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July 11, 2024

LA PUBLIC SERVICE COMM
JUL 12 2024 AM 10:25

Via Federal Express

Ms. Terri Lemoine Bordelon
Records Section
Louisiana Public Service Commission
Galvez Building, 12th Floor
602 North Fifth Street
Baton Rouge, LA 70802

In Re: Evaluation of Southwestern Electric Power Company's Decision to Retire the Pirkey Power Plant pursuant to Commission Order U-36385-A.
Docket No. U-37067

Terri,

Please find enclosed for filing on behalf of Southwestern Electric Power Company (SWEPCO) in the above captioned Pirkey prudence docket, the direct testimony and exhibits of the following witnesses:

Thomas P. Brice
M. Casey Koenig
Marc B. Hunter
Jason M. Stegall
James F. Martin
Gary O. Spitznogle

The confidential exhibit JFM-1 is being filed under seal in accordance with the Commission's Rules of Practice and Procedure, Rule 12.1.

Please stamp a copy of this filing letter and return in the self-addressed stamped envelope enclosed.

As always, we appreciate your assistance.

Yours very truly,

WILKINSON, CARMODY & GILLIAM

By: Bobby S. Gilliam

Bobby S. Gilliam
Jonathan P. McCartney

JPM/mml
Attachment

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

IN RE: EVALUATION OF SOUTHWESTERN ELECTRIC POWER COMPANY'S DECISION TO RETIRE THE PIRKEY POWER PLANT PURSUANT TO COMMISSION ORDER NO. U-36385-A	: : : :	DOCKET NO. U-37067

DIRECT TESTIMONY OF

JASON M. STEGALL

FOR

SOUTHWESTERN ELECTRIC POWER COMPANY

JULY 12, 2024

TESTIMONY INDEX

SUBJECT PAGE

I. INTRODUCTION

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

A. My name is Jason M. Stegall, and my business address is One Riverside Plaza, Columbus, Ohio 43215. I am a Director of Regulatory Services for American Electric Power Service Corporation (AEPSC), a subsidiary of American Electric Power Company, Inc. (AEP).

Q. PLEASE DISCUSS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I graduated from the Virginia Polytechnic Institute and State University with a Bachelor of Science degree in accounting, in 1997. I earned my Master's in Business Administration from Ohio State University in 2011. In addition, I attended the 2018 EEI Transmission and Wholesale Markets School.

I joined AEPSC in June 1997 as an Accountant in the Regulated Accounting Division of the Accounting Department. From 1997 to 2009, I held various positions in Accounting and Risk Management. In July 2009, I joined the Regulatory Services Department as a Regulatory Consultant in Customer and Distribution Services Support. In July 2010, I transferred to Regulated Pricing & Analysis where my role focused on developing cost-of-service studies and rate designs as well as other projects related to regulatory issues and proceedings, individual customer requests, and general rate matters. In December 2017, I was promoted to Manager of Regulatory Pricing and Analysis, where I managed the team that supports all fuel-related and purchased power-related filings across all of AEP's eleven retail jurisdictions. In September 2022, I was promoted to my current position.

Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR OF REGULATORY SERVICES?

A. I manage the team that supports all regulatory filings that include costs associated with owned and contracted generation resources. In this role I provide witness testimony and analysis. In addition, I regularly provide support, advice, and assistance to Commercial Operations and Fuel Procurement personnel. I also continue to perform duties related to cost-of-service and rate design.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE ANY REGULATORY BODY?

A. Yes. I have filed testimony and appeared on behalf of Southwestern Electric Power Company (SWEPCO or Company) before the Louisiana Public Service Commission in Docket No. U-35753. In addition, I filed testimony and appeared on behalf of SWEPCO before the Public Utility Commission of Texas (PUCT) in its last base rate case in Texas, Docket No. 51415 and in its most recent Texas fuel reconciliation case, PUCT Docket No. 53931. I have filed testimony on behalf of SWEPCO in Arkansas in Docket No. 21-070-U. Finally, I have filed testimony on behalf of SWEPCO's affiliates in Oklahoma, Kentucky, Indiana, Michigan, Ohio, and West Virginia. In addition to appearing before the PUCT, I have also appeared before the Commissions in Kentucky, Michigan, Oklahoma, West Virginia and Ohio.

II. PURPOSE OF DIRECT TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my direct testimony is to discuss the operation of the Pirkey Power Station (Pirkey) in the Southwest Power Pool (SPP) energy markets and the economic impact of those operations on the Company's customers for the period of January 2019 through the Pirkey's retirement at the end of March 2023.

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. My testimony provides an overview of the SPP energy markets, SWEPCO's participation in those markets, and how SWEPCO offers its generating units into the SPP energy markets in general at incremental cost. Further, my testimony will show Pirkey has provided $310 million of SPP energy revenues in excess of its incremental costs for SWEPCO's customers between January 2019 and March 2023. The SPP energy revenues in excess of SWEPCO's incremental costs benefited SWEPCO's customers.

III. ENERGY MARKET PARTICIPATION

Q. PLEASE DESCRIBE THE ENERGY MARKETS IN THE SPP.

A. As part of its Integrated Marketplace (IM), SPP operates two energy markets, a Day-Ahead Market, and a Real-Time Balancing Market. The Day Ahead market determines, on a daily basis, SPP's level of energy demand for each hour of the following day and uses a security constrained economic dispatch model to satisfy the hourly demand with available generation at the lowest cost while taking into account the availability of transmission and limitations of individual generating units. The Real Time market operates to satisfy surpluses and deficits in both the demand and the energy settled in the Day Ahead market.

Q. PLEASE DESCRIBE SWEPCO'S OPERATIONS IN SPP.

A. SWEPCO's operations in SPP include the roles of Generation Owner and Load Responsible Entity among its roles in the SPP, which means SWEPCO both offers its generating resources and purchases its energy needs, commonly referred to as load, from the SPP energy markets. SWEPCO is required to offer enough of its generation into the energy market each operating day to cover its expected load plus an operating reserve. The offering of the Company's generation resources involves submitting a large volume of data to SPP that includes unit commitment designation, offer curves that cover per-unit costs for the range of output from economic minimum to economic maximum, and market parameters. The market parameters include, but are not limited to, a unit's startup cost, startup time in hours, how quickly a unit can ramp-up energy production, and other characteristics defined in SPP protocols, available on www.spp.org.

Q. DOES THIS SPP MARKET OPERATION REQUIRE COORDINATION AMONG AEPSC AND SWEPCO PERSONNEL?

A. Yes. This process involves a high level of coordination among AEPSC Commercial Operations, AEPSC Fuel Procurement, and generating unit personnel located at the individual generation plant sites. The purpose of this process is to provide the most up-to-date and accurate information to SPP prior to the market deadline on each generating unit's availability and capability.

Q. PLEASE EXPLAIN THE CONCEPTS OF UNIT COMMITMENT AND UNIT DISPATCH.

A. As a basic concept, unit commitment in energy markets refers to which party decides whether to start a generating unit. Unit dispatch refers to the determination of generating unit output, which occurs between the unit's economic minimum and its economic maximum levels of output. As I explain below, while market participants have choices of how to commit their generating units, the level of dispatch is determined by SPP's security constrained economic dispatch process.

Q. PLEASE IDENTIFY THE UNIT COMMITMENT DESIGNATIONS IN SPP.

A. Every unit offered in the SPP energy markets must provide a commitment status among its daily submission of information to the SPP. The SPP limits unit commitment designations to Market, Self, Reliability, Outage and Not Participating:

- Units with a status of Market are committed and dispatched by SPP's economic dispatch process.
- Units with a status of Self are committed by the market participant, or self-committed, at their economic minimum level of output but are dispatched above that level by SPP's economic dispatch process.
- Units with a status of Reliability are only committed and dispatched if needed by SPP for reliability purposes.
- Units with a status of Outage are in an outage and cannot participate in the energy markets.
- Units with a status of Not Participating are otherwise available but choosing not to participate in the energy markets.

Q. PLEASE EXPLAIN THE CONCEPT OF SELF-COMMITMENT.

A. Self-commitment refers to those times when a Generation Owner makes the decision to start its unit or remain online by submitting to SPP a commitment status of Self.

While the SPP Day-Ahead Market is focused on securing generation to serve load for the next operating day, Generation Owners manage their resources over a much longer term. The factors that influence the decision to self-commit a generating unit include but are not limited to the evaluation of generating unit economics over a period beyond the next day, startup costs, existing fuel inventories, scheduled deliveries of fuel, operational constraints such as lengthy startup times, scheduled environmental and capability testing, and safe operation of the unit. Self-commitment was a reasonable decision for Pirkey under the circumstances during which it was offered and is not an imprudent action when participating in the SPP energy markets.

Q. DOES SELF-COMMITMENT STATUS REQUIRE ANY ADDITIONAL COMMUNICATIONS WITH SPP?

A. No, as I stated above, this is a unit commitment status option for every Generation Owner in SPP. Its use is neither unusual nor any indication of imprudence.

Q. HAS THE SPP MARKET MONITOR PERFORMED ANY ANALYSIS ON THE USE OF SELF-COMMITMENT IN SPP?

A. Yes. In December 2019, the SPP Market Monitor released a whitepaper titled, "Self-committing in SPP Markets: Overview, Impacts, and Recommendations." The whitepaper is the result of an empirical study of the behavior of SPP energy market participants for the period from March 2014 to August 2019 as well as simulations conducted on that data. The whitepaper makes several findings that indicate the use of self-commitment is not uncommon with generators similar to Pirkey. First, among its key takeaways, the report states, "Resources with long lead times and/or high start-up costs tend to be self-committed instead of market-committed."[1] In addition, the report noted, "the largest portion of self-committed dispatch megawatts source from coal units."[2] Pirkey is a lignite-fired unit with a 23–27-hour startup time. It would be included in the study with coal-fired units and would be considered a long lead time unit for purposes of the study.

As discussed in its whitepaper, the Market Monitor also conducted simulations to determine the potential effect of changing participant behavior. In the simulations where the long lead time units were committed by SPP due to a commitment status of Market, instead of being self-committed, "both market-wide production costs and market clearing prices for energy increased."[3] This means that had generating units with long lead times like Pirkey been committed into the Day Ahead market with a status of Market, market prices and market-wide production costs would have increased and customers in SPP would have paid higher costs.

The report notes, "Even though resources are self-committed in the market, there also tends to be economic capacity above minimum that the market can dispatch."[4] The report goes on to demonstrate that in 2019, 60% of total energy from self-committed generating units was the result of economic dispatch above those units' economic minimums. This means that, while the units were not committed through SPP's security constrained economic dispatch process, additional generation above

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[1] Self-committing in SPP Markets: Overview, Impacts, and Recommendations, December 2019, https://spp.org/documents/61118/spp%20mmu%20self-commit%20whitepaper.pdf, Page 1.
[2] *Ibid.*, Page 18.
[3] *Ibid.*, Page 1.
[4] Self-committing in SPP Markets: Overview, Impacts, and Recommendations, December 2019, https://spp.org/documents/61118/spp%20mmu%20self-commit%20whitepaper.pdf, Page 16.

their economic minimum level of generation produced benefits to customers in excess of the incremental cost of that generation.

Q. WAS PIRKEY SELF-COMMITTED DURING THE 2019 – 2023 TIME PERIOD?

A. Yes.

Q. ARE THERE ANY ADDITIONAL COMPLEXITIES THAT WOULD AFFECT THE UNIT COMMITMENT DESIGNATION OF PIRKEY?

A. Yes, Pirkey had an average cold startup time of 27 hours in 2019, 25 hours in 2020 and 23 hours beginning in 2021 and continuing through its final operations in March 2023. SPP posts the results for the Day Ahead market at 1 PM for the next operating day. With a 23-hour start time, Pirkey would not be available for dispatch above its economic minimum load until noon on the next operating day, causing it to miss the morning period when load and price typically increase. With a 25-hour start time, Pirkey would not be available until 2 PM, and with a 27-hour start time, 4 PM. This means that, when SPP evaluates whether to commit and dispatch Pirkey under a Market commitment when the unit is currently offline, its decision will exclude any potential economic benefits for at least half of the operating day. Committing Pirkey with a status of Self gave SWEPCO control over the decision to start the unit in order to provide its customers the opportunity to earn net margins when the unit would have otherwise remained offline with a commitment status of Market.

In addition, as the Day Ahead market is only concerned with meeting SPP's energy needs for the next operating day, a commitment status of Self allows the unit to remain online and avoid additional cycling during periods when it is economic in the long-term but not for the next operating day. Solid fuel units like Pirkey are not designed to constantly ramp up from an offline state to full output and doing so can result in additional maintenance costs. The use of self-commitment can allow the unit to remain online during short periods when it may be uneconomic in order to maintain its availability and profitability over a longer period while also avoiding the deleterious and costly effects of an additional shutdown and start.

Q. WAS SWEPCO'S USE OF SELF-COMMITMENT FOR ITS PIRKEY PLANT UNUSUAL?

A. No, based on the whitepaper published by the SPP Market Monitor and the Company's responsibility to operate the unit in the best interest of its customers, the use of self-commitment was in line with other long lead time units.

