



Phillip C. Raymond
Executive Vice President,
Chief Financial Officer & Treasurer

600 North 18th Street
Post Office Box 2641
Birmingham, Alabama 35291
205 257 2505 tel
205 257 2176 fax

December 1, 2020

Alabama Public Service Commission
RSA Union Building
100 North Union Street, Suite 950
Montgomery, Alabama 36130



Attention: Mr. Walter L. Thomas, Jr.
Secretary

Subject: Submittal of Information and Calculations Required by Rate RSE
and the Special Rules Governing Operation of Rates RSE and CNP

Dear Commissioners:

In accordance with the provisions of Rate RSE (Rate Stabilization and Equalization Factor) and the Special Rules Governing Operation of Rates RSE and CNP, we are submitting the following:

- (i) information and calculations required by Rate RSE and Appendices A and B to the rate;
- (ii) RSE factors applicable to each affected retail rate schedule beginning with January 2021 billings, as well as the manner by which those factors were developed under Appendix A; and
- (iii) entries on Appendix B to Rate RSE and a written analysis summarizing the principal reasons for the operation of the rate.

By means of this letter, we are providing the enclosed information to the Staff of the Commission and to the Office of the Attorney General. If further information or supporting materials are needed, please contact Mr. Richard Hutto, who is the designated Company individual under Rule 10 of the Special Rules.

Sincerely,

Enclosures

Alabama Public Service Commission

December 1, 2020

Page 2 of 2

cc: Commissioner Twinkle Andress Cavanaugh
Commissioner Jeremy H. Oden
Commissioner Chris "Chip" Beeker, Jr.

Secretary of the Alabama Public Service Commission
Mr. Walter L. Thomas, Jr. (11)

Executive Director and Chief Administrative Law Judge
The Honorable John A. Garner

Director, Electricity Policy Division
Mr. John D. Free (4)

Office of the Attorney General
Ms. Olivia W. Martin

Alabama Power Company

**RSE Factors Effective for Monthly Bills on and after January 2021,
as Developed in Accordance with Rate RSE
and the Special Rules Governing Operation of Rates RSE and CNP,
and Including Information and Calculations Required
by Appendices A and B to Rate RSE**

December 1, 2020

Alabama Power Company
RSE Factor Development
Effective for January 2021 Billings
In Conformity with Appendix A to Rate RSE
(In Thousands of Dollars)

Development of RSE Factor:

If $\frac{\frac{((AROR - WRRCE) / CEP) (RCE)}{1 - T}}{RR}$ is equal to, or less than 5%, then $\frac{\frac{((AROR - WRRCE) / CEP) (RCE)}{1 - T}}{KWH_e} \frac{BR_e}{BR_t} =$ RSE Factor

$$\frac{\frac{((0.0605 - 0.0517) / 51.99\%) (\$9,926,330)}{0.73865}}{\$5,561,152} = 4.09\%$$

