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Responses to Multiple Intervenors
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Data Request 01:
Please provide a copy of all responses to the data requests pertaining to the 2021 Annual True-Up revised and any related revised filings by all parties, along with the data requests, if those requests are not circulated to all customers. In addition, please provide this information on a continuing basis. When answers to any data requests in this proceeding include any output from electronic spreadsheet files, please provide the working electronic files (i.e. Excel format) related to those answers.

Response:
The Company has not received any other data requests regarding the 2021 Annual True Up. If we do, they will be forwarded to all parties.

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Data Request 02:
Please identify by nature and amount any errors that AEP has identified in any of the 2022 Updates. If so, describe the error or correction and its effect on the relevant ATRR. Specify AEP's plans for correcting each such error.

Response:
The company has identified no errors in the 2022 updates.

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Data Request 03:
State whether AEP incurred or paid any monetary penalties for violations of North American Electric Reliability Corporation ("NERC") Reliability Standards during 2021. If so, please respond to the following:

a. The amount of the penalties;
b. The FERC accounts where such penalties were recorded;
c. The nature of the alleged violation that gave rise to the penalty; and
d. The amount of the penalties included in each OpCo and/or TransCo formula rate updates.

Response:

a. In May 2021, AEP paid a monetary penalty as a result of the Commission's Notice issued on March 26, 2021, by which the Commission decided not to engage in further review of NERC's Notice of Penalty Regarding AEP, FERC Docket No. NP21-8-000, Filed February 25, 2021 (the "Notice of Penalty"). NERC's Notice of Penalty approved the Settlement Agreement between the Regions and AEP, dated October 5, 2020, by which AEP agreed to the $1,500,000 monetary penalty.
b. The $1,200,000 Transmission portion of the liability was accrued in account 2530190 prior to 12/31/2019. The transmission expense account used was 4263003. The $300,000 Generation portion of the liability was accrued in account 4263001 in May 2021.
c. Result of the Commission's Notice issued on March 26, 2021, by which the Commission decided not to engage in further review of NERC's Notice of Penalty Regarding AEP, FERC Docket No. NP21-8-000, Filed February 25, 2021 (the "Notice of Penalty"). NERC's Notice of Penalty approved the Settlement Agreement between the Regions and AEP, dated October 5, 2020 (the "Settlement Agreement"), by which AEP agreed to the $1,500,000 monetary penalty. These 28 NERC Violation IDs stem from 71 incidents submitted between 2017 and 2018 which necessitated creation of 181 PCIs for individual reporting to the appropriate Regions for the impacted AEP companies, or Registrations.
d. None – Account 426.3 is not a recoverable formula rate account.

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Data Request 04:
In reference to the North American Electric Reliability Corporation Notice of Penalty re: American Electric Power Service Corporation, Docket No. NP22-4-000, dated November 30, 2021, this document references a penalty in the amount of $570,000. Please state whether the American Electric Power Service Corporation, allocated any portion of the penalty to the AEP West OpCos and TransCos. If so, please identify the FERC accounts and amounts associated with each AEP West OpCo and TransCo.

Response:
NERC Penalties are recorded to 4263003 which is not a recoverable formula rate account. The $570,000 payment occurred in February 2022 and was allocated based on Total Assets in the following amounts: $161,000 to SWEPCo, $93,000 to PSO, $97,000 West Transcos and $219,000 to all other OPCos.

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Data Request 05:
For each AEP West OpCo and TransCo, in relation to "Goodwill," please provide the following:

a. Indicate whether "Goodwill" is reflected on the books of any of the OpCos or TransCos as of December 31, 2021. If so, please identify the relevant entity or entities, the transaction that generated the goodwill, and the balance sheet accounts used with the associated balance.
b. Identify any goodwill adjustments or write-offs recorded to income statement accounts during 2021 related to goodwill recorded on the books of any OpCo, Transco, or other affiliate.
c. Indicate whether any "Goodwill" or similar item of intangible value is reflected in any of the OpCo or TransCo capital structures as of December 31, 2021. If so, please identify the relevant entity or entities, the basis for the goodwill or other intangible value reflected, and the amounts reflected.

Response:
The operating companies and TransCos do not have any "Goodwill" or similar items of intangible value as of December 31, 2021.

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Data Request 06:
Please identify all charitable donation expenditures incurred during 2021 and included in each AEP West OpCo and TransCo formula rate update. This identification should include, but not be limited to:
a. Identification of the organization for which the expenditure or donation was made;
b. Identification of each amount during 2021;
c. Identification of the FERC Account(s) to which AEP West recorded the expenditure or donation and identify the associated OpCo or TransCo that recorded the cost;
d. Identification of all expenditures incurred in 2021 that would not have been incurred but for the charitable expenditure or donation, including the details on these expenditures requested in items a. through c. above; and
e. If there were no charitable donation expenditures incurred during 2021 that have been included in any of the OpCo and/or TransCo formula rate updates, then please identify the FERC Account(s)where such expenses were booked and their associated amounts.