IV. PIRKEY MARKET OFFERS

Q. WHAT PARTY ULTIMATELY DETERMINES THE LEVEL A GENERATING UNIT IS DISPATCHED?

A. SPP determines the level of generation of each unit in its footprint that will be used to serve customer load. Using its security constrained economic dispatch process, SPP solves for the lowest overall cost while also accounting for system limitations such as the availability of transmission and individual unit limitations such as startup times and ramp rates. Any self-committed unit dispatched above its economic minimum level of output is dispatched by SPP because it can serve load at a cost cheaper than the next highest cost unit needed to serve SPP load.

Q. HOW DOES SPP DETERMINE THE COST OF EACH UNIT'S LEVEL OF OUTPUT?

A. SPP uses the offer curves provided by each generation owner. These offer curves identify the incremental cost of each Megawatt-hour (MWh) of output from a unit's lowest level of stable generation, or its economic minimum, and its highest level of stable generation, its economic maximum.

Q. PLEASE EXPLAIN THE CONCEPT OF INCREMENTAL COST.

A. Incremental cost is the cost of producing the next unit of output. Incremental generation costs represent the marginal cost for generating the next MWh after a unit has been committed online, not the average cost or total cost of the unit. In simpler terms, the incremental cost of generation represents the incremental cost of additional fuel, chemical reagents, allowances, and other operations and maintenance expenses incurred to raise generation by one MWh. If the cost of dispatching a generator is $1 for the next increment of generation and the revenues created by that next increment of generation are greater than $1, the generation dispatched will produce net benefits for customers.

Q. SHOULD FIXED COSTS BE INCLUDED IN THE CALCULATION OF INCREMENTAL COST?

A. No. Optimization and economic theory dictate that fixed costs should not be included as part of the incremental costs used for unit dispatch decisions because they do not vary with unit output.

Q. HOW DOES SWEPCO OFFER THE ENERGY GENERATED BY ITS FOSSIL FUEL-FIRED UNITS INTO THE SPP ENERGY MARKETS?

A. SWEPCO offers its available fossil fuel-fired generating units into the SPP energy markets based on each unit's incremental energy costs. The incremental costs in the

Company's offers include incremental costs for fuel, fuel handling for solid fuel units, chemical reagents, emission allowance consumption, and other operations and maintenance expenses. Fuel represents the variable cost of delivered fuel, excluding any fixed costs associated with mining or transportation. Reagent costs are the costs of chemical reagents used to manage the emissions of generating units. Emissions allowance costs are the costs of emission allowances for NOx and SOx. Operations and maintenance expense (O&M) represents a calculation of additional expenses incurred when the unit is operated. All of these costs are combined into one cost on a dollar per unit of heat content ($/MMBtu) and applied to the unit's incremental heat rate to determine the incremental cost of the next Megawatt-hour.

Q. WERE SWEPCO'S MARKET OFFERS FOR THE PIRKEY PLANT CONSISTENT WITH ITS METHODOLOGY FOR ALL OF ITS FOSSIL FUEL-FIRED UNITS?

A. Yes. As stated above, the delivered cost of fuel less any fixed transportation cost is the basis for determining the fuel cost embedded in the market offer. For a generic solid fuel-fired generating unit, the cost of fuel in the market offers includes the contract cost plus any variable cost of delivery. By excluding the fixed cost of delivery from the fuel cost included in the market offer, the Company ensures that the offer curves provided to SPP only include costs that are variable. The fixed cost of fuel delivery is not variable, is not included in the calculation of the incremental cost of dispatch and should not be included in dispatch decisions.

Pirkey is a mine-mouth plant purchasing lignite from a single mining facility operated by an independent third party, North American Coal Corporation (NACC). NACC has provided additional information from the mine to identify both the fixed and variable costs of producing lignite. This information allowed SWEPCO to identify how much of its lignite costs are truly incremental and the level of price increase that results from a rise in fixed costs or lower lignite output. Fixed costs of lignite mining are incurred regardless of whether the mine produces any lignite and, therefore, are independent of the level of lignite consumed by the plant.

Q. HOW DID SWEPCO OFFER PIRKEY INTO THE SPP ENERGY MARKETS?

A. SWEPCO offered Pirkey into the SPP energy markets using an incremental fuel cost that reflected the variable cost of producing lignite to be burned at Pirkey. The Company recognized that while fixed and variable costs of mining were included in its lignite inventory value and being expensed as fuel when the lignite was consumed, economic theory indicates that only the variable costs of mining should be included in the incremental fuel cost that impacts unit dispatch. These fixed costs of the Sabine mine would not increase with each additional megawatt-hour (MWh) generated. Therefore, these fixed costs will be incurred independent of the level of dispatch of the plant; however, by running Pirkey and generating energy, customers received the benefit of energy margins over incremental cost rather than paying both the fixed costs of the mining operation and purchasing additional energy from the SPP energy market. This resulted in the benefits shown in Table 1 below.

As a simple hypothetical example, assume the Company determined that the total accounting fuel cost per unit of heat was $6/MMBtu, but that $4/MMBtu was used to cover fixed costs such as overheads, amortization and depreciation while the remaining $2/MMBtu was used to cover variable costs such as the labor, fuel and supplies to actually mine the lignite. If this hypothetical unit had an incremental heat rate of 10 MMBtu/MWh, the incremental fuel cost would be $60/MWh using the total fuel cost and $20/MWh using the variable fuel cost. It would be reasonable and prudent to offer its generating unit with a $20/MWh incremental fuel cost knowing that any revenues earned beyond that cost would be used to offset the fixed costs included in the accounting fuel cost.

Q. IS SWEPCO'S METHOD OF OFFERING PIRKEY USING INCREMENTAL COST REASONABLE AND CONSISTENT WITH SPP MARKET PROTOCOLS?

A. Yes, it is. As I stated above, for the Company's other fossil fuel units, any fixed costs associated with transporting that fuel such as rail reservation fees, pipeline reservation fees, or depreciation on owned rail cars are excluded from the calculation of the incremental costs. Furthermore, as I discuss below, SWEPCO's method of offering Pirkey at incremental cost is consistent with SPP protocols and sound economic principles and is a practice that has been used for many years by SWEPCO.

Q. WHEN PIRKEY WAS OFFERED INTO THE SPP ENERGY MARKETS, DID THE PLANT GENERATE REVENUES FOR SWEPCO CUSTOMERS IN EXCESS OF ITS INCREMETAL COSTS?

A. Yes, it did. As shown in Table 1 below, for the period from January 2019 through March 2023, SWEPCO earned approximately $310 million of energy revenues in excess of Pirkey's incremental costs. This results in $310 million of cash earnings that were applied towards the fixed costs of mining included in the total cost of lignite consumed. Furthermore, the operations of Pirkey have been subject to the Commission's fuel audits through 2018 and did not result in any disallowance as discussed by SWEPCO witness Thomas P. Brice. Approximately $280.5 million was earned during the last 27 months of Pirkey's operation during the time of high SPP market prices resulting from winter storm Uri and global unrest.

Table 1: Annual Net Margins for SWEPCO Pirkey

Year	Revenues	Incremental Dispatch Cost	Net Margin
2019	$77,718,300	$54,623,477	$23,094,823
2020	$49,440,227	$43,034,825	$6,405,402
2021 [1]	$203,489,927	$60,301,002	$143,188,926
2022	$184,764,380	$58,053,914	$126,710,466
2023 [2]	$23,781,632	$13,164,412	$10,617,220
			$310,016,837

[1]$112.2 million of net revenues were earned from February 12-21, 2021

[2]Unit ceased operation in March 2023.

Q. HOW WERE THE NET MARGINS IN TABLE 1 CALCULATED?

A. The revenues shown in Table 1 above reflect the total SPP energy revenues earned from sales of the energy generated by Pirkey into the Day Ahead and Real Time markets. The costs reflect the incremental cost of producing the energy, as calculated in the Company's resource model. This model determined the incremental amount of fuel, fuel handling, reagents, allowances and variable operations and maintenance expenses necessary to generate these revenues. The incremental amount of fuel was determined using the variable cost of mining the lignite provided by NACC, not the total embedded cost in SWEPCO's lignite inventory.

Q. DO THE NET MARGINS SHOWN IN TABLE 1 CONFIRM SWEPCO STILL GENERATED A NET REVENUE FOR SWEPCO CUSTOMERS DURING 2019-

2023?

A. Yes. The Plant still provided a net benefit for customers from 2019 through calendar year 2023. SWEPCO customers received the benefit of approximately $310 million of energy revenues in excess of its incremental costs.

V. CONCLUSION

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

IN RE: EVALUATION OF SOUTHWESTERN ELECTRIC POWER COMPANY'S DECISION TO RETIRE THE PIRKEY POWER PLANT PURSUANT TO COMMISSION ORDER NO. U-36385-A	: : : : : :	DOCKET NO. U-37067

DIRECT TESTIMONY OF

GARY O. SPITZNOGLE

FOR

SOUTHWESTERN ELECTRIC POWER COMPANY

JULY 12, 2024

TESTIMONY INDEX

SECTION | PAGE

I. INTRODUCTION

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

A. My name is Gary O. Spitznogle, and my business address is 1 Riverside Plaza, Columbus, Ohio 43215. I am employed by the American Electric Power Service Corporation (AEPSC) as Vice President – Environmental Services. AEPSC is a wholly owned subsidiary of American Electric Power Company, Inc. (AEP), the parent of Southwestern Electric Public Company (SWEPCO or the Company).

Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY?

A. I am responsible for oversight of the Environmental Services organization, which provides environmental support for all generation and energy delivery facilities owned by AEP's operating companies. Specifically, the Environmental Services organization provides permitting and compliance support, guidance, procedures, recommendations, and training to AEP's operating companies to maintain and improve their environmental programs and enhance compliance with environmental laws, regulations, and policies. As part of this effort, Environmental Services is also involved in reviewing, interpreting, and/or commenting on developing environmental regulations and coordinating with operating company staff to support AEP's corporate strategies and values concerning the environment.

Q. BRIEFLY DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I earned a bachelor's degree in chemical engineering from The Ohio State University College of Engineering in 1998. I joined AEPSC in 1997 and worked in various positions, including several related to research and development activities to improve the environmental performance of AEP's power generation. I served as Vice President of Regulatory and Finance for Ohio Power Company, from 2013 to December 2015. I then served as Managing Director of Coal Combustion Residuals Management for AEPSC until July 2019. I assumed my current position as Vice President - Environmental Services in July 2019.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY COMMISSION?

A. Yes. I have testified before the Arkansas, Texas, Virginia, and West Virginia Public Utility Commissions. I have also filed testimony before the Public Utility Commission of Kentucky. In addition, I have testified several times before the Public Utilities Commission of Ohio, and presented written and oral testimony before the United States House of Representatives Select Committee on Energy Independence and Global Warming, which was established to investigate new energy technologies with the goal of achieving energy independence while reducing or eliminating the emission of greenhouse gases.

II. <u>PURPOSE OF TESTIMONY</u>

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to support SWEPCO's prudent decision to retire the Pirkey Plant (Pirkey or the Plant) by describing the environmental regulations that were applicable to Pirkey, a lignite-fired power plant (also referred to as a solid-fueled unit), and specifically describe how these regulations affected the Plant. These regulations caused the Company to undertake economic analyses of available options for Pirkey, as well as other solid-fuel units owned by SWEPCO and its AEP sister operating companies. Out of that analysis came information that supported the retirement decision for Pirkey, as described in greater detail in the testimony of Company witnesses Thomas P. Brice and James F. Martin.

III. ENVIRONMENTAL REGULATIONS

Q. PLEASE DESCRIBE THE FEDERAL ENVIRONMENTAL REGULATORY REQUIREMENTS THAT FACTORED INTO THE COMPANY'S DECISION TO UNDERTAKE ECONOMIC ANALYSES OF AVAILABLE OPTIONS FOR THE PIRKEY PLANT.

A. The federal environmental regulations in effect that factored into the Company's decision to undertake economic analyses of available options for the Pirkey Plant are the Coal Combustion Residuals (CCR) Rule and the Steam Electric Effluent Limitation Guidelines (ELG) Rule. The CCR Rule regulates the handling and storage of CCR material in an environmentally responsible manner. The ELG Rule regulates wastewater discharges for the protection of surface water.

Q. PLEASE DESCRIBE IN GREATER DETAIL THE CCR RULE IN EFFECT AT THE TIME OF THE DECISION TO RETIRE THE PIRKEY PLANT.

A. On April 17, 2015, the United States Environmental Protection Agency (EPA) published the CCR Rule to regulate the disposal and beneficial use of CCR, which includes fly ash (ash that is collected in electrostatic precipitators), bottom ash (ash that is collected from the bottom of a coal-fired boiler), and by-products of the flue gas desulfurization (FGD) process that are generated at coal-fired electric generating units through normal unit operation. The rule applies to new and existing CCR landfills and CCR surface impoundments (ponds) at operating coal-fired electric generating facilities. The scope of the CCR Rule has recently been expanded to include additional sites (the Legacy CCR Rule) but those changes are not relevant to our thinking at the time we decided to retire Pirkey and, for the rest of this discussion, when I discuss the rule, I mean the rule and its requirements that were in effect before the Legacy CCR Rule provisions were adopted. The rule defines construction and operation obligations for CCR handling and storage, including location restrictions (such as seismic stability requirements and a 5-foot minimum separation between the bottom of the pond and the uppermost aquifer); design criteria for storage areas (such as specifications for liners and caps to isolate stored CCR from the environment); structural integrity requirements for impoundments; and groundwater monitoring and protection requirements that include frequent sampling and analysis of groundwater to determine if it is impacted by the CCR storage site. If any of the above conditions are found to be lacking or outside of EPA-established acceptable ranges, remediation steps must be undertaken that could include any or all of the following: closure of the site, removal of the CCR material from the site, and/or groundwater treatment sufficient to attain applicable standards.

