American Electric Power Service
Corporation
1 Riverside Plaza
Columbus, OH 43215

March 23, 2022

Ms. Jessica Rozier
GDS Associates, Inc.
1850 Parkway Place, Suite 800
Marietta, GA 30067

RE: Response to Preliminary Challenges to 2020 Annual Transmission Formula Rate True-up: AEP West Operating Companies and AEP West Transmission Companies in the AEP Zone
Docket Nos. ER18-194-000
ER18-195-000

Dear Ms. Rozier:

Pursuant to the Formula Rate Implementation Protocols for the AEP West Operating Companies and the AEP West Transmission Companies in the AEP Zone (Attachment H, Addendum 1 and Attachment H, Addendum 4, respectively, to the SPP Open Access Transmission Tariff), American Electric Power Service Corporation ("AEP") provides this response to your letter dated February 7, 2022 on behalf of the Joint Customers[1] notifying AEP of Preliminary Challenges to certain components of: (i) the AEP West Operating Companies' Formula Rate Annual Update for 2020, which was filed with the Federal Energy Regulatory Commission ("FERC") on May 25, 2021 in Docket No. ER18-195 ("2021 OpCo Update"), and (ii) the AEP West Transmission Companies' Formula Rate Annual True-up for 2020, which was filed with FERC on May 25, 2021 in Docket No. ER18-194 ("2021 Transco Update").

For ease of reference, below AEP restates each issue identified in your February 7, 2022 letter, followed by AEP's response. Please let us know if you have any questions about the information provided.

Sincerely,
s/ Stacey Burbure
Stacey Burbure
Senior Counsel
American Electric Power Service Corporation
801 Pennsylvania Avenue NW, Suite 735
Washington DC 2004-2615
slburubre@aep.com

[1] Arkansas Electric Cooperative Corporation (AECC), East Texas Electric Cooperative, Inc. (ETEC), Northeast Texas Electric Cooperatives (NTEC), and Golden Spread (GSEC).

AEP WEST 2021 OpCo and 2021 TRANSCO
SPP Transmission Formula Rate Update

Responses to Joint Customer's Preliminary Challenges

Data Request PC-2020-01:
<u>Resolved Issues</u>
As discussed below, AEP has indicated it will properly resolve each of PC-1 through PC-4 by excluding or making adjustments to the applicable true-up or a future true-op. Based on these representations, and subject to confirmation by AEP, the Joint Customers believe these Preliminary Challenges are resolved:
The Joint Customers' Data Request 1-24 included a statement from AEP's response to the 2020 Annual Update, Preliminary Challenge No. 21. In that response, AEP stated that, "Line item 520Y relates to the normalization of protected excess amortization that began 1/1/18 under the ARAM calculation. It created a refund related to retail jurisdictions because this amortization was being recorded on the books but not in normalized rates. However, because this amortization was being passed back concurrently in the formula rates, this timing difference. shouldn't be allocated in those rates." However, in AEP's 2021 Annual update, it appears that SWEPCO has included Line 520Y PROV FOR RATE REFUNDEXCESS PROTECTED based on "PTD" on WS C-1 and WS C-2. In addition, PSO has included this same line item based on "PTD" on WS C-2.
In Data Request 1-24, the Joint Customers asked for an explanation as to why these amounts were not excluded in accordance with AEP's response to this preliminary challenge last year. In AEP's response to Data Request 1-24, AEP agreed that the "520Y was allocated in error and should have been excluded."

Response:
The Company agrees with this preliminary challenge and when excluding 520Y from the formula rate calculation, it reduces PSO's revenue requirement by $1,889 and SWEPCO's revenue requirement by $51,387.

Date: 3/23/2022

Responses to Joint Customer's Preliminary Challenges

Data Request PC-2020-02:

Resolved Issues
As discussed below, AEP has indicated it will properly resolve each of PC-1 through PC-4 by excluding or making adjustments to the applicable true-up or a future true-op. Based on these representations, and subject to confirmation by AEP, the Joint Customers believe these Preliminary Challenges are resolved:
In reference to AEP's responses to Data Requests 1-111 and 2-68.b, related to the line item AMERICAN WIND ENERGY ASSOC in the amount of $3,259, AEP agreed to the following, "This represents AEP's 2020 membership in the Association. These were billed in error to OKT and the Company will provide an adjustment in the next true-up."

Response:
The Company agrees with this preliminary challenge. The Company will provide a refund of $3,077, which is the allocated amount of the gross amount of the charge in question.

Date: 3/23/2022

Responses to Joint Customer's Preliminary Challenges

Data Request PC-2020-03:
Resolved Issues
As discussed below, AEP has indicated it will properly resolve each of PC-1 through PC-4 by excluding or making adjustments to the applicable true-up or a future true-op. Based on these representations, and subject to confirmation by AEP, the Joint Customers believe these Preliminary Challenges are resolved:
In reference to AEP's responses to Data Requests 1-133 and 2-80, the Joint Customers requested that AEP provide the justification for including prepayments related to Texas gross receipts taxes when the final gross receipt tax expense is properly excluded from the formula rate template on "SWEPCO WS L Other Taxes" Line 2. AEP agreed to the following, "The entire amount of the $477,290 relates to Texas Gross Receipts, and it should have been excluded in the formula."

Response:
The Company agrees with this preliminary challenge and when removing the Texas Gross Receipts from the formula rate calculation, it reduces SWEPCO's revenue requirement by $9,156.

Date: 3/23/2022

Responses to Joint Customer's Preliminary Challenges

Data Request PC-2020-04:
<u>Resolved Issues</u>
As discussed below, AEP has indicated it will properly resolve each of PC-1 through PC-4 by excluding or making adjustments to the applicable true-up or a future true-op. Based on these representations, and subject to confirmation by AEP, the Joint Customers believe these Preliminary Challenges are resolved:
In reference to Data Request 1-98(n) and 1-130(p), AEP indicated that it erroneously removed Tax Reform Act of 1986 amounts from the 960F-XS codes and that it will record correcting accounting entries and provide refunds to customers.

Response:
The company agrees with this preliminary challenge. The net balance of "282 Excess Adjustment" and "283 Excess Adjustment" subledger line items recorded in account 2821001 and 2831001, respectively, represent protected excess ADIT that resulted from the Tax Reform Act of 1986. During the 2017 return to provision process, these amounts were erroneously reclassed from the 960F-XS line item, into the "282 Excess Adjustment" and "283 Excess Adjustment" line items. In October 2021, the "282 Excess Adjustment" and "283 Excess Adjustment" line items were reclassed back into the 960F-XS line item. The inclusion of these line items in rate base is accurate and has been and will continue to be refunded to customers over the Average Rate Assumption Method (ARAM) as required for protected excess under IRC normalization rules. The reclassification did not have an income statement impact, it was a simple reclass between subledger line items.

Date: 3/23/2022

Data Request PC-2020-05:
Unresolved Issues
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
In reference to AEP's responses to Data Requests 1-28 and 2-9, AEP has included the prepaid PRW balance in the calculation of rate base. It is not clear that AEP has included the ADIT related to the prepaid PRW balance as a reduction in the calculation of the rate base. Therefore, the Joint Customers challenge AEP's treatment of the ADIT until AEP demonstrates and provides supporting documentation (i) where the prepaid PRW balance related ADIT is reflected in the transmission formula; and (ii) the proper amount of prepaid PRW balance related ADIT has been allocated in the transmission formula.

Response:
The Company does not agree with this Preliminary Challenge. Account 1650035 Prepaid PRW is associated with Sch M 906A - *Accrd SFAS 106 PST Retire Exp* in account 2831001. This Schedule M is allocated based on labor in the formula rate, similar to the underlying 1650035 account, which is also allocated on labor.
Account 1650037 is associated with Sch M 906F - *Accrd OPEB Costs - SFAS158* in account 1901001. This ADIT balance is excluded in the transmission formula consistent with the treatment of account 1650037 in the formula.

Date: 3/23/2022

Data Request PC-2020-06:
Unresolved Issues
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
In reference to AEP's responses to Data Requests 1-45 and 2-22, AEP states "The Company has identified the need to make a ratemaking adjustment to its GAAP books to appropriately recognize the NOL carryforward on a stand-alone basis." The Joint Customers challenge this position on that basis that AEP is using a "ratemaking only" adjustment and its justification relates to the treatment of NOLs in Opinion 173. Opinion 173 does not address the accounting or rate treatment of NOLs. Rather, it discusses the computation of the income tax allowance on a standalone basis. It is not known how AEP is computing this adjustment, whether it complies with the FERC accounting requirements, or how AEP would satisfy the Commission's just and reasonable standard. In addition, the transmission formula rates of the AEP West operating companies do not provide for such ratemaking only adjustments. For the foregoing reasons, the Joint Customers challenge AEP's inclusion of such ratemaking only adjustments in FERC Accounts 190 and 282.