Response:
Charitable donation expenditures are recorded in FERC Account 426 for both Operating Companies and Transmission Companies. FERC Account 426 is not included in formula rates.

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Data Request 07:
Please identify all expenditures for lobbying and other civic, political and related activities incurred during 2021 and included in each AEP West OpCo and TransCo formula rate update. This identification should include, but not be limited to:

a. Identification of the organization for which the expenditure was made;
b. Identification of each amount during 2021;
c. Identification of the FERC Account where the donation was recorded and identify the associated OpCo or TransCo that recorded the cost;
d. Identification of all related expenditures incurred in 2021 that would not have been incurred but for the expenditure for civic, political and lobbying activities, including the details on these expenditures requested in items a. through c. above; and
e. If there were no lobbying and other civic, political and related activities expenditures incurred during 2021 that have been included in any of the OpCo and/or TransCo formula rate updates, then please identify the FERC Account(s) where such expenses were booked and their associated amounts.

Response:
Expenditures for lobbying and other civic, political and related activities are recorded in FERC Account 426 for both Operating Companies and Transmission Companies. FERC Account 426 is not included in formula rates.

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Data Request 08:
For each AEP West OpCo and TransCo, please identify the following related to major destructive events (i.e., storms, fires, etc.) in 2021:

a. The FERC Account(s) and corresponding amounts that were recorded related to restoration costs incurred for repair work.
b. Any pending insurance claims and the amounts associated with anticipated reimbursements from these claims.
c. The FERC Account(s) where the reimbursements in (b) above will be recorded.
d. Verify whether OpCo and TransCo self-insures for property insurance by setting aside reserves. If so, please identify what FERC Account these reserves are held.
e. Identify any instances where AEP West did not seek insurance recovery of costs covered by insurance policies, provide the expense account used to record restoration costs, and the reasoning for not making an insurance claim.

Response:
During 2021, the OpCos and TransCos did not have any major destructive events.

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Data Request 09:
Please specify the FERC account number(s) in which AEP West records payments and expenses resulting from employment practices that were found to be discriminatory by a judicial or administrative decree or that were the result of a compromise settlement or consent decree, and quantify any such amounts recorded by AEP West by FERC Account during 2021. For purposes of this request, such payments or expenses encompass amounts paid in compliance with any judgment or decree or in settlement of claims, and shall include the following:

a. Fines or penalties related to judicial or administrative decree imposed by governmental authorities;
b. Legal fees reimbursed to the plaintiffs;
c. In-house and outside legal costs in unsuccessful defense against charges of discriminatory practices;
d. Damage awards to plaintiffs;
e. Duplicate labor cost, such as back pay, bonus or other pay awards to plaintiffs where other employees have already been paid by the utility for prior services; and
f. Cost of reporting, training and recruiting undertaken as a result of a court order, administrative decree or settlement which are in addition to those which otherwise would be incurred to assure continuing equal employment opportunity.

Response:
Not applicable. The rate updates in this case do not include any such payments, expenses, penalties, or fines. However, payments resulting from employment practices that were found to be discriminatory by a formal civil or administrative filing would be recorded in Account 426.5, Other Deductions. Likewise, fines or penalties would be recorded in Account 426.3, Penalties.

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Data Request 10:
In reference to the disclosures in the May 25, 2022 transmittal letters, as updated on June 2, 2022, for the 2022 Annual Update Filings for the AEP West OpCos and AEP West TransCos that the 2022 Updates include "a change in the treatment of the Accumulated Deferred Income Taxes ("ADIT") associated with Net Operating Losses to a Stand-Alone basis rather than a consolidated basis," please provide:

a. A detailed description and illustration of this methodology for the 2021 AEP West ATRR calculations;
b. The reasons the AEP West OpCos and TransCos made the change from using a consolidated methodology to what AEP West OpCos and TransCos refer to as the Stand-Alone methodology for purposes of the 2021 ATRR calculations;
c. An explanation of the consolidated method used by the AEP West OpCos and TransCos regarding the treatment of deductible expenses claimed on the consolidated return and the measurement of and accounting for current and deferred income tax expense and ADIT, including ADIT associated with Net Operating Losses;
d. Copies of all accounting entries with supporting documentation (in a workable Excel spreadsheet) made during calendar year 2021 for the Stand-Alone method for ADIT for Net Operating Losses on the AEP West OpCos' and AEP TransCos' books;
e. An explanation of whether AEP Wdoption of the Stand-Alone method for ADIT for Net Operating Losses resulted in any changes in the AEP West OpCos' and TransCos' deductible expenses claimed on the AEP consolidated federal tax return and if changes occurred, please provide the specific details and amounts of those changes for the 2021 tax year;
f. An explanation of whether AEP West OpCos' and TransCos' adoption of the Stand-Alone method for ADIT for Net Operating Losses resulted in any changes to the AEP Tax allocation methodology or the AEP intra-corporate consolidated income tax agreement, and if changes occurred, please provide the specific details and amounts of those changes for the 2021 tax year;
g. An explanation of whether AEP West OpCos' and TransCos' adoption of the Stand-Alone method for ADIT for Net Operating Losses resulted in any changes in the method used by the AEP West OpCos and TransCos to measure, account for, and report in each company's FERC Form 1 reports ADIT including ADIT applicable to Net Operating Losses and the flow-back of ADIT, and if changes occurred, please provide the specific details and the amounts of those changes;
h. An explanation of whether the Stand-Alone method for ADIT for Net Operating Losses is limited to federal income tax Net Operating Losses or whether it also applies to Net Operating Losses for state income tax purposes and if state Net Operating Losses are also considered in the adjustments for the Stand-Alone method, please identify the state income tax Net Operating Losses also factored into the Stand-Alone NOL Adjustments for each AEP

West OpCo's or TransCo's 2021 ATRR NOL Adjustments for December 31, 2020 and December 31, 2021;

i. An explanation of whether AEP West OpCos' and TransCos' Stand-Alone method for ADIT for Net Operating Losses is limited to changes for ratemaking purposes in the 2021 ATRR calculations;
j. An explanation of why each AEP West OpCo or TransCo does not record and report in FERC Form 1, the NOL Adjustments for the Stand-Alone method for ADIT for Net Operating Losses on each company's books;
k. A listing and description of what retail or other FERC rates where the AEP West OpCos and TransCos have implemented the Stand-Alone method for ADIT applicable to Net Operating Losses;
l. An explanation of how each AEP West OpCo and TransCo is compensated for the use of its tax deductions on the AEP consolidated tax return, all tax savings benefits realized on the consolidated return from the use of an AEP West OpCo's or TransCo's deductible expenses, and how those tax benefits are accounted for by each AEP West OpCo or TransCo;
m. An explanation of why the AEP West OpCos and TransCos have characterized the method as Stand-Alone if the NOL Adjustment ratemaking calculations are based on each AEP West OpCo's or TransCo's separate tax return calculation and ignore the consolidated tax return's tax saving benefits attributable to each AEP West OpCo and TransCo;
n. An explanation of why it is appropriate to ignore the impacts of the AEP consolidated tax return when tax deductions generated by an AEP West OpCo or TransCos are utilized to reduce the AEP consolidated tax liability and result in a tax savings benefit to the AEP consolidated tax group, but those tax savings benefits are ignored under AEP West OpCos' and TransCos' Stand-Alone method; and
o. An explanation of when the AEP West OpCos and TransCos implemented the Stand-Alone method for ADIT for Net Operating Losses and identify the Transmission Revenue Requirement calculations (projected and true-up) where the AEP West OpCos and TransCos included NOL Adjustments for the Stand-Alone method.

Response:

a. The ratemaking stand-alone NOLC is included in account 190 as a deferred tax asset on WS C for the West Companies. Protected excess amortization has been adjusted to reflect the excess related to the NOLC. Excess related to the NOLC is considered deficient and will offset the excess related to the deferred liability and reduce the total excess benefit. Excess is also on WS C for the West Companies.

Below is an illustrative example of the calculation of the stand-alone NOLC for ratemaking. In this example, the utility has taxable losses for years 2015, 2016, and 2017 which result in a DTA of $3,000 based on the corporate income tax rate of 35% effective for each of those years. With the implementation of a 21% tax rate with the passage of the Tax Cuts and Jobs Act, the DTA is remeasured to $1,800 (total taxable loss x 21%). This results in deficient deferred taxes in the amount of $1,200 as a regulatory asset (or a reduction to the overall regulatory liability for excess ADFIT). The net of the $1,800 DTA and $1,200 regulatory asset maintains the same rate base before and after the tax rate change. The amounts broken out on the attachment provide the separate pieces that make up the rate base component of the stand-alone NOLC.

