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February 6, 2020

Jessica Rozier
GDS Associates, Inc.
111 N. Orange Ave, Suite 750
Orlando, FL 32801

Re: **American Electric Power Service Corporation**
Docket No. ER18-194; ER18-195

Pursuant to Formula Rate Implementation Protocols contained in Addendum 4 to Attachment H – Part I of the Southwest Power Pool, Inc. ("SPP") Open Access Transmission Tariff ("SPP Tariff"), American Electric Power Service Corporation ("AEPSC"), on behalf of Public Service Company of Oklahoma ("PSO") and Southwestern Electric Power Company ("SWEPCO"), AEP Oklahoma Transmission Company, LLC ("OK Transco") and AEP Southwestern Transmission Company, LLC ("SW Transco,"), (collectively, "AEP", "the Company", or "the Companies") responds to your January 6, 2020 preliminary challenge to the Formula Rate Annual Update for the 2018 Annual Transmission Revenue Requirement ("ATRR").

AEP provides the following responses to the assertions contained in the Preliminary Challenge.

PC-1. ***In reference to AEP's response to GDS 1-27, AEP indicates that "OKT incurred costs totaling $304,818 for the joint use of land and land rights during 2018 recorded in FERC Account 567 for payments made to PSO." However, in AEP's formula rate update file "21 2019 AEP FR Template.xlsx," tab "PSO WS H Rev Credits," Row 17 - PSO WS H Rev Credits, PSO shows a rent amount of $179,310. Therefore, it appears that PSO has not included the revenue for the payments OKT made to PSO related to the joint use of land and land rights. The Joint Customers challenge PSO's formula rate template for not including the $304,818 of revenues received from OKT.***

AEP Response:

AEP agrees with the description of this preliminary challenge. While compiling revenue credit information on transmission formula Worksheet H of the PSO 2018 true-up update, a portion of these credits were not included in the determination of the revenue requirement, resulting in an overstatement thereof. A subsequent review of the underlying accounting information determined that not only were revenue credits received from OK Transco not included, but proper revenue credits related to intercompany rents received from AEPSC were not reported either. Because of this additional amount, AEP does not agree with the total revenue credit amount of $304,818 put forth by the customers. Instead, the total revenue credit that should have been incorporated in the 2018 true-up was $382,274. Because the customers did receive a partial credit of $179,310 in the original true-up, AEP is proposing the following net correction, which will also incorporate the applicable interest at the time it is processed:

<u>WS H Revenue Credits</u>

Total Credits from OK Transco	(304,819)	
Credit Offset Provided in True-up	(179,310)	
Net additional OK Transco		(125,509)
Credit from AEPSC		(77,455)
Additional Revenue Credit		(202,964)

Note that this amount will be refunded to customers as defined by the applicable AEP SPP OATT protocols.

PC-2 In reference to AEP's response to GDS 2-23, AEP states that "Tulsa Regional Chamber was invoiced as a sponsorship but inadvertently had miscoding to an outsider services cost component, rather than the appropriate cost component 955 for Contributions & Sponsorships. Had the appropriate cost component of 955 been entered, system restrictions would have required the use of the FERC 426x accounts. Per operation of the formula, the values shown above have been allocated to transmission based on the W/S allocator." AEP's response indicates that the amounts associated with the Tulsa Regional Chamber should have been recorded to a below the line 426 account, which are excluded from the formula rate template. The Joint Customers challenge the inclusion of these chamber of commerce expenses in accordance with AEP's response and FERC precedent.

AEP Response:

AEP agrees with this preliminary challenge. As described in the challenge, a miscoding during processing resulted in inappropriately recording these charges in account 923 for PSO and SWEPCO, with those amounts subsequently allocated to those companies' revenue requirements based on labor. The resulting overstatement of revenue requirement was $14.57. as shown below. This amount will be refunded, with applicable interest, as specified by the applicable AEP SPP OATT protocols.

	PSO	SWEPCO
Expense Reported	$ 81.00	$ 106.00
W/S Allocation Factor	7.834%	7.755%
Revenue Impact	$ 6.35	$ 8.22

PC-3 In reference to AEP's response to GDS 2-23, AEP states that the "Public Affairs Council and the U.S. Chamber of Commerce are political and business related memberships. These amounts are the non-lobbying portion of these memberships, which are recorded to 930.2 as a deductible business expense. The lobbying portion are non-taxable and recorded below the line." AEP's response indicates that these expenses are memberships. FERC precedence[1] states that chamber of commerce memberships are to be included in Account 456.5. The U.S. Chamber of Commerce is the largest lobbying group in the U.S., spending more money than any other lobbying organization on a yearly basis. In reference to AEP's inclusion of Public Affairs Council memberships, AEP should record these amounts to Account 426.4 in accordance with American Electric Power Service Corporation in FERC Docket No. ER07-1069-007 filed on June 13, 2016, which states "For charges collected under the AEP Formula Rate from and after July 1, 2016, expenditures for lobbying and other civic, political, and related activities, and any expenditures that would not have been incurred but for such lobbying or other expenditures, shall be recorded in USofA Account 426.4 in accordance with the instructions to that account and excluded from recovery under the AEP Formula Rate." Based on the foregoing, the Joint Customers challenge the inclusion of the U.S. Chamber of Commerce and Public Affairs Counsel expenses.