Response:
The Company does not agree with this Preliminary Challenge. As indicated in its Informational Filing submitted on November 1, 2021, AEP has transitioned its treatment of Deferred Tax Assets associated with NOLs to a stand-alone versus consolidated company basis. Accordingly, in its 2022 Projected Transmission rate filings, AEP treated Deferred Tax Assets associated with NOLs on a stand-alone basis. This was done in accordance with the formula rate. AEP 's transmission formula rate refers to the balances shown on the FERC Form No. 1, but AEP is able to populate the relevant ADIT worksheets using company books and records, which allows ratemaking adjustments to balances reported on the FERC Form No. 1.
Please note that the 2020 true-up filed May 25, 2021, reflected consolidated NOLs.

Date: 3/23/2022

Data Request PC-2020-07:
Unresolved Issues

The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:

In reference to AEP's responses to Data Request 1-54, Attachment "1-54_Attachment_1," PSO tab, Account 566, Column "WO_Descr,"and 2-29 b., c., f., g., and h., related to the following items, AEP states the following items should have been recorded to other accounts.

a. (b.) G0001468 - All Distribution Companies in the amount of $31.72 – Per AEP, "These are for Shreveport Chemical Lab that were billed through the Service Company. Should be on SWEPCO's books in account 588 not PSO."
b. (c.) SENRAPMG01 - ENRA PMO Proj Gen Cost in the amount of $1,913.27 – Per AEP, "These costs are for Mitigation Planning that should have been recorded to 506.
c. (f.) SNERCA3G01 - Generation: RF/MRO/TRE in the amount of $19,803.74 – Per AEP, "Effectively captures various costs related to Enterprise NERC Reliability Assurance (ENRA) group activities specific to regional entities - Reliability First (RF), Midwest Reliability Organization (MRO) and Texas Reliability Entity (TRE). This should have been recorded to 506."
d. (g.) SNERCRMG01 - Generation: RF/MRO in the amount of $25.60 - Per AEP, "These costs capture various costs related to Enterprise NERC Reliability Assurance (ENRA) group activities specific to regional entities - Reliability First (RF) and Midwest Reliability Organization (MRO). This should have been recorded to 506."
e. (h.) SRFMCPG201 - 2021 TRE AEPSC Audit Gen in the amount of $29,313.00 – Per AEP, "Captures costs related to 2021 TRE AEPSC Audit. This should have been recorded to 506."

However, it is unclear whether AEP is agreeing to remove these items from Account 566, place them in Accounts 588 or 506, respectively, and make appropriate adjustments to the true-up calculations. For the foregoing reasons, the Joint Customers challenge the inclusion of these items in Account 566 until AEP confirms that such actions will be taken.

Response:

The Company agrees with this preliminary challenge and when removing the amounts in subparts a, b, c, d and e from the formula rate calculation, it reduces PSO's revenue requirement by $46,559.

Date: 3/23/2022

AEP WEST 2021 OpCo and 2021 TRANSCO
SPP Transmission Formula Rate Update

Responses to Joint Customer's Preliminary Challenges

Data Request PC-2020-08:
<u>Unresolved Issues</u>
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
In reference to AEP's responses to Data Requests 1-54, Attachment "1-54_Attachment_1," PSO tab, Account 566, Column "WO_Descr," and 2-30 a., b., c., d., g., h., i., j., k., l., m., related to the following items, AEP states these should have been recorded to other accounts.

a. (a.) 4153252001 - TEXARKANA: (TEX) DIST STN CONT in the amount of $601.37 – Per AEP, "These Charges should have been booked to Account 588."
b. (b.) 4153252401 - TEXARKANA: (ARK) DIST STN CONT in the amount of $1,129.16 – Per AEP, "These Charges should have been booked to Account 588."
c. (c.) 4203058901 - DISTRIBUTION TRANSFORMER MAIN in the amount of $306.36 – Per AEP, "These Charges should have been booked to Account 588."
d. (d.) 4203061502 - CM DISTRIBUTION BATTERY MAINTE in the amount of $268.03 – Per AEP, "These Charges should have been booked to Account 588."
e. (g.) G0000161 - SWEPCO TX Distribution in the amount of $6,071.96 – Per AEP, "Should have been recorded to 588."
f. (h.) G0000168 - SWEPCO Generation in the amount of $530.00 – Per AEP, "Misc Charges billed through the Service Company. Original transactions should have been recorded to 506."
g. (i.) G0001468 - All Distribution Companies in the amount of $23.84 – Per AEP, "Should have been recorded to 588."
h. (j.) SENRAC4G01 - ENRA CIP004 Multi Mit Plan Ge in the amount of $29.07 – Per AEP, "Should have been recorded to 506."
i. (k.) SENRAPMG01 - ENRA PMO Proj Gen Cost $7,071.50 – Per AEP, "Should have been recorded to 506."
j. (l.) SNERCA3G01 - Generation: RF/MRO/TRE $73,189.42 – Per AEP, "Should have been recorded to 506."
k. (m.) SNERCRMG01 - Generation: RF/MRO $96.93– Per AEP, "Should have been recorded to 506."

However, it is unclear whether AEP is agreeing to remove these items from Account 566, place them in Accounts 588 or 506, respectively, and make appropriate adjustments to the true-up calculations. For the foregoing reasons, the Joint Customers challenge the inclusion of these items in Account 566 until AEP confirms that such actions will be taken.

Response:
The Company agrees with this preliminary challenge and when removing the amounts in subparts a through k from the formula rate calculation, it reduces SWEPCO's revenue requirement by $85,849.

Date: 3/23/2022

Data Request PC-2020-09:
<u>Unresolved Issues</u>
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
In reference to AEP's responses to Data Requests 2-31 a.-h. (PSO), and 2-33 b.-i. (SWEPCO), Account 923, AEP did not provide a description of the work being performed under each specific IT project. These projects appear to be related to AEP's *retail* customers. The Joint Customers challenge the inclusion of these retail-related expenses until further information can be provided.
Account 923 of the USoA states "This account shall include the fees and expenses of professional consultants and others for general services which are **not applicable to a particular operating function** or other accounts [bold added]." To the extent that these activities support AEP's retail customers these amounts should be recorded to Account 910 – Miscellaneous customer service and informational expenses defined in the USoA as "…the cost of labor, materials used and expenses incurred in connection with customer service and informational activities which are not includible in other customer information expense accounts." For the foregoing reasons, the Joint Customers challenge the inclusion of the following expenses:
PSO

a. (a.) SITE418801 - Customer Operations Support in the amount of $40,070.67
b. (b.) SITE603001 - Customer Operations in the amount of $18,858.62
c. (c.) SITE800901 - Ent Int Customer-IT Exp in the amount of $29,397.51
d. (d.) SITER03201 - Cust Rel Mgmt Req - EXP in the amount of $353,514.28
e. (e.) SITES59201 - Customer Web Support - IT EXP in the amount of $11,717.86
f. (f.) SITES59401 - Customer Choice Supt - IT EXP in the amount of $22,936.83
g. (g.) SITES59601 - Credit Collections Supt-IT EXP in the amount of $63,653.16
h. (h.) SITES59901 - Customer Quality Supt - IT EXP in the amount of $22,813.65

SWEPCO

a. (b.) SITE418801 - Customer Operations Support in the amount of $38,663
b. (c.) SITE603001 - Customer Operations in the amount of $18,193
c. (d.) SITE800901 - Ent Int Customer-IT Exp in the amount of $23,302
d. (e.) SITER03201 - Cust Rel Mgmt Req - EXP in the amount of $341,005
e. (f.) SITES59201 - Customer Web Support - IT EXP in the amount of $11,303
f. (g.) SITES59401 - Customer Choice Supt - IT EXP in the amount of $22,127
g. (h.) SITES59501 - Billing Support- IT EXP in the amount of $29,147
h. (i.) SITES59601 - Credit Collections Supt-IT EXP in the amount of $61,411

Response:
The Company does not agree with this Preliminary Challenge. AEP charges consultant fees to account 923, Outside Services. The Company also believes that the formula rate is intended to calculate a representative cost of service in a cost-effective, efficient manner that avoids the analysis of every charge incurred for inclusion or exclusion in the formula, instead relying on the agreed upon use of an allocator to assign a portion of an account for recovery in the formula.