Some requirements of the CCR Rule, including applicable compliance dates, were revised and finalized by the EPA in August 2020. EPA revised the CCR rule to require the closure of unlined ash ponds associated with coal-fired power plants. In response to these requirements, dry bottom ash handling systems and ash pond closures were required for continued operation of the Pirkey Plant. The compliance timelines and options in the August 2020 version of the CCR Rule are addressed later in my testimony.

Q. PLEASE DESCRIBE IN GREATER DETAIL THE ELG RULE IN EFFECT AT THE TIME OF THE DECISION TO RETIRE THE PIRKEY PLANT.

A. On November 3, 2015, the EPA published a final rule revising ELG guidelines for steam-electric generating facilities. The rule established discharge limits on flue gas desulfurization (FGD) wastewater, transport water used for fly ash and bottom ash handling, and other wastewaters. In October 2020, EPA revised the ELG guidelines to establish more stringent wastewater discharge limits for certain processes associated with coal-fired power plants. The revised rule eliminated the discharge of most ash transport waters and required enhanced treatment of FGD wastewaters. These requirements are implemented through modifications to the existing state wastewater discharge National Pollution Discharge Elimination System (NPDES) permit at the Plant. The compliance timelines and options in the October 2020 version of the ELG Rule are addressed later in my testimony. As with the CCR Rule, EPA has recently revised the ELG Rule again (the 2024 ELG Rule) but those revisions are not relevant to this discussion.

Q. WAS THERE ANY WORK THE COMPANY WAS REQUIRED TO PERFORM UNDER THE COMPLIANCE SCENARIOS?

A. Yes. Under the CCR Rule, all unlined ash ponds were required to initiate closure by April 11, 2021, unless an extension was granted by the federal EPA. This work was required whether the plant was operational or not. As a result, Pirkey Plant's bottom ash ponds, which were unlined, were required to close and have, in fact, now been closed.

IV. CCR AND ELG COMPLIANCE OPTIONS

Q. DO THE CCR AND ELG RULES CONTAIN MULTIPLE OPTIONS FOR COMPLIANCE?

A. Yes. There were multiple options for compliance with the CCR and ELG Rules, each of which result in different requirements for plant operation and/or plant retirement. In my role in Environmental Services, I analyzed the rules and discussed all potential compliance options for AEP's plants, including SWEPCO's Pirkey Plant with experts at SWEPCO and AEPSC. Those scenarios were included in the 2020 unit disposition analysis by Company witness Martin, and that analysis is further described in his testimony.

Q. WHAT WERE THE EXTENSION OPTIONS AVAILABLE TO THE COMPANY TO COMPLY WITH THE CCR RULE?

A. The Company had two options available to extend the April 11, 2021, date by which it was required to commence closure of the ponds. The first option allowed the Company to request additional time from the EPA to retrofit the existing ponds or install alternative ash disposal systems if it could have demonstrated to the EPA that there were no alternatives to the existing ash ponds for disposing the ash and other wastewaters in compliance with the CCR Rule. In this scenario, an extension could have been authorized for the least amount of time necessary to implement the compliance solution, but in no event later than October 15, 2023. The second option was the retirement option. Under the CCR Rule retirement option, facilities could continue to use the existing unlined ash ponds provided they permanently retire coal generation operations and complete closure of the unlined ash storage pond(s) by one of two dates, depending on the size of the pond. For the Pirkey Plant, this date was October 17, 2023.

Q. WHAT WAS THE TIMING OF THE COMPANY'S DECISION TO COMPLY WITH THE CCR RULE OR RETIRE PIRKEY?

A. As stated above, the CCR Rule was finalized on August 28, 2020, with a deadline to cease use of unlined CCR storage ponds and initiate closure activities by April 11, 2021. The deadline to submit an extension request to operate unlined ponds beyond April 11, 2021, was November 30, 2020, roughly three months after the CCR Rule was finalized. The Company made an extension request to the EPA on November 30, 2020, under the second extension option described above to cease coal combustion at Pirkey and have the ponds closed no later than October 17, 2023.

Q. HOW DID THE SIZE OF THE PLANT'S PONDS IMPACT THE RETIREMENT DATE UNDER THE CCR RULE?

A. Under the CCR Rule retirement provision, closure of ponds that are 40 acres or less in size had to be completed by October 17, 2023. Closure of ash ponds that exceed 40 acres in size must be completed by October 17, 2028. The Pirkey Plant had two independent and redundant bottom ash ponds, each of which had surface areas of roughly 30 acres. Because the Plant required only one of the two ponds to continuously operate, the rule applied to them as separate and unique ponds, each to be closed by October 17, 2023.

Q. WAS SWEPCO PERMITTED TO COMBINE THE PONDS AT PIRKEY TO EXTEND THE OPERATION OF THE PLANT TO 2028?

A. No. combination of the ponds at Pirkey to extend the operation of the Plant was not permitted under the EPA's rules.

Q. WHAT WOULD HAVE BEEN REQUIRED UNDER THE CCR AND ELG RULES IN EFFECT AT THE TIME TO HAVE CONTINUED OPERATING PIRKEY PLANT BEYOND 2023?

A. To have continued operating the Plant beyond 2023, the Company would have been required to undertake projects to comply with both the 2020 CCR and the 2020 ELG rules. The 2020 rules would have required the closure of unlined bottom ash ponds and the installation of a dry bottom system by October 15, 2023.

Q. WOULD IT BE POSSIBLE TO COMPLY WITH ELG RULE, BUT NOT CCR?

A. No. Both rules are applicable to coal-fired steam electric generating plants, including Pirkey.

Q. HOW WERE THE VARIOUS COMPLIANCE OPTIONS USED BY THE COMPANY TO DETERMINE THE MOST REASONABLE PLAN OF ACTION?

A. The Environmental Services department worked closely with AEPSC's Engineering and Projects departments to determine which technologies would be required for Pirkey to comply under various scenarios. The Engineering and Projects departments then created cost estimates of each compliance option for the plant. The economic analysis of the various practicable options for Pirkey is discussed in the testimony of Company witness Martin.

Q. WERE OTHER AEP SOLID FUEL PLANTS EVALUATED AS PART OF THE 2020 UNIT DISPOSITION ANALYSIS?

A. Yes. As discussed by Company witness Martin, six coal and lignite plants owned by four AEP operating companies were evaluated internally as part of the 2020 unit disposition analysis to determine whether the investments needed for compliance with the CCR and ELG Rules should be made or not. It was this analysis that led to the decision to retire Pirkey in 2023 and to cease burning coal at the Welsh Plant in 2028. The outcome of the analysis also led to AEP's decision to make the compliance investments at four of the six plants, including SWEPCO's Flint Creek Plant and three plants owned by AEP within its other service territories.

V. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The 2020 CCR and ELG Rules drove the evaluation of compliance scenarios that caused the Company to undertake economic analyses of available options for the Pirkey Plant. These rules were included in the 2020 unit disposition analysis performed by Company witness Martin that led to SWEPCO's decision to retire the Plant as discussed in greater detail in the testimony of Company witness Brice.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

IN RE: EVALUATION OF SOUTHWESTERN ELECTRIC POWER COMPANY'S DECISION TO RETIRE THE PIRKEY POWER PLANT PURSUANT TO COMMISSION ORDER NO. U-36385-A	: : : : : :	DOCKET NO. U-37067

DIRECT TESTIMONY OF

THOMAS P. BRICE

FOR

SOUTHWESTERN ELECTRIC POWER COMPANY

JULY 12, 2024

TESTIMONY INDEX

EXHIBITS

EXHIBITS	DESCRIPTION
EXHIBIT TPB-1	Southwestern Electric Power Company's Compliance Report Notifying the Retirement of Pirkey Power Plant, dated November 30, 2022
EXHIBIT TPB-2	Order dated March 28, 2006 in LPSC Docket Nos. U-23327 Subdocket B and U-27107

I. INTRODUCTION

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

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

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I graduated from the University of Louisiana at Monroe (formerly Northeast Louisiana University) in 1985 with a Bachelor of Business Administration in Accounting and a minor in Finance. I am a certified public accountant and certified internal auditor. I am a member of the American Institute of Certified Public Accountants and the Louisiana State Society of Certified Public Accountants. I have more than 39 years of experience in the electric and natural gas utility industries.

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

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

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

In 2004, I assumed the position of Director, Business Operations Support. I was responsible for the Company's financial plans and coordination with other organizations within the AEP system on matters directly affecting SWEPCO's financial and operational results.

In June 2010, I assumed the responsibilities of Director, Regulatory Services. In this capacity, I was responsible for the regulatory matters of SWEPCO in Arkansas, Louisiana, and Texas. In May 2017, I assumed my current responsibilities of Vice President of Regulatory and Finance.

Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES?

A. I am responsible for SWEPCO's financial results and regulatory matters in Arkansas, Louisiana, and Texas. I have responsibility for the preparation, filing, and litigation of regulatory cases. Additionally, I am responsible for regulatory interactions, monitoring of regulatory filings, participation in rulemakings, rate and tariff administration, and ensuring compliance with regulatory requirements. I am also responsible for the financial matters of the Company, which includes serving as the primary interface with SWEPCO's parent company, American Electric Power Company, Inc. (AEP).

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE ANY REGULATORY COMMISSIONS?

A. Yes. I have filed testimony and testified before the Louisiana Public Service Commission (LPSC or Commission), as well as the Public Utility Commission of Texas (PUCT), and the Arkansas Public Service Commission (APSC).

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. As provided in its July 14, 2023 Order in Docket No. U-36385-A, the LPSC commenced a proceeding to evaluate (1) SWEPCO's decision to retire the Pirkey Power Plant; (2) the operation of the Pirkey Power Plant during the years prior to the unit's retirement; and (3) costs that were flowed through the Company's Fuel Adjustment Clause (FAC) as part of that operation for the years not previously subject to an audit period approved by an LPSC order. The purpose of my testimony is to support the Company's operation of the Pirkey Power Plant (Pirkey or the Plant) in the years preceding the unit's retirement, the retirement of Pirkey, and the Pirkey costs not previously subject to an audit period approved by an LPSC Order. For the purposes of the FAC review, the audit period would be from January 1, 2019, through March 31, 2023. SWEPCO is also seeking to increase the amount of reclamation costs that are currently being collected from Louisiana customers through the FAC.

Q. PLEASE PROVIDE AN OVERVIEW OF THE OTHER SWEPCO WITNESSES PROVIDING TESTIMONY IN THIS PROCEEDING.

A. In addition to my testimony, SWEPCO's filing is supported by testimony from:

- SWEPCO Witness James F. Martin who discusses the 2020 unit disposition studies for Pirkey and other coal-fired facilities across the AEP footprint and additional analyses related to the Pirkey retirement performed by the Company in 2023.
- SWEPCO Witness Jason M. Stegall who discusses the operation of Pirkey in the Southwest Power Pool (SPP) Integrated Marketplace (IM) and the economic impact of those operations on the Company's customers for the audit period of January 2019 through end of March 2023.
- SWEPCO Witness Marc B. Hunter who describes and explains the costs that were flowed through SWEPCO's FAC during the audit period as part of the operation of the Plant and fuel coming from the mine operated by Sabine Mining Company.
- SWEPCO Witness M. Casey Koenig who supports the prudent decision to close the Sabine Mine, as defined in Witness Koenig's testimony, and the mining costs that were ultimately flowed through SWEPCO's FAC during the audit period.
- SWEPCO Witness Gary O. Spitznogle discusses the environmental compliance obligations for the Plant.

Q. HAS SWEPCO FILED A REPORT WITH THE COMMISSION REGARDING PIRKEY'S RETIREMENT?

A. Yes. SWEPCO filed its formal notice of its decision to retire Pirkey on November 30, 2022, in compliance with the Commission's generation retirement noticing requirements.[1] SWEPCO also notified the SPP of the Plant's planned retirement in accordance with the requirements of the SPP, to ensure the retirement did not have any negative impacts on grid operations. After review, the SPP confirmed no negative impacts on grid operations. Following those announcements, the Pirkey Plant was retired on March 31, 2023.

III. SUMMARY OF PIRKEY POWER PLANT AND OPERATION OF THE PLANT DURING THE REVIEW PERIOD

Q. PLEASE BRIEFLY DESCRIBE THE PIRKEY POWER PLANT.

A. Located in Hallsville, Texas, the Henry W. Pirkey Power Plant (Pirkey or the Plant) was a 675 MW Lignite-Coal fired Unit, that was first placed in service in 1985. SWEPCO was the majority owner of the Plant, with an ownership share of 580 MW. SWEPCO purchased lignite for the Plant pursuant to a lignite mining agreement (LMA) between SWEPCO and the Sabine Mining Company (SMC), the third-party miner subsidiary of North American Coal Corporation (NACC), under which the costs of mining lignite, including the capital investment required for mining assets, was billed to SWEPCO as lignite was delivered to the Plant, as discussed by Witness Koenig.