AEP Response:
In order to properly address the issues raised in this challenge, AEP will address their merits based on whether the amount in question has been reported in the formula for an Operating Company or a Transmission Company.

Regarding the preliminary challenge, as raised on the transmission formulas of PSO and SWEPCO, the companies do not agree. Based on operation of the transmission formula, as further clarified below, only specific expenses recorded in account 930.2 are recovered, and the charges raised in the preliminary challenge are not included in that category of recoverable charges.

[1] Id.

Please note the following excerpt of NOTE L, as referenced on line 81 of the Transmission Cost of Service (TCOS):

"NOTE L: Expense reported for these A&G accounts will be included in the cost of service only to the extent they are directly assignable or allocable to transmission service. Worksheet J allocates these expense items. Acct 928 Includes Regulatory Commission expenses itemized in FERC Form-1 at page 351, column H. FERC Assessment Fees and Annual Charges shall not be allocated to transmission. Only safety-related and educational advertising costs in Account 930.1 are included in the TCOS. Account 930.2 includes the expenses incurred by the transmission function for Associated Business Development revenues given as a credit to the TCOS on Worksheet H."

Note L is incorporated in the TCOS to specify that only certain expenses reported in FERC Account 930.2, to the extent they are specifically assignable or allocable to the transmission functions, are recoverable in the transmission formula rate. As an operation of the transmission formula, the totality of expenses reported in FERC Account 930.2 are removed (via adjustment on line 75) from the A&G costs reported on the companies' books. On transmission formula Worksheet J, the expense removed on line 75 is bifurcated between those expenses that are not allocable to the formula and those that are 100% allocated to the transmission function. The amounts from FERC Account 930.2 reported on transmission formula Worksheet J as includable in the revenue requirement are a very specific set of costs, reported in FERC Account 9302007, that reflect the costs incurred in the provision of Associated Business Development (ABD), which is revenue for services to non-affiliated parties that utilize transmission function assets or personnel (such as service contracts to a co-op, for example). The revenue side of ABD is already provided as a revenue credit on transmission formula Worksheet H. The purpose of this specific expense allocation is to ensure that the revenue credit for the ABD services is offset by any expenses incurred specifically in the provision of those services. Therefore, the expenses at issue in this preliminary challenge, for PSO and SWEPCO, have already been excluded in the preparation of the transmission formula from the revenue requirement, and no further adjustment is necessary.

Regarding the preliminary challenge as it pertains to OK Transco and SW Transco, AEP does not agree with the customer's assertion that the fees for United States Chamber of Commerce and the Public Affairs Council are "social club dues" as noted in the preliminary challenge.

In the questions referenced in Docket No. ER17-1519 by the customers in the preliminary challenge, the customers cast a one-size-fits-all definition of third-party advocacy by equating membership costs for a social club, such as the Kiwanis, with costs in Chamber of Commerce, as described in the preliminary challenge. However, as noted in AEP's response to GDS 2-23, AEP has already recorded the lobbying and political portions of these expenses in FERC Account 426.4; the amounts reported in FERC Account 930.2 are for membership in the United States Chamber of Commerce and the Public Affairs Council, which are reasonable expenses incurred in the course of business that are properly be recoverable in the transmission formula.

PC-4 In reference to AEP's response to GDS 2-24, AEP states that "The companies have not used a with and without test to determine if NOL - Fed should be protected or unprotected. The companies have not determined the extent to which the NOL is associated with bonus depreciation." In addition, AEP's response to GDS 1-38d. states that "All the amounts in accounts 190 and 283 are unprotected." Further in AEP's attachment "GDS 1-37_Attachment 2," AEP has included the following federal NOL in its EDIT calculations and amortized them in one year leaving a zero balance at 12/31/2018:

a. Row 19 – AEP Oklahoma Transmission Co, Inc. - Account 190 - Accum Deferred FIT-Other NOL - DEFERRED TAX ASSET RECLASS
b. Row 54 – AEP Southwestern Trans Co, Inc. - Account 190 - Accum Deferred FIT-Other NOL - DEFERRED TAX ASSET RECLASS
c. Row 119 – PSO Corp - Account 190 Accum Deferred FIT-Other NOL - DEFERRED TAX ASSET RECLASS
d. Row 281 - PSO Corp – Account 190 - Accum Deferred FIT-Other NOL - DEFERRED TAX ASSET RECLASS

The Joint Customers challenge AEP's decision to classify the federal NOL as unprotected without performing a "with or without" test in order to avoid being in violation of normalization rules, which would result in AEP losing its ability to use accelerated depreciation. In addition, Joint Customers challenge AEP's decision to amortize its federal NOL over one year, instead of based on ARAM for the portion associated with bonus depreciation and/or based on 5-years for any portion that is not related to bonus depreciation and should be classified as unprotected.