Date: 3/23/2022

Responses to Joint Customer's Preliminary Challenges

Data Request PC-2020-10:
<u>Unresolved Issues</u>
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
In reference to AEP's responses to Data Requests 2-31 i. (PSO), and 2-33 k.-l. (SWEPCO), Account 923, AEP did not provide a description of the work being performed under each specific IT project. These projects appear to be related to AEP's *retail* customers. The Joint Customers challenge the inclusion of these retail-related expenses until further information can be provided.
The meters associated with the IT expenses referenced in AEP's response are presumably recorded in Account 370 – Meters. Account 923 of the USoA states that "[t]his account shall include the fees and expenses of professional consultants and others for general services which are **not applicable to a particular operating function** or other accounts [bold added]." To the extent that these activities support AEP's retail customers' meters which are recorded in distribution plant accounts, these amounts should be recorded to Account 588 – Miscellaneous Distribution expenses. For the foregoing reasons, the Joint Customers challenge the inclusion of the following expenses:
PSO
a. (i.) SITES60701 - Meter Systems Support - IT Exp in the amount of $14,973.41

SWEPCO
b. (k.) SITES60501 - AMI Integration Supt - IT EXP in the amount of $7,565
c. (l.) SITES60701 - Meter Systems Support - IT Exp in the amount of $14,444

Response:
The Company does not agree with this Preliminary Challenge. AEP appropriately charges consulting fees to account 923, Outside Services. The Company also believes that the formula rate is intended to calculate a representative cost of service in a cost-effective, efficient manner that avoids the analysis of every charge incurred for inclusion or exclusion in the formula, instead relying on the agreed upon use of an allocator to assign a portion of an account for recovery in the formula.

Date: 3/23/2022

Data Request PC-2020-11:
Unresolved Issues
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
In reference to AEP's responses to Data Requests 1-55, Attachment "1-55_Attachment_1," 2-31 j. (PSO), SWEPCO 2-33 m. (SWEPCO), and 2-35 b. (OKT), AEP has included the following short-term interest expenses in Account 923:

a. 2-31 j., - SP00120001 - Fin Interest on Borrowed Cap in the amount of $373,042.94 – AEP stated, "Interest and financing costs associated with working capital and short-term borrowings or investments."
b. 2-33 m. - SP00120001 - Fin Interest on Borrowed Cap in the amount of $520,572 – AEP stated, "This is AEPSC Billings related to Interest on Corp Borrowing Program. Interest and financing costs are billed out as service cost to the OPCO's."
c. 2-35 b. - SP00120001 - Fin Interest on Borrowed Cap in the amount of $85,150.83 – AEP stated it was, "This is AEPSC billings related to Interest on Corp Borrowing Program. Interest and financing costs are billed out as service cost to the OPCO's.

The Joint Customers challenge AEP recovering this short-term interest in its formula rate template given Commission precedent with respect to exclusion of such debt. For example, in FERC Docket No. ER82-160-000 the Commission explained that:
[t]he Cooperatives state that inclusion of short-term debt in CTU's capital structure will bias the weighted cost of capital upward, with a resulting overstatement of the return requirement, that such inclusion is contrary to Commission precedent, and that short-term debt should be summarily excluded from capitalization. We agree that summary disposition is warranted as to this issue. Our practice of excluding short-term debt from the capital structure "is based on the premise that short-term financing does not support rate base but is generally used for temporary financing of construction activities" and "has been consistently adhered to except in rare cases involving unique circumstances." No such unique circumstances are alleged by CTU. Therefore, we shall grant the request for summary disposition and we shall require CTU to refile its cost of service and rates to exclude short-term debt costs from the stated capital structure.
Furthermore, it is unclear whether it is appropriate for AEPSC to bill the operating utilities short-term debt costs to the extent AEPSC capitalizes AFUDC for service company capital projects.
For the foregoing reasons, the Joint Customers challenge the inclusion of short-term interest in Account 923. These amounts should be recorded in Account 431 and excluded from the calculation of charges under the formula rate template.

Response:
The Company does not agree with this Preliminary Challenge. The Corporate Borrowing Program is a service provided by AEP Service Corporation to all AEP Subsidiaries to meet short term liquidity needs. The benefiting subsidiaries record this cost as a receipt of a professional service. The interest related to this program is considered a cost of providing the service by the service corporation, and is not interest on the books of the subsidiaries. It is properly recorded in

Account 923, Outside Services Employed, and is properly recovered as an administrative and general expense under the formula rate.

General Instruction #14 and 18 C.F.R. § 367.14 require that transactions with associate companies be recorded in the accounts "for transactions of the same nature." This does not mean the exact same account, but rather administrative expenses of the service company should be booked as an administrative expense of the subsidiary. Account 923 includes expenses for general services, and is recovered as administrative and general expense under the formula rate. *See* Transmission Cost of Service Formula Rate, line 71. Furthermore, it is unclear why the citation to FERC Docket No. ER82-160-000 was provided. Neither Account 923 nor interest on short-term interest expense is included in the determination of the AEP companies' capital structure. *See* Transmission Cost of Service Formula Rate, lines 132-133 and Worksheet M.

Therefore, AEP has appropriately recorded the costs of the corporate borrowing program in Account 923 and is recovering those costs as an administrative and general expense under the formula rate. No part of those costs are included in the determination of the company's capital structure or weighted average cost of capital.

Date: 3/23/2022

Data Request PC-2020-12:
<u>Unresolved Issues</u>
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
In reference to AEP's responses to Data Request 1-55, Attachment "1-55_Attachment_1," tab SWEPCO, Account 923, Column "WO_Descr" and 2-33a. and 2-33n., SWEPCo has included expenses in Account 923 for (i) G0001322 - Pirkey Plant Unit 0 in the amount of $542,647 and (ii) STXLEGAL01 - TX coal/lignite Generation in the amount of $6,165. The Joint Customers believe that the coal mining expenses should be classified as production plant. Consistent with the findings in the PacifiCorp audit report in Docket No. FA16-4 for assets, AEP's wholesale formula rate was not developed to permit the recovery of assets or O&M costs exclusively used to serve its production function that have no relevance to the transmission service. The inclusion of coal/lignite or mining expenses in rates that are exclusive to the production operations does not meet the Commission's just and reasonable standard for inputs to the formula rate. For the foregoing reasons, the Joint Customers challenge the inclusion of these coal mining expenses and any other operating costs in the transmission formula rate.

Response:
The Company does not agree with this Preliminary Challenge. AEP appropriately charges legal fees to account 923, Outside Services. The Company also believes that the formula rate is intended to calculate a representative cost of service in a cost-effective, efficient manner that avoids the analysis of every charge incurred for inclusion or exclusion in the formula, instead relying on the agreed upon use of an allocator to assign a portion of an account for recovery in the formula. Additionally, the Company does not consider audit findings related to other companies to be precedential.

Date: 3/23/2022

Responses to Joint Customer's Preliminary Challenges

Data Request PC-2020-13:
<u>Unresolved Issues</u>
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
In reference to AEP's response to Data Request 2-36, AEP's response has not explained its lack of use of Account 929 credits. AEP has merely restated the definition of Account 929. Since AEP does not appear to utilize this account, it is assumed that AEP is utilizing other FERC accounts to record these types of duplicate charges. AEP has not verified or explained the methodology and FERC accounts being utilized to provide credits that would typically be recorded in Account 929. It is also unclear why AEP has provided a definition of Account 930.1 as part of its response and how it relates to charges that are typically included in Account 929. The Joint Customers challenge AEP's accounting treatment of items that should be recorded to Account 929 until AEP can provide clarification on its process and provide a meaningful answer to the original question in Data Request 1-56. See below.
Data Request 1-56: "For each OpCo and TransCo refer to the 2020 FERC Form 1, page 323, Line 190, Account 929 – (Less) Duplicate Charges – Cr, please provide:

a. A detailed list of each transaction (all debits and credits) by FERC Account for each OpCo and TransCo where these types of duplicative charge transactions are being recorded in 2020, which utilities normally record in Account 929 as defined as: "This account shall include concurrent credits for charges which may be made to operating expenses or to other accounts for the use of utility service from its own supply. Include, also, offsetting credits for any other charges made to operating expenses for which there is no direct money outlay" in the FERC USoA.
b. If an OpCo and TransCo has no amounts associated with this line item in 2020, please provide an explanation as to why and where these amounts are recorded."

Response:
The Company does not agree with this Preliminary Challenge. Account 929 is used to offset duplicate charges in order to eliminate them from rates. AEP does not use Account 929 because any duplicate charges are offset within the applicable cost and revenue accounts. This accounting is consistent with the USofA. *Delmarva Power & Light Co.*, 172 FERC ¶ 61,174, at PP 15, 24 (2020) (finding that offsetting costs and revenues in this manner rather than utilizing Account 929 is consistent with the Commission's Uniform System of Accounts).

Date: 3/23/2022

Responses to Joint Customer's Preliminary Challenges

Data Request PC-2020-14:
<u>Unresolved Issues</u>
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
In reference to AEP's responses to Data Requests 1-66 and 2-39, AEP states "Normally, environmental impact/permitting activities would not be classified as an intangible asset; however, since this is an unusual situation which benefits future projects over an extended period of time it was decided that account 303 could be used for capitalizing the cost associated with the HCP and NEPA study." The Commission's accounting regulations prescribed in Account 183 require utilities to record the costs of studies that may result in future construction project, similarly the HCP and NEPA study costs appear to be more appropriately recorded in Account 183. Account 303 does not appear appropriate because the HCP and NEPA study costs do not represent used and useful assets in utility service. AEP's response admits to applying unique capitalization treatment to this study. Prior to implementing such unique accounting treatments, AEP should seek FERC approval, consistent with General Instruction No. 5, of the Commission's accounting regulations. For the foregoing reasons the Joint Customers challenge the classification of these expenses in the amount of $308,599.51 to Account 303.