Q. PLEASE PROVIDE A HIGH LEVEL OVERVIEW OF SWEPCO'S OPERATION IN THE SPP ENERGY MARKETS.

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[1] EXHIBIT TPB-1, Southwestern Electric Power Company's Compliance Report Notifying the Retirement of Pirkey Power Plant, dated November 30, 2022.

A. SWEPCO operates in the SPP Regional Transmission Organization. SWEPCO is required by SPP to offer enough generation resources into the SPP energy market each day to cover its expected load plus an operating reserve. In doing so, the Company submits a significant volume of data to SPP including the unit commitment designation for its generation resources, offer curves that cover per-unit costs for the range of output from economic minimum to economic maximum, and market parameters (including unit startup time/cost and other characteristics prescribed by SPP in its protocols). SWEPCO Witness Stegall provides a more detailed description of both the SPP markets and the way in which SWEPCO operates in those markets.

Q. PLEASE DESCRIBE THE WAY IN WHICH PIRKEY WAS OFFERED INTO THE SPP ENERGY MARKETS.

A. SWEPCO offered Pirkey into the SPP energy markets and the SPP dispatched the unit using fuel costs reflecting the incremental cost of producing lignite to be burned at the Plant. In doing so, SWEPCO created an opportunity for customers to receive the benefit of energy margins over incremental costs rather than purchasing additional energy from the SPP energy market. This is consistent with SWEPCO's market offer methodology for all of its fossil fuel-fired units and consistent with market protocols prescribed by SPP.

I've included SWEPCO Witness Stegall's Table 1, showing the economic benefit to customers below (i.e., market revenues in excess of the incremental cost of generating the revenues). As previously mentioned, SWEPCO Witness Stegall will provide a more robust description of the specifics regarding Pirkey's operation in the SPP energy markets and the economic benefits to SWEPCO customers.

Table 1: Annual Net Margins for SWEPCO Pirkey

Year	Revenues	Incremental Dispatch Cost	Net Margin
2019	$77,718,300	$54,623,477	$23,094,823
2020	$49,440,227	$43,034,825	$6,405,402
2021 [2]	$203,489,927	$60,301,002	$143,188,926
2022	$184,764,380	$58,053,914	$126,710,466
2023 [3]	$23,781,632	$13,164,412	$10,617,220
			$310,016,837

[2] $112.2 million of net revenues were earned from February 12-21, 2021.

[3] Unit ceased operation in March 2023.

Q. WHEN WAS THE LAST SWEPCO LPSC FAC AUDIT APPROVED?

A. The last SWEPO LPSC FAC Order was issued March 9, 2021. In that order, the Commission found that costs passed through SWEPCO's FAC during the period January 2016 through December 2018 were prudent, appropriate, and eligible for recovery. It should be noted that from the initiation of the fuel audits by General Order 11/6/97, there have been no disallowances of Pirkey fuel costs from 1999 through 2018. As discussed by Witness Stegall, SWEPCO has used the same incremental cost methodology to offer the unit into the SPP energy markets since the formation of those markets in 2014.

Additionally, the LPSC is currently conducting two additional fuel audits for certain years after 2018 (Docket Nos. X-36165 for 2019-2020 and X-36645 for 2021-2022). Any Pirkey fuel costs included in those ongoing fuel audits should be reviewed only once— in this proceeding.

Q. IN WHICH FUEL AUDITS HAS THIS COMMISSION REVIEWED THE PIRKEY PLANT FUEL COSTS?

A. Pirkey's fuel costs have been reviewed with no disallowance of those costs during the following fuel audits, covering a period of nearly 20 years:

- Docket No. U-23327, Subdocket B covering 1999-2002
- Docket No. U-22327, Subdocket E covering 2003-2004
- Docket No. U-33322, covering 2005-2013
- Docket No. U-34110, covering 2014-2015, and
- Docket No. U-35173, covering 2016 – 2018.

IV. RETIREMENT OF PIRKEY BENEFITS LOUISIANA CUSTOMERS

Q. WHAT LEAD SWEPCO AND AEP TO CONDUCT THE UNIT DISPOSITION STUDIES FOR THE SOLID FUEL PLANTS IN 2020?

A. SWEPCO and American Electric Power Service Corporation (AEPSC) conducted unit disposition studies for Pirkey and other coal-fired facilities across the AEP footprint following the finalization of new Coal Combustion Residual Rule (CCR) and Effluent Limitations Guidelines (ELG) rules by the United States Environmental Protection Agency (EPA) in 2020. Through those studies, SWEPCO determined that the retirement of this older Plant with relatively high forecasted costs of operation based largely on the high fixed costs at the Plant's fuel source, the Sabine Mine, was in the best interest of customers.

Q. PLEASE FURTHER DESCRIBE SWEPCO'S DECISION TO RETIRE THE PLANT.

A. SWEPCO announced on November 5, 2020, that it would close its Pirkey Plant in 2023. As described below, SWEPCO and AEPSC management evaluated the cost-effectiveness of continued operation of the Pirkey Plant. The costs associated with continued operation of the Plant included the ongoing costs of operating and investing in the Plant and the significant fuel costs incurred at the Pirkey Plant, as well as making the necessary CCR and ELG capital expenditures that would allow Pirkey to continue operation. The alternative scenario was to avoid the ongoing costs of operating the Plant and associated lignite mine, not to make CCR/ELG expenditures, and retire Pirkey in 2023. On November 30, 2020, AEP submitted its decision to the EPA to retire the Pirkey Plant in lieu of continued operation of the Plant and making the capital expenditures necessary for continued operations.

Q. PLEASE DESCRIBE THE COMPANY'S 2020 UNIT DISPOSITION ANALYSIS.

A. Following the finalization of the EPA's CCR and ELG Rules, the Company prepared its 2020 unit disposition analysis to review the ongoing operation of six coal and lignite plants owned by four operating companies in the AEP system and to determine whether the investments needed for compliance with the CCR Rule and ELG should or should not be made. As discussed by SWEPCO witness Martin, AEP elected to make the compliance investments at four of the six plants, including SWEPCO's own Flint Creek plant and at three plants owned by other AEP operating utility companies. Resource decisions such as the decision to retire Pirkey are made based on the best information available at the time. The CCR Rule contained a deadline of November 30, 2020, by which compliance elections needed to be made, and the Company met that deadline.

Q. PLEASE DESCRIBE YOUR UNDERSTANDING OF THE COMMISSION'S PRUDENCE STANDARD.

A. While I am not a lawyer, I am familiar with the Commission's standard for assessing the prudence of a utility's decisions. The reasonableness of an action or decision must be judged in light of the circumstances, information and available options reasonably known at the time the decision is made, without the benefit of hindsight. Whether decisions are expected to produce favorable results in hindsight is irrelevant to a prudence inquiry. However, in this case, the retirement decision has and will continue to benefit customers.

Q. HOW DID SWEPCO DETERMINE WHETHER RETIREMENT OF THE PLANT WAS IN THE BEST INTEREST OF CUSTOMERS?

A. Resource planning decisions such as the Pirkey retirement decision are made based on the best information available at the time. The CCR rule contained a deadline of November 30, 2020, by which compliance elections needed to be made, and the Company met that deadline using the available information regarding gas and power prices in the period leading up to the decision, as well as the continuing costs of operating the Plant and its associated lignite mine. Based on the information available at the time SWEPCO made its decision to retire the Pirkey Plant, the decision was in the best interest of customers. Specifically, the Company's analysis demonstrated expected retirement savings over continuing to incur the operational costs of the Plant and associated lignite mine, as well as making the environmental compliance expenditures, that ranged from more than $739 million in the no carbon scenario to approximately $1.168 billion in the carbon scenario on a nominal basis over the 30-year study period. The corresponding savings range on a net present value (NPV) basis was approximately $327 million in the no carbon scenario to approximately $462 million in the carbon scenario. Please see SWEPCO Witness Martin's testimony for additional details of the benefits associated with the retirement of the Plant.

VI. CONTINUING ANALYSIS OF THE PIRKEY RETIREMENT DECISION

Q. IN WHAT SITUATION WOULD SWEPCO PREPARE A SUBSEQUENT UNIT DISPOSITION ANALYSIS FOR THE PIRKEY RETIREMENT DECISION?

A. SWEPCO monitors evolving conditions relevant to the decision to retire a plant and updates the unit disposition analyses when there is a fundamental and long-term change in economic conditions, environmental compliance requirements, or operating characteristics of the generating unit that would merit an updated analysis. There were no such events between the 2020 unit disposition analysis performed by the Company and the retirement of the Plant at the end of March 2023.

Q. ARE THERE ANY LPSC RULES OR REQUIREMENTS FOR SWEPCO TO PERFORM AN UPDATED ANALYSIS OF THE PIRKEY RETIRMENT TODAY?

A. No. Even if the CCR/ELG environmental compliance deadlines could be ignored, unit disposition studies only need to be updated when and if there is a *fundamental* change in the environmental compliance requirements, operating characteristics of the plant and associated lignite mine, or a fundamental change in the economic circumstances impacting the plant. While there have been no such long-term fundamental changes impacting the Pirkey retirement decision, there was a temporary increase in natural gas prices in 2021 and 2022 timeframe due primarily to extreme winter weather events. However, as discussed by SWEPCO Witness Martin, the Energy Information Administration's (EIA) 2022 and 2023 fundamental natural gas price curves indicated that natural gas prices were expected to moderate over the next two-to-three years, and that is exactly what has occurred. The EIA's long-term natural gas price forecasts (2022 and 2023 versions) are very similar to the long-term natural gas price forecast supporting the 2020 unit disposition study that indicated the retirement of Pirkey was in the best interest of customers. Other than the price volatility experienced in 2021 and 2022, gas prices at the time the fundamental forecast that was used in the 2020 unit disposition analyses were developed had been at or below $3.00/MMBtu for the entire period from 2015 through late 2020. In fact, the price was sometimes below $2.00/MMBtu. More recently, SWEPCO and AEP have seen prices significantly lower than even $2.00/MMBtu which are below all of the EIA forecasts discussed by Witness Martin.

Q. NONETHELESS DID SWEPCO PERFORM AN ADDITIONAL ANALYSIS TO CONFIRM THE PRUDENCE OF ITS EARLIER DECISION?

A. Even though additional analysis is not required for this Commission to find that SWEPCO's decision to retire Pirkey was prudent, SWEPCO performed an analysis that confirmed the prudence of its earlier decision. SWEPCO Witness Martin discusses this analysis in his testimony, which SWEPCO is providing in this matter to ensure the Commission has ample support to reach a prudence finding.

Q. IS IT FEASIBLE FOR SWEPCO TO CHANGE ITS DECISION AND RETROFIT THE PIRKEY PLANT?

A. No. The Pirkey Plant is retired, effective March 31, 2023. Even assuming SWEPCO could un-retire the Plant, which it cannot, retrofitting the Plant and resuming mining operations would be more expensive than the other reasonable alternatives available to the Company.

Q. HAS SWEPCO EVALUATED OPTIONS FOR THE PIRKEY PLANT SITE/INTERCONNECTION?

A. Yes. SWEPCO is currently evaluating options for the Pirkey Plant site/interconnection. In SWEPCO's most recent RFP, filed in LPSC Docket No. X-37003 on October 2, 2023, the Company offered a self-build proposal at the former Pirkey site. The analysis of the bids will be completed later this year, and SWEPCO will keep the Commission apprised of the results.

VII. SWEPCO'S RATEMAKING REQUESTS

Q. PLEASE BRIEFLY DESCRIBE THE EFFECT OF THE EARLY RETIREMENT ON THE RECOVERY OF PIRKEY COSTS.

A. As noted previously in my testimony, SWEPCO purchased lignite for the Plant pursuant to the Third Restatement of Lignite Mining Agreement[4](LMA) with SMC, a subsidiary of North American Coal Company (NACC), under which the costs of mining lignite, including the capital investment required for mining assets, was billed to SWEPCO as lignite was delivered to the Plant. The capital investments are depreciated or amortized over the anticipated useful service life of the assets, in accordance with the LMA between SWEPCO and SMC, effective January 1, 2008. The adjustment in the economically useful life of the Plant caused those fixed capital investment costs to be billed to SWEPCO over a shorter time starting with the 2020 plant closure announcement. The resulting fuel cost increases are further discussed by SWEPCO Witnesses M. Casey Koenig and Marc B. Hunter.

Q. PLEASE DESCRIBE THE RESULT OF THE COMMISSION'S MARCH 28, 2006 ORDER IN DOCKET NOS. U-23327 SUBDOCKET B AND U-27107 RELATED TO PIRKEY.

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[4] *See* EXHIBIT MCK-1, Third Restatement of Lignite Mining Agreement, effective January 1, 2008.