AEP Response:
AEP does not agree with this preliminary challenge as the concerns raised therein are premature. AEP is currently awaiting the issuance of guidance from the Treasury Department and Internal Revenue Service anticipated to provide clarification of the normalization requirements for excess tax reserves resulting from the corporate tax rate decrease under the Tax Cuts and Jobs Act (TCJA).

On May 7, 2019, the Treasury Department and Internal Revenue Service issued Notice 2019-33 announcing its intention to issue guidance clarifying the normalization requirements for excess tax reserves resulting from the corporate tax rate decrease under the TCJA. The Notice requests comments on the ratemaking issues that should be addressed due to the tax rate decrease and the requirements of section 13001(d) of the TCJA.

The Treasury and IRS specifically requested comments in several areas including Net Operating Loss (NOL) issues including but not limited to comments on the significance of depreciation-related NOL carryforwards in the context of excess deferred taxes, and comments on whether a depreciation-related NOL as of December 31, 2017, must be analyzed for normalization purposes based on the underlying loss year.

In the absence of guidance, of particular uncertainty to AEP is the timing for which NOL related excess deferred taxes are required to be amortized. Neither the timing of the recognition of the deferral of tax when a NOL is created, nor the timing for which a NOL related excess deferred tax is amortized, are explicitly contemplated within Treas. Reg. Section 1.167(l)-1 or within existing guidance on application of the ARAM. Additionally, AEP has fully utilized its NOL carryforwards by the end of 2019.

In the interim, AEP has neither classified NOL related excess deferred taxes as protected or unprotected, but rather segregated NOL related excess deferred tax amounts and began the amortization of such amounts over a five-year period (AEP did not amortize over one year as suggested in the challenge). However, for the purposes of the formula rate, the NOL related excess deffered tax amounts are included with unprotected amounts on Worksheet C.

The impact of the TCJA's corporate tax rate decrease on a NOL deferred tax asset results in an excess tax asset, as opposed to an excess tax reserve in the case of the rate decrease effect on deferred tax liabilities. If subject to normalization, the normalization principles would require that an excess tax asset not be amortized less rapidly or to a lesser extent than what could be required under future guidance pertaining to ARAM applications.

Until U.S. Treasury and IRS guidance is issued, including transition rules, AEP's amortization of NOL related excess deferred tax amounts over a five-year period is less likely to produce an outcome inconsistent with normalization rules compared with a longer amortization timeline.

PC-5 For each of AEP's OpCos and TransCos, AEP has not demonstrated that the amounts from company records on attachment "WS C-4 Excess FIT" reconciles to AEP's Attachment "GDS_1-37_Attachment_1.xlsx," Column D "Activity for TCJA Adjust." AEP's exhibit of its EDIT lacks transparency by not showing (i) the amounts that are deemed to be either protected or unprotected, (ii) appearing to only attempt to show the transmission only portion of the EDIT, (iii) failed to show the detail calculations behind its balances that show the functionalization of each EDIT item and how that detail supports AEP's balances (i.e. AEP's formula rate templates allocates ADIT based on "exclusions," "100% transmission," "PTD Plant," "T&D," and "Labor" and should use similar allocations to calculate the EDIT balances).

Further in relation to the Joint Customers' request in GDS 1-150, the Joint Customers requested that it provide an explanation and reconciliation to its formula rate, tab "SWEPCO WS C-1 ADIT EOY," Deferred Income Tax Balances – GL A/C 282, Row 50 and 51, as to why the components that total this account on Row 50 equal $(1,356,817,389) compared to the FERC Form 1 amounts shown on Row 51 of

> ***$(1,366,840,207). SWEPCO's response to GDS 1-150 states: To account for these differences between book values and ratemaking, Worksheet C-4 was used to determine beginning balances excess ADIT based upon AEP's final determination of the unprotected/protected split of the Excess as follows:***
>
> - ***The beginning transmission-functional balances of the Excess ADIT on Line 1 of WS C-4 represents the final balances of Excess ADIT as determined by the final TCJA entries in January 2019.***
> - ***The 2018 annual amortization for unprotected excess is equal to one fifth of the total unprotected beginning balance and the 2018 annual protected excess is the per books amortization.***
> - ***The 2018 ending transmission-functional balances are calculated by subtracting one year's amortization of from the beginning balances.***
> - ***All other Excess ADIT are considered excludable as they are not included in the transmission-functional balances.***

The Joint Customers requested further information in GDS 2-63, which AEP responded with Attachment "GDS 2-63 Attachment 1." AEP's attachment did not provide an explanation of these changes and demonstrate what specifically changed by line item. AEP's response grouped or lumped everything together and did not provide an explanation as to what happened or what AEP was attempting to demonstrate.