Response:
The Company does not agree with this Preliminary Challenge. Please refer to 'PC-14_Attachment 1' for a detailed explanation of the decision-making process utilized to capitalize these costs in account 303.

Date: 3/23/2022

Data Request PC-2020-15:
<u>Unresolved Issues</u>
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
AEP's response to Data Requests 2-43(a-c) relating to balances of Cash Revenue Collections amounts is not clear and the zip file JI-2-43 Attachment (including 12 monthly files) does not appear to provide the supporting documentation for the calculations which result in the amounts referenced in WS N Sch 11 TU, for "Cash Revenue Collections for True-up Year, Net of Schedule 11 Revenue Credits" of $8,692,421; $84,709,457; and $41,574,86 for PSO, SWEPCO and OKT, respectively. The zip file JI-2-43 Attachment has two attachments which appear to be incomplete, i.e., bills_2020-09-01_revenue_requirements_and_rates_MFW_act.xlsx and bills_2020-11-01_revenue_requirements_and_rates_rev_20201201_act_mfw.xlsx. These files are not transparent as to where in each "monthly" file the monthly amount(s) for each OpCo and TransCo are being utilized for the Operating Revenues Actuals received. The Joint Customers challenge the balances of the Cash Revenue Collections amounts reflected in WS N Sch 11 TU until further information can be provided to support those amounts, including a reconciliation between the total amount in WS N Sch 11 TU with the total of the individual monthly amounts from the zip file JI-2-43.

Response:
The Company agrees with this preliminary challenge. The amount of cash revenue collections shown in the 2020 true-up formula is made up of two components: the actual cash receipts received during 2020 (which is based on the prior month's invoiced amount), and the true-up of cash receipts for the prior calendar year. To substantiate the requested amounts the Company is providing the following attachments:
JC-2020-PC-15 Attachment 1 is a summary of the monthly invoice amounts received in 2020. Because this preliminary challenge is requesting the cash revenue collections, the data provided in each monthly column represents the billing of the prior month's Charges (i.e. December 2020 represents the activity for November 2020.) The monthly totals are found in rows 44 and 94 for the West Operating and Transmission Companies, respectively, and the annual amounts for PSO, SWEPCO, and OKTCO are found in cells O45, O46 and O95 respectively and are part of the amount included in WS N.
Note that the information from the 12 monthly files pro
vided in the response to data request 2-43 will tie to rows 48 and 98 of Attachment 1. The specific data from each file provided in 2-43 comes from the "BASE PLAN REV. REQ ALLOC" Tab. For a sample of files the specific cell that each number is sourced from is highlighted in green. The reason for differences between rows 44 and 48 and 94 and 98 are adjustments that are included in the invoiced activity shown in the attachments included in 2-43.
JC-2020 PC-15 Attachment 2 provides the detail of the cash receipts for the prior year true-up. These adjustment amounts for PSO, SWEPCO and OKTCO are found in worksheet cells R46, R92 and R38, respectively. Note that a negative value implies a refund and are added to the company value from Attachment 1 to derive the totals included on each company's worksheet

N. For instance, for PSO the value of $8,692,241 is the sum of $6,776,929.66 from cell O45 in Attachment 1 and the absolute value of ($1,915,492) in cell R46 of the PSO tab in Attachment 2.

Date: 3/23/2022

Responses to Joint Customer's Preliminary Challenges

Data Request PC-2020-16:
Unresolved Issues
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
In reference to AEP's responses to Data Requests 1-88, 1-122 and 2-48, AEP errs by not crediting Account 108 for the salvage proceeds for the sale of the Alliance Railcar Facility as required in Electric Plant Instruction 10, (B)(2). AEP incorrectly credited Account 151 instead. As a result, net plant in service prior to allocation is overstated by $3.5M. The Joint Customers challenge AEP's crediting of Account 151 for the salvage proceeds of the railcar facilities instead of Account 108 per the USoA.

Response:
The Company does not agree with this preliminary challenge. Depreciation expense related to the Alliance Railcar Facility was flowed through to fuel inventory, and not the depreciation expense account. Therefore, the Company determined it was proper to record the remaining book value and proceeds from the sale to fuel inventory as well.

Date: 3/23/2022

Data Request PC-2020-17:
<u>Unresolved Issues</u>
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
In reference to AEP's responses to Data Requests 1-92 and 2-49, the Joint Customers requested AEP provide the single line (i.e. one line) diagrams for each of the substations included in Attachments "Jl-1-092 Attachment 1" and "JI-1-146 Attachment 1." AEP responded, "The requested one line diagram information is considered competitively sensitive information. It will be made available for review at the Company's offices during normal business hours." Similarly, AEP's response to Data Request 2-90 indicated a one-line could be reviewed at its office. The Joint Customers contend that there are already protectionary measures in place, specifically the Protective Agreement in these dockets and the May 2021 Non-disclosure agreements (NDAs), to facilitate a data exchange. AEP's requirement to physically go to the office is unreasonable and unduly burdensome on customers. The Joint Customers challenge the following items as non-responsive and unsupported as transmission until AEP provides the requested one-line diagrams through the Protective Agreement and NDAs currently in place. To the extent that AEP can facilitate an alternative electronic solution, the Joint Customers are amenable to discussing such options with the Company. The following items are challenged:

a. PSO (Data Response 2-49) - $15.9M Net Book Value of assets in Accounts 350, 350.1, 352.2, 353, and 353.16
b. SWEPCO (Data Response 2-90 - $2.9M Net Book Value of assets in Accounts 350 to 353.16

Response:
The Company agrees with this preliminary challenge. The Company will agree to hold a Teams meeting with customer representatives to review the requested one line data at a mutually agreeable time. Additionally non-AEP participants must execute a non-disclosure agreement prior to this meeting and must agree to not make screen copies of the diagrams they wish to view.

Date: 3/23/2022

Responses to Joint Customer's Preliminary Challenges

Data Request PC-2020-18:
<u>Unresolved Issues</u>
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
In reference to AEP's response to Data Request 2-50, AEP's response is non-responsive as it does not provide any meaningful descriptions of the activities related to expenses booked to Accounts 920 and 923. AEP merely breaks out labor dollars and other for each item. The Joint Customers challenge the inclusion of the following expenses in Accounts 920 and 923 until further information can be provided:

a. 10811 - Regulatory Services in the amount of $344,461
b. 12321 - Fuel Cost Recovery Admin in the amount of $410
c. 13068 - Pricing & Analysis in the amount of $266,005
d. 13689 - RTO Reg Services in the amount of $81,412

Response:
The Company agrees with this Preliminary Challenge's request for further information. Please see PC-2020-18 Attachment 1 for summaries by activity for each of the requested amounts.

Date: 3/23/2022

Data Request PC-2020-19:

Unresolved Issues

The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:

In reference to AEP's response to Data Request 2-59, AEP has included "PROVS POSS REV REFDS-A/L" ADIT as being includible as additions/(reductions) to rate base. AEP has stated in response to JI 1-99 that, "Regarding the ADIT item 520A related to refunds, as described in previous responses refunds are a return of previously billed amounts. Because the formula relies on projections and related true-ups the Company believes that it is appropriate to allocate related ADIT balances in rate base until the refund is recognized for tax purposes."

AEP's statement is contradictory to how ADIT is derived. First, ADIT is based on the difference between "book and tax" recognition of the expense or revenue. If there is an ADIT on the books, it has to be due to: (i) a balance sheet recognition of both a deferred asset and deferred liability which will occur in the future and both the asset and the liability will have offsetting ADIT impacts which should net to $0; (ii) the recognition for book purposes of income and/or expenses prior to being recognized for income tax purposes; (iii) the recognition for income tax purposes of income and/or expenses prior to being recognized for book purposes; or (iv) the recognition of permanent timing differences which are recognized for book purposes but are never recognized for income tax purposes. AEP's response does not appear to be one of the situations where ADIT would be recognized for book purposes and specifically for rate making purposes. The collection in rates of an estimated or projected revenue requirement and the future refund of any over-collection once the actual revenue requirements become known is only related to "revenues" that have been collected. Those revenues would be recorded in FERC Accounts 440 through 457.2. It is not transparent how AEP would have such "refunds" that would be recorded to FERC Accounts 565 and 566 or that would be appropriate to include any "ADIT" related to such refunds in the calculation of rate base. Furthermore, to the extent that this ADIT is associated with amounts included in Account 565, the Joint Customers note that Account 565 is excluded from the formula rate template. The Joint Customers challenge the inclusion of the ADIT related to the item 520A PROVS POSS REV REFDS-A/L until AEP has provided more information with copies of supporting documentation (FERC, 3rd Party, etc.) to support such amounts and their inclusion in the formula rate.