A. In the March 28, 2006 Order in Docket Nos. U-23327 Subdocket B and U-27107 (The Pirkey Order),[5] the Commission reviewed certain costs in that proceeding to determine whether the costs were appropriately recoverable through the FAC. Specifically, the primary issue identified by Staff was whether those fuel costs were properly classified as "overheads," which are not typically recoverable through the FAC. The Commission found that the mine-related activities, which were characterized by the Company as "overheads," included direct mining-related costs such as mine planning and development; mine, pond, and road development; and property reclamation which *are properly recoverable under the FAC.* The Commission Staff found no evidence that the costs at issue in that proceeding were unreasonable or imprudently incurred. The Pirkey Order authorized SWEPCO to recover these costs through the FAC on a prospective basis, through 2005 and forward.

Q. DOES SWEPCO ANTICIPATE ANY CHANGES TO THE CATEGORIES OF COSTS AUTHORIZED BY THE 2006 PIRKEY ORDER?

A. Yes. SWEPCO reached a settlement of litigation with NACC in August of 2023. The Settlement Agreement revised the term of the LMA, providing that the mining agreement will terminate on October 1, 2026. Following termination of the LMA, SWEPCO will assume and complete the remaining post-production reclamation work at the Sabine Mine. In accordance with the Commission's 2006 Pirkey Order, SWEPCO will not include any SWEPCO or AEP administrative costs, except as expressly authorized by the FAC General Order, for recovery through the FAC.

[5] EXHIBIT TPB-2, Order dated March 28, 2006 in LPSC Docket Nos. U-23327, Subdocket B and U-27107.

Q. WHAT RATEMAKING TREATMENTS IS SWEPCO REQUESTING IN THIS PROCEEDING?

A. SWEPCO is seeking a Commission finding that SWEPCO's decision to retire the Plant and the Sabine Mine, the operation of the Plant and Mine subsequent to the retirement decision, and the costs flowed through its FAC for the time period January 2019 through March 2023 were reasonable and prudent. SWEPCO acted prudently to retire the Plant and in the process saved its customers an estimated $739 million and $1.168 billion in nominal terms.

In addition, as discussed by SWEPCO Witness Hunter, SWEPCO is also requesting an increase in the amount of reclamation costs that are currently collected from Louisiana customers to ensure that the appropriate amount of reclamation costs are recovered to fully reclaim the mining sites, in accordance with all state and federal requirements.

VIII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. SWEPCO's decision to retire the Pirkey Power Plant was reasonable and should be found prudent as customers are expected to save approximately $739 million to $1.168 billion, in nominal dollars (the actual dollars paid by customers and not discounted for the time value of money). The operation of the Pirkey Power Plant during the years prior to the unit's retirement (January 1, 2019, through March 31, 2023) was prudent and resulted in reasonable fuel costs paid by customers. By operating the Plant consistent with SPP protocols, customers benefitted from lower fuel costs compared to purchasing the energy in the SPP market. The Company also recommends that the Commission not review these same costs in the ongoing fuel audits (in Docket Nos.X-36165 for 2019-2020 and X-36645 for 2021-2022) and make the necessary prudence and reasonableness findings in this proceeding for the costs recovered through the FAC from January 1, 2019, through March 31, 2023. Finally, SWEPCO requests the Commission approve the requested increase in the Pirkey reclamation cost estimate currently contained in SWEPCO's FAC.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

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ARTHUR R. CARMODY, JR. (1928-2021)

November 29, 2022

VIA: FEDERAL EXPRESS

Ms. Terri Lemoine Bordelon, Records Section
Louisiana Public Service Commission
Galvez Building, 12th Floor
602 North Fifth Street
Baton Rouge, LA 70802

In Re: SWEPCO Compliance Report Plant Retirement filing pursuant to General Order 10-19-2018

Dear Terri:

On behalf of Southwestern Electric Power Company (SWEPCO), through undersigned counsel, please find enclosed the original and requisite copies of the Compliance Report Notifying the Retirement of the Pirkey Power Plant, submitted in accordance with General Order 10-19-2018, along with exhibits, including confidential exhibits filed under seal in accordance with the Commission's Rules of Practice and Procedure.

Please return a stamp filed copy of this cover letter in the enclosed self addressed stamped envelope.

As always we appreciate your assistance

With best regards, I am

Yours very truly,

WILKINSON, CARMODY & GILLIAM

By: Bobby S. Gilliam

Bobby S. Gilliam
Jonathan P. McCartney

JPM/mml
enclosure

EXHIBIT
TPB-1

DOCKET NO.:

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

SOUTHWESTERN ELECTRIC POWER COMPANY'S COMPLIANCE REPORT NOTIFYING THE RETIREMENT OF PIRKEY POWER PLANT

MAY IT PLEASE THE HONORABLE COMMISSION:

Pursuant to and in compliance with General Order 10-19-2018 of the Louisiana Public Service Commission ("LPSC" or "Commission") issued in Docket Number R-34407, Southwestern Electric Power Company ("SWEPCO" or the "Company") hereby submits and files its Compliance Report and supporting Confidential and Non-Confidential Exhibits to advise Commission Staff of its decision to retire the Pirkey Power Plant ("Pirkey" or the "Unit") from its generation fleet, effective April 1, 2023.

SWEPCO and American Electric Power (AEP) conducted unit disposition studies for Pirkey and other coal-fired facilities across the AEP footprint. Through those studies, attached as Confidential Exhibit 1, SWEPCO determined that retiring Pirkey was in the best interest of its customers. Additionally, in its Integrated Resource Plan ("IRP") processes in Louisiana and Arkansas, SWEPCO included the retirement of Pirkey in its modeling, with Louisiana Staff and Arkansas Staff, respectively, as well as respective Stakeholder involvement throughout the process. Accordingly, in its currently pending Louisiana IRP, filed in Louisiana Public Service Commission Docket No. I-36242, SWEPCO noted its plans to retire Pirkey in 2023 during the March 29, 2022 Louisiana IRP Stakeholder meeting. SWEPCO also previously identified the retirement of Pirkey in its Arkansas IRP filed in December 2021, after an extensive IRP review process with the involvement of stakeholders and Arkansas Staff in that proceeding. SWEPCO's careful evaluation of its generation needs, and its determination that the retirement of this older plant with relatively higher forecasted costs of operation based largely on the high fixed costs at both the plant and Pirkey's fuel source, the Sabine mine, is in the best interest of ratepayers, SWEPCO hereby respectfully submits this Compliance Report. This Compliance Report is filed in accordance with the terms of General Order 10-19-2018, which sets forth the rationale and support for the decision to retire or deactivate the generating Unit no later than 120 days before implementing the decision, as set forth herein.

1. A description of the unit (including, at a minimum, its location, age, ownership, net capacity, primary fuel type, and technology) and a history of its operating characteristics (including, at a minimum, heat rate, capacity factor and the number of hours the unit ran for each of the previous three years); planned, forced, and unforced outages of the unit that lasted longer than seven days from each of the previous five years, the reason for each, and any projected availability and forced outage rate for the unit for the next five years.

Pirkey Power Plant

Located in Hallsville, Texas, Pirkey Unit 1 is a 675 MW Lignite-Coal fired Unit, that was first placed in service in 1985. The Unit is majority (86%) owned by SWEPCO, which is a subsidiary of AEP. From 2019 through 2021, Pirkey Unit 1's operating characteristics, including its heat rate, capacity factor, and service hours, were as follows:

Pirkey Unit 1 Operating Characteristics			
	2019	**2020**	**2021**
Heat Rate	10,750	11,417	11,187
Capacity Factor	51.94	36.88	45.49
Service Hours	5,647	5,382	5,335

Any planned, forced, and unforced outages for Pirkey Unit 1 that lasted seven days or longer for each of the previous five years, as well as the reasons for such outages, are listed in Confidential Exhibit 2.

2. A clear statement as to whether the unit is to be deactivated or whether the unit is to be retired.

With regards to the Pirkey Unit 1 retirement, this includes the boiler, turbine generator, emissions control equipment, coal yard and associated plant equipment, which will be retired. The land, the lake/cooling pond, electrical substation and transmission equipment are not being retired. Please see correspondence dated August 11, 2022, attached as Exhibit 3.

3. The planned retirement or deactivation date.

SWEPCO's intended effective date for the retirement of the Pirkey Unit 1 is April 1, 2023 at 12:01 AM.

4. Detailed information regarding the current condition of the unit, including any engineering assessment of the unit developed by or for the utility.

Detailed information regarding the current condition of the Pirkey Plant, including its operating history, is set forth in the attachments enclosed as Exhibit 4. This Unit has relatively higher costs of production, based largely on the high fixed costs at both the plant and Pirkey's fuel source: the Sabine mine. These forecasted costs show that continued operation is not an economically viable option, which supports the retirement of the Unit for the benefit of customers.

5. An economic analysis supporting the decision to deactivate or retire, including an analysis of whether any replacement of the retired or deactivated facility will be needed.

SWEPCO has conducted a unit disposition study for the Pirkey Plant, which is attached as Confidential Exhibit 1. The detailed analysis of SWEPCO's generation capacity needs as well as the recommended Preferred Plan as a part of the IRP process can be found in SWEPCO'S 2021 Arkansas IRP, including excerpts of that plan regarding the Pirkey retirement, is attached as Exhibit 5.

6. An analysis examining the decision to deactivate versus retire the unit or vice-versa.

A decision was made to retire the Unit, rather than deactivate the same, given the relatively higher forecasted costs of production. Please see the analysis attached as Confidential Exhibit 1. Because of the age and condition of the Unit equipment, costs of mining, fixed and variable operation costs, and compliance costs with environmental regulations going forward, continued operation of the Pirkey Unit would require significant incremental capital investment for operation beyond the April 2023 retirement date. Finally, deactivation of the Pirkey Unit would not only require ongoing incremental capital investment, but additional annual maintenance expenses to secure the future availability of the plant.

7. Copies of studies or other documentation relied upon by the utility in making the deactivation or retirement decision, and copies of any documents memorializing the deactivation or retirement decision.

Please see the Notification Letter dated August 11, 2021, the unit disposition study, as well as the 2021 Arkansas IRP, submitted herein as Exhibits 3, Confidential Exhibit 1, and Exhibit 5, respectively.

8. The docket number where the utility's most recent IRP report is filed, and the utility's current 10-year load and capability forecast.

SWEPCO's most recent Louisiana IRP was filed on December 29, 2019 in Docket No. I-36242. As previously discussed, SWEPCO also completed its Arkansas IRP in December 2021, after SWEPCO's careful evaluation of its generation planning needs. Relevant excerpts of the Arkansas Preferred Plan have been included with this filing as Exhibit 5.

9. A copy of the Attachment Y or comparable notice that has been submitted to the appropriate RTO.

SWEPCO properly notified the SPP of its intent to retire the Pirkey Unit, through its submission of Addendum 1 Attachment AB and SPP Resource Retirement Agreement, which are submitted in this proceeding as Confidential Exhibit 6 and Confidential Exhibit 7, respectively.

10. The net book value included in rate base for the retired or deactivated unit and any accounting changes that will occur upon deactivation or retirement.

Upon retirement, Pirkey Unit 1 will have a net book value equal to approximately $153,297,062. Please see attached Confidential Exhibit 8 with additional information on the Net Book Value calculation.

11. If a settlement agreement, consent decree, or other agreement exists requiring the retirement or deactivation of the unit, copies of any such agreement or decrees shall be provided.

There are no existing settlement agreements, consent decrees, or other agreements requiring the retirement or deactivation of the Pirkey Unit.

12. If an independent engineering review was performed to estimate the reliability and sustainability costs for the generating unit, copies of that review shall be provided with the Report.

There are no existing independent engineering reviews that were performed to estimate the reliability and sustainability of the soon-to-be retired Unit.

CONCLUSION

SWEPCO conducted a careful evaluation of its generation needs, in order to best serve customers and determined that it was necessary to retire this relatively more expensive Unit for the benefit of SWEPCO's customers. In full compliance with the requirements of General Order 10-10-2018, SWEPCO has submitted the requisite information pertaining to the retirement of the Unit following notification to the SPP and prior to the effective date of the Unit's retirement.

WHEREFORE, SWEPCO respectfully requests that this Compliance Report be filed with the Louisiana Public Service Commission, in accordance with General Order 10-19-2018.

Respectfully submitted,
WILKINSON, CARMODY & GILLIAM

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COUNSEL FOR SOUTHWESTERN ELECTRIC POWER COMPANY

LOUISIANA PUBLIC SERVICE COMMISSION

ORDER NOS. U-23327 SUBDOCKET B, U-27107

DOCKET NO. U-23327 - SUBDOCKET B
(Decided at the July 22, 2005 Business and Executive Session)

Southwestern Electric Power Company, Ex Parte, In re: Investigation of Southwestern Electric Power Company; Fuel Audit Conducted Pursuant to Merger Order No. U-23327 (General Order No. U-21497)

Consolidated With

Docket No. U-27107

***Robert L. Williams, et al. v. Southwestern Electric Power Company,* In re: Complaint Alleging Overcharges for Electricity Sold By, or Electric Service Provided By SWEPCO Through the Fuel Adjustment Clause, Since April 23, 1975**

I. INTRODUCTION

This matter is before the Louisiana Public Service Commission ("Commission") to consider a Proposed Uncontested Stipulated Settlement ("Stipulated Settlement") which would resolve the issues identified during the course of the Commission's Audit of the Operation of Southwestern Electric Power Company's ("SWEPCO" or "the Company") Fuel Adjustment Clause ("FAC Audit") for the years 1999, 2000, 2001 and 2002. The Commission is also being asked to determine the appropriate disposition, for the benefit of SWEPCO ratepayers, of $18,069, inclusive of interest, which was collected by SWEPCO through its Fuel Adjustment Clause and are currently held by the Company.