For the foregoing reasons, the Joint Customers challenge AEP's treatment of its Excess ADIT balances until AEP can demonstrate that the balances included in each OpCos and TransCos' template have been properly functionalized and supported.

AEP Response:
AEP agrees with this preliminary challenge as discussed within this response. As discussed in GDS 1-150, AEP used Attachment C-4 of the transmission formula rate to make ratemaking adjustments to the Beginning and Ending balances of 2018 protected and unprotected ADIT. The final amount of excess unprotected ADIT was not known at either the beginning or end of 2018. Rather, at the beginning of 2018, AEP recorded the total excess ADIT as protected. Following the initial recording of excess ADIT, AEP reclassed amounts from protected to unprotected as unprotected items were identified. These reclasses were made throughout 2018 and in January 2019. The adjustment described in GDS 1-150 was made to calculate the amounts that the beginning and ending balances of excess protected and unprotected ADIT should have been considering the agreed-upon amortization of unprotected excess ADIT over 5 years beginning January 1, 2018. Had these adjustments not been made, the transmission formula rate would not have provided a full one-fifth amortization of unprotected excess ADIT, nor would the beginning and ending balances reflect the final unprotected amounts.

AEP recognizes that this treatment led to numbers that did not tie to actuals and has prepared illustrative examples of the transmission formula rate with beginning and ending balances excess ADIT balances that tie to the companies' books. These have been attached as PC-5 Attachment 1. The beginning and ending balances of each Schedule M in this revision tie to the 51052 PowerTax report provided as PC-5 Attachments 2 and 3. As PC-5 Attachment 1 demonstrates, the companies' ratemaking adjustment resulted in a revenue requirement that was lower than if the companies had tied to the ledger, as the revenue requirements reflected amortization of unprotected excess ADIT that had not been identified by the end of 2018.

Regarding note (iii) in PC-5, AEP's position is that transmission formula Worksheet C-4 of the settled transmission formula rate template in FERC Docket Nos. ER18-194 and ER18-195 directed AEP to use the transmission-functional amounts of excess ADIT per the companies' books and records in the determination of what portion of the excess ADIT is allowed to be incorporated into the transmission formula rate. Transmission formula Worksheet C-4 did not state the excess ADIT on the companies' books and records would be functionalized using the allocation factors as the transmission formula rate allocates similar schedule Ms. Indeed, this information is not available as the transmission-function amounts on the books of the companies were built up over time as book-tax differences occurred.

PC-6 ***PSO has included $3,075,790 of ADIT associated with non-deductible contribution as shown on PSO WS C-1 ADIT EOY, Row 90 - 906D SFAS 106 PST RETIRE EXP - NON-DEDUCT CONT. The Joint Customers requested further justification for including this ADIT in PSO's formula rate template. AEP's response to GDS 2-34 states that "Accrued SFAS 106 Postretirement Benefits represents contributions that were made to an Other Post Employment Benefit (OPEB) trust. These contributions are recorded to the balance sheet. PSO's deduction for the contributions are temporary disallowed." Based on PSO's response to GDS 2-34, the Joint Customers challenge the inclusion of this ADIT in its formula rate template and AEP's lack of providing the requested FERC Account information, PSO's deduction for contributions are temporarily disallowed (tax purposes implied), therefore the ADIT should not be allocated to transmission customers, until the contributions are allowed for tax purposes. Furthermore, PSO's response indicates this ADIT is associated with balance sheet accounts, which are not included in the formula rate template. Therefore, AEP should not include the associated ADIT in compliance with Order 144.***

The Joint Customers requested similar information in GDS 1-137 and 2-59 to which AEP's response referenced back to "See Response to GDS 2-34." Likewise, the Joint Customers challenge this ADIT item in SWEPCO's formula rate template.

AEP Respones:

AEP does not agree with this preliminary challenge. The ADIT balances associated with SFAS 106 are treated in comprehensive manner in the formula that reflects both assets and liabilities that arise due to the differences between the way these retirement benefits are recorded for book vs. tax purposes. The treatment ensures the revenue requirement reflects the cost of return on that net balance. In this particular Challenge, the customers have requested exclusion of that part of the transaction that results in the assessment of a carrying charge, while conveniently overlooking the liability side that benefits them. The balances for SFAS 106 should be included in their net entirety (as is currently being done in the formula) and not cherry picked to include the liabilities and exclude the assets.

