

BEFORE THE  
LOUISIANA PUBLIC SERVICE COMMISSION

IN RE: APPLICATION OF SOUTHWESTERN  
ELECTRIC POWER COMPANY FOR: (I)  
RECOVERY OF CERTAIN STORM DAMAGE  
COSTS INCURRED AS A RESULT OF HURRICANES  
LAURA AND DELTA; (II) RECOVERY OF  
CERTAIN STORM RESTORATION COSTS ASSOCIATED  
WITH THE FEBRUARY 2021 WINTER STORM EVENT  
AND (III) EXPEDITED TREATMENT

DOCKET NO. \_\_\_\_\_

DIRECT TESTIMONY OF  
THOMAS P. BRICE  
FOR  
SOUTHWESTERN ELECTRIC POWER COMPANY

OCTOBER 2021

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1 I. INTRODUCTION

2 Q. PLEASE STATE YOUR NAME, POSITION, AND BUSINESS ADDRESS.

3 A. My name is Thomas P. Brice, and my position is Vice President, Regulatory and Finance  
4 for Southwestern Electric Power Company (SWEPCO or the Company). My business  
5 address is 428 Travis Street, Shreveport, Louisiana 71101.

6 Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

7 A. I graduated from the University of Louisiana at Monroe (formerly Northeast Louisiana  
8 University) in 1985 with a Bachelor of Business Administration in Accounting and a minor  
9 in Finance. I am a certified public accountant and certified internal auditor. I am a member  
10 of the American Institute of Certified Public Accountants and the Louisiana State Society  
11 of Certified Public Accountants. I have more than 36 years of experience in the electric  
12 and natural gas utility industries.

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

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

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

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

8           In June 2010, I assumed the responsibilities of Director, Regulatory Services. In  
9           that role, I was responsible for SWEPCO regulatory matters in Louisiana, Arkansas, and  
10          Texas. In May 2017, I assumed my current responsibilities of Vice President of Regulatory  
11          and Finance.

12    Q.    HAVE YOU TESTIFIED ON BEHALF OF SWEPCO AS A WITNESS BEFORE THE  
13          LOUISIANA PUBLIC SERVICE COMMISSION (LPSC or COMMISSION)?

14    A.    Yes. Recently I testified in Docket No. U-35441, wherein SWEPCO first proposed its  
15          storm cost deferral request. I have testified regarding SWEPCO's prior Formula Rate Plan  
16          (FRP) in Docket Nos. U-34200 and U-32220. I also testified in SWEPCO's prior FRP in  
17          Docket No. U-23327, Subdocket A, and SWEPCO's prior Fuel Audit Settlement in Docket  
18          No. U-23327, Subdocket E. I have also testified concerning SWEPCO's Stall Combined  
19          Cycle Plant and Turk Ultra-super Critical Plant in Docket No. U-29702 consolidated with  
20          Docket No. U-27866, Subdocket B, as well as SWEPCO's purchase of Valley Electric  
21          Membership Corporation (Valley) approved in Docket No. U-31351. I also previously  
22          testified in support of SWEPCO's acquisition of long-term natural gas contracts in  
23          compliance with the Commission's Gas Hedging Rule in Docket No. U-34354, as well as

1 in support of SWEPCO's environmental retrofits at the Flint Creek and Welsh solid-fuel  
2 power plants in Docket No. U-34369. I also previously testified in support of SWEPCO's  
3 acquisition of wind resources in Docket No. U-32814, Docket No. U-34619, Docket No.  
4 U-35324, and in Docket No. U-35441.