As is more fully set forth below, and considering the record in these Dockets, the Commission determines that the Stipulated Settlement is fair to both customers and SWEPCO and will produce just, reasonable and not unduly discriminatory rates. The Commission further concludes that SWEPCO, for the years 1999, 2000, 2001 and 2002, has been in compliance with this Commission's orders designed to protect Louisiana ratepayers from any adverse impacts of the American Electric Power Company ("AEP")/Central and Southwest Corporation ("CSW") merger. In addition, with the clarifications set forth below, SWEPCO has been in compliance with the Commission's November 6, 1997 General Order in Docket No. U-21497 ("FAC General Order"). For these reasons we will approve and adopt the provisions of the Stipulated Settlement and further require that SWEPCO utilize the $18,069 in refunds resulting from the audit to assist low-income ratepayers in its service territory in paying their electric bills during the expensive summer cooling season.[1] SWEPCO is directed to deliver those funds to the United Way of Northwest Louisiana for emergency bill assistance to ratepayers, and the Salvation Army shall administer and dispense those funds to assist low-income ratepayers.

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[1] SWEPCO has now made a charitable contribution to assist low income ratepayers in excess of this amount.

EXHIBIT
tabbies
TPB-2

II. BACKGROUND

On May 15, 1998 CSW, SWEPCO and AEP filed an application seeking this Commission's approval of a merger between Central and Southwest Corporation and American Electric Power Company. In response the Commission undertook a comprehensive analysis of the complex issues in that application. Our study of the proposed merger led us to the conclusion that it could be in the public interest if a variety of ratepayer protection mechanisms were adopted to ensure that, at the very least, SWEPCO Louisiana ratepayers would be no worse off as a result of the merger than they would have been had no merger occurred. Therefore, the approval of that merger included a variety of "hold harmless" and other ratepayer protection mechanisms to ensure that rates did not rise and service did not deteriorate as a result of the combination of CSW and AEP.

Those hold harmless and ratepayer protection mechanisms were memorialized in a series of Commission Orders addressing the merger. Of particular importance in the current proceedings are those provisions concerning the pass through to ratepayers of fuel savings, margins from off system sales, protection from FERC-ordered mitigation measures, and FAC hold harmless provisions. In Order No. U-23327, the Commission required that all fuel savings resulting from the merger be flowed through directly to SWEPCO's Louisiana ratepayers; that SWEPCO ratepayers share in the benefits from any increase of off-system sales margins occurring after the merger; and that SWEPCO hold Louisiana ratepayers harmless for a period of 10 years from any increases in fuel cost resulting from the merger. In this regard, the Company was required to provide detailed data and calculations to verify compliance with this fuel cost hold harmless provision. Additionally, in that Order as well as in Order Nos. U-23029-C and U-23327-B SWEPCO was directed and required to protect its Louisiana retail ratepayers from potential adverse impacts of any FERC-mandated market mitigation measures that might be required in connection with FERC approval of the CSW/AEP merger.

Pursuant to merger Order No. U-23327, the Commission instituted a fuel audit of SWEPCO for the years 1999-2002. Periodic fuel audits are also required pursuant to the terms of our General Order No. U-21497. This matter was assigned to the Honorable Valerie Seal Meiners, Chief Administrative Law Judge, to act as the presiding ALJ in the fuel audit Docket. Subsequently, a complaint was filed on behalf of Robert L. Williams and other named individuals (former and current SWEPCO Louisiana ratepayers("Complainants")) seeking recovery of funds for SWEPCO ratepayers resulting from alleged overcharges and otherwise improper usage of the fuel adjustment clause by SWEPCO since April 23, 1975. That matter was assigned Docket No. U-27107 and was assigned to Administrative Law Judge Michelle Finnegan. SWEPCO filed a Motion to Consolidate Docket No. U-27107 with Docket No. U-23327. On March 27, 2003, Judge Meiners and Judge Finnegan ordered that the dockets be consolidated and directed that Judge Finnegan would serve as the presiding ALJ. Cleco Power, L.L.C. intervened as an Interested Party for the purpose of monitoring the proceedings. Prior to the confection of the Proposed Uncontested Stipulated Settlement, CLECO voluntarily withdrew from these proceedings.

Judge Finnegan set a procedural schedule, continued that schedule on a number of occasions at the request of the parties, and conducted status conferences as required. The Commission Staff undertook an extensive analysis of SWEPCO's fuel adjustment filings and related matters for the years 1999, 2000, 2001 and 2002. That analysis included inquiries into all of the following questions: Did SWEPCO comply with the hold harmless and off system sales margin tiered sharing provisions of the initial AEP/CSW merger order, Order No. U-23327?; Did SWEPCO comply with the hold harmless conditions of Order No. U-23029-C and Order No. U-23327-B which were designed to protect retail ratepayers from FERC-mandated market mitigation measures adopted by AEP so that AEP could secure FERC approval of the AEP/CSW merger? Did SWEPCO comply with all of the requirements of the November 6, 1997 General

Order in Docket No. U-21497 regarding the appropriate workings of fuel adjustment clauses for electric utilities subject to the Commission's jurisdiction, and specifically did SWEPCO exclude capacity costs as required by that General Order; and, did SWEPCO comply with the provisions of Order No. U-21453, U-20925(SC), U-22092(SC)(Subdocket C), which addressed issues raised in consolidated dockets involving the appropriate treatment of costs for SWEPCO and Cleco regarding the mining operation serving the Dolet Hills lignite power plant? Did SWEPCO comply with the realignment of fuel costs pursuant to the stipulation in Docket No. U-23029? The Commission Staff also analyzed the effects, if any, of AEP's gas and electricity trading activities on SWEPCO's Louisiana retail fuel adjustment clause. Finally, the Commission Staff investigated other issues that were raised regarding SWEPCO's fuel adjustment clause for the years 1999-2002. Each issue raised by the Staff and the complainants was examined in the Staff analysis.

Several rounds of testimony were filed by multiple SWEPCO/AEP and Commission Staff witnesses. After that testimony was filed, there remained two outstanding issues, which, after further investigation and discussions among the Company, the Staff, and Complainants, were resolved and all parties agreed to a Proposed Uncontested Stipulated Settlement, which they contend is reasonable, in the public interest, and will result in just, reasonable and not unduly discriminatory rates. A hearing on the Proposed Uncontested Stipulated Settlement was held before Judge Finnegan on June 22, 2005. After reviewing the hearing record and the Proposed Uncontested Stipulated Settlement, and questioning Staff and the Company regarding the proposed settlement, the Commission hereby determines that the settlement is reasonable, in the public interest, is fair to both ratepayers and the Company, and will result in just, reasonable and not unduly discriminatory rates.

The Staff conducted extensive discovery and held several technical conferences. The evidence supports the Staff finding that generally SWEPCO complied with the Commission-required hold harmless provisions of our November 6, 1997 General Order. The primary issue the Staff identified during the audit involved the classification of fuel costs associated with the Pirkey Power Plant as "overheads." Overheads are costs incurred from excludable non-fuel related administrative functions. Under the terms of the FAC General Order, overheads are not generally recoverable through the FAC. Following a detailed investigation and analysis of these costs and additional information provided by the Company, the Commission Staff determined that these costs do not clearly fall within the FAC General Order "overheads" category. The Commission Staff further concluded that these costs are unique to the Pirkey Plant lignite mine mouth operation and are not clearly includable in, nor clearly excludable from, the FAC recovery mechanism, and, as such, fit within the "uncertainties" or "exceptions" provisions of Section IV.N. of the FAC General Order dated November 16, 1997. The Staff further determined that the Pirkey Power Plant in East Texas, that uses lignite as boiler fuel, is a unique mine mouth operation, and further that the Company's Pirkey Fuels Group directly performs mine-related activities for the specific purpose of maintaining low fuel costs at the Pirkey Plant. The mine-related activities, although characterized by the Company as "overheads," actually include direct mining-related costs such as mine planning and development; mine, pond, and road development; and property reclamation which are properly recoverable under the FAC.

The Commission hereby approves the recovery of those costs presently designated by the Company as "SWEPCO overheads" and "AEP overheads" through the FAC on the following terms and consistent with the findings set forth below:

1. These costs fit within the "Uncertainties" or "Exceptions" categories described in the Commission's November 6, 1997 FAC General Order. SWEPCO has provided information showing that the costs impacted the fuel clause recovery by less than 3% per month, and did not require prior Commission approval to recover these costs through the fuel clause mechanism. There is no

evidence that these costs are unreasonable or were imprudently incurred, and the Commission will not require the Company to refund these costs or require a realignment of these costs on a backward or forward looking basis. The Company, Staff, and other parties are not precluded from proposing a prospective realignment in a subsequent proceeding on a revenue neutral basis.

2. The Commission approves the Stipulated Settlement and allows SWEPCO to recover these costs through the FAC on a prospective basis. This approval allows SWEPCO to continue to recover the costs, categorized and described in its FAC filings as "SWEPCO overheads" and "AEP overheads," through 2005 and forward. Staff supports this application for formal Commission approval of the Stipulated Settlement and the continued recovery of these costs through the FAC.

3. The Commission's approval of the costs to be recovered through the FAC shall be limited to those costs that are directly related to the Company's lignite mining related activities, which are directly fuel and generation dependent and which serve to ensure and maintain low fuel costs at the Pirkey Plant. The Commission's approval of the recovery of these costs through the FAC is limited to the Pirkey Plant, shall not be interpreted or applied outside of the lignite mining context, and shall not be interpreted or applied to costs incurred by SWEPCO or any other utility, for activities that may be related to "fuel procurement," which are excludable from the fuel clause recovery mechanism as expressly set forth in the FAC General Order.

4. SWEPCO shall not expand the costs presently identified as "SWEPCO overheads" and "AEP overheads" to include other costs such as allocations of SWEPCO or AEP administrative and general costs not directly related to the Pirkey Plant mine mouth planning and development activities except as expressly authorized by the FAC General Order or by affirmative vote of the Commission expressly authorizing the treatment of these costs through the FAC. This example is not exhaustive.

5. Commencing with the year 2003 and continuing thereafter, SWEPCO shall itemize and track these costs on a year by year basis, and shall file an annual report with the Commission itemizing these costs and describing the make-up and level of these costs.

6. The Commission reserves its right to reexamine its approval to include these costs in the FAC on a prospective basis only if it finds that continued recovery of these costs through the FAC is no longer reasonable and appropriate, or in the public interest. Any realignment resulting from the Commission's reconsideration must occur on a prospective basis and in conjunction with a corresponding adjustment in base rates on a revenue-neutral basis.

The Commission Staff also found that a four day outage in March 2002 at the Dolet Hills lignite plant could have been avoided if the Company had properly performed maintenance of a reheat tube in January, 2002. SWEPCO disputed the finding that there was improper maintenance and stated that it is not the operator of the plant, but agreed to the refund of the incremental replacement costs as part of this comprehensive settlement. The Commission hereby requires SWEPCO to utilize the $15,540 in incremental replacement power costs associated with that outage, plus interest calculated at the prime rate through June 2005 to assist low-income ratepayers in its service territory in paying their electric bills during the expensive summer cooling season. That total is $18,069. SWEPCO is directed to deliver those funds to the United Way of Northwest Louisiana for emergency bill assistance to ratepayers, and those funds shall be administered by the Salvation Army.

