central is not seeking any action by the Commission with respect to incumbent rights and avers that there is no opportunity to do so in this Docket because the parties reached settlement before the hearing. *Id.* at 9-10.

## IV. Summary of Oral Testimony at Public Hearing

### SWEPCO

SWEPCO witness Brice testified that SWEPCO has not made any decisions about whether the Project will proceed if approvals from the other jurisdictions are not obtained. He observes that they do not have a final decision in any of the jurisdictions. T. 1240. He states that all the decisions are important and having all four approvals is the best scenario. T. 1241. Mr. Brice notes that Oklahoma has a different standard of preapproval for the investment. T. 1241-42.

Mr. Brice states that SWEPCO intends to file a rate case later this year, contingent upon need. He points out that SWEPCO has essentially been earning its

authorized return but there has been pressure of late and it does appear to show that SWEPCO has a need for a rate case. He also states that SWEPCO would seriously consider filing for a formula rate plan and likely request one. T. 1243.

Mr. Brice confirms that the total cost for the Arkansas jurisdictional share is still $607 million and that the net benefits are reflected in Mr. Pearce's or Mr. Aaron's testimony. T. 1244. He says the expected savings after the impact of the Tax Cut and Jobs Act is $1.5 billion and Arkansas' share is about eighteen to nineteen percent of the total. T. 1244-45. He commits to filing a schedule showing the revised Arkansas ratepayer impact.[7] T. 1246.

Mr. Brice testifies that there was no PTC shaping in SWEPCO's ratepayer impact and estimate of savings and that SWEPCO's gas price assumptions are based on AEP's long-term fundamental forecast. T. 1247-48. He explains the ultralow gas scenario presented and remarks that although low gas prices are a risk to the benefit of the Project, the break-even price for the Project on gas prices is about $2.88 to $2.90 for the life of the Project. T. 1249-50. He also concludes that even under pessimistic assumptions, the Project still showed benefits for customers. T. 1253-54.

Mr. Brice is confident that GE will deliver the wind turbines pursuant to its contract and notes that SWEPCO has step-in rights to take over the project if Invenergy lags behind on the schedule. T. 1255. He explains that any liquidated damages would flow through to customers through the WCA Rider. T. 1255-56.

When asked why SWEPCO is proposing a rider when it may come in for a rate case, Mr. Brice says that the intent was to file a rate case and implement rates about the

[7] On March 7, 2018, SWEPCO filed a revised Direct Exhibit JOA-3 showing the Wind Catcher revenue impact on rate classes and the jurisdictional allocation. The ratepayer impact is discussed on pages 1 and 82 of this Order.

time that Wind Catcher was completed and implement the rider. He states that the rate case would update SWEPCO's rate of return and all of the other cost of service components to provide a good clean slate for developing the rider. He testifies that SWEPCO is asking for approval of the rider template in this Docket, with items such as the rate of return and investment filled into that template at the appropriate time. He clarifies that the intent was to give the Commission the opportunity to reset SWEPCO's rate of return, make sure that SWEPCO's rates are designed to the authorized return, and provide a good basis for moving forward. T. 1256-57. He acknowledges that a rate case is critical to establish the factors to implement the rider. He states that it was critical to Staff to file the rate case so that all the important components could be updated. T. 1258.

Mr. Brice points out that one of the advantages of the rider is that it contains a true-up mechanism to allow the investment to adjust, allow expenses to adjust, and make sure the PTCs are all flowed through, because they will increase and vary with the production. He also states that the true-up mechanism will ensure that SWEPCO earns at the rate of return authorized by the Commission. T. 1259.

Witness Brice clarifies that the AFUDC rate used in the cost estimates was based on SWEPCO's blended weighted average AFUDC rate, using Arkansas's rate of 6.01 percent from its last rate case. T. 1260. He confirms that the Commission would be approving eighteen percent of the AFUDC amounts based on Arkansas' jurisdictional share. T. 1261.