5  
6 II. PURPOSE OF TESTIMONY

7 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

8 A. The purpose of my testimony is to support SWEPCO's request for cost recovery for  
9 Hurricanes Laura and Delta (Hurricanes) and the February 2021 Winter Storm (Winter  
10 Storm) (collectively, Storms). As part of the proposed two-phased approach, SWEPCO  
11 requests cost recovery of the carrying costs of the December 31, 2021 balance of the Storms  
12 regulatory asset (including accumulated carrying charges) at its existing pre-tax weighted  
13 average cost of capital (WACC) via its Rate Credit Rider starting the first billing cycle of  
14 January 2022 (December 30, 2021) while the Commission reviews the prudence of the  
15 related charges as part of Phase I of the proceeding. SWEPCO also proposes to true-up  
16 the financing costs on an annual basis to ensure customers pay no more or no less than  
17 what is approved by the Commission for recovery in this proceeding. The Company is  
18 recommending that Phase II of the proceeding be conducted to determine whether  
19 securitization or traditional recovery through base rates (or a rider) is best for customers.

20 Q. PLEASE PROVIDE SOME BACKGROUND REGARDING THE STATUS OF THIS  
21 PROCEEDING.

22 A. Through the two phases proposed by the Company, SWEPCO respectfully requests  
23 recovery of certain extraordinary storm damage costs that the Company incurred in the

1 summer and fall of 2020 during the aftermath of the Hurricanes, and the unprecedented  
2 Winter Storm. The Company previously requested recovery of the costs associated with  
3 the Hurricanes in its December 2020 filing in its Rate Case in Docket U-35441, but the  
4 costs related to the Hurricanes were removed from that proceeding at the request of Staff,  
5 as further set forth in the March 26, 2021 Unopposed Motion to Remove Hurricane and  
6 Storm Cost Recovery Issues Into A Separate Docketed Proceeding.

7 These Storms resulted in substantial damage to SWEPCO's facilities in the state of  
8 Louisiana. SWEPCO planned and executed a coordinated emergency response to promptly  
9 restore service after each of these severe weather events that occurred during the Covid-19  
10 pandemic. These efforts included the mobilization of thousands of responders, including  
11 SWEPCO employees across the system, as well as employees from American Electric  
12 Power Company, Inc. (AEP) sister companies and employees from other utilities and  
13 contractors as discussed by SWEPCO witness Drew W. Seidel.

14 The distribution-related storm operations and maintenance O&M expenses that  
15 SWEPCO incurred in Louisiana following the Storms total \$152 million, as further  
16 described by Company Witnesses Mr. Drew Seidel and Mr. J. David Spring. The payment  
17 of the costs associated with the Storms, which were incurred for the benefit of our  
18 customers, have adversely affected the liquidity of SWEPCO, as SWEPCO also incurred  
19 approximately \$540 million in energy costs during the February 2021 winter event.  
20 Without timely relief, the restoration costs associated with the Storms may adversely affect  
21 SWEPCO's operations, its ability to execute necessary capital intensive projects, and  
22 continue to negatively impact SWEPCO's credit metrics. The proposed phased approach  
23 for this proceeding provides necessary and timely relief to SWEPCO, protects its customers

1 from over-recovery of approved costs, and provides the Commission time to fully review,  
2 verify, determine prudence, and take final action to authorize the recovery of the actual  
3 costs that were incurred in restoring electric service to SWEPCO's customers.  
4 Accordingly, SWEPCO respectfully requests expedited consideration and approval as set  
5 forth in the Application.

6 Q. WHAT IS SWEPCO'S REQUEST IN PHASE I OF THIS PROCEEDING?

7 A. SWEPCO is respectfully requesting interim recovery of the carrying costs associated with  
8 the storm-related O&M expenses in the Commission-approved regulatory asset. As set  
9 forth in the Application as Phase I of this proceeding, in order to mitigate ongoing impacts,  
10 SWEPCO is requesting to begin recovery of the carrying costs at the Company's pre-tax  
11 WACC on the December 31, 2021 balance of the regulatory asset (including accumulated  
12 carrying charges) associated with the Storms, as described in the testimony of Mr. David  
13 Spring. In Phase II, SWEPCO is also requesting that the Commission review the prudence  
14 of the storm restoration costs. The recovery of the carrying costs would begin with the first  
15 billing cycle of January 2022 and continue until SWEPCO securitizes the expenses or  
16 implements traditional recovery through base rates (or a rider).