Regardless, the nature of rate refunds is that the utility is returning money to ratepayers that it should not have recovered in the first place. In other words, to the extent that the over-collection results in an income tax liability (and a deferred tax asset when the money is remitted to the taxing authority to extinguish the liability), *AEP has by definition already recovered the money from ratepayers to pay to the taxing authority*. There is no shareholder capital that AEP must contribute in order to make this payment and, consequently, no basis to include this deferred tax asset in rate base.

Response:

The Company does not agree with this preliminary challenge. Rate refunds represent a return or flow back of previously billed amounts for the provision of transmission service. The AEP West

Companies' formula rate is based upon projections and related true-ups. Thus, it is just and reasonable, and fully appropriate to allocate ADIT balances in rate base (and recognize a carrying cost on the related ADIT timing difference) until the refund is recognized.

Date: 3/23/2022

Data Request PC-2020-20:
<u>Unresolved Issues</u>
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
AEP's responses to Data Requests 1-129 and 2-74 for SWEPCO in WS C-1 ADIT EOY, 960F-XS Excess ADFIT 283 - Unprotected demonstrate that AEP has combined or netted the unprotected excess ADIT from Accounts 190 (deficient ADIT) and 283 (excess ADIT) and recorded the "positive" or deficient balance in Account 283. AEP's combination of respective deficient and excess ADIT amounts will not allow for a transparent review of whether the appropriate ADIT items are being included in the transmission formula rates. AEP has not provided any supporting documentation or guidance (FERC, 3rd Party, etc.) for the Company's position. Furthermore, based on the USoA description of Account 283, it should only reflect "credits" and not "debits." Joint Customers challenge AEP's position to not provide separate deficient ADIT and excess ADIT balances and the Company's absent basis to further consolidate the "net" Excess amounts into a single line, which further blurs transparency. Also, Joint Customers challenge AEP's position to no longer track the detailed individual ADIT items for future periods. Retaining of such individual ADIT items is required to demonstrate that the amortization amounts for each item are correct each year.

Response:
The Company does not agree with this preliminary challenge. In Orders on Compliance issued in the AEP West Operating and Transmission Companies' Order No. 864 applications, the Commission specifically disagreed with the Joint Customer's assertion that the Excess/Deficient ADIT Worksheet was inconsistent with Order No. 864's requirements: 'Therefore, we also disagree with the Joint Customers that AEP's Rate Base Adjustment Mechanism relies on inappropriate accounting.' (See *Order on Compliance* 178 FERC ¶ 61,126 at 62 for the AEP West Operating Companies and Order on Compliance 178 FERC ¶ 61,127 at 56 for the AEP West Transmission Companies.)
In addition, the Commission's orders also noted that: 'The Commission did not require public utilities to provide additional detail within each source (e.g., identifying each individual underlying temporary differences) in Order No. 864. For this reason, we disagree with Joint Customers that "item-by-item" detail is required.' Order 61,126 at 64 and 61,127 at 58.

Date: 3/23/2022

Data Request PC-2020-21:
<u>Unresolved Issues</u>

The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:

In reference to AEP's response to Data Request 1-138 and SWEPCO WS L Other Taxes, AEP has included Public Service Commission fees in FERC Account No. 408 (Taxes other than income taxes) rather than in FERC Account No. 928 (Regulatory commission expenses). In AEP's response to Data Request 1-138, AEP states that AEP companies have "historically recorded commission fees in account 408.1 and believe it is appropriate to do so." Public Service Commission fees, however, are not taxes but rather fees and on that basis the fees should be charged to FERC Account No. 928. AEP's decision not to include PSC fees in FERC Account No. 928 appears based on a misinterpretation of the scope of FERC Account No. 928. The USoA instructions are clear, however, that there are types of expenses included in Account 928 other than formal cases. The instructions for FERC Account 928 explicitly state:

A. This account shall include all expenses (except pay of regular employees only incidentally engaged in such work) properly includible in utility operating expenses, incurred by the utility in connection with formal cases before regulatory commissions, or other regulatory bodies, or cases in which such a body is a party, including *payments made to a regulatory commission for fees assessed against the utility for pay and expenses of such commission, its officers, agents, and employees*, and also including payments made to the United States for the administration of the Federal Power Act [emphasis added].

This instruction clearly encompasses the PSC fees that AEP has instead incorrectly charged to Account 408. For the foregoing reasons, the Joint Customers challenge AEP's inclusion of PSC fees in each OpCo and TransCo formula rate.

Response:

The Company does not agree with this Preliminary Challenge. As previously detailed in the discovery response the AEP companies have consistently recorded commission expenses in account 408. It is appropriate and just and reasonable that a portion of Public Service Commission fees be allocated to transmission customers because the transmission system is affected by actions of state regulatory agencies, even if state public utility commissions do not have direct oversight over wholesale transmission rates. To the extent certain of the AEP West Companies incur state commission fees related to the ownership and operation of their transmission assets, they should be allowed to recover a transmission-allocated share of those costs. The Commission has previously rejected customers' challenges that the public utility's formula rate should not provide for recovery of certain costs that are not directly related to transmission. For example, in *PPL Electric Utilities*, 136 FERC ¶ 61,101 at PP 16-18 (2011), the Commission addressed a formal challenge by a customer group that the formula rate should "include expenses that are directly or indirectly related to transmission service and not those related to retail service." The Commission held that the utility's formula rate was designed to recover transmission-related costs, both direct and indirect, and that the formula's use of allocation factors for certain FERC accounts permits the inclusion of costs that are not directly related to transmission. The Commission has also explained that the scope of Account 928 is limited to those costs that are incurred in connection with "formal cases" before regulatory commissions, and that expenses that are not incurred in connected with formal cases should be excluded from Account 928. The Commission has indicated that formal cases mean cases in which a docket has been assigned. See, e.g., 18 C.F.R. Part 101, Account 928(A), Regulatory Expenses; *Ameren Ill. Co.*, 174 FERC ¶ 61,209 at P 57 (2021) (finding that certain expenses not associated with a "docketed matter" should not be recorded in Account 928); *Ameren Ill. Co.*, 169 FERC ¶ 61,042 at P 30 (2019) (citation omitted) (finding that expenses incurred in connection with formal cases before a regulatory body would fall within the instructions of Account 928" and that expenses that are not incurred in connection with formal cases should not be included in Account 928). The Public Service Commission fees in question were not incurred in connection with formal cases in which a docket was assigned. Accordingly, the costs at issue should not be booked to Account 928.

Date: 3/23/2022

Data Request PC-2020-22:
Unresolved Issues

The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:

In AEP's implementation of its formula rate templates for its OpCos, AEP included only Accm Prv I/D – Worker's Com as rate base credits. However, in its response to Data Request 2-52, AEP has indicated that it has reserve balances included on its books related to items where the underlying expense was included in the formula rate template (*e.g.*, SFAS 112 Postemployment Benefits). Each of AEP's OpCos and TransCo's include Note U which states "The cost of service will make a rate base adjustment to remove unfunded reserves associated with contingent liabilities recorded to Accounts 228.1-228.4 from rate base."

With reference to this preliminary challenge, the Joint Customers provide the following explanation as it relates to unfunded reserves included in Accounts 228.1 – 228.4. AEP has failed to provide the customers with a reduction in rate base for the "Unfunded Reserves" associated with each of the accrued items identified in the foregoing data responses. AEP should have recorded each unfunded reserve as a reduction to rate base to reflect the fact that customers fund these accrued "expenses" that have not yet been incurred, and thus are providing a source of cost-free capital to the utility. FERC explained this principle in an order in Docket No. ER14-2751-000:

[W]e find that XEST's formula rate template should recognize unfunded operations and maintenance costs reserves as a form of cost-free financial capital to XEST. Utilities may accrue monies through charges to operation and maintenance expense to fund contingent liabilities, and such accrued reserves should be deducted from rate base until they are used to fund the liabilities because such reserves represent a cost-free form of financial capital from customers to utilities, not unlike accumulated deferred income taxes (ADIT) which are deducted from rate base. Accordingly, we direct XEST, in a compliance filing, to propose revisions to its formula rate template to credit any unfunded reserves against rate base.[1][1]

Moreover, The Commission's use of the phrase "contingent liabilities" appears to be lifted from intervenor protests and utilized without any substantive scrutiny as to the technical accuracy of the phrase itself. For example, see the following language taken from page 42 of Golden Spread's protest in the *XEST* docket cited above (emphasis added):

Utilities routinely establish contingent liabilities and accrue monies through charges to operation and maintenance expenses to fund such liabilities. Often such contingent liability accruals are unfunded – i.e., the cash accumulated by such accruals is not set aside in escrow but instead is treated as customer-contributed capital available for unrestricted use by the utility until an event occurs that requires such cash to be used to pay for a qualifying event covered by a contingent liability. **Examples of some of these common unfunded accruals are associated with certain non-qualifying pension programs, vacation accruals, injuries and damages reserve accruals, storm damage accruals, unpaid sick leave accruals and severance accruals**. When utilities use such unfunded accruals to cover future obligations, those accruals should be included in the allocated cost of service as credits (i.e., reductions) to rate base so that the utility does not utilize customer-contributed capital without compensation.