Concerning the cost cap in the Settlement, Mr. Brice testifies that the 107.5 percent cap is applied to SWEPCO's share (70 percent) of the total project cost of $4.526

billion, or $3.168 billion. T. 1262. He states that it is a hard cap on costs. T. 1263. He confirms that the parties retain their rights to challenge costs on the basis of prudence. T. 1264. Mr. Brice indicates that most-favored nations clause in the Settlement is broader than the original and applies only to items that SWEPCO agrees to in other jurisdictions. T. 1265-66. He says that any decision on whether the *force majeure* clause or any other provision of the guarantees applies will be made by the Commission. T. 1267-68.

Mr. Brice testifies that use of "eligible" or "qualify" in the PTC guarantee mean the same thing. T. 1269. After confirming that the turbines to be used in the Project are new but proven, he explains that a decline in the number of turbines would reduce the price of the project by $3.3 million for each two MW turbine and could impact the total energy produced, but would not impact the capacity factor guarantee. T. 1270-71. Mr. Brice declares that the alternative interconnection is a last resort that could be used to commission the entire project (50 magawatts at a time) and that the Gen-Tie Line would not be used for any purpose other than delivering the Wind Catcher energy. T. 1271-72.

In further explanation of AFUDC, Mr. Brice testifies that the AFUDC component for Arkansas could be overstated somewhat due to the different approach that the Arkansas Commission relies upon. T. 1273.

Mr. Brice acknowledges that the WCA Rider would be a part of any formula rate plan and not run independently. T. 1273. He confirms that the Project has the rights to interconnect through the generation interconnection agreement which was filed at SPP. T. 1274.

Witness Brice explains that wind is cheaper in Oklahoma than Arkansas primarily because of the wind velocity, and that SWEPCO did not pick Oklahoma for economic development over Arkansas, confirming that building somewhere else could increase the cost of the project. T. 1275. He commits to responding to last minute public comments. T. 1276-77.

**Walmart**

Walmart witness Chriss testifies that the most-favored nations clause in the Settlement is adequate and satisfies Walmart's concerns. T. 1279.

**AG**

AG witness Tacker testifies that the AG is satisfied with the most-favored nations clause in the Settlement. T. 1655. In addressing the appropriateness of a rider, she observes that SWEPCO has committed to file a rate case but notes that there is no guarantee that it will be coming in for a rate case this year. She states the AG is comfortable with this particular rider, particularly since it will be in place for a short time and then folded into rates. T. 1655-56.

**Staff**

Staff witness Butler testifies that the costs subject to the cost cap would still be subject to review and audit by Staff when they are brought in for recovery. T. 2138-39. She states that she expects that parties and the Commission would be notified about any *force majeure* situations. T. 2139-40.

With respect to the appropriateness of a rider, Ms. Butler explains that it was Staff's expectation that SWEPCO would be in for a rate case later this year, which would put Wind Catcher outside the pro forma year; therefore, they were supportive of

developing a rider at this time but agrees there are some issues that they would expect to address in the context of a rate case. She also agrees that the rider would run until the facility is put into base rates in a rate case. T. 2140-41. Concerning AFUDC, she states that Staff reviewed the work papers in the development of AFUDC within the context of the economic analysis that was presented for the Project. For cost recovery, she expects AFUDC would be calculated on a basis consistent with the Arkansas jurisdictional requirements. T. 2142-43.

Ms. Butler would not object to the reports on project construction being filed in the Docket as well as provided to the parties. T. 2144. If the Project is canceled, she states that SWEPCO would not be precluded from requesting recovery of Project costs but it would have to be evaluated at the time. T. 2144-45.

**South Central**

South Central witness Hopper states that South Central is a supporter of the Project but believes that the incumbent transmission provider is best suited to own, operate, maintain, and respond when facilities have an issue. T. 1297-98. He acknowledges that South Central is working with Invenergy, executed a large generator interconnection agreement with them, and filed it at FERC. He confirms that they are moving forward with their component of the Project and building the 115 kV facilities that will interconnect to the 345 kV line to enable SWEPCO to commission the turbines. T. 2198-99.