	Taxable Income		NOLC DTA	
2015	(2,857)	35%	1,000	
2016	(2,857)	35%	1,000	
2017	(2,857)	35%	1,000	
Total	(8,571)		3,000	NOLC in Rate Base
TCJA Remeasurement				
	(8,571)	21%	1,800	NOL DTA (1901001 - 960Z)
			1,200	NOL Defecient ADFIT (2821001 - 960F-XS)
			3,000	NOLC in Rate Base

b. The use of a stand-alone NOLC is the preferred ratemaking treatment at FERC. *See* Columbia Gulf Transmission Co., 23 FERC ¶ 61,396 (1983). In addition, the Internal Revenue Code (IRC) normalization rules require utility ratemaking to apply a normalized method of accounting with respect to tax benefits associated with accelerated depreciation, NOLCs due to accelerated depreciation, and ITCs.

c. The financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP). Accounting Standards Codification 740-10-30-27 (ASC 740) requires the consolidated amount of current and deferred tax expense for a consolidated tax return group be allocated among the group when those members issue separate financial statements. The separate-return basis is the preferred method for computing the income tax of the members of a consolidated return group. The separate-return method applies ASC 740 to each member as if it were a separate taxpayer. AEP West OPCos and TransCos modify this approach so that net operating losses (or other current or deferred tax assets) are characterized as realized (or realizable) by the subsidiary when those tax assets are realized (or realizable) by the consolidated group, even if the subsidiary would not otherwise have realized the attributes on a stand-alone bass. This method is known as "Benefits-for-Loss". By using this methodology, certain tax attributes are recorded on affiliate financial records reflecting a portion of the consolidated attribute. This is disclosed in the AEP 10K:

The consolidated NOL of the AEP System is allocated to each company in the consolidated group with taxable losses. With the exception of the allocation of the consolidated AEP System NOL, the loss of the Parent and tax credits, the method of allocation reflects a separate return result for each company in the consolidated group. As a result of the benefits-for-loss tax accounting, the NOLC deferred tax asset (DTA) is a reflection of the consolidated NOL, not the company's stand-alone NOLC.

In addition, AEP West OPCos and Transcos participate in a tax sharing agreement. A company with a tax loss receives a current payment from the holding company to the extent that the loss is offset by income by affiliates within the consolidation. The stand-alone NOLC DTA of a loss company is reduced upon the receipt of cash from the holding company. Below is an example of the journal entries related to the methodology utilized by AEP.

Utility A	Debit	Credit	
Deferred Tax Expense		210	Record Deferred Tax Benefit
Deferred Tax Asset - NOLC	210		Record DTA
Deferred Tax Asset - NOLC		210	Reduce DTA for losses utilized in consolidation
Cash	210		Receipt of Cash for Losses from affiliates

In the example above, Utility A has a $1,000 tax loss, tax effected to $210 of tax benefit. In this example we assume that the entirety of the loss can be utilized by the consolidated return group. As a result, the stand-alone NOLC is reduced to $0 with the receipt of cash and is reflective of the taxable position of the consolidated group and not that of Utility A.

d. There were no accounting entries made for the Stand-Alone method during the calendar year 2021. The Stand-Alone method is for ratemaking only.

e. The adoption of the Stand-Alone method is for ratemaking only. There were no changes in the AEP West OpCos' and TransCos' deductible expenses claimed on the AEP consolidated federal tax return for the 2021 tax year.

f. The adoption of the Stand-Alone method did not result in any changes to the AEP Tax allocation methodology or the AEP intra-corporate consolidated income tax agreement. The Stand-Alone method is for ratemaking only.

g. The adoption of the Stand-Alone method did not result in any changes in the method to measure, account for, and report in each company's FERC Form 1 reports. The Stand-Alone method is for ratemaking only.

h. The Stand-Alone method for ADIT for Net Operating Losses is not limited to just federal. However, a stand-alone ratemaking adjustment is not necessary for state NOLs as these are accounted for differently than federal. State NOLs are calculated on a stand-alone basis and AEP West OPCo and Transcos FERC Form 1s already reflect the proper stand-alone ratemaking treatment The state Net Operating Losses are also included is WS C in account 190.

i. The Stand-Alone method is a ratemaking change only.

j. FERC issued AI93-5-000 to discuss the acceptable accounting for income taxes, addressing both a "separate return method" and a "stand alone method" of accounting. FERC describes the separate return method as a method that allocates current and deferred taxes to members of the group as if each member were a separate taxpayer, which is similar to the definition of separate return used by the SEC for GAAP reporting. Under the separate return method, the sum of the individual member's allocations will not align with the consolidated tax return. In AI93-5-000, FERC also defines the "stand alone method" and distinguishes it from the "separate return method". The "stand alone method" allocates the consolidated group tax expense to individual members through the recognition of the benefits/burdens contributed by each member of the consolidated group to the consolidated return. Under this method, the sum of the amounts allocated to individual members equals the consolidated amount. FERC concludes in AI93-5-000 that FERC requires the use of the "stand alone method" and expressly provides that the use of the "separate return method" will not be permitted for FERC financial accounting and reporting (FERC Forms 1 and 3) as set forth below:

The FERC has issued several decisions rejecting the use of the separate return method for determining income tax expense when an entity files as part of a consolidated group. Instead, the FERC relies on the standalone method of allocating income taxes between members of a consolidated group.