For instance, in the example provided in this preliminary challenge, the customers specifically reference the SFAS 106 debit balance of $3,075,790 as an amount that should be excluded from recovery in PSO's Worksheet C-1. However, directly above and below this amount are SFAS 106 related credit balances that are properly being included as an offset to ratebase in the determination of the revenue requirement. AEP is providing consistent treatment of these related ADIT values in ratebase, and believes the net approach is proper in the preparation of the formula.

PC-7 In relation to PSO's formula rate template, tab "WS C-1 ADIT EOY," Deferred Income Tax Balances – GL A/C 283, Line # 960F-XS, Excess ADFIT 283 Unprotected (Excel rows 93 & 94). The Joint Customers requested in GDS 2-35 for AEP to (i) provide a detailed explanation as to why the transmission portion of $6,534,881 is a positive amount and why the excluded portion is a negative $(3,962,053) and (ii) provide the detailed supporting calculations for both balances, including the tax reports for these amounts. AEP's response stated "The $6,534,881 amount is a positive amount (debit balance) on the Transmission functional ledger because the net result of all of underlying activity to record unprotected ADIT in that account is a debit. Detail for that amount was provided in GDS 1-68 Attachment 1 cell I53. The combined balance of the unprotected ADIT in 283 for all three functions is a $2,572,828 debit. This is the combination of the two unprotected line items on excel rows 93 and 94 of PSO's WS C-1. The $(3,962,053) excluded amount is the generation and distribution functional component of those two unprotected line items which was shown in the excluded column on WS C-1." Based on AEP's response to GDS 2-35, and AEP's total lack of providing detailed information demonstrating why the generation and distribution functional components resulted in a "negative" $3,962,053 balance (i.e., excess ADIT) and the transmission balance a "positive" $6,534,881 balance (i.e., deficient ADIT), AEP has not demonstrated that the transmission function is not subsidizing both the generation and distribution functions for this underlying activity. For the foregoing reasons, the Joint Customers challenge the treatment of this ADIT.

The Joint Customers requested similar information in GDS 1-98 and 2-45 to which AEP's response referenced back to "See Response to GDS 2-35." Likewise, the Joint Customers challenge this ADIT item in OKT's formula rate template.

AEP Response:
AEP does not agree with this preliminary challenge. AEP reiterates the description provided in the response to GDS 2-35: the functionalized balances for Excess Unprotected ADIT is the cumulative result on a functional basis of identifying the Protected or Unprotected nature of Excess ADIT resulting from accounting for the TCJA. It represents an end-result arrived at via the impartial application of a process, and not a predetermined outcome as suggested in this preliminary challenge.

PC-8 In relation to PSO's formula rate template, tab "WS C-1 ADIT EOY," Deferred Income Tax Balances – GL A/C 190, Line # 520A, Provs Poss Rev Refds-A/L (Excel row 111), PSO has allocated this ADIT in the amount of $1,702,155. The Joint Customers requested further information on what this ADIT was related to in GDS 1-71. AEP responded that "a. The Line # 520A, Provs Poss Rev Refds-A/l (Provisions for Possible Revenue Refunds) represents the timing differences related to provisions for revenue overcollections which are not deductible for tax at the time the book provision is recorded. b. The underlying impact of this flows through the formula rates when revenue over collections are returned to customers as prescribed in the formula rate. c. This is applicable to all three functions." AEP further justified the inclusion of this ADIT in its response to GDS 2-36 by stating "The Company disagrees with the premise that the ADIT underlying these revenues should not be included in rates. The Company must book the provisions referenced in 1-71 when there is a known over-collection of wholesale transmission revenues collected through this formula rate. The ADIT associated with the provisions is directly-related to the administration of the formula rate and should therefore be included."

The Joint Customers disagree with AEP's statements above. The formula rate does not take into account AEP's "known over-collection." The revenues charged in AEP's projected transmission revenue requirement ("PTRR") are the revenues generated due to the various billing cycles and the only unbilled revenues would be associated with those billing cycles during the calendar/fiscal tax year; therefore, there would not be a book tax timing difference. Any true-up amounts performed in May would be included in the amounts received in the following year for both taxes and books and records. These revenues would not be included on AEP's tax return as they are not earned until the true-up occurs in May 2019 for which AEP receives during the following billing cycles in the next rate year (June – May 2020). AEP's treatment of including this associated ADIT on the Provs Poss Rev Refds-A/L essentially allows AEP to earn interest on the revenues billed for the true-up amounts through the PTRR and also a

return on the associated ADIT for the Provs Poss Rev Refds-A/L, which results in a double recovery. For the foregoing reasons, the Joint Customers challenge the inclusion of the Provs Poss Rev Refds-A/L ADIT in any of AEP's OpCo or TransCo formula rate templates. (Also, a similar issue associated with AEP data responses to GDS 2-36, 2-46, and 2-60)