## V. Post-Hearing Filings

On March 7, 2018, SWEPCO filed additional information regarding the Project which was requested by the Commission at the conclusion of the March 1, 2018 hearing.

SWEPCO filed Revised Direct Exhibit JOA-3 to the testimony of SWEPCO witness John O. Aaron which provided information regarding the Wind Catcher revenue impact under the assumption of the 21% federal income tax rate; the creation of a deferred tax asset; and the allocation to customers of 100% of off-system sales margins. Revised Direct Exhibit JOA-3 shows that for a typical residential customer using 1000 kWh, the monthly bill would decrease by $2.46 (2.55%) in 2021, $2.97 (3.08%) in 2022, and $2.75 (2.85%) in 2023. SWEPCO also filed additional information regarding the jurisdictional allocation of the Wind Catcher Project which showed that Arkansas's share of the Project investment of $4.5 billion would be 19.17 percent, or approximately $607 million.

## VI. Discussion

In this Docket, all Parties except South Central support the proposed Settlement. South Central stated that it did not sign the Settlement because the Settling Parties declined to "recognize incumbent rights in the Settlement," but South Central does not seek any action by the Commission with respect to incumbent rights; in fact, South Central states that it is a supporter of the Project.

The Settling Parties presented substantial evidence in this Docket that the Project will lower the overall cost to serve customers, continue SWEPCO's strategy of diversifying its generation mix as outlined in the 2015 IRP, and serve the renewable goals of SWEPCO's customers. Even with a total cost of the Project of $3.29 billion, with an Arkansas jurisdictional share of $607 million, the net present value savings of the Project after the impact of the Tax Cut and Jobs Act is projected to be $1.495 billion, with an Arkansas jurisdictional share of nineteen percent, or approximately $290

million.[8] This is projected to result in lower electric bills for SWEPCO's customers for the next twenty-five years. For a typical residential customer using 1000 kWh, the monthly bill is projected to decrease by $2.46 (2.55%) in 2021, $2.97 (3.08%) in 2022, and $2.75 (2.85%) in 2023. The evidence also shows that the risks to ratepayers are diminished by the guarantees and significant ratepayer protections made by SWEPCO in the Settlement. The analyses produced by the Parties demonstrate that Wind Catcher compares favorably to other market opportunities and that the Project will show benefits for customers even under pessimistic assumptions.

The ratepayer protections detailed in the Settlement help to assure that customers will benefit from the Project. The protections reduce the risk to customers by capping the cost of the Project for which ratepayers are responsible; guaranteeing 100% of the PTCs; guaranteeing a net capacity factor; allotting 100% of incremental off-system energy sales margins to customers; and providing a most-favored nations clause.

As further protection for ratepayers, SWEPCO agreed in the Settlement to report to Staff semi-annually on the status of Project construction and any anticipated delay in its commencing commercial operation, to notify the Settling Parties when the Project reaches commercial operation, and to report to Staff during construction on the Project's impact on employment in Arkansas. At the hearing, SWEPCO witness Brice further agreed to file those reports, including updates on the generator interconnection request submitted to the SPP, in the Docket.

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[8] The Commission notes the AFUDC rate used in the cost estimates was based on SWEPCO's blended weighted average AFUDC rate. Approval of the Settlement does not constitute approval of any AFUDC rate other than that allowed by Arkansas precedent, and AFUDC will be calculated on a basis consistent with the Arkansas jurisdictional requirements.

SWEPCO additionally agrees to file a general rate case within one year of the Project reaching commercial operation if requested by Staff or the Commission.

In addition to the projected savings from the Project, the Settling Parties presented substantial evidence that the Project will make SWEPCO's service territories more attractive to new economic development and help current and potential customers who have expressed an interest in low-cost renewable energy to meet their sustainability goals.

Based on the analyses provided and the guarantees and agreements made by SWEPCO as a part of the Settlement, substantial evidence supports that the Project will be beneficial for ratepayers.