Under the standalone method the consolidated tax expense is allocated to individual members through recognition of the benefits/burdens contributed by each member of the consolidated group to the consolidated return. Under the standalone method, the sum of amounts allocated to individual members equal the consolidated amount.

k. Southwestern Electric Power Company and Public Service Company has presented the Stand-Alone method for Net Operating Losses in their jurisdictions of Arkansas, Louisiana, Oklahoma, and Texas.
l. See response to JI-1-10, part c.
m. AEP's stand-alone methodology is consistent with FERC policy pronouncements regarding the allocation of current and deferred taxes to members of the affiliated group joining in the filing of a consolidated federal income tax return. Specifically, FERC Opinion No. 173 sets forth the relevant guidance for the application of the "stand-alone method" of allocating items of income and deduction for ratemaking purposes. Rather than focusing on the consolidated tax liability reflected on the consolidated federal income tax return, the stand-alone method "looks beneath the single consolidated tax liability and analyzes each of the deductions used to reduce the group's tax liability to determine the deductions for which each service is responsible." FERC Opinion No. 173, 23 FERC ¶ 61,396, at p.20. This method produces an income tax allowance "that takes into account the revenues and costs entering into the regulated cost of service without increase or decrease for tax gains or losses related to other activities . . . ." *Id.* at 17. The stand-alone method results in the tax allowance being "equal to the tax the utility would pay on the basis of its projected revenues less deductions for all operating, maintenance, and interest expenses included in the cost of service." *Id.* That is precisely the methodology applied by AEP West when including a ratemaking adjustment for the net operating loss carryforward (NOLC) deferred tax asset (DTA) in determining AEP West Companies' tax allowance. In other words, AEP West previously included a reduction to the net operating loss in the DTA to account for payments received from income generating affiliates, which took into "account the gains or losses related to other activities" not included in the regulated cost of service for each company. The ratemaking adjustment now being made by AEP West ensures that the net operating loss is properly calculated on a stand-alone methodology in that it takes into account only the "revenues and costs entering into the regulated cost of service." A consolidated DTA, used previously, includes tax payments from affiliated entities. A stand-alone DTA, the methodology adopted here, does not include tax payments from affiliated entities. The ratemaking adjustment to calculate the stand alone NOLC DTA is also required to comply with the normalization requirements of the Internal Revenue Code (IRC). Thus, until the tax benefit of the NOLC has actually been realized, there is no interest-free loan from the federal government, so the deferred tax reserve used to reduce rate base would be overstated without the NOLC offset. Without that offset, a normalization violation would occur with the resulting loss of the right to claim accelerated depreciation.
n. Please see response JI-1-10, part m.
o. AEP West OpCos and TransCos implemented the Stand-Alone method for ADIT for Net Operating Losses in the 2021 True-up and 2022 Forecast filings. The West OpCos and TransCos also calculated the impact of the Stand-Alone NOL for the 2020 True-ups.

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Data Request 11:
For the AEP West OpCos' and TransCos' 2021 ATRR calculations, please identify each formula rate ATRR input at December 31, 2020 and December 31, 2021 that changed as a result of the implementation of the Stand-Alone method for ADIT for Net Operating Losses, the amount of the Stand-Alone adjustment if not readily identifiable in the ATRR worksheets (for instance, amortization of the excess/deficient ADIT adjustments recorded in Accounts 282 or 283 (as applicable) that affect the Excess Deferred Taxes input in the Income Tax Adjustment calculation), and the source of each ATRR NOL Adjustment with supporting worksheets and calculations (in a workable Excel spreadsheet) showing the derivation of each NOL Adjustment for each formula rate ATRR input.

Response:
Please see JI-1-11 Attachment 1. This file shows the change to the formula rate inputs for Account 190, 282, and 283 as a result of the Stand-Alone method of the ADIT for Net Operating Losses for December 31, 2020, and December 31, 2021. This file is supported by the NOL calculations shown in JI-1-17 Attachment 1. The adjustments are located on WS C for the OPCOs and Transcos. Please see the attachments on question JI-1-21.

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Data Request 12:
Please identify as of December 31, 2020 and as of December 31, 2021, the amount of Net Operating Loss Carryforwards (federal and state) that each OpCo and TransCo has on a consolidated basis and on a separate return basis.

Response:
Please see JI-1-11 Attachment 1. In 2020, there were no Net Operating Loss Carryforwards on a consolidated basis.

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Data Request 13:
Please explain how AEP West OpCos' and TransCos' Stand-Alone method for ADIT for Net Operating Losses can be implemented within the existing OpCos' and TransCos' transmission formula rate tariffs without making a Federal Power Act section 205 rate filing and obtaining Commission approval of this change. Please specifically reference any portion of the protocols and formula rate templates that provide for implementation of a change, such as, AEP West OpCos' and TransCos' Stand-Alone method for ADIT for Net Operating Losses.