17 Q. WHAT WILL BE ADDRESSED IN PHASE II OF THE PROCEEDING?

18 A. Once the Commission has completed its prudence review in Phase I, the purpose of Phase  
19 II would be to determine the appropriate recovery mechanism of the regulatory asset's  
20 balance. A comparison of traditional rate base treatment to securitization would be the  
21 primary objective. If the Commission and the Company determine that securitization is  
22 the most cost effective recovery mechanism for customers, the Company would proceed  
23 with securitization and seek a financing order from the Commission to implement the

1 securitization. If the Commission and the Company determine that traditional recovery  
2 would be best for customers, the regulatory asset would be included for recovery in  
3 SWEPCO's next applicable ratemaking proceeding.

4 Q. IS SWEPCO ALSO RESPECTFULLY REQUESTING EXPEDITED  
5 CONSIDERATION BY THE COMMISSION OF ITS PHASE I REQUEST FOR  
6 INTERIM RELIEF?

7 A. Yes. SWEPCO respectfully requests the Commission authorize recovery of interim storm  
8 financing costs using a Rider, subject to annual true-up and on-going Commission review.

9  
10 III. HURRICANE COST RECOVERY AND REQUEST FOR  
11 A STORM RECOVERY DEFERRAL MECHANISM

12 Q. DID SWEPCO EXPERIENCE SUBSTANTIAL DAMAGE TO ITS LOUISIANA  
13 SERVICE TERRITORY RESULTING FROM HURRICANE LAURA?

14 A. Yes. On August 27, 2020, Hurricane Laura struck the Gulf Coast of Louisiana as a  
15 Category 4 storm with sustained winds of approximately 150 mph with higher gusts, and  
16 was one of the strongest hurricanes to strike the state, resulting in significant damage to the  
17 electrical grid of SWEPCO. This storm was unprecedented in the North Louisiana area,  
18 with high winds resulting in substantial damage and restoration challenges for SWEPCO  
19 and its customers. SWEPCO responded to the storm by providing approximately 3,000  
20 additional workers, including line and tree crews from other utilities in the U.S. and  
21 Canada. The SWEPCO team restored service to approximately 132,000 customers in  
22 Louisiana alone. There was extensive damage to distribution and transmission facilities.  
23 Because much of the SWEPCO territory is heavily wooded, Hurricane Laura resulted in  
24 downed trees requiring removal from the rights-of-way for operational and safety reasons.



1 SWEPCO crews worked diligently to address and repair extensive damage and restore  
2 service for the benefit of customers. After a well-coordinated and sustained effort, almost  
3 all customers in the Shreveport district were restored by September 1, 2020. All customers  
4 in the more southern, rural and heavily-wooded Valley District were restored by  
5 approximately September 8, 2020.

6 In response to Laura, SWEPCO incurred approximately \$88.9 million in  
7 distribution O&M related to the restoration to date as further discussed in the testimony of  
8 Mr. Seidel. He also further describes the Company's extraordinary efforts to restore service  
9 during this unprecedented storm event.

10 Q. DOES SWEPCO'S PROPOSAL IN THIS PROCEEDING INCLUDE DISTRIBUTION  
11 AND / OR TRANSMISSION CAPITAL COSTS RELATED TO THE STORMS?

12 A. No. This proceeding only seeks to address the distribution O&M expenses related to the  
13 Storms. SWEPCO has included some of the capital-related storm expenditures from the  
14 Hurricanes in its base rate case in Docket No. U-35441. SWEPCO anticipates including  
15 the additional capital-related costs resulting from the Storms in its next base case or FRP.

16 Q. DID SWEPCO ALSO EXPERIENCE ADDITIONAL AND SUBSTANTIAL DAMAGE  
17 TO ITS LOUISIANA SERVICE TERRITORY FROM HURRICANE DELTA?