On motion of Commissioner Campbell, seconded by Commissioner Blossman, the Commission, by a vote of 5-0 voted as follows:

The Commission hereby Orders:

1. That the Proposed Uncontested Stipulated Settlement entered into by the Staff, SWEPCO, and Complainants is in the public interest, is fair to ratepayers and the Company, will produce just, reasonable and not unduly discriminatory rates, and is hereby approved by the Commission. The Proposed Uncontested Stipulated Settlement is attached to and made a part of this Order as Exhibit "A" and contains the following findings and terms.

    a. For the years 1999-2002, the Company has complied with the fuel cost hold harmless condition and the off-system sales margin tiered sharing provisions of Order No. U-23327.

    b. For the years 1999-2002, the Company has complied with the hold harmless conditions of Order No. U-23029-C and Order No. U-23327-B necessary to protect ratepayers from FERC-mandated market mitigation measures during the audit period.

    c. For the years 1999-2002, the Company has properly excluded purchased power capacity costs from recoverable FAC expenses.

    d. For the years 1999-2002, the Company has properly reflected the effects of AEP's trading activities in recoverable FAC expenses.

    e. SWEPCO will abide by the line numbering convention of Exhibit A, as prescribed in the Commission's FAC General Order.

    f. SWEPCO has incorporated and will continue to incorporate the line numbering convention presented by the Commission's FAC General Order in its FAC filings as recommended by the Staff.

    g. For the years 1999-2002, SWEPCO filed Exhibit D with its monthly FAC filings as required by the Commission's FAC General Order, as a separate document under seal because it contained highly sensitive and confidential information.

    h. SWEPCO shall be permitted to continue filing Exhibit D as a separate document, under seal, as long as it continues to contain highly sensitive and confidential information.

    i. SWEPCO shall include the Dolet Hills Mining Company in the annual affiliate reports required by the Commission's FAC General Order.

j. SWEPCO has filed the required annual affiliate reports for the years 1999-2002 and shall continue to do so.

k. SWEPCO shall report lignite transactions with the Dolet Hills Mining Company in its affiliate reports commencing with the 2003 annual report.

l. SWEPCO shall provide thorough and complete documentation of proposed revisions to the FAC filings. At a minimum, the following documentation of revisions is required:

(1) a detailed explanation of each revision, including the reasons for the revisions;

(2) a quantification of the effect of each of the revisions on the Company's FAC filings, including all relevant work papers, spreadsheets associated with the calculations supporting the revisions, and other supporting documentation;

(3) if the revisions affect the cumulative "over/under," the Company must explicitly show the effect of the revisions on the over/under computation as a separate line item on Exhibit B included in the monthly FAC filings;

(4) if there are multiple revisions in a particular month, the Company must show the effect of each revision as a separate line item on Exhibit B included in the monthly FAC filings.

(5) SWEPCO shall provide the documentation and detail necessary for the Commission Staff to determine the reasonableness of any proposed revisions to the Company's future FAC filings.

m. SWEPCO has, in the past, studied the construction of alternative rail lines for transporting coal from Kansas City to its coal plants.

n. SWEPCO has aggressively negotiated for lower transportation rates and is directed to continue its efforts to lower its transportation rates.

o. SWEPCO's actions in evaluating the construction of alternative rail lines and aggressively negotiating for lower transportation rates, have been prudent and appropriate.

p. SWEPCO prudently operated and maintained the Pirkey Plant during the 1999-2002 audit period, and the incremental costs of replacement power associated with the outages during the audit period are recoverable.

q. The Pirkey Power Plant in east Texas is a unique mine mouth operation. The Pirkey Fuels Group directly performs mine-related activities for the specific purpose of maintaining low fuel costs at the Pirkey plant. The mine-related activities performed by the Pirkey Fuels Group, described by SWEPCO as "SWEPCO overheads" and "AEP overheads," include direct mining-related costs such as mine planning and development; mine, ponds, and roads development; and property reclamation.

r. The Pirkey Fuels Group mine-related activities costs are not unreasonable or imprudent and do not clearly fall within the Commission's FAC General Order "overheads" category, which are costs incurred for excludable non-fuel related administrative functions. These costs are unique to the Pirkey Plant lignite mine mouth operation and constitute "uncertainties" or "exceptions" under the Commission's FAC General Order and are recoverable as such under the FAC.

s. The Commission approves the recovery of those mine-related costs designated by the Company as "SWEPCO overheads" and "AEP overheads" through the FAC on the following terms:

(1) These costs fit within the "Uncertainties" or Exceptions" categories described in the Commission's November 6, 1997 fuel cost General Order Docket. SWEPCO has provided information showing that the costs impacted the fuel clause recovery by less than 3% per month, and did not need prior Commission approval to recover these costs through the fuel clause mechanism. There is no evidence that these costs are unreasonable or were imprudently incurred, and the Commission will not require the Company to refund these costs.

(2) The Commission grants approval to recover the costs, categorized and described in its FAC filings as "SWEPCO overheads" and "AEP overheads," through 2005 and forward with the recovery of prior SWEPCO overheads and AEP overheads having been previously approved. Staff supports such application before the Commission. Staff, or other parties are not precluded from proposing a prospective realignment in a subsequent proceeding on a revenue neutral basis.

(3) The Commission's approval of the costs to be recovered through the FAC shall be limited to those costs that are directly related to the Company's lignite mining related activities, which are directly fuel and generation dependent and which serve to ensure and maintain low fuel costs at the Pirkey Plant. The Commission's approval of the recovery of these costs through the FAC in this docket is limited to the Pirkey Plant, shall not be interpreted or applied outside of the lignite mining context, and shall not be interpreted or applied to costs incurred by SWEPCO or any other utility, for activities that may be related to "fuel procurement," which are clearly excludable from the fuel clause recovery mechanism as expressly set forth in the Commission's FAC General Order.

(4) SWEPCO shall not expand the costs presently identified as "SWEPCO overheads" and "AEP overheads" to include other costs such as allocations of SWEPCO or AEP administrative and general costs not directly related to the Pirkey Plant mine mouth planning and development activities except as expressly authorized by the FAC General Order or by affirmative vote of the Commission expressly authorizing treatment of these costs through the FAC.

(5) Commencing with the year 2003 and continuing thereafter, SWEPCO shall itemize and track these costs on a year by year basis, and shall file an annual report with the Commission itemizing these costs and describing the make-up and level of these costs.

(6) The Commission reserves its right to reexamine its approval to include these costs in the FAC on a prospective basis only if it finds that continued recovery of these costs through the FAC is no longer reasonable and appropriate, or in the public interest. Any realignment resulting from the Commission's reconsideration shall occur on a prospective basis and in conjunction with a corresponding adjustment in base rates on a revenue-neutral basis.

t. The Commission finds that a four day outage in March 2002, at the Dolet Hills lignite plant could have been avoided if SWEPCO had properly performed maintenance of a reheat tube in January, 2002. SWEPCO disputes this finding and states that it is not the operator of the Dolet Hills lignite plant. The Commission hereby requires SWEPCO to utilize the $15,540 in incremental replacement power costs associated with that outage, plus interest calculated at the prime rate through June 2005 for a total amount of $18,069, to assist low-income ratepayers in its service territory in paying their electric bills during the expensive summer cooling season. SWEPCO shall deliver those funds to the United Way of Northwest Louisiana for emergency bill assistance to ratepayers and those funds shall be administered by the Salvation Army.

2. That SWEPCO be required to take all other actions and make all other filings required by this Order.

This Order is effective immediately.

BY ORDER OF THE COMMISSION
BATON ROUGE, LOUISIANA

March 28, 2006

s/ James A. Field
CHAIRMAN - JAMES A. FIELD
DISTRICT II

s/ Jay A. Blossman, Jr.
VICE CHAIRMAN - JACK "JAY" A. BLOSSMAN, JR.
DISTRICT I

s/ C. Dale Sittig
COMMISSIONER C. DALE SITTIG
DISTRICT IV

s/ Foster Campbell
COMMISSIONER FOSTER L. CAMPBELL
DISTRICT V

s/ Lambert C. Boissiere, III
COMMISSIONER LAMBERT C. BOISSIERE, III
DISTRICT III

LAWRENCE C. ST. BLANC
SECRETARY

BEFORE THE

LOUISIANA PUBLIC SERVICE COMMISSION

IN RE: EVALUATION OF SOUTHWESTERN ELECTRIC POWER COMPANY'S DECISION TO RETIRE THE PIRKEY POWER PLANT PURSUANT TO COMMISSION ORDER NO. U-36385-A	:	DOCKET NO. U-37067

DIRECT TESTIMONY OF

MARC B. HUNTER

FOR

SOUTHWESTERN ELECTRIC POWER COMPANY

JULY, 12 2024

TESTIMONY INDEX

EXHIBITS

EXHIBIT	DESCRIPTION
EXHIBIT MBH-1	SWEPCO CALCULATION OF LOUISIANA MONTHLY RATE - ESTIMATED FINAL MINE CLOSING COSTS

I. INTRODUCTION

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

A. My name is Marc B. Hunter and I am the Assistant Controller over Accounting Policy and Research for American Electric Power Service Corporation. My business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND.

A. I received a Bachelor of Science in Business Administration from the Ohio State University in 2001, graduating Cum Laude and with Honors in Accounting. Upon graduation, I became a Certified Public Accountant licensed in Ohio and joined Arthur Andersen's audit practice in Columbus Ohio. I joined the Deloitte & Touche Columbus audit practice in June 2002. In January 2006, I departed the Deloitte US firm to work with the Deloitte UK firm's Energy Infrastructure and Utilities practice and, in 2008, the Deloitte UK firm's US Capital Markets practice. I repatriated to the Deloitte US firm's accounting advisory practice in late 2010. In July 2017, I joined American Electric Power (AEP) in my current role.

Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES?

A. I lead a team whose purpose is to establish accounting policy for AEP and AEP's subsidiary companies. I lead a team whose purpose is to establish accounting policy and to direct the application and implementation of accounting policies for AEP and AEP's subsidiary companies. In addition, I perform research and analysis to support accounting for larger or complex transactions undertaken by AEP or AEP's subsidiaries. I also support AEP's general ledger team and rate case filings in various jurisdictions.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR DIRECT TESTIMONY?

A. The purpose of my testimony is to describe and explain the costs that were flowed through SWEPCO's Fuel Adjustment Clause (FAC) as part of the operation of the Pirkey Power Plant fuel recieved from the Sabine Mine during those years that were not previously subject to an audit period approved by a Louisiana Public Service Commision (LPSC or the Commission). Pursuant to the Commission's directive in this Docket, the period of review is January 2019 through March 2023 (the Review Period). I also recommend the Commission increase the amount of reclamation costs that are currently approved and collected from Louisiana customers through the FAC to appropriately match the ongoing required costs to perform such reclamation to comply with the laws and regulations as discussed by SWEPCO Witness M. Casey Koenig.

III. HISTORY OF PIRKEY FUEL AND MINING COSTS

Q. PLEASE SUMMARIZE YOUR TESTIMONY RELATED TO THE RECOVERY OF PIRKEY AND THE SABINE MINE COSTS.

A. The Commission should find the Pirkey fuel costs that have flowed through the FAC and the related Sabine mine costs at issue in this proceeding to be properly billed to SWEPCO during the Review Period under the lignite mining agreement between SWEPCO and the Sabine Mining Company (SMC), were properly recorded as recoverable fuel costs by SWEPCO, and were the same type of costs that have been approved in past LPSC fuel reviews, where no party questioned the reasonableness or necessity of the costs to provide service to customers.

The Commission should follow the rules and precedent applicable to this fuel review proceeding for Pirkey, including the definition of includable costs in the FAC General Order dated November 6, 1997, the 2006 Pirkey Order included as Exhibit TPB-2, and the other Commission orders discussed in the testimony of SWEPCO witness Thomas P. Brice. Additionally, the Commission should approve the Pirkey and Sabine costs, including the increases attributable to the change in the expected lives of the lignite mine as SWEPCO properly accounted for the increased billings in compliance with Generally Accepted Accounting Principles (GAAP) and the Federal Energy Regulatory Commission (FERC) Uniform System of Accounts.

Q. WHAT IS THE NATURE OF FUEL COSTS RELATED TO THE PIRKEY POWER PLANT (PIRKEY OR PLANT)?

A. SWEPCO purchased lignite from SMC under the terms of the 2008 Third Restatement of Lignite Mining Agreement (LMA). In accordance with the LMA, Sabine delivered lignite to the Plant monthly and invoiced SWEPCO based on costs incurred in connection with extraction and delivery of lignite. Additionally, and in accordance with the LMA, all costs associated with the mine related to production and delivery of lignite were billed to SWEPCO. SWEPCO witness M. Casey Koenig discusses the LMA in his testimony.

Q. WHAT COMPONENTS HAVE BEEN INCLUDED IN LIGNITE FUEL EXPENSE FOR PIRKEY?

A. Lignite fuel expense includes the cost of lignite and transportation to the Pirkey Plant. Leasehold costs, mining costs, costs of coordinating mining activities, mine closing costs and related costs are also included in the recoverable cost of lignite. Handling of the lignite at the Plant site, related expenses, revenues and removal costs of fly ash and fuel sample testing costs incurred after the lignite is delivered to the Plant and reported in FERC Account 501, are treated as non-includable fuel expense.

IV. APPLICABLE COMMISSION ORDERS AND PRECEDENT

Q. ARE THESE SABINE MINE COSTS INCLUDABLE IN FUEL COSTS RECOVERABLE THROUGH THE FAC PURSUANT TO THE GENERAL ORDERS BY THIS COMMISSION?

A. Yes. As further discussed by SWEPCO Witness Brice, the Commission's 2006 Pirkey Order clarified and confirmed that the mine-related activities, which were characterized by the Company as "overheads," included direct mining-related costs such as mine planning and development; mine, pond, and road development; and property reclamation which are properly recoverable under the FAC and are in compliance with the Commission's 1997 General Order (Docket No. U-21497, FAC General Order).

Q. DO THESE COSTS INCLUDE ANY AMOUNTS RECOVERED UNDER THE RETIREMENT RIDER APPROVED BY THE COMMISSION IN DOCKET NO. U-35441?

A. No. That retirement rider was established to recover the Pirkey Plant costs. The FAC is the mechanism to recover fuel costs, which are inherently separate activities and costs.