AEP Response:
AEP does not agree with this preliminary challenge. When there is a known over-collection of revenues in a billing year, AEP must record provisions for such over-collection in the year it is billed in order to not misstate its financial statements. This creates a timing difference between when the revenue provision is recognized and when the over-collection is remitted. For example, 2018 billings included an ROE that was subject to the complaint in FERC Docket No. EL17-16. In this case, AEP must record an estimate of the revenue reductions for the billing year even though the refunds resulting from the complaint would not be paid until 2019. This is different than the typical May True-Up. This treatment does not account for a double recovery as AEP is not earning interest on the true-up amount. AEP is accruing interest, which is increasing the amount it will refund to customers.

PC-9 In reference to AEP's response to GDS 2-58, AEP states "The OPEB[sic] accounting is recorded to 165 and 129 accounts that offset the 228.3 account." To the extent AEP is including the Account 165 balances for OPEB in rate base there should be ADIT associated with these OPEB balances. For the foregoing reasons, Joint Customers challenge AEP's decision to not include the ADIT related to those OPEB balances which would be a "credit" or a reduction in rate base.

AEP Response:
AEP does not agree with this preliminary challenge. AEP disagrees that the ADIT associated with the FAS 158-OPEB Schedule M should be included in rate base. The Reg Asset – SFAS 158 OPEB Scehdule M discussed in GDS 2-58 is associated with Account 1650037, which is excluded from the Prepayment Calculation.

PC-10 In reference to AEP's response to GDS 2-17 (also associated with GDS 1-31), AEP states "The transmission facilities listed are not required to be excluded from rates as they include interconnection points with other networked assets on the SPP system. However, as contemplated in Docket ER09-12, the Companies determined that certain feeders (a, c, e, i and k) in the list included some radial facilities. As such, the Companies have excluded a percent of the additions associated with those feeders based on the method approved in ER09-12. The remaining items were not excluded from the rates." AEP's response does not provide supporting documentation that the facilities identified in GDS 2-17b., d., f. through h., j., l., and m. should not be considered interconnection or radial facilities in the formula rate template. The Joint Customers challenge the inclusion of these facilities until AEP can provide supporting documentation to support their assertion.

AEP Response:
AEP neither agrees nor disagrees with this preliminary challenge. The requested information is deemed Critical Energy Infrastructure Information ("CEII") and can only be viewed, subsequent to execution of a non-disclosure agreement, at PSO's facilities in Tulsa. AEP will be happy to arrange a mutually convenient time for a customer representative or representatives to review this requested information. Please note that because of the sensitive nature of this information, any designated reviewer will not be allowed to take copies, pictures or any sort of facsimile of the information reviewed from PSO's premises.

PC-11 In reference to AEP's response to GDS 2-19 (also associated with GDS 1-31), AEP states "The transmission facilities listed are not required to be excluded from rates as they include interconnection points with other networked assets on the SPP system." AEP's response does not provide supporting documentation that the facilities identified in GDS 2-19a. through f. should not be considered interconnection or radial facilities in the formula rate template. The Joint Customers challenge the inclusion of these facilities until AEP can provide supporting documentation to support their assertion.

AEP Response:
AEP neither agrees nor disagrees with this preliminary challenge. The requested information is deemed Critical Energy Infrastructure Information ("CEII") and can only be viewed, subsequent to execution of a non-disclosure agreement, at PSO's facilities in Tulsa. AEP will be happy to arrange a mutually convenient time for a customer representative or representatives to review this requested information. Please note that because of the sensitive nature of this information, any designated reviewer will not be allowed to take copies, pictures or any sort of facsimile of the information reviewed from PSO's premises.

PC-12 In reference to AEP's response to GDS 2-28 (also associated with GDS_1-49_Attachment 1), AEP's "GDS_2-28_Attachment 1.xlsx" indicates there are multiple items included in Account 228.3 where expenses are included in rates and AEP uses the description as "known direct liability." These 'known direct liabilities' are estimates and various factors may affect their final amounts. For example, Accumulated Provision for Pensions and Benefits are based on actuarial reports for PBOPs (OPEBs) and pensions. These reports include many assumptions that are uncertain or inherently risky by being based off of inflation, mortality rates and employment status. AEP has no way of knowing the true balances in which it will pay out in the future; therefore, they should be considered uncertain until they are transferred into an external trust. Similarly, the other items identified in AEP's response are also uncertain because they may be based off a final tax return, employment status and performance of the company. In addition, AEP appears to state that "SFAS 112 Postemployment Benef," "FAS 158 SERP Payable Long Term" and "FAS 158 Qual Payable Long Term" are only associated with balance sheet accounts.