ALABAMA POWER COMPANY
RSE Calculation
Effective for January 2021 Billings

(A)	(B)	(C)	(D)	(E)	(F)
Rate Schedule	Forecasted Base Rate Revenue Excluding Fuel & Tax YE 2021	Ratio BRs/BRT (B)/Total (B)	Effective Base Revenue Increase (C) X Total (D)	Forecasted kWh YE 2021	RSE Factor \$(kWh) (D)/(E)
ASL	\$ 2,676,609	0.00065	\$ 147,968	29,317,616	0.005047
BEVT	131,908	0.00003	6,829	1,108,046	0.006163
BTA	38,726,581	0.00937	2,133,015	434,928,755	0.004904
BTAL	81,679,923	0.01975	4,495,949	1,673,845,505	0.002686
CFTU	1,297,163	0.00031	70,569	24,888,115	0.002835
FCR	159,759,191	0.03864	8,796,126	6,641,979,356	0.001324
FD	1,898,951,309	0.45926	104,547,324	17,119,637,925	0.006107
XFDE	17,232,360	0.00417	949,271	196,281,000	0.004836
XFDT	365,529	0.00009	20,488	4,253,456	0.004817
FIRTU	273,589	0.00007	15,935	3,952,927	0.004031
FMTU	27,575,079	0.00667	1,518,379	451,610,839	0.003362
FPL	74,265,594	0.01796	4,088,468	344,801,895	0.011857
XFSTU	13,666,251	0.00330	751,222	174,784,042	0.004298
XGRTU	11,694,774	0.00283	644,230	175,950,857	0.003661
HLF	73,268,692	0.01772	4,033,834	1,830,398,302	0.002204
XHLTU	1,996,686	0.00048	109,269	30,813,205	0.003546
XHMTU	3,302,394	0.00080	182,114	41,137,181	0.004427
LAF	3,722,543	0.00090	204,879	19,629,187	0.010437
LFS	9,024,940	0.00218	496,262	78,580,622	0.006315
XLLTU	636,025	0.00015	34,146	9,407,782	0.003630
XLMTU	2,973,964	0.00072	163,903	33,863,260	0.004840
LPLE	38,975,747	0.00943	2,146,673	749,597,180	0.002864
LPME	173,724,049	0.04201	9,563,282	1,898,302,430	0.005038
LPSE	182,985,821	0.04425	10,073,203	1,430,632,858	0.007041
LPL	127,214,333	0.03077	7,004,575	2,461,743,524	0.002845
LPLM	274,766,323	0.06645	15,126,877	5,879,537,937	0.002573
LPM	485,610,606	0.11744	26,734,394	3,960,606,650	0.006750
LPS	92,123,986	0.02228	5,071,886	425,262,725	0.011926
XLPTL	71,808,533	0.01737	3,954,159	1,363,706,407	0.002900
XLPTM	6,684,247	0.00162	368,782	68,832,446	0.005358
XLPTS	12,421,578	0.00300	682,929	118,150,714	0.005780
LTU	2,386,692	0.00058	132,033	30,867,496	0.004277
MTU	17,072,644	0.00413	940,165	377,474,091	0.002491
ODL	4,743,428	0.00115	261,789	121,879,628	0.002148
OFP	1,515,647	0.00037	84,228	18,994,295	0.004434
PG	778,812	0.00019	43,252	5,678,898	0.007616
PMTU	32,370,365	0.00783	1,782,445	680,200,609	0.002620
PTU	2,397,397	0.00058	132,033	32,918,395	0.004011
XRLTU	1,391,132	0.00034	77,399	20,010,788	0.003868
XRMTU	11,727,476	0.00284	646,506	152,217,581	0.004247
RTA	171,910	0.00004	9,106	1,461,318	0.006231
RTAE	672,606	0.00016	36,423	6,259,155	0.005819
RTP	62,757,930	0.01518	3,455,621	1,401,809,971	0.002465
XRTPD	42,984,143	0.01039	2,365,211	1,651,716,590	0.001432
SCGTU	6,599,366	0.00160	364,229	134,708,810	0.002704
SCH	38,498,165	0.00931	2,119,356	406,281,907	0.005216
SLM	16,634,384	0.00402	915,125	125,571,666	0.007288
TS	1,102,835	0.00027	61,464	17,173,395	0.003579
TSTU	151,037	0.00004	9,106	2,906,062	0.003133
TXTU	1,140,189	0.00027	61,464	19,673,439	0.003124
XTP	108,440	0.00003	6,829	960,276	0.007112
XWP	39,159	0.00001	2,276	553,592	0.004112
Total	\$ 4,134,780,084		\$ 227,643,000	52,886,860,706	

Determination of Projected Average Retail Common Equity (RCE) as of December 31, 2021
Prior to RSE Adjustment:
(In Thousands of Dollars)