The Commission accepted this phrase exactly as described – that is, the Commission made no correction to indicate that "contingent liabilities" in the context of unfunded reserves should not include certain of the examples provided by Golden Spread because these items may not meet the technical definition of "Contingent Liabilities" as defined in the Uniform System of Accounts. It stands to reason, then, that the purpose of the Commission's orders was to require utilities to recognize sources of cost-free capital as reductions to rate base, *consistent with a plethora of prior Commission orders that reached the same conclusion*, rather than to introduce a new criteria into the measurement of cost-free capital that (1) it does not use in any other ratemaking context, (2) it had no reason to introduce, and (3) has no bearing whatsoever on whether the amounts in question are sources of cost-free capital to the utility.

For the foregoing reasons, the Joint Customers challenge AEP's decision to exclude from unfunded reserves any FERC Accounts 228.1 – 228.4 balances shown on JI-2-52_Attachment 1_1 for which the related expense accrual is included in the formula rate template:

a. 2283005, SFAS 112 Postemployment Benef;
b. 2283000, Accm Prv for Pensions&Benefits;
c. 2283002, Supplemental Savings Plan;
d. 2283001, Deferred Compensation Expense; and
e. 2283013, Incentive Comp Deferral Plan.

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[1] See *Xcel Energy Southwest Transmission Co., LLC*, 149 FERC ¶ 61,182 at P 97 (2014) ("XEST"); *Transource Wisconsin, LLC*, 149 FERC ¶ 61,180 at P 43 (2014); *see also NextEra Energy Transmission West, LLC*, 154 FERC ¶ 61,009 at P 125 (2016) ("[I]n the past the Commission has directed entities to revise their formula rate templates to 'credit any unfunded reserves against rate base'"). Working capital includes capital supplied by investors (i.e., cash working capital, prepayments, and materials and supplies) and capital supplied by customers (i.e., unfunded reserves).

Response:

The Company does not agree with this preliminary challenge. The XEST order, and AEP's approved formula rate templates, specifically limit Unfunded Reserves to liabilities that are contingent. AEP disagrees with the challenge's definition of contingent liabilities. *Xcel Energy Sw. Transmission Co.*, 149 FERC ¶ 61,182, at P 97 (2014) (describing unfunded reserves as money accrued from customers to fund contingent liabilities); *Xcel Energy Transmission Dev. Co., LLC*, 149 FERC ¶ 61,181, at P 35 (2014). AEP relies on Commission precedent and the FERC USofA definition of contingent liabilities which states: Contingent liabilities include items which may under certain conditions become obligations of the utility, but which are neither direct nor assumed liabilities at the date of the balance sheet. 18 C.F.R. Part 101, General Instruction No. 15. The Company believes it has accurately reflected the appropriate contingent liabilities in its formula. Additional balances in account 228 that are shown in the response to JI-2-52_Attachment 1_1 represent liabilities that AEP knows will occur at the date of the balance sheet and thus are not contingent. Further, the valuation changes recorded for SFAS 112 postemployment benefits in account 2283005 are offset by a regulatory balance sheet account and not included in the formula rate.

Date: 3/23/2022

Data Request PC-2020-23:
<u>Unresolved Issues</u>
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
In response to Data Request 2-24, AEP explains that it records long-term severance liabilities to FERC Account No. 228.3, but records severances that it expects to pay out within one year to FERC Account No. 242, Miscellaneous Current and Accrued Liabilities. In its response, AEP admits that the account descriptions for these accounts are not specific enough to support such a delineation, and that this delineation between these accounts is a function only of AEP's accounting judgment.
The Joint Customers agree with AEP's assessment that the account descriptions for FERC Account 228.3 and 242 are not specific enough to support a conclusion that FERC Account 228.3 is only for long-term liabilities (or long-term portions of liabilities), but the Joint Customers do not agree that the account descriptions for these items are not specific enough to support a conclusion that both the short-and long-term portion of severance accruals should be included in FERC Account 228.3. The account description for FERC Account 242 states as follows (emphasis added):[1]
This account shall include the amount of all other current and accrued liabilities **not provided for elsewhere** appropriately designated and supported so as to show the nature of each liability.
Thus, in order for AEP to record accruals for severance benefits to FERC Account 242, it must be the case that those accruals cannot be properly recorded anywhere else. However, that is clearly not the case, as the account description for FERC Account 228.3 states as follows:[2]
A. This account shall include provisions made by the utility and amounts contributed by employees for pensions, accident and death benefits, savings, relief, hospital and other provident purposes, where the funds are included in the assets of the utility either in general or in segregated fund accounts.
FERC Account 228.3 is the appropriate account to record accrued severance benefits and, because AEP records the long-term portions of the severance benefits accruals to FERC Account 228.3, plainly AEP agrees that FERC Account 228.3 is the proper account to record at least the long-term portions of such accruals. Therefore, AEP's accounting theory can only be correct if it can adequately support the contention that FERC Account 228.3 is for long-term portions of benefits costs only. However, as AEP asserted in its response, the account instructions to FERC Account 228.3 do not specify any kind of delineation or limitation that requires a utility to include only long-term portions items to FERC Account 228.3. The Joint Customers agree with this assessment and, consequently, there is no accounting basis to conclude that FERC Account 228.3 is not the correct account for short-term portions of accrued benefits expenses whose long-term portions are appropriately recorded to FERC Account 228.3.
Consequently, the Joint Customers challenge any AEP's accounting for any "short-term" portions of accrued operating provisions in separate FERC accounts from the "long-term" portions for operating provisions properly recordable to FERC Accounts 228.1-228.4. All such balances should be recorded to FERC Accounts 228.1-228.4, as appropriate, and only the amounts recorded to FERC Account 228.2 may be reclassified to a "current" liability account when AEP admits or

is found to be at fault for an injury or damage. AEP must correct this accounting and reflect these amounts as unfunded reserves in rate base.

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[1] 18 C.F.R. Part 101, Account No. 242.
[2] 18 C.F.R. Part 101, Account No. 228.3.

Response:
The Company disagrees with this preliminary challenge. The Joint Customers challenge that all severance is required to be recorded in FERC accounts 228.1 - 228.4. The Company has consistently and appropriately reflected severance due within one-year in account 242 consistent with the FERC USofA under Section 8. 'Current and Accrued Liabilities'. Further, severance costs are not contingent liabilities as they are known costs at the date of the balance sheet.

Date: 3/23/2022

Data Request PC-2020-24:

Unresolved Issues

The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:

The Joint Customers challenge AEP's accounting (and subsequent exclusion from rate base) of several benefits-related accruals recorded to FERC Account 242 that AEP described in response to Data Requests 1-46 and 2-52. These accumulated accruals are properly recordable to FERC Account 228.3, rather than FERC Account 242, and are properly includable as rate base reductions for unfunded reserves. These subaccounts are:

a. 2420021, Vacation Pay – Next Year;
b. 2420027, FAS 112 CURRENT LIAB;
c. 2420076, P/R Savings Plan – Incentive;
d. 2420083, Active Med and Dental IBNR;
e. 2420623, Dist, Cust Ops & Reg Svcs ICP;
f. 2420624, Corp & Shared Srv Incentive Plan;
g. 2420635, Generation Incentive Plan;
h. 2420660, AEP Transmission ICP; and
i. 2530000, Other Deferred Credits.

The Joint Customers note that in response to Data Request 1-46(b), AEP refused to provide the expense accounts related to these accruals.

Response:

The Company does not agree with this preliminary challenge. Account 242 represents short term accruals that the Company has consistently accounted for therein. Per the definition of account 242 in the USofA, this account shall include the amount of all other current and accrued liabilities not provided for elsewhere, appropriately designated and supported so as to show the nature of each liability, which the account descriptions in this preliminary challenge demonstrates. Per the USofA, Account 253 shall include advance billings and receipts and other deferred credit items, not provided for elsewhere, including amounts which cannot be entirely cleared or disposed of until additional information has been received. This does not qualify them for recording in account 228.3.

Regarding the Joint Customer's comment that AEP refused to provide expense accounts related to accruals requested in Data Request 1-46(b), AEP had specified in its response that the analysis had not been performed and recommended that the Joint Customers review the USofA instructions for guidance related to those accrual accounts.

Date: 3/23/2022

Responses to Joint Customer's Preliminary Challenges

Data Request PC-2020-25:
<u>Unresolved Issues</u>

The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:

In Data Request 2-76, the Joint Customers asked AEP why it records the balance sheet liabilities related to the named ADIT items to FERC Accounts 234 and 242, rather than to FERC Account 228.4. In response, AEP stated that "[historically] 613C Accrued Environmental Liab - Current has been recorded to account 2420081 Environmental Remediation Accrual because the book to tax difference is environmental, instead of recording the entry to a miscellaneous account 228.4 which is Accumulated Miscellaneous Operating Provisions."