> ***There should be some portion of these items which have been included in expenses flowing through rates; therefore, some portion of these items should also be included as an unfunded reserve. For the foregoing reasons, these unfunded reserves meet the definition of contingent liabilities and should be included as an offset to rates for all OpCos and TransCos.***

AEP Response:
AEP does not agree with this preliminary challenge. AEP disagrees with customers' position that FERC has defined contingent liabilities in some way other than the guidance in its own USoA General Instruction 15 cited in AEP's response to the customers' discovery requests. The statement in the challenge that "All accrued O&M expenses are essentially contingent liabilities" is not supported by that definition. The entire sentence "Contingent liabilities include items which may under certain conditions become obligations of the utility but which are neither direct nor assumed liabilities at the date of the balance sheet" in that definition must be read and used to inform what is or isn't a contingent liability as defined by FERC. If a given accrued O&M expense "but which are neither direct nor assumed liabilities at the date of the balance sheet", then it wouldn't have been accrued in the first place because it isn't an obligation of AEP as of the balance sheet date.

In its challenge, customers have misinterpreted the phrase "known direct liabilities" used by AEP in response(s) to discovery requests. The word 'known' refers to whether it is known if the liability itself exists or does not exist as of a given date, which is in important when applying FERC contingent liability definition to a given liability. This is a binary decision; either the liability exists as of a certain date or it doesn't based on events whthich have already occurred. That term was not being used to state that the dollar amount of the liability was known with certainty or was an estimate, or make any representation whatsoever regarding the degree of certainty of the amount. As long as it is clear that an amount of greater than zero dollars will be owed at some future date, then a liability is known to exist. The degree of certainty in the amount that will ultimately be paid out by AEP to settle the liability is not relevant in determining the answer to the threshold question of whether an unfunded reserve exists, given how unfunded reserves are narrowly defined on Worksheet R in AEP's transmission formula rate that states, "Note - The cost of service will make a rate base adjustment to remove unfunded reserves associated with contingent liabilities recorded to Accounts 228.1-228.4 from rate base. Include only contingent liabilities which were expensed through accounts included in formula rate cost of service."

As a result, AEP disagrees that the items in 228.3 referenced in this item are unfunded reserves. During the preparation of this response, AEP determined that the offsetting account for SFAS 112 is account 926 for PSO, SWEPCO, OK Transco and SW Transco. However FAS 112 represents disability benefit liabilities earned by employees under AEP's long-term disability plans recorded as of balance sheet dates and does not meet the definition of a contingent liability.

AEP continues to confirm that the expense associated with pension is recorded as a reduction to the prepayment recorded in account 165 and included in rate base. The accounts in 228.3 related to FAS 158 Pension (2283016) is the result of required accounting standards and is offset with other balance sheet accounts including 165, 182.3, and 129. In the event that AEP is no longer in prepayment position the liability would be recorded in account 228.3. Since AEP does not have such a liability there is no such account to consider for unfunded reserve purposes. Furthermore, if AEP had a 228.3 liability for pension it would not be considered a contingent liability.

PC-13 In reference to AEP's response to GDS 1-56, AEP states that the increase to Account 923 – Outside Services Employed is a "$2M increase in expense is primarily due to an increase in the Umbrellas Trust." In AEP's response to GDS 2-32, AEP provides a description of the "Umbrellas Trust," which stated "The purpose of the umbrella trust is to provide a contingent source of funding for certain previously unfunded employee benefit obligations of AEPSC. These benefits include deferred compensation agreements and pension benefits. These plans are currently funded by the company, as a general obligation, separate from the Trust. While these future obligations are currently funded by the company, they lack the level of protection available to other post-employment benefits covered by the Employee Retirement Income Security Act. As such, the Trust was created to provide a level of protection in regard to the referenced benefits. If the company becomes unable to pay these benefits, the Trust funds would be used as a funding source for the benefits. If the company continues to fund and pay these benefits as a general obligation, as is expected, the Trust would never be used and the value of the Trust funds would be available to the company once the final benefit has been paid. This change in cash surrender value is recorded to FERC account 923."

To the extent AEP retains cost free-capital provided by the customers related to the "Umbrellas Trust," AEP should record an unfunded reserve from the time period the monies are included in a general account until the general account is transferred to the trust or a restricted account (for the time period from which monies are accrued in a general account to which AEP has access to the date in which those monies are put into the "Umbrella Trust"). AEP has not demonstrated which FERC accounts these unfunded reserves are recorded for the cost-free financial capital being provided by the transmission customers.

AEP Response:
AEP does not agree with this preliminary challenge. The umbrella trust is recorded as an investment asset on AEPSC's books and there is not a liability to be considered for "unfunded reserve" consideration. AEP incurs expense for decreases in cash surrender values of the investment account and receive credits for increases in the cash surrender value. During 2016 to 2019 affiliates have received credits of approximately $55 million as a result of changes in the umbrella trust investment asset.