	Column 1 <u>Total Amount</u> <small>(Projected 12-mo. avg. bal.)</small>	Column 2 <u>Non-Electric</u> <small>(Projected 12-mo. avg. bal.)</small>
Investment		
1 . Electric Plant in Service (Account 101)	\$ 30,752,128 (E)	132,078
2 . Electric Plant Held for Future Use (Account 105)	49,859	
3 . Construction Work in Progress-Electric (Account 107)	1,024,427	19,540
4 . Accumulated Provision for Depreciation and Amortization of Electric Utility Plant-Credit (Accounts 108 and 111)	(10,201,156) (E)	(5,251)
5 . Electric Plant Acquisition Adjustments-Net (Accounts 114 and 115)	251,990	
6 . Steam Heat Plant (Account 118)	-	-
7 . Accumulated Provision for Depreciation of Steam Heat Plant-Credit (Account 119)	-	-
8 . Nuclear Fuel-Net (Account 120)	267,135	
9 . Nonutility Property (Account 121)	122,570	122,570
10 . Accumulated Provision for Depreciation and Amortization of Nonutility Property-Credit (Account 122)	(6,218)	(6,218)
11 . Investment in Subsidiary Companies (Account 123)	79,449	25,944
12 . Other Investments (Account 124)	4,246	4,246
13 . Fuel Stock (Account 151)	182,109	-
14 . Materials and Supplies (Account 154)	551,959	5,166
15 . Merchandise (Account 155)	4,732	4,732
16 . Allowance Inventory (Account 158)	11,011	
17 . Total	<u>\$ 23,094,241</u>	<u>\$ 302,807</u>
18 . Electric Investment Percent (Line 17, [Col. 1 - Col. 2 less UPS Investment of \$0] + Col. 1)	<u>98.69%</u> (D)	
19 . Retail Electric Investment Factor	<u>96.52%</u>	
20 . Retail Investment Separation Factor (Line 18 X Line 19)	<u>95.26%</u>	
Common Equity Percentage of Capital Structure		
21 . Common Equity (Accounts 201, 211, and 216)	\$ 10,362,457	
22 . Debt (Accounts 221-227, 231 and 243)	9,330,025 (F)	
23 . Preferred Stock (Accounts 204-207 and 214)	291,048	
24 . Total (Line 21 + Line 22 + Line 23)	<u>\$ 19,983,530</u>	
25 . Common Equity Percentage of Capital Structure (CEP) (Line 21 + Line 24)	<u>51.85%</u>	
Retail Common Equity (RCE)		
26 . Retail Common Equity (Line 20 x Line 21)	<u>\$ 9,871,277</u>	

Determination of Projected Retail Net Income for the 12 Months Ending December 31, 2021
Prior to RSE Adjustment:
(In Thousands of Dollars)