As mentioned, South Central stated that it did not sign the Settlement because the Settling Parties declined to "recognize incumbent rights in the Settlement," but South Central does not ask the Commission to take any action with respect to incumbent rights. South Central witness Hopper pointed out that under FERC policy, the Project could be subject to FERC ratemaking and part of the SPP-controlled grid, with the Commission losing all ratemaking authority to FERC. The Commission acknowledges that the rates of SPP-controlled transmission assets are set at FERC but observes that at this time, the Project transmission line will not be integrated into the SPP system. In accord with South Central's position, the Commission declines to take any action with respect to incumbent rights.

The Settlement also proposes approval of the WCA Rider[9] which is designed to recover the Project's revenue requirement after commencement of commercial

[9] Attachment 2 to the Settlement Agreement.

operation (scheduled for December 2020) until it is included in SWEPCO's base rates through a general rate case. Without an intervening rate case, the WCA Rider would include the pre-tax return based on the cost of capital and ratios from SWEPCO's last rate case, Docket No. 09-008-U, which included a 10.25 percent ROE. SWEPCO would file revised WCA Factors ninety days prior to the first billing cycle for the January 2021 revenue month. When the Project is included in SWEPCO's Arkansas rates through a general rate case, the then-Commission-approved ROE, other cost of capital rates, and cost of capital ratios will be used in the revenue requirement calculation.

The Settlement contemplates that the PTC shaping issue and the appropriate treatment of SWEPCO's ADIT balance, including any changes to the WCA Rider, will be addressed in SWEPCO's next general rate case.

It is unclear why the Settling Parties are requesting approval of the WCA Rider at this time. Commencement of commercial operation of the Project, and thus the effective date for the WCA Rider, is not anticipated until December 2020. Before that time, SWEPCO has indicated that it may file a general rate case. SWEPCO indicated to Staff and the AG that it intends to file a rate case later this year or in 2019, and SWEPCO witness Brice confirmed at the hearing that SWEPCO intends to file a rate case later this year, contingent upon need, likely with a request for a formula rate plan which would subsume the WCA Rider. In fact, SWEPCO witness Brice labeled the proposed WCA Rider a mere "template," acknowledging that a general rate case is critical to establish the factors to implement the rider, and admitted that it was critical to Staff for SWEPCO to file the rate case so that all the important components of the Rider could be updated.

He states that the rate case would update SWEPCO's rate of return and all of the other cost of service components to provide a "good clean slate" for developing the rider.

SWEPCO's filing of a general rate case in 2018 or 2019 (or any time before the Project is placed in service), may impact the need for, or the terms and conditions of, Rider WCA. If Wind Catcher is within the test year or *pro forma* year of a rate case, it could be included in base rates and a rider would be unnecessary. If Wind Catcher is outside the *pro forma* year of a rate case, a rider may be proper. If a formula rate plan is requested in a rate case, a rider may be unnecessary. Staff testified that there is no urgency in finalizing the particulars of the WCA Rider at this time, and the Commission agrees. The need for, details of, and approval of the WCA Rider may and should be addressed in that rate case and therefore a decision on the WCA Rider is premature at this time.

Conversely, if SWEPCO does not file a rate case before the Project commences commercial operation in December 2020, the evidence does not support approval of the WCA Rider at this time. The evidence is that the Parties do not contemplate that the WCA Rider may be implemented without the information identified in the Settlement (such as the PTC shaping, recovery of ARO costs, and ADIT balances) which must be determined in a rate case. Moreover, the propriety of implementing a rider for a new asset eleven years after a general rate case has not been established by the evidence in this Docket.[10]

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[10] The Parties also do not address the traditional test for supporting a rider – that is, are the costs significant, volatile, and out of the control of the utility. *See*, Docket No. 06-101-U, Order No. 10 at 111-12.