18 A. Yes. On October 9, 2020, Hurricane Delta struck the Louisiana Gulf Coast as a Category  
19 2 storm with sustained winds of approximately 100 mph with higher gusts, resulting in  
20 significant damage to the electrical grid of SWEPCO. SWEPCO responded to the storm  
21 with more than 1,000 additional line, tree, and support personnel. The SWEPCO team  
22 restored service to approximately 23,000 customers in Louisiana. There was extensive  
23 damage to distribution facilities, as well as widespread damage to trees, which needed to

1 be removed for operational and safety reasons. SWEPCO crews worked diligently for the  
2 benefit of its customers, and all customers in the more southern, rural and heavily-wooded  
3 Valley District were restored by October 15, 2020. As a result of Hurricane Delta,  
4 SWEPCO incurred \$17.6 million in distribution-related O&M expenses as further  
5 discussed in the testimony of Mr. Seidel.

6 Q. DID THE COMMISSION AUTHORIZE THE DEFERRAL OF COSTS RESULTING  
7 FROM HURRICANE LAURA WITH SUBSEQUENT AUTHORIZATION TO  
8 INCLUDE COSTS ASSOCIATED WITH HURRICANES DELTA AND ZETA?

9 A. Yes. On September 16, 2020, the Commission unanimously approved the establishment of  
10 a regulatory asset for the recovery of utility costs related to Hurricane Laura in Special  
11 Order 61-2020. Then, on November 13, 2020, the Commission unanimously approved the  
12 expansion of the aforementioned Special Order to include the establishment of a regulatory  
13 asset for the recovery of utility costs related to Hurricanes Delta and Zeta.

14 Q. IS SWEPCO NOW SEEKING RECOVERY OF COSTS RESULTING FROM  
15 HURRICANES LAURA AND DELTA IN THIS PROCEEDING?

16 A. Yes. Collectively, SWEPCO incurred a total of approximately \$106.6 million of O&M  
17 expenses associated with service restoration following Hurricanes Laura and Delta, and the  
18 Company respectfully requests that cost recovery be addressed in a phased approach  
19 outlined in my testimony and in the testimony of SWEPCO witness Spring.

1 IV. FEBRUARY 2021 WINTER STORM EVENT

2 Q. DID SWEPCO EXPERIENCE ANOTHER SEVERE WEATHER EVENT EARLIER  
3 THIS YEAR?

4 A. Yes. During the week of February 14, 2021, SWEPCO experienced an unprecedented  
5 Winter Storm with record low temperatures, and substantial accumulation of snow and ice  
6 affecting the water supply, electrical service and adversely impacting the entire region.

7 Q. DID SWEPCO INCUR SUBSTANTIAL COSTS ASSOCIATED WITH THIS WINTER  
8 STORM EVENT?

9 A. Yes. Due to the Winter Storm, SWEPCO incurred approximately \$45.4 million in  
10 distribution-related O&M expenses as further discussed in the testimony of Mr. Seidel.  
11 SWEPCO crews worked diligently to restore and maintain service to customers during this  
12 devastating winter storm. Company witness Seidel further describes the Company's efforts  
13 to continue to serve customers during these difficult circumstances in light of the severe  
14 winter weather.

15 Q. DID THE COMMISSION AUTHORIZE UTILITIES TO DEFER CERTAIN EXPENSES  
16 ASSOCIATED WITH THE FEBRUARY 2021 WINTER STORM EVENT?

17 A. Yes. At the March 17, 2021 B&E Session, the Commission authorized LPSC jurisdictional  
18 utilities to establish a regulatory asset to track and defer expenses incurred with the Winter  
19 Storm. Accordingly, this Application is necessary for SWEPCO to obtain the interim relief  
20 and determination of prudence. The expenses incurred are further described in the  
21 testimony of SWEPCO witnesses Seidel and Spring. The Commission issued Special Order  
22 No. 21-2021 to facilitate this regulatory asset, in accordance with the precedent established  
23 under Special Order 73-2020.

1                                    V. SWEPCO'S NEED FOR STORM COST RECOVERY

2    Q.    PLEASE DESCRIBE SWEPCO'S NEED FOR INTERIM COST RECOVERY IN  
3           CONNECTION WITH THE HURRICANES AND WINTER STORM.