AEP's response is a *non sequitur*. There is nothing in the inherent nature of FERC Account 242 that suggests that FERC Account 242 is specifically designated as the account to record environmental-related liabilities. FERC Account 228.4, on the other hand, is for recording miscellaneous operating provisions that cannot be adequately recorded elsewhere, which is precisely what the environmental remediation accrual is. Therefore, the Joint Customers challenge AEP's practice of recording the accrued environmental remediation costs to FERC Account 242 instead of Account 228.4.

The Joint Customers further challenge AEP's allocation of the 613C ADIT item to transmission rate base. This item should be completely excluded from rate base. AEP admits in response to 2-76(b) that the underlying expense activity is to distribution accounts, and consequently there is no basis to allocate the ADIT to transmission ratepayers.

Response:

The Company agrees with this preliminary challenge and when excluding 613C from the formula rate calculation, it reduces SWEPCO's revenue requirement by $5.

Date: 3/23/2022

Data Request PC-2020-26:
<u>Unresolved Issues</u>
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
AEP records various accruals and operating expense provisions to various expense accounts that it includes in its formula rate templates and, for many of these items, does not include the accumulated accruals and provisions as reductions to rate base (*i.e.*, as unfunded reserves). As explained in prior challenges, it is the Joint Customer's contention that such unfunded reserves should reflected as rate base reductions. However, to the extent that AEP has ADIT for an item but does not reflect the related balance sheet liability as rate base reductions, it is unreasonable for AEP to include any deferred tax assets related to those balances in rate base. The Joint Customers incorporate by reference their argument made in the prior year's formal challenge. However, in summary, to the extent that AEP includes the expenses related to the ADIT balances in its templates, *it has recovered capital from ratepayers that is sufficient to satisfy any tax obligations that arise from the recovery of the funds*. There is no capital that shareholders are required to finance and contribute to satisfy the tax obligation, and, consequently, no reasonable ratemaking basis to include the ADIT related to these expenses in rate base. For the foregoing reasons, the Joint Customers challenge AEP's inclusion of ADIT whereby the respective accruals are not included as unfunded reserves. Below is a non-exhaustive list of ADIT items that AEP has included without including the associated reserve balance:

a. PSO WS C-1 ADIT, EOY, Excel Row123, 612Y Accrd Companywide Incentv Plan, in the amount of $2,615,866 allocated to labor.
b. PSO WS C-1 ADIT, EOY, Excel Row124, 613E Accrued Book Vacation Pay in the amount of $1,337,202 allocated to labor.
c. PSO WS C-1 ADIT, EOY, Excel Row 125, 613K (ICDP)-Incentive Comp Deferral Plan in the amount of $138,945 allocated to labor.
d. SWEPCO WS C-1 ADIT EOY, Excel Row 138, 520A Provs Poss Rev Refds-A/L in the amount of $3,023,856 allocated to PTD.
e. SWEPCO WS C-1 ADIT EOY Excel Row 139, 520Y Prov For Rate Refund-Excess Protected in the amount of $2,822,666 allocated to PTD.
f. SWEPCO WS C-1 ADIT EOY, Excel Row 155, 612Y Accrd Companywide Incentv Plan in the amount of $3,886,633 allocated to Labor.
g. SWEPCO WS C-1 ADIT EOY, Excel Row 157, 613E Accrued Book Vacation Pay in the amount of $2,312,132 allocated to Labor.
h. SWEPCO WS C-1 ADIT EOY, Excel Row 159, 613K (ICDP)-Incentive Compensation Deferral Plan in the amount of $26,928 allocated to Labor.

Response:
The Company does not agree with this preliminary challenge. This functionalized portion of the payroll related expenditures are recoverable in the formula, and it is appropriate to recognize the carrying cost of the related ADIT item in the formula rate.

AEP WEST 2021 OpCo and 2021 TRANSCO
SPP Transmission Formula Rate Update

Responses to Joint Customer's Preliminary Challenges

Date: 3/23/2022

Data Request PC-2020-27:
<u>**Unresolved Issues**</u>
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
In response to Data Request 1-70, AEP indicated that it wrote off $519,355 of cancelled project costs from FERC Account No. 107, Construction Work in Progress, to FERC Account Nos. 560, 566, 570, and 572. The Commission's long-standing policy regarding cancelled or abandoned plant costs is clear – utilities must seek Commission approval to recover such costs.[1] The Joint Customers asked AEP in Data Request 2-41 to describe the nature and purpose of the originally-conceived project and the reason the project was cancelled or abandoned. AEP responded that it does not maintain the information requested in the manner requested. Consequently, the Joint Customers have no basis to presume anything about the cancelled project costs that would suggest that the Commission's normal requirement of seeking approval prior to recovery should not also apply to these costs. The Joint Customers challenge AEP's inclusion of these costs in the template.

[1] *New England Power Co.*, Opinion No. 295, 42 FERC ¶ 61,016, *reh'g denied in part*, Opinion No. 295-A, 43 FERC ¶ 61,285 (1988)); see also *Kansas Electric Power Cooperative, Inc. v. Evergy Kansas Central, Inc.*, 175 FERC ¶ 61,044 at P 56 (2021).

Response:

The Company does not agree with this Preliminary Challenge. AEP properly expensed in the correct operating expense account the amount of construction work in progress for cancelled or abandoned projects.

AEP disagrees that if these costs are considered "cancelled" project costs that they should go completely unrecovered. The Joint Customer Group is conflating the recovery of a return on cancelled project costs, which requires prior Commission approval, with the recovery of cancelled project costs as an expense, which does not. Under long-standing Commission precedent, a utility has always been allowed to expense prudently-incurred cancelled project costs without prior approval. *New England Power Co.*, Opinion No. 49, 8 FERC ¶ 61,054, at 61,175-76 (1979), *order on reh'g*, Opinion No. 49-A, 10 FERC ¶ 61,279 (1980), *aff'd in rel. part*, *NEPCO Mun. Rate Committee v. FERC*, 668 F.2d 1327 (D.C. Cir. 1981), cert. denied, 457 U.S. 1117 (1982). Only when the utility seeks to recover *a return on* the amount of cancelled project costs through its inclusion in rate base, must prior Commission approval be obtained. 18 C.F.R. § Part 101, Account 182.2(A)(2).

The citation to the original Commission order in *Kansas Electric Power Coop., Inc. v. Evergy Kansas Central, Inc.*, omits the order on rehearing. The original order on complaint stated that Opinion No. 49 did not remove Evergy KC's "obligation to seek prior Commission approval to recover cancelled project costs." *Kansas Electric Power Cooperative, Inc. v. Evergy Kansas Central, Inc.*, 175 FERC ¶ 61,044, at P 56 (2021). But, that statement came in the context of the Commission's discussion of a utility seeking to include cancelled projects costs in rate base. *Id*. The Commission made this expressly clear on rehearing: "The Commission's reference to Opinion No. 49 in the April 2021 Order merely offered further support that *if Evergy KC were to utilize Account 182.2 (which it has not done here)*, it would have to seek Commission approval prior to booking significant amounts in that account." *Kansas Electric Power Coop., Inc. v. Evergy Kansas Central, Inc.*, 176 FERC ¶ 61,083, at P 18 (2021) (Order on Rehearing). Furthermore, on rehearing the Commission expressly held that Evergy KC was not required to obtain prior approval to book project costs above the line upon cancellation. "We confirm that *there is no requirement to seek Commission approval* to use Account 183 to record preliminary survey and investigation charges, or to recover the preliminary project costs subsequently charged *to the appropriate operating expense accounts*." *Kansas Electric Power Coop., Inc. v. Evergy Kansas Central, Inc.*, 176 FERC ¶ 61,083 at P 16 (emphasis added). Therefore, on rehearing the Commission clarified that its statement that utilities are required to seek prior approval to recover cancelled project costs applied only to costs booked to Account 182.2 where inclusion of rate base is sought. When a utility seeks to *expense* cancelled project costs, it can do so without prior approval just as utilities have always done.

Date: 3/23/2022

Responses to Joint Customer's Preliminary Challenges

Data Request PC-2020-28:
Unresolved Issues
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
AEP provided contradictory responses to Data Request 1-98(ff) - 980A RESTRICTED STOCK PLAN; and 1-98 (gg) - 980J PSI - STOCK BASED COMP. and Data Request 1-130(ff) - 980A RESTRICTED STOCK PLAN, and Data Request 1-130 (gg) - 980J PSI - STOCK BASED COMP. In response to Data Request 1-98, AEP indicated that it should have excluded this ADIT from rate base, while in response to Data Request 1-130, AEP stated that "[the] company believes it should be allocable on labor because we incur the underlying expense that gives rise to this ADIT item." When asked to reconcile these responses in Data Request 2-75, AEP indicated that both responses should have had the response it provided in response to Data Request 1-130.
In the context of the question asked, AEP's response to Data Request 1-130 makes no sense and is an insufficient rationale for its proposed implementation. The mere fact that a utility incurs a cost is not a sufficient rationale for its recovery in rates on any basis, let alone a rationale for recovery under a specific allocation methodology. The Joint Customers challenge AEP's allocation of PSO and SWEPCO total beginning year balance of $664,165 and end of year balance of $968,979 based on a labor allocator and assert that these rate base items should be excluded from the templates.