	<u>Total Electric</u>	<u>Retail Electric</u>
	(Projected 12 mos. total)	(Projected 12 mos. total)
Electric Operating Revenue		
1 . Sale of Electricity (Accounts 440-448)	\$ 5,752,815	\$ 5,581,152 (A)
2 . Other Operating Revenues (Accounts 450-456)	29,369	29,369 (B)
3 . Total Operating Revenues (Line 1 + Line 2)	<u>5,782,184</u>	<u>5,590,521</u>
Electric Expenses		
4 . Electric Operation and Maintenance Expenses (Accounts 401 and 402)	3,327,261	
5 . Electric Depreciation and Amortization Expenses (Accounts 403-407)	877,391	
6 . Taxes Other Than Income Taxes (Account 408.1)	424,237	
7 . Other Revenue Credits (Accounts 447-02xxx, 447-04xxx, 454 except 454-00904, and 456 except 456-00953)	<u>452,298 (A), (B)</u>	
8 . Electric Expenses Other Than Income Taxes (Lines 4, 5, and 6 - Line 7)	<u>4,178,591</u>	
9 . Operating Income Before Income Taxes (Line 3 - Line 8)	<u>1,605,593</u>	
10 . Income Taxes (Accounts 409-411)	293,988	
11 . Retail Expense Allocation Factor	<u>96.25%</u>	
12 . Retail Expenses Other Than Income Taxes (Line 8 - UPS Expenses of \$0) x Line 11		<u>4,019,969 (D)</u>
13 . Retail Operating Income Before Income Taxes (Line 3 - Line 12)		1,570,552
14 . Retail Income Taxes (Line 13 + Line 9) x Line 10		<u>287,572</u>
15 . Net Retail Electric Operating Income (Line 13 - Line 14)		1,282,980
Allowance for Funds Used During Construction		
16 . Electric Allowance for Funds Used During Construction (AFUDC) - Gross	62,315	
17 . Retail Electric Allocation Factor	<u>96.04%</u>	
18 . Retail Electric AFUDC (Line 16 - UPS Investment AFUDC of \$0) x Line 17		59,847 (D)
Interest Income		
19 . Interest Revenue (Accounts 419-00001, 419-00304, 419-00038 and 419-00066 through 419-00068) (net of tax)	1,173	
20 . Retail Interest Income (Line 19 x Retail Investment Separation Factor)	<u>95.26% (C)</u>	1,117
Interest Expense and Preferred Dividends		
21 . Interest Expense (Accounts 427-431)	365,083	
22 . Preferred Dividends (Account 437)	14,661	
23 . Total Interest Expense and Preferred Dividends [(Line 21 + Line 22) x Retail Investment Separation Factor]	<u>95.26% (C)</u>	361,744
Commission-Required Adjustments		
24 . Commission-Required Adjustments (net of tax)	1,904	
25 . Retail Commission-Required Adjustments (Line 24 x Retail Expense Allocation Factor)	<u>96.25%</u>	1,833
Retail Net Income Available for Common Equity (RNI)		
26 . Retail Net Income Available for Common Equity (Line 15 + Line 18 + Line 20 - Line 23 + Line 25)		<u>\$ 984,033</u>
Weighted Retail Return on Average Common Equity		
$\frac{\text{RNI}}{\text{RCE}} \times \text{CEP} = \text{WRRCE}$		<u>5.17%</u>

**Determination of Projected Average Retail Common Equity (RCE) as of December 31, 2021
with Adjustment to Midpoint of Weighted Equity Return Range:**
(In Thousands of Dollars)

	Column 1 <u>Total Amount</u> <small>(Projected 12-mo. avg. bal.)</small>	Column 2 <u>Non-Electric</u> <small>(Projected 12-mo. avg. bal.)</small>
Investment		
1 . Electric Plant in Service (Account 101)	\$ 30,752,128 (E)	132,078
2 . Electric Plant Held for Future Use (Account 105)	49,859	
3 . Construction Work in Progress-Electric (Account 107)	1,024,427	19,540
4 . Accumulated Provision for Depreciation and Amortization of Electric Utility Plant-Credit (Accounts 108 and 111)	(10,201,156) (E)	(5,251)
5 . Electric Plant Acquisition Adjustments-Net (Accounts 114 and 115)	251,990	
6 . Steam Heat Plant (Account 118)	-	-
7 . Accumulated Provision for Depreciation of Steam Heat Plant-Credit (Account 119)	-	-
8 . Nuclear Fuel-Net (Account 120)	267,135	
9 . Nonutility Property (Account 121)	122,570	122,570
10 . Accumulated Provision for Depreciation and Amortization of Nonutility Property-Credit (Account 122)	(6,218)	(6,218)
11 . Investment in Subsidiary Companies (Account 123)	79,449	25,944
12 . Other Investments (Account 124)	4,246	4,246
13 . Fuel Stock (Account 151)	182,109	-
14 . Materials and Supplies (Account 154)	551,959	5,166
15 . Merchandise (Account 155)	4,732	4,732
16 . Allowance Inventory (Account 158)	11,011	
17 . Total	<u>\$ 23,094,241</u>	<u>\$ 302,807</u>
18 . Electric Investment Percent (Line 17, [Col. 1 - Col. 2 less UPS Investment of \$0] + Col. 1)	<u>98.69% (D)</u>	
19 . Retail Electric Investment Factor	<u>96.52%</u>	
20 . Retail Investment Separation Factor (Line 18 X Line 19)	<u>95.26%</u>	
Common Equity Percentage of Capital Structure		
21 . Common Equity (Accounts 201, 211, and 216)	\$ 10,420,250	
22 . Debt (Accounts 221-227, 231 and 243)	9,330,025 (F)	
23 . Preferred Stock (Accounts 204-207 and 214)	291,048	
24 . Total (Line 21 + Line 22 + Line 23)	<u>\$ 20,041,323</u>	
25 . Common Equity Percentage of Capital Structure (CEP) (Line 21 + Line 24)	<u>51.99%</u>	
Retail Common Equity (RCE)	<u>\$ 9,926,330</u>	
26 . Retail Common Equity (Line 20 x Line 21)		