Approval of riders is within the discretion of the Commission and utilities have no legal entitlement to recovery through automatic riders.[11] SWEPCO compares the WCA Rider to its Alternative Generation Recovery Rider for the J. Lamar Stall power plant (Rider GR), which was compared to Entergy Arkansas's Rider CA when Rider GR was approved in Docket No. 09-008-U.[12] Both Rider GR and Rider CA were implemented to recover costs of a new generating facility and by definition constituted single-issue ratemaking but were found to be justified because of the unique circumstances, including implementation of the rider either in or shortly after a general rate case and in-service dates for the facilities within about six months of the rate case.[13] However, the Parties to this Docket offered no evidence on any unique circumstances supporting the WCA Rider or why it is in the public interest to approve a rider so long after SWEPCO's last general rate case. Rider GR also balanced the interests of SWEPCO and its ratepayers by using a slightly lower return on equity to offset the certainty of recovery offered by Rider GR. No such balance is offered with the proposed WCA Rider; in fact, without a rate case, the WCA Rider would use a 10.25 percent cost of equity from SWEPCO's 2009 rate case which is higher than Rider GR and could be higher than a new return on equity established now or in the near future.

If SWEPCO does not file a rate case before the Project commences commercial operation and still desires to implement a rider to recover the costs of the Project, this Order does not prevent SWEPCO from seeking approval of a rider if it can address the

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[11] *See*, Docket No. 06-101-U, Order No. 10 at 127-28. Riders under Ark. Code Ann. § 23-18-703(a)(4) are plainly discretionary.
[12] Order No. 12.
[13] *See*, Docket No. 09-008-U, Order No. 12 at 6-8, Docket No. 06-101-U, Order No. 10 at 112, and Docket No. 06-152-U, Order No. 11 at 10-12.

shortcomings identified herein. The Commission is not opposed to the use of a rider[14] in appropriate circumstances. However, as stated herein, a decision on the WCA Rider is premature at this time.

One final issue addressed at the hearing concerned whether SWEPCO would be able to recover any costs if Arkansas approved the Project but SWEPCO decided to cancel the Project. Staff witness Butler opined SWEPCO would not be precluded from requesting recovery of Project cancellation costs but it would have to be evaluated at the time of the request. The Commission directs SWEPCO to use its best efforts to obtain approvals from other jurisdictions and complete the Project as contemplated so that Arkansas ratepayers may see the benefits of Wind Catcher. Any request for recovery of cancellation costs will consider the facts under which the cancellation occurred.

The Commission takes notice that SWEPCO has announced a settlement concerning the Wind Catcher Project in Louisiana and in Oklahoma but the Settling Parties have not yet filed anything here about those settlements or amended the Settlement Agreement. The Commission further observes that the Settlement Agreement does not expressly require the Settling Parties to file information regarding these more favorable provisions with the Commission, to amend the Settlement Agreement, or to obtain Commission approval of the additional terms. The Settlement Agreement requires SWEPCO to "notify the Stipulating [Settling] Parties if terms more favorable to customers related to" four areas are "agreed to by the Company" in Louisiana or Texas or by PSO in Oklahoma and provides that "the respective terms of this Joint Stipulation shall be deemed to be modified to incorporate those more

[14] Including under the requirements of Ark. Code Ann. § 23-18-703(a)(4).

favorable terms." Settlement Agreement at § 1(e); *see also*, Brice Settlement Testimony at 4. At this time, no filings have been made in this Docket indicating that the required notice to the Stipulating (Settling) Parties has been given pursuant to this clause of the Settlement Agreement, describing any such more favorable terms to the Commission, or indicating any timeline or proposal for providing or approving such terms.

In order for the Commission to issue a final ruling on the Settlement Agreement and SWEPCO's Application, it is imperative that the Settling Parties promptly file copies of settlements reached in other jurisdictions and file, for Commission approval, amendments to the Settlement Agreement to incorporate any additional terms, either from the existing agreements reached in other jurisdictions or any future agreements falling under the most-favored nations provision.[15] The Settling Parties must demonstrate that any resulting amendments create no adverse impact on the Settlement Agreement terms and the benefits to ratepayers. Therefore, to the extent the Settlement Agreement does not contemplate the filing of such amendments for Commission approval, it is neither reasonable or in the public interest.