Response:
The Company does not agree with this preliminary challenge. It has been the Companies' consistent position that ADIT items that arise out of expenses that are recoverable in the formula rate should be allocated in the formula. Therefore, because these deferrals related to labor expenses they were properly allocated based on labor.

Date: 3/23/2022

Data Request PC-2020-29:
<u>Unresolved Issues</u>
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
In reference to AEP's response to Data Request 2-77, the Joint Customers had asked for AEP's rationale related to its treatment of 613U BK ACCRL- COOK CT RENT HOLIDAY, and specifically why AEP records the underlying expense to FERC Account 930 if the costs are attributable to distribution. AEP essentially provides a different answer than the answer it provided in response to Data Request 1-130(z), described in PC-28 above. In response to Data Request 1-130(z), AEP indicated that the underlying expense account that related to the indicated ADIT was FERC Account 930, whereas in its response to Data Request 2-77, AEP indicated that there were a "variety of expense accounts." However, AEP did not identify the accounts. Nonetheless, AEP's response to Data Request 1-130(z) indicated that the costs of the lease are distribution related and, to the extent that any of these lease costs are recorded to accounts included in the templates, the Joint Customers challenge their inclusion.

Response:
The Company agrees with this Preliminary Challenge. The response to data request 130(z) was incorrect. As noted in the response to 2-77, this deferral is related to account 2420504, lease expense payable. Because expenses for leases are recorded to account 931, which is included in the formula, this ADIT deferral should have also been allocated based on labor, consistent with the underlying expense. Therefore, the Company will include a refund of $53.44, in a manner consistent with the formula protocols.

Date: 3/23/2022

Responses to Joint Customer's Preliminary Challenges

Data Request PC-2020-30:
<u>Unresolved Issues</u>
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
In reference to AEP's OKT WS C-1 ADIT EOY, Line 295A - GAIN/LOSS ON ACRS/MACRS PROPERTY, AEP included $23,855 of ADIT in Account 190 based on 100% transmission allocator related to gains and losses in OKTCO. These gains and losses are not included in the transmission rate, therefore the underlying ADIT should not be included either. Furthermore, the formula rate templates include Note E which states, "The total-company balances shown for Accounts 281, 282, 283, 190 only reflect ADIT that relates to utility operations." This ADIT clearly does not support utility operations. To the extent that these gains and losses are related to hedge gains/losses, OKT TCOS tab, Note T states "…the unamortized balance of eligible hedge gains/losses and related ADIT amounts shall not flow through the formula rate." For the foregoing reasons, the Joint Customers challenge AEP's inclusion of ADIT associated with gains and losses from both the beginning and end of year balances that are not included in the formula rate.

Response:
The Company does not agree with this preliminary challenge. As the description of the line item indicates, this ADIT is related to the gains/losses on "ACRS/MACRS property". The terms ACRS and MACRS are tax depreciation methods and indicate that this ADIT relates to tax gains/losses on the disposal and/or retirement of depreciable fixed assets.

Date: 3/23/2022

Responses to Joint Customer's Preliminary Challenges

Data Request PC-2020-31:
Unresolved Issues

The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:

In reference to AEP's response to Data Request 1-57, AEP inappropriately billed OKT and SWT generation functional costs (Department – 11991R Generation) from AEPSC related to generation environmental services and other generation-related departments that have not demonstrated to provide a benefit to transmission-only utilities. In addition, PSO and SWEPCo inappropriately recorded generation functional costs in transmission and A&G expense accounts related to environmental services that should have been recorded as a generation functional expense. For the foregoing reasons, the Joint Customers challenge AEP's inclusion of environmental service and other expenses related to the generation function Department – 11991R in A&G and transmission expense accounts.

Response:

The Company does not agree with this Preliminary Challenge. The costs from department 11991R were from the Environmental Services group. This group, while part of the generation BU provides services to the Transmission organization primarily related to two groups within Environmental Services, Water & Ecological Resource Service and Land Environment & Remediation Services. These two groups provide day-to-day environmental permitting for transmission projects and environmental compliance support for transmission facilities. The services are necessary to undertake and complete environmental compliance requirements under various federal and state regulatory programs. The services also include training on those environmental requirements, as well as analytical laboratory services related to environmental samples (e.g., for oil spill remediation) as well as operational samples (e.g., testing of physical and chemical properties of insulating oil for operational purposes). Another portion of the costs from generation-related departments are related to the implementation of the Maximo Work & Asset Management enterprise system, which replaced the previous Asset Suite application. The Asset Suite application was being used by the Transmission organization, which benefited the transmission-only utilities, so accordingly the Maximo system is benefiting them as well. Maximo was an enterprise-wide implementation project, so employees from numerous departments worked on the project.

Regarding concerns about charges to A&G accounts, please see the Company's response to PC-12, where the Company states it is appropriate to record salaries and outside service expenses in A&G accounts.

Date: 3/23/2022

Responses to Joint Customer's Preliminary Challenges

Data Request PC-2020-32:
<u>Unresolved Issues</u>
The following items remain unresolved to the Joint Customers' satisfaction and are inconsistent with the formula rate and the Protocols:
In reference to AEP's response to Data Request 1-57, AEP billed OKT, SWT PSO, and SWEPCO costs from AEP Energy Partners, Inc., as intercompany billings from various affiliates. In prior annual updates and in the current update, AEP Energy Partners, Inc. and AEP Generation Resources represents that these Corporate wide efforts are billed to all companies. However, AEP has not demonstrated any costs or projects associated with Corporate wide efforts in 2020 or otherwise shown the cost included in the transmission formula rate are appropriate. For the foregoing reasons, the Joint Customers challenge the costs billed from AEP Energy Partners, Inc. and AEP Generation Resources until further documentation and explanation can be provided as to the benefits these costs provide to transmission customers.

Response:
The Company does not agree with this preliminary challenge. The Company rejects the assertion that these costs are inconsistent with the formula rate and protocols. The formula allows the inclusions of account 920, which per '1-57 Attachment 2 - Intercompany' is where the charges at issue are recorded. Line 64 of the West Operating Companies' formula rate and line 71 of the West Transmission Companies' formula rate both permit the inclusion of the total amount of A&G expenses in Column (3), which includes account 920. Therefore, AEP is in compliance with the formula rate and protocols.
While charges can reflect Company-wide efforts, charges can also be incurred in the ordinary course of business. For instance, 1-57 Attachment 2, tab 'InterCo Pivot Dept & FERC' the charges listed for AEP Energy Partners, Inc. and AEP Generation Resources are for labor incurred as part of other activities of those groups. Those activities are represented by the values in the column 'Z_RES_CAT_FROM' in the query tab of the referenced attachment. See attachment PC-32 Attachment 1 for a definition of the values in 'Z_RES_CAT_FROM' (referred to as ABMS codes) and Cost Component Codes. The charges from AEP Energy Partners and AEP Generation Resources are properly recorded in account 920, which is allocable to the transmission formula rate.

Date: 3/23/2022

Responses to Joint Customer’s Preliminary Challenges

Data Request PC-2020-33:
<u>Unresolved Issues</u>
The following items remain unresolved to the Joint Customers’ satisfaction and are inconsistent with the formula rate and the Protocols:
In reference to AEP’s response to Data Request 1-27, AEP explains that “PSO sold $2.5 million of Oklahoma Capital Investment Board Tax Credits in 2020 that were purchased in 2019. Upon the sale, the proceeds reduced a previously established pre-paid tax account 165000210.” The Joint Customers acknowledge that the tax credits were included in the Joint Customers’ formal challenge for last year’s update. To the extent that the Commission finds that AEP is allowed to include the tax credits in prepayments, the Joint Customers assert that the offsets sale in 2020 should be included in the formula rate. It is unclear from the template or AEP’s response whether those amounts were included.

Response:
The Company neither agrees nor disagrees with this Preliminary Challenge. The Customer's ability to address their concerns as they arise out of the FERC's ruling in the Customer's Formal Challenge will be governed by the Commission's administrative rules.

Date: 3/23/2022

Responses to Joint Customer’s Preliminary Challenges

Data Request PC-2020-34:
<u>Unresolved Issues</u>
The following items remain unresolved to the Joint Customers’ satisfaction and are inconsistent with the formula rate and the Protocols:
To the extent that the outcome of AEP’s TCJA filing pending before the Commission affects amounts included in the 2021 OpCo and TransCo Updates, the Joint Customers reserve the right to challenge items included under AEP’s Order 864 compliance filing as it relates to this and future updates.

Response:
The Company neither agrees nor disagrees with this Preliminary Challenge. The customer's ability to address their concerns as they arise out of the FERC's ruling in the Company's order 864 applications will be governed by the Commission's administrative rules.

Date: 3/23/2022