Response:
Worksheets C-1 and C-2 of the filed formula rate allow for expansion and contraction to add or remove individual ADIT timing differences based on the Company's records as such differences arise. The worksheets also require the company to determine an allocation basis for each timing difference, including an option to exclude individual line items.

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Data Request 14:
Please provide a detailed description and technical analysis of the need and requirements for the change for AEP West OpCos' and TransCos' Stand-Alone method for ADIT for Net Operating Losses and how it complies with FERC regulations and precedent on the treatment of the book balances of ADIT and other sources of cost-free capital.

Response:
Please see response JI-1-10, part m.

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Data Request 15:
Please explain what Internal Revenue Code, private letter rulings, normalization requirements and other IRS regulations address an affiliates' use of a regulated utility's Net Operating Losses in the context of a consolidated income tax return filing.

Response:
The IRC contains provisions[1][1] requiring utility ratemaking to apply a normalized method of accounting with respect to tax benefits associate with accelerated depreciation, NOLCs due to accelerated depreciation, and ITCs. With respect to accelerate depreciation, the normalization rules require that the federal tax expense in included in the cost of service for ratemaking use a method of depreciation and a depreciation period that is no shorter than the depreciation expense used in setting rates. [2][2] With respect to NOL carryforwards, the normalization rules require that the NOLC ADFIT be included in rate base to the extent that the NOLC is the result of accelerated depreciation.[3][3] The normalization rules require there to be consistency among ratemaking assumptions used in the revenue requirement for rate base, depreciation expense, tax expense, and ADFIT[4][4].

In a series of Letter Rulings, the IRS has concluded that in order to avoid a normalization violation, the reserve for deferred taxes for the period used in determining tax expense in cost of service must take into account instances in which taxes are deferred due to accelerated tax depreciation creating a NOL.[5][5] The PLRs referenced do not specifically address tax allocation payments. Because stand-alone treatment is the standard in a ratemaking setting, the discussion of intercompany tax allocations is not relevant to the discussion for normalization purposes. The fact that tax sharing agreements among a consolidate group are not in common and none of the rulings discusses an intercompany payment suggest that none of the utilities who sought the PLRs attached any relevance to them.

In PLR 20178015 the taxpayer identifies the occurrence of tax sharing payments in the facts that are laid out to the IRS in the ruling request. Within the facts of the case, it is laid out that the utility had a NOLC on a stand-alone basis and that it also received an intercompany tax sharing payment from its parent related to the utility's NOLC. In making its ruling and resolving the normalization question for the utility, the IRS attached no significance to the tax sharing payment. The fact that the IRS simply ignored the tax sharing payment in its analysis further supports that the NOLC must be included in ratemaking on a stand-alone basis.

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[1] Current IRC Section 168, former IRC Section 167(I)

[2] 26 U.S. Code §168(i)(9)(A)(i)

[3] Treas. Reg. § 1.167(l)-1(h)(1)(iii) and Private Letter Rulings issued by the IRS.

[4] 26 U.S.C. § 168(i)(9)(B).

[5] Private Letter Rulings 201436037; 201438003; 201519021; 201534001; 201548017; 201709008, 202010002.

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Data Request 16:
Please explain whether any of the AEP West OpCos or TransCos have filed for and/or have already received an IRS private letter ruling concerning an AEP West OpCo's and TransCo's use of the Stand-Alone method for ADIT for Net Operating Losses for FERC or retail ratemaking purposes. If yes, please identify each, provide a copy of the request and any issued PLR.

Response:
AEP has filed private letter ruling requests for Southwestern Electric Power Company and Public Service Company of Oklahoma for Texas and Oklahoma jurisdictions on March 11, 2022.

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Data Request 17:
Please explain how each AEP West OpCo or TransCo tracks and computes NOL Adjustments for implementation of the Stand-Alone method for ADIT for Net Operating Losses and provide supporting worksheets (in a workable Excel format) for each AEP West company.

Response:
Please see JI-1-17 Attachment 1 for each company's NOL Schedules by vintage year and the computation of the adjustments to accounts 282 and 283 applicable for each company.

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Data Request 18:
Please explain the procedures used by each AEP West OpCo or TransCo to amortize all excess/deficient NOL Adjustment ADIT balances reflected in Accounts 282 and 283 (as applicable) resulting from the Stand-Alone method for ADIT for Net Operating Losses and provide supporting worksheets showing the calculation (in a workable Excel spreadsheet) of the Accounts 282 and 283 (as applicable) excess/deficient NOL Adjustment ADIT amounts by calendar year, any adjustments to or amortization of the amounts reflected in the NOL Adjustments for Accounts 282 and 283 (as applicable) by calendar year, and the amortization method used for all excess/deficient NOL Adjustment ADIT balances.