Q. WHAT LIGNITE COSTS FROM SMC HAVE BEEN INCLUDED IN SWEPCO'S FAC SINCE THE PREVIOUSLY REVIEWED PERIOD?

A. The following table summarizes the lignite quantities and costs during the period of review:

SOUTHWESTERN ELECTRIC POWER COMPANY
Burn information
Lignite (Burned) Pirkey

Plant	Year	Pirkey costs	LA jurisdictional share of costs
Pirkey	2019	$109,708,763	$36,052,430
	2020	$110,437,322	$37,368,758
	2021	$161,157,881	$57,127,104
	2022	$127,527,508	$43,606,668
	2023 (3mo)	$40,021,645	$14,728,843
			$188,883,803

V. CLOSURE OF THE SABINE MINE

Q. DID THE ANNOUNCED CLOSURE OF THE SABINE MINE IMPACT THE TIMING OF COSTS BILLED TO SWEPCO UNDER THE LMA?

A. Yes. As discussed by SWEPCO witnesses Thomas P. Brice and M. Casey Koenig, SWEPCO announced in November 2020 that PIRKEY would cease operations in 2023. Accordingly, Sabine, as mining operator, adjusted the expected useful life of the mine assets to fully depreciate assets through March 2023, in accordance with GAAP. Under GAAP, capitalized costs are allocated over the period of expected use of an asset. This allocation is known as depreciation accounting. The allocation of costs will change as expectations in the productive useful life of the related asset change. The increase in Sabine Mine billings was the result of a change in the plant life estimate, properly billed to SWEPCO under the LMA and GAAP. Ultimately, the amount of incurred costs for assets remains unchanged, however the period over which those costs have been allocated has changed.

Under the LMA, Sabine billed SWEPCO for costs incurred related to mining operations, inclusive of costs for capital assets (like depreciation costs). The mining-related depreciation and amortization expenses were billed to SWEPCO as the lignite was delivered to Pirkey. These billings for deliveries were accumulated as fuel inventory and charged to fuel expense as the lignite was burned to generate electricity at the Plant.

Q. HOW DID THIS IMPACT SWEPCO FUEL EXPENSE?

A. Pursuant to the LMA and GAAP, the Sabine Mine costs billed to SWEPCO increased which resulted in a corresponding increase to fuel expense. Previously, these long-term assets had an estimated productive life through 2035. With the 2020 decision to close the mine in 2023, SWEPCO incurred fuel expense related to the remaining long-term asset costs over the remaining period of two years and four months instead of fifteen years. This meant that the Pirkey fuel expense increased subsequent to the change in estimated useful life (in December 2021 through March 2023). This additional fuel expense was consistent with the LMA, Article IX, Section 2(a)(iv).

Q. NOW THAT THE MINE IS CLOSED, ARE THERE CONTINUED COSTS?

A. Yes. SWEPCO expects to incur reclamation costs, interest expense, taxes, insurance and other costs which are the same in nature, but in addition to costs billed when lignite was delivered. These additional costs are billable under Article IX section 3 and Article XI of the LMA and properly recorded in FERC Account 501.

Q. PLEASE DISCUSS THE HISTORIC TREATMENT OF THE MINE CLOSING COSTS AT THE PIRKEY POWER PLANT.

A. SWEPCO has collected final reclamation costs though the FAC and periodically revises that amount for changes in expected costs. In Docket No. U-23327 - Subdocket B, and U-27107 dated March 28, 2006, SWEPCO received approval to collect these costs on a kWh basis. However, the recovery was changed to a flat collection of $30,717 each month and was approved in Docket No. U-32220. As stated in witness Koenig's testimony, those cost have been revised upon closure of the mine and are anticipated to be approximately $139 million. SWEPCO's share of the reclamation cost estimates is approximately $119.5 million as shown on Exhibit MBH-1.

Q. WITH THE ESTIMATED CLOSURE COSTS FOR SWEPCO OF $119.5 MILLION, WHAT WOULD BE THE LOUISIANA PORTION?

A. The Louisiana responsibility is approximately $45 million. This calculation is shown in Exhibit MBH-1.

Q. HAS SWEPCO COLLECTED THE FULL LOUISIANA SHARE OF FUTURE RECLAMATION COSTS?

A. No. As of December 31, 2023, SWEPCO has collected approximately $19 million in reclamation costs from Louisiana customers. Because the Louisiana share of the full amount of required future reclamation costs is approximately $45 million, SWEPCO is proposing an adjustment to the monthly amount to collect the full amount of future reclamation costs.

Q. WHAT ADJUSTMENT IS SWEPCO REQUESTING THE COMMISSION APPROVE TO MODIFY THE AMOUNT RECOVERED UNDER THE FAC FOR RECLAMATION?

A. Based on the estimated cost projections forming the Sabine Asset Retirement Obligation (ARO), the most significant portion of reclamation spending is anticipated to occur from 2024 through 2029. Although SWEPCO has collected approximately $19 million from Louisiana customers through December 2023, reclamation costs to be incurred through 2025 are expected to exceed that amount. Therefore, SWEPCO seeks to adjust the rate of collection at the end of 2025 to appropriately match the ongoing required costs to perform reclamation.

Exhibit MBH-1, provides a schedule of anticipated final reclamation costs, by month (for 2024 and 2025) and by year thereafter. By comparing future collections at the current rate of collection to anticipated reclamation costs Exhibit MBH-1 demonstrates a need to implement a revised payment schedule for Lousiana customers from 2026 through 2029 to fund the costs anticipated to be incurred and a need to further adjust the periodic collection amounts in 2030 for the reduced trailing costs to finalize mine land reclamation. As shown in Exhibit MBH-1, SWEPCO is significantly undercollected for the Sabine Mine ARO, therefore, beginning in 2026, SWEPCO requests that the ongoing monthly amount for the reclamation cost ture-up included in the FAC be increased to approximately $400,000 per month.

Q. HAS THE COMMISSION DISALLOWED ANY OF THESE TYPES OF FUEL COSTS FOR PIRKEY IN PAST SWEPCO FUEL AUDIT PROCEEDINGS?

A. No, I am not aware of any disallowance of these costs by the LPSC over the 19 years the Commission has been performing these audits, as discussed by SWEPCO Witness Brice.

VI. <u>CONCLUSION</u>

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

SWEPCO Calculation of Louisiana Monthly Rate
Estimated Final Mine Closing Costs

	Current	1st change ('26)	2nd change ('30)
Monthly Rate =	$30,717	$400,000	$21,499
Annual Rate =	$368,604	$4,800,000	$257,991

Date	Beginning Balance	Billings	Payments	Ending Balance
January-24	$19,052,550	$30,717	$1,227,757	$19,083,267
February-24	$19,083,267	$30,717	$1,126,905	$19,113,984
March-24	$19,113,984	$30,717	$1,207,282	$19,144,701
April-24	$19,144,701	$30,717	$1,268,483	$17,906,935
May-24	$17,906,935	$30,717	$1,426,981	$16,510,671
June-24	$16,510,671	$30,717	$1,286,687	$15,254,700
July-24	$15,254,700	$30,717	$1,268,051	$14,017,366
August-24	$14,017,366	$30,717	$1,251,556	$12,796,527
September-24	$12,796,527	$30,717	$990,148	$11,837,096
October-24	$11,837,096	$30,717	$995,867	$10,871,946
November-24	$10,871,946	$30,717	$833,535	$10,069,129
December-24	$10,069,129	$30,717	$832,771	$9,267,075
January-25	$9,267,075	$30,717	$752,796	$8,544,995
February-25	$8,544,995	$30,717	$763,504	$7,812,208
March-25	$7,812,208	$30,717	$775,255	$7,067,670
April-25	$7,067,670	$30,717	$727,723	$6,370,664
May-25	$6,370,664	$30,717	$708,599	$5,692,782
June-25	$5,692,782	$30,717	$733,778	$4,989,720
July-25	$4,989,720	$30,717	$748,181	$4,272,256
August-25	$4,272,256	$30,717	$710,181	$3,592,793
September-25	$3,592,793	$30,717	$855,004	$2,768,505
October-25	$2,768,505	$30,717	$550,905	$2,248,317
November-25	$2,248,317	$30,717	$665,882	$1,613,152
December-25	$1,613,152	$30,717	$533,512	$1,110,357
Assumed date of initial rate change implementation				
2026	$1,110,357	$4,800,000	$6,487,755	($577,399)
2027	($577,399)	$4,800,000	$3,413,293	$809,308
2028	$809,308	$4,800,000	$5,974,532	($365,224)
2029	($365,224)	$4,800,000	$4,097,436	$337,340
Assumed date of second rate change implementation				
2030	$337,340	$257,991	$489,681	$105,650
2031	$105,650	$257,991	$360,924	$2,718
2032	$2,718	$257,991	$279,305	($18,597)
2033	($18,597)	$257,991	$252,213	($12,819)
2034	($12,819)	$257,991	$253,220	($8,048)
2035	($8,048)	$257,991	$250,530	($587)
2036	($587)	$257,991	$256,589	$815
2037	$815	$257,991	$258,806	$0
		$22,001,136	$44,615,630	

SWEPCO
PIRKEY MINE CLOSURE COST PROJECTIONS WITHIN ARO
Projections as of 12/31/23, inflated and adjusted to reflect Louisiana jurisdiction

Annual long-term inflation assumption	2.50%	*note 1*
Implied monthly inflation	0.202%	

Sabine ARO as of 12/31/23 - Annual projections

	Total projected costs in 2023 dollars	SWEPCO portion of Pirkey fuel needs (85.936%)	Time lapse since estimate (mid-year convention)	Projected costs (inflated at 2.5% long-term inflation)	LA jurisdictional share (proxy of 35%)	
2024	$45,042,564	**$38,707,778**	0.5	**$39,188,638**	**$13,716,023**	<----A
2025	$27,313,781	$23,472,371	1.5	$24,358,063	$8,525,322	<----B
2026	$20,278,770	$17,426,764	2.5	$18,536,443	$6,487,755	
2027	$10,408,709	$8,944,829	3.5	$9,752,266	$3,413,293	
2028	$17,774,743	$15,274,903	4.5	$17,070,092	$5,974,532	
2029	$11,892,899	$10,220,282	5.5	$11,706,960	$4,097,436	
2030	$1,386,643	$1,191,626	6.5	$1,399,088	$489,681	
2031	$997,110	$856,877	7.5	$1,031,211	$360,924	
2032	$752,807	$646,932	8.5	$798,016	$279,305	
2033	$663,205	$569,932	9.5	$720,609	$252,213	
2034	$649,613	$558,251	10.5	$723,486	$253,220	
2035	$627,036	$538,850	11.5	$715,801	$250,530	
2036	$626,536	$538,420	12.5	$733,111	$256,589	
2037	$616,536	$529,826	13.5	$739,445	$258,806	
Total	$139,030,953	$119,477,639		$127,473,227	$44,615,630	

note 1 Annual long-term inflation assumed here is consistent with the rate used by AEP when determining asset retirement obligations and determined based on the median of three reputable external sources (AON, JP Morgan and Wellington) and historical observation.

Monthly inflation was mathematically inferred based on monthly compounding of rate to arrive at annual inflation of 2.5%.

Sabine ARO as of 12/31/23 - Monthly projections

	SWEPCO portion of projected costs in 2023 dollars	Time lapse since estimate (# mo)	Projected costs (inflated at monthly)	LA jurisdictional share (proxy of 35%)	
1/1/2024	$3,500,795	1	$3,507,876	$1,227,757	
2/1/2024	$3,206,742	2	$3,219,728	$1,126,905	
3/1/2024	$3,428,530	3	$3,449,378	$1,207,282	
4/1/2024	$3,595,062	4	$3,624,238	$1,268,483	
5/1/2024	$4,036,104	5	$4,077,089	$1,426,981	
6/1/2024	$3,631,947	6	$3,676,250	$1,286,687	
7/1/2024	$3,572,116	7	$3,623,002	$1,268,051	
8/1/2024	$3,518,534	8	$3,575,875	$1,251,556	
9/1/2024	$2,778,010	9	$2,828,993	$990,148	
10/1/2024	$2,788,415	10	$2,845,334	$995,867	
11/1/2024	$2,329,176	11	$2,381,528	$833,535	
12/1/2024	$2,322,344	12	$2,379,346	$832,771	
2024	**$38,707,778**		**$39,188,638**	**$13,716,023**	<----A
1/1/2025	$2,094,816	13	$2,150,847	$752,796	
2/1/2025	$2,120,304	14	$2,181,441	$763,504	
3/1/2025	$2,148,570	15	$2,215,015	$775,255	
4/1/2025	$2,012,746	16	$2,079,208	$727,723	
5/1/2025	$1,955,878	17	$2,024,569	$708,599	
6/1/2025	$2,021,270	18	$2,096,510	$733,778	
7/1/2025	$2,056,762	19	$2,137,659	$748,181	
8/1/2025	$1,948,340	20	$2,029,088	$710,181	
9/1/2025	$2,340,896	21	$2,442,869	$855,004	
10/1/2025	$1,505,251	22	$1,574,014	$550,905	
11/1/2025	$1,815,716	23	$1,902,521	$665,882	
12/1/2025	$1,451,821	24	$1,524,321	$533,512	
2025	$23,472,371		$24,358,063	$8,525,322	<----B