Finally, the Commission acknowledges the numerous public comments received in this Docket. The Commission notes that almost all of the comments opposing SWEPCO's Application were form letters or form emails sent to the Commissioners after the hearing expressing opposition to the project, with many suggesting solar as a better option for Arkansas and many opposed to importing electricity from Oklahoma. From the addresses noted on the comments or the comments themselves, many of the commenters do not appear to be or are not SWEPCO customers.

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[15] Such amendments may be made in multiple filings or in one filing to incorporate all terms agreed to by SWEPCO in all other jurisdictions, but the filing(s) should be promptly made.

Although public comments are appreciated and considered by the Commission, public comments do not rise to the same level of evidence as sworn testimony by witnesses which is subject to cross examination.[16] As this Commission noted in Docket No. 06-101-U:

> Though highly valued by the Commission the "public comments" of utility customers do not rise to the level of substantial evidence upon which the Commission is required by law to base its decision. The Commission cannot base its decisions upon the public comments of utility customers without violating the due process rights of the utility or other official parties to the rate case proceeding. Public comments are not subject to pre-hearing discovery by the official parties, and are not subject to adversarial cross-examination by the official parties during the evidentiary hearing. Thus, public comments do not constitute substantial evidence upon which the Commission can lawfully base its rate case decisions. The rate case decisions of the Commission must be based upon substantial evidence of record and must fall within the rate case boundaries or parameters prescribed by the Constitution of the United States as interpreted by federal and Arkansas courts. Although not substantial evidence of record, the Commission does take such public comments into consideration in its efforts to reach a balanced rate case decision that is lawful and fair to both the utility and its customers. Public comments can certainly be helpful to the Commission regarding quality of service issues, as well as cost allocation and rate design issues that can be decided within a "range of reasonableness." However, even these issues must be supported by substantial evidence of record.

Order No. 10 at 6-7.

## VII. Findings and Rulings

Based upon the totality of the evidence presented in this Docket, and after considering all of the pre-filed testimony and exhibits and the testimony of the witnesses who appeared at the hearing on March 1, 2018, along with the public comments made in the Docket, the Commission directs and orders as follows:

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[16] *See*, Docket No. 00-148-R, Order No. 6 at 1; Docket No. 00-211-U, Order No. 7 at 2.

1. SWEPCO's acquisition of the Wind Catcher Energy Connection Project under the terms of the Settlement is reasonable and in the public interest and therefore is approved consistent with the terms contained herein, as conditioned and modified herein.

2. The Settling Parties are directed to promptly to file copies of settlements reached in other jurisdictions and to file, for Commission approval, amendments to the Settlement Agreement to incorporate additional terms under to the most-favored nations provision once those terms are agreed to by SWEPCO (or PSO) in other jurisdictions, with supporting testimony.

3. The Settling Parties are directed to keep the Commission updated on significant events and the status of proceedings in other jurisdictions by filing updates in this Docket as needed.

4. A decision on the WCA Rider is premature at this time.

5. SWEPCO shall file in this Docket the reports identified in Attachment 1, Part B, of the Settlement.

6. The Settlement Agreement is therefore approved as modified and conditioned herein, contingent on the Settling Parties making the filings and receiving the approvals stated herein, and further conditioned on any resulting amendments creating no adverse impact on the Settlement Agreement terms and the benefits to ratepayers.

7. The Settling Parties shall inform the Commission by a filing no later than noon on May 11, 2018, whether they accept the Commission's proposed modification of the Settlement Agreement or request a full hearing on the issues.

BY ORDER OF THE COMMISSION.

This 8th day of May, 2018.

Ted J. Thomas, Chairman

Elana C. Wills, Commissioner

Kimberly A. O'Guinn, Commissioner

Karen Shook
Mary Loos, Secretary of the Commission

I hereby certify that this order, issued by the Arkansas Public Service Commission, has been served on all parties of record on this date by the following method:

____U.S. mail with postage prepaid using the mailing address of each party as indicated in the official docket file, or
X Electronic mail using the email address of each party as indicated in the official docket file.