Response:
The annual amortization is based on a ratio of the deficient tax related to the NOLC as compared to the original excess ADIT as of the final filing of the 2017 tax return. That ratio is applied to the annual protected excess amortization by functional books. This is consistent with how excess ADIT has been calculated and amortized on West OpCo and TransCos. Please see JI-1-17 Attachment 1 for the supporting worksheets showing the calculation of the accounts 282 and 283 excess/deficient NOL Adjustment ADIT amounts.

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Data Request 19:
Please discuss and provide supporting documentation as to how the AEP West OpCos and TransCos determined that, under the AEP West Stand-Alone method ADIT for Net Operating Losses, certain of the 2021 ATRR NOL Adjustments made to Account 190 were determined to be related to the use of accelerated depreciation and provide copies of worksheets (in a workable Excel format) for each AEP West OpCo and TransCo showing the derivation of the Account 190 NOL Adjustment amount applicable to accelerated depreciation.

Response:
Please see JI-1-19 Attachment 1. AEP conducted "With and Without" tests to determine whether the NOL Carryforwards computed on a stand-alone basis are related to accelerated depreciation, and therefore, subject to IRS normalization requirements. The "With and Without" test is an approved IRS methodology that compares the cumulative taxable income or loss computed with and without accelerated depreciation. Through this test, AEP is able to see the direct impact of accelerated depreciation on each company's cumulative taxable income or loss position.

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Data Request 20:
Please explain the reasons for the NOL Adjustments to Account 282 and 283 (as applicable) that result from the implementation of the Stand-Alone method for ADIT for Net Operating Losses and that the Accounts 282 and 283 (as applicable) will increase or decrease over time and in some instances where the NOL Adjustment amount may be a credit rather than a debit adjustment entry.

Response:
Please see response for JI-1-30.

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Data Request 21:
Please identify, explain, and provide the calculation of the allocators used by each AEP West OpCo and TransCo to allocate the Accounts 190, 282 and 283 NOL Adjustment balances (as applicable) at December 31, 2020 and December 31, 2021 resulting from the implementation of the AEP West Stand-Alone method for ADIT for Net Operating Losses.

Response:
Please see JI-1-17 Attachment 1 for the allocation of 282 and 283 which were based off of the functional book excess balances as of TCJA 2017. The allocation for 190 is based on the gross plant allocator which is located on the TCOS tabs in the attached files.

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Data Request 22:
Please identify, explain, and provide the calculation of the allocators used by each AEP West OpCo and TransCo to allocate the amortization of excess/deficient NOL Adjustment ADIT resulting from AEP West's Stand-Alone method for ADIT for Net Operating Losses that is an input to the Excess Deferred Taxes input used in the 2021 ATRR Income Tax Adjustment calculation.

Response:
Please see JI-1-17 Attachment 1 to see the calculation of the amortization of the deficient NOL ADIT.

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Data Request 23:
Please provide worksheets (in a workable Excel format), schedules, and all supporting documentation of the AEP West OpCos' and TransCos' computations of the NOL Carryforwards computed on a Stand-Alone basis beginning with the first tax year and identifying any increases or decreases of any tax year's Stand-Alone NOL Carryforwards amounts due to the utilization of those NOL Carryforwards on a Stand-Alone basis, amortization of any Stand-Alone NOL adjustments, and for any other reason(s).

Response:
Please see JI-1-17 Attachment 1. The computation of the NOL Carryforwards on a stand-alone basis were completed on a NOL vintage year schedule. The NOL vintage year schedule shows the utilization of loss carryforwards by year.

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Data Request 24:
In reference to the response to question JI-1-23, with regard to the tracking of NOL Carryforwards balances on a Stand-Alone basis, please provide the calculation of the Accounts 190, 282 and 283 (as applicable) balances for each tax year's Stand-Alone NOL Carryforwards balances beginning with the first tax year Stand-Alone NOL Carryforward balances were identified and identify any adjustments to any beginning of year or end of year NOL Carryforward balances and the reasons for those adjustments.

Response:
Please see JI-1-17 Attachment 1.

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Data Request 25:
Please provide the AEP West OpCos' and TransCos' worksheets and calculations (in a workable Excel format) showing:

a. The impact of the Tax Cuts and Jobs Act (TCJA) and the remeasurement of the ADIT NOL Adjustment balances applicable to the Stand-Alone method for ADIT for Net Operating Losses showing the NOL Adjustment ADIT balances prior to the effective date of the TCJA and after the effective date of the TCJA;
b. The changes in the NOL Adjustment ADIT balances by tax year after implementation of the TCJA for any increases or decreases due to the utilization of Stand-Alone NOL Carryforwards, amortization of the Stand-Alone NOL Adjustment ADIT balances, or for any other reason(s); and
c. The method used to amortize any excess or deficient NOL Adjustment ADIT balances resulting from the implementation of the Stand-Alone method for ADIT for Net Operating Losses.