4    A.    SWEPCO has incurred substantial expenses as a result of the Hurricanes, Winter Storm,  
5           and the incremental fuel costs associated with the winter event, as discussed above. As a  
6           result, and described in more detail below, SWEPCO's credit metrics have been impacted.  
7           Approving SWEPCO's recovery of the interim financing costs while SWEPCO determines  
8           the most cost-effective method of long-term recovery provides a benefit to the customers  
9           and to the Company.

10   Q.    HAVE SWEPCO'S FINANCIAL METRICS BEEN AT RISK AND ADVERSELY  
11           IMPACTED DUE TO THE HIGH AMOUNT OF DEFERRALS RESULTING FROM  
12           THE STORMS?

13   A.    Yes. The \$152 million in storm restoration expenses from these Storms, coupled with over  
14           \$540 million in energy costs resulting from the February 2021 Winter Event is  
15           unprecedented in SWEPCO's history. Collectively, these expenses total almost \$700  
16           million, far exceeding the funding expectation for SWEPCO in 2021. As a result, the  
17           Company had to quickly devise a reasonable solution. While the credit rating agencies,  
18           including Moody's, S&P Global, and Fitch Ratings, are aware of SWEPCO's lower credit  
19           metrics due to the large deferral balances, the agencies have indicated they will not  
20           downgrade SWEPCO in 2021. However, as described in more detail below, there is a  
21           possibility that SWEPCO's bond rating could be downgraded if it continues to maintain  
22           large deferral balances without rate recovery or interim recovery of the financing costs.

1 Q. IF SWEPCO'S CREDIT RATINGS ARE ADVERSELY IMPACTED, COULD THIS  
2 ALSO INCREASE COSTS FOR SWEPCO'S CUSTOMERS?

3 A. Yes. If SWEPCO's credit rating falls from its current level, there is a direct and long-term  
4 impact on customers as the lowered credit rating results in a concomitant increase in debt  
5 costs that pass through in rates. As it stands, SWEPCO's 2021 cash flows are reduced by  
6 over 100% from prior years. While a downgrade is not expected in 2021, there is  
7 downward pressure on SWEPCO's rating metrics at this time due to the extraordinary  
8 expenses SWEPCO incurred as part of the Storms and the incremental energy costs.  
9 Additionally, SWEPCO's Funds From Operations (FFO) to debt percentage for 2021 is a  
10 negative value, while its current bond rating requires a FFO to debt percentage of  
11 approximately 13-16%. A material decline in key financial credit metrics including  
12 FFO/Debt below 13% on a sustained basis could result in a downward rating for SWEPCO,  
13 which leads to higher financing costs for the Company. In addition, SWEPCO's FFO  
14 Interest Coverage Ratio is less than 1, while its current bond rating requires a FFO Interest  
15 Coverage Ratio of 3.0 to 4.5.

16  
17 VI. SUMMARY

18 Q. PLEASE SUMMARIZE SWEPCO'S PROPOSAL FOR STORM COST RECOVERY IN  
19 THIS DOCKET.

20 A. SWEPCO respectfully requests a prudence finding of its O&M expenses associated with  
21 the Hurricanes and Winter Storm in Phase I of this proceeding. Additionally, SWEPCO is  
22 requesting approval of recovery of its financing costs at its pre-tax WACC for the  
23 December 31, 2021 balance of expenses that are booked into the Commission-approved

1 regulatory asset (including accumulated carrying charges) for the storm expenses.  
2 SWEPCO proposes to recover the interim financing costs beginning with the first billing  
3 cycle of January 2022, which is December 30, 2021 using its established Rate Credit Rider,  
4 with an annual true-up and review by the Commission. Following Phase I of this  
5 proceeding, SWEPCO will determine a cost-effective course of action for recovery of the  
6 storm expenses, either via securitization or through a more traditional rate recovery  
7 mechanism and present its findings and request for approval to the Commission as part of  
8 Phase II of this proceeding.  
9

10 VII. CONCLUSION

11 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

12 A. Yes, it does.