PC-14 In reference to the Joint Customers' request in GDS 2-38, the customers requested that PSO identify where "the associated ADIT with severance payable has been recorded in the template." AEP's response states that "The ADIT is recorded in the template in

worksheets C-1 and C-2." PSO's template exhibits the severance ADIT as being reflected on attachment C1, Excel row 126, in the amount of $136,811 and attachment C2, Excel row 125, in the amount of $0 BOY balance based on labor, therefore the unfunded reserves related to this severance payable should be included as an offset to rates. These are severance accruals associated with amounts from customer contributed capital through the transmission rate prior to it being paid by AEP.

AEP Response:
AEP does not agree with the preliminary challenge. Severance accruals are the result of employee severances which have occurred prior to the balance sheet date but have not yet been paid as of that date, similar to normal payroll obligations, and thus are known, not contingent liabilities. As a result these are not unfunded reserves as defined on transmission formula Worksheet R. Further, these accruals are recorded to Account 242 and thus are not within the scope of accounts to be considered as unfunded reserves in AEP's formula rates. See AEP's response to PC-12 for a response to customer's challenges related to unfunded reserves generally.

PC-15 In relation to OKT's formula rate template, tab "OKT WS C-1 ADIT EOY, Deferred Income Tax Balances – GL A/C 190, Line # 612Y, Accrd Companywide Incentv Plan (Excel row 48)," AEP states in its response to GDS 1-100 (also associated with GDS 2-47) that "Schedule M line 612Y relates to the book/tax timing difference associated with the accrual and payments for the AEP companywide incentive compensation plan (ICP). The underlying costs associated with the ADIT balance are charges from AEP Service Corporation (AEPSC) for an accrual for this ICP and recorded in account 9230003." Given that there are expenses included in Account 923, an unfunded reserve would be established and should be included as an offset to rates. AEP's responses to GDS 1-100b. and c. were non-responsive as to where the unfunded reserve accruals are recorded, but rather referenced Account 236 – Taxes Accrued.

Similarly, the Joint Customers asked requests in SWT's formula rate related to the incentive compensation plant in GDS 2-67(also associated with GDS 1-100 and 1-165), therefore unfunded reserves associated with the ICP should be included as an offset to rates.

AEP Response:
AEP does not agree with the preliminary challenge. Incentive Compensation accruals are the result of incentives earned by employees pursuant to incentive plans prior to the balance sheet date which have not yet been paid as of that date, similar to normal payroll accruals, and thus are known, not contingent liabilities. As a result these are not unfunded reserves as defined on transmission formula Worksheet R, regardless of which account they are recorded. Further, these accruals are recorded to Account 242 and thus are not within the scope of accounts to be considered as unfunded reserves in AEP's formula rates. See AEP's response to PC-12 for a response to customer's challenges related to unfunded reserves generally.

PC-16 In reference to AEP's response to GDS 2-51 related to Account 228.3 – Accumulated Provision for Pensions and Benefits, AEP provided GDS Set 2-51 – Qa-41020 – Attachment 1.xlsx, the "OPENING" beginning balance in column (B) of $10,499,971.12 ties to SWEPCO's 2018 FERC Form 1, page 112, line 29, column (d) and the "2018 Total" balance of $17,129,792.06 ties to SWEPCO's 2018 FERC Form 1, page 112, line 20, column (c); therefore all of the amounts in this attachment are included in Account 228.3. AEP did not provide enough data to determine what was included in the beginning balance and the FERC Accounts in Excel column (f) are the second half of the transaction. AEP has should include the unfunded reserves for the beginning and ending balances of Account 228.3.

AEP Response:

AEP disagrees with this preliminary challenge. AEP's assessment of unfunded reserves for account 228.3 was provided in GDS 2-28. In addition, our definition of unfunded reserves was further discussed in PC-12. The detail of the $10,499.971 is provided in the table below:

Account	Description	Balance
2283000	Accm Prv for Pensions&Benefits	1,070,041.39
2283001	Deferred Compensation Plan	1,695,071.49
2283002	Supplemental Savings Plan	1,158,618.59
2283005	SFAS 112 Postemployment Benef	3,587,589.39
2283006	SFAS 87 – Pensions	-
2283007	Perf Share Incentive Plan	1,245,855.15
2283013	Incentive Comp Deferral Plan	102,943.41
2283015	FAS 158 SERP Payable Long Term	979,459.00
2283016	FAS 158 Qual Payable Long Term	660,392.71
	Total	10,499,971.12

We appreciate the opportunity to provide our views on this manner. Please let us know if you have any questions about the information provided.

Sincerely,

<u>*s/ Stacey L. Burbure*</u>

Stacey L. Burbure
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American Electric Power
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