Response:

a. Please see JI-1-17 Attachment 1.
b. Please see JI-1-17 Attachment 1.
c. The method used to amortize the protected deficient tax is based on a ratio of the Total 2017 TCJA Deficient Tax Balance over the Total 2017 Protected Excess ADIT balance. The protected excess amortization which is based on ARAM is then multiplied by this ratio to determine the deficient tax amortization. This approach will amortize the deficiency at the same rate that the protected excess is amortized, maintaining the ARAM rate of amortization that is determined by book/tax timing difference on depreciation calculated by the Power Tax Software.

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Data Request 26:
Please identify any filings made with FERC to obtain Commission approval pursuant to Order No. 864 or any other FERC proceeding of the AEP West OpCos and TransCos TCJA remeasurement of the ADIT ratemaking NOL Adjustments resulting from the implementation of the Stand-Alone method for ADIT for Net Operating Losses and the amortization of any resulting excess and deficient ADIT ratemaking NOL Adjustments that the AEP West OpCos and TransCos included in Transmission Revenue Requirement calculations.

Response:
There have not been any specific filings made with FERC to obtain Commission approval pursuant to Order No. 864 with respect to the stand-alone NOL treatment. The Companies have made filings to comply with Order No. 864. However, the Company did not seek approval of any specific ADIT amounts; rather, the Companies sought approval that its proposed tariff changes were just and reasonable and consistent with the requirements of Order No. 864.

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Data Request 27:
In reference to question JI-1-26, please provide copies of any FERC orders issued on the AEP West OpCos' and TransCos' remeasurement of the ratemaking adjustments as a result of the TCJA and the AEP West OpCos and TransCos include in their Transmission Revenue Requirement calculations resulting from the implementation of the Stand-Alone method for ADIT for Net Operating Losses.

Response:
Please see the response to JI-1-26.

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Data Request 28:
In reference to questions JI-1-26 and JI-1-27, please explain why the AEP West OpCos' and TransCos' have not sought Commission approval pursuant to Order No. 864 to remeasure the NOL ADIT ratemaking NOL Adjustments and to include amortization of the resulting excesses/deficiencies through the AEP West OpCos' and TransCos' Transmission Revenue Requirements calculations.

Response:
Please see the response to JI-1-26.

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Data Request 29:
Regarding the AEP West OpCos' and TransCos' method for implementing ratemaking NOL Adjustments for the Stand-Alone method for ADIT for Net Operating Losses, please explain why the AEP West OpCos' and TransCos' NOL Adjustments to Accounts 190, 282, and 283 (as applicable) are ultimately entered as single entry adjustments as the "NOL Adjustment Contra" entry for each ADIT account is "Not Applicable" and thereby ignored for ATRR purposes and there are no other offsetting or contra ratemaking adjustments included in the OpCos' and TransCos' 2021 ATRR calculations.

Response:
The NOL Contra timing difference is included in the exclusions column to ensure the rate properly reflects the NOLs on a stand-alone basis consistent with FERC precedent and as originally proposed by the Joint Customers. Contrary to the question, there are other uses of contra-ratemaking adjustments in the formula rate.

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Data Request 30:
Please explain what will happen to the Accounts 282 and 283 (as applicable) ratemaking NOL Adjustment balances for excess and deficient ADIT when all of the NOL Adjustments for Stand-Alone ADIT for Net Operating Losses Account 190 have been zeroed out because all of the Stand-Alone NOL Carryforwards have been fully utilized on a Stand-Alone basis. How will the remaining Accounts 282 and 283 (as applicable) ratemaking NOL Adjustment balances for NOL Carryforwards be extinguished or settled and no longer included in Transmission Revenue Requirement calculations?

Response:
The related balances recorded in Account 2821001 and 2831001 will reduce towards a zero balance as the deficient taxes are amortized. The deficient taxes are based off of the stand-alone NOLC balance as of TCJA 2017. Therefore, the beginning balance of the deficient taxes related to the stand-alone NOLC does not change as the losses are absorbed by taxable income in tax years after 2017. The account balance of 1901001 would reduce as the NOL DTA is absorbed by taxable income. However, it does not impact the balance of the 2821001 or 2831001 as those accounts are related to the tax rate change from 35% to 21%. The account 2821001 balances will be settled when the excess balances, net with the deficient taxes, are fully amortized via ARAM. The 2831001 balances will be settled when all of the unprotected is amortized and refunded back to customers.

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