**Determination of Projected Retail Net Income for the 12 Months Ending December 31, 2021
with Adjustment to Midpoint of Weighted Equity Return Range:**
(In Thousands of Dollars)

	<u>Total Electric</u> (Projected 12 mos. total)	<u>Retail Electric</u> (Projected 12 mos. total)
Electric Operating Revenue		
1 . Sale of Electricity (Accounts 440-448)	\$ 5,984,258	\$ 5,792,595 (A)
2 . Other Operating Revenues (Accounts 450-456)	29,369	29,369 (B)
3 . Total Operating Revenues (Line 1 + Line 2)	<u>6,013,627</u>	<u>5,821,964</u>
Electric Expenses		
4 . Electric Operation and Maintenance Expenses (Accounts 401 and 402)	3,327,261	
5 . Electric Depreciation and Amortization Expenses (Accounts 403-407)	877,391	
6 . Taxes Other Than Income Taxes (Account 408.1)	425,161	
7 . Other Revenue Credits (Accounts 447-02xxx, 447-04xxx, 454 except 454-00904, and 456 except 456-00953)	<u>452,298 (A), (B)</u>	
8 . Electric Expenses Other Than Income Taxes (Lines 4, 5, and 6 - Line 7)	<u>4,177,515</u>	
9 . Operating Income Before Income Taxes (Line 3 - Line 8)	<u>1,836,112</u>	
10 . Income Taxes (Accounts 409-411)	354,234	
11 . Retail Expense Allocation Factor	<u>96.25%</u>	
12 . Retail Expenses Other Than Income Taxes (Line 8 - UPS Expenses of \$0) x Line 11		<u>4,020,858 (D)</u>
13 . Retail Operating Income Before Income Taxes (Line 3 - Line 12)		1,801,106
14 . Retail Income Taxes (Line 13 + Line 9) x Line 10		<u>347,480</u>
15 . Net Retail Electric Operating Income (Line 13 - Line 14)		1,453,626
Allowance for Funds Used During Construction		
16 . Electric Allowance for Funds Used During Construction (AFUDC) - Gross	62,315	
17 . Retail Electric Allocation Factor	<u>96.04%</u>	
18 . Retail Electric AFUDC (Line 16 - UPS Investment AFUDC of \$0) x Line 17		59,847 (D)
Interest Income		
19 . Interest Revenue (Accounts 419-00001, 419-00304, 419-00038 and 419-00066 through 419-00068) (net of tax)	1,261	
20 . Retail Interest Income (Line 19 x Retail Investment Separation Factor)	<u>95.26% (C)</u>	1,201
Interest Expense and Preferred Dividends		
21 . Interest Expense (Accounts 427-431)	365,083	
22 . Preferred Dividends (Account 437)	14,661	
23 . Total Interest Expense and Preferred Dividends {(Line 21 + Line 22) x Retail Investment Separation Factor}	<u>95.26% (C)</u>	361,744
Commission-Required Adjustments		
24 . Commission-Required Adjustments (net of tax)	1,904	
25 . Retail Commission-Required Adjustments (Line 24 x Retail Expense Allocation Factor)	<u>96.25%</u>	1,833
Retail Net Income Available for Common Equity (RNI)		
26 . Retail Net Income Available for Common Equity (Line 15 + Line 18 + Line 20 - Line 23 + Line 25)		<u>\$ 1,154,763</u>
Weighted Retail Return on Average Common Equity		
RNI x CEP = WRRCE		
RCE		<u>6.05%</u>

Notes:

- Note (A):** To conform with cost-of-service procedures, amounts included in Account 447 (Sales for Resale) associated with Non-Territorial Sales for Resale (subaccounts 447-02xxx and 447-04xxx) are excluded from Line 1 and included in Line 7.
- Note (B):** To conform with cost-of-service procedures, the total of Accounts 450 (Forfeited Discounts), 451 (Miscellaneous Service Revenues), 453 (Sales of Water and Water Power), subaccount 454-00904 (Rent from Leased Property on Customers' Premises-Other), and subaccount 456-00953 (Miscellaneous Electric Revenues-Return Check Charge) is included on Line 2. The remaining subaccounts for Accounts 454 (Rent from Electric Property) and 456 (Other Electric Revenues) are included in Line 7.
- Note (C):** Developed on Line 20 of retail common equity computation.
- Note (D):** To conform with cost-of-service procedures and to afford proper recognition of investment and associated allowance for funds and expenses associated with Unit Power Sales to Nonassociated Utilities, the investment and associated allowance for funds and expenses associated with such sales have been accounted for on Line 18 of RCE calculation and on Lines 12 and 18 of RNI calculation.
- Note (E):** For purposes of Rate RSE, the capitalization of asset retirement costs shall be excluded from Account 101 (Electric Plant in Service) and the associated depreciation shall be excluded from Account 108 (Accumulated Provision for Depreciation of Electric Utility Plant) pursuant to Accounting for Asset Retirement Obligations.
- Note (F):** To the extent that rating agencies (Standard & Poor's, Moody's or Fitch, or any successor(s) in function) deem liabilities related to leases, as recorded in Accounts 227 and 243 (or other account(s) established by FERC for such purposes), to be debt in the Company's capital structure, such amounts will be included in line 22 of the RCE calculation.

Alabama Power Company

Written Analysis of Operation of Rate RSE December 2021 Test

Alabama Power Company is submitting this written analysis pursuant to paragraph 4(c) of the Special Rules Governing Operation of Rates RSE and CNP.

The RSE test for the calendar year ending December 2021 indicates a weighted retail return on common equity (“WRRCE”) of 5.17%. Because the resulting WRRCE is below the specified range, Rate RSE will operate to adjust retail revenues recovered through the affected rate schedules. The required adjustment to reach the specified adjusting point of the range is 4.09%.

A comparison of the calculations for the budgeted weighted retail return on common equity for the 12-month periods ending December 31, 2021 and December 31, 2020, as well as the separation factors used for these calculations, are set forth below:

	Tests for the 12 Months Ending	
	<u>December 2021</u>	<u>December 2020</u>
	(Dollars in Thousands)	
Retail Net Income Available for Common Equity (Appendix B, page 2, line 26)	\$984,033	\$1,042,961
Retail Common Equity (Appendix B, page 1, line 26)	\$9,871,277	\$9,139,090
Common Equity Percentage of Capital Structure (Appendix B, page 1, line 25)	51.85%	52.14%
Weighted Retail Return on Common Equity (Appendix B, bottom of page 2)	5.17%	5.95%
Retail Electric Investment Factor (Appendix B, page 1, line 19)	96.52%	96.56%
Retail Expense Allocation Factor (Appendix B, page 2, line 11)	96.25%	96.17%
Retail Electric Allocation Factor (Appendix B, page 2, line 17)	96.04%	95.93%

As shown above, the WRRCE of 5.17% for the December 2021 test compares to a WRRCE of 5.95% for the December 2020 test. Major factors contributing to the differential include: (1) increases in costs primarily associated with capital additions to Plant in Service for generation, transmission and distribution assets, which includes financing costs along with associated depreciation and property tax expenses; and (2) increases in Operation & Maintenance costs, including expenses related to routine generating plant outages, transmission and distribution expenditures to maintain system reliability, and costs associated with uncollectible accounts. The WRRCE for 2021 is also impacted by the near-term effects of COVID-19, which have negatively affected the Company’s revenue projections for 2021. The cumulative effect of these and other pressures on both cost projections and revenues cause the Company’s 2021 WRRCE to be below the RSE range, thereby triggering an operation of the rate.