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March 23, 2012

The Honorable Greta See
Attorney Examiner
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215

Re: *Ohio Power Company*, Case No. 10-2929-EL-UNC

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Dear Ms. See:

On March 14, 2012, you issued a scheduling entry that, among other things, afforded Ohio Power Company (dba AEP Ohio) an opportunity to update or revise the testimony that was filed on August 31, 2011 in this proceeding. Today, AEP Ohio is filing the enclosed testimony to be sponsored by the following witnesses during the upcoming evidentiary hearing:

Richard E. Munczinski, AEP
Frank C. Graves, The Brattle Group
Kelly D. Pearce, PhD, AEP
Dana E. Horton, AEP
William A. Allen, AEP

With the exception of Mr. Allen, the four remaining witnesses had previously filed testimony on August 31, 2011 and are now submitting an updated/revised version of their Direct Testimony. For those four witnesses, a redlined version of testimony is also being submitted solely for the convenience of the parties so that they can see the specific changes made from the August 31, 2011 versions (regarding the exhibits of Dr. Pearce, only a portion of KDP-7 changed). During the April 17, 2012 hearing, AEP Ohio will sponsor and introduce for admission into the evidentiary record the clean, updated version of each piece of testimony that is being filed today. Please note that the testimony of William A. Klun that was filed on August 31, 2011 is no longer being sponsored and should be considered withdrawn.

Thank you for your attention to this matter.

Respectfully Submitted,

A handwritten signature in blue ink, appearing to be 'John A. Van', is written over a horizontal line.

EXHIBIT NO. _____

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Commission Review of)
the Capacity Charges of Ohio Power)
Company and Columbus Southern Power) Case No. 10-2929-EL-UNC
Company)

DIRECT TESTIMONY OF
WILLIAM A. ALLEN
ON BEHALF OF
OHIO POWER COMPANY

Filed: March 23, 2012

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WILLIAM A. ALLEN

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
DIRECT TESTIMONY OF
WILLIAM A. ALLEN
ON BEHALF OF
OHIO POWER COMPANY

1 **PERSONAL DATA**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is William A. Allen, and my business address is 1 Riverside Plaza,
4 Columbus, Ohio 43215.

5 **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

6 A. I am employed by the American Electric Power Service Corporation (AEPSC) as
7 Director of Regulatory Case Management. AEPSC supplies engineering, financing,
8 accounting, and planning and advisory services to the ten electric operating
9 companies of the American Electric Power System, one of which is Ohio Power
10 Company (OPCo). For clarity, it should be noted that due to the merger of
11 Columbus Southern Power (CSP) into OPCo, the merged entity will be referred to as
12 AEP Ohio.

13 **Q. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL AND**
14 **PROFESSIONAL BACKGROUND?**

15 A. Yes. I received a Bachelor of Science in Nuclear Engineering from the University
16 of Cincinnati in 1996 and a Master of Business Administration from the Ohio State
17 University in 2004.

18 I was employed by AEPSC beginning in 1992 as a Coop Engineer in the
19 Nuclear Fuels, Safety and Analysis department and upon completing my degree in
20 1996 was hired on a permanent basis in the Nuclear Fuel section of the same

1 department. In January 1997, the Nuclear Fuel section became a part of Indiana
2 Michigan Power Company (I&M) due to a corporate restructuring. In 1999, I
3 transferred to the Business Planning section of the Nuclear Generation Group as a
4 Financial Analyst. In 2000, I transferred back to AEPSC into the Regulatory Pricing
5 and Analysis section as a Regulatory Consultant. In 2003, I transferred into the
6 Corporate Financial Forecasting department as a Senior Financial Analyst. In 2007,
7 I was promoted to the position of Director of Operating Company Forecasts. In that
8 role, I was primarily responsible for the supervision of the financial forecasting and
9 analysis of the AEP System's eleven operating companies, including CSP and
10 OPCo. I was named to my current position in June 2010.

11 **Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR OF**
12 **REGULATORY CASE MANAGEMENT?**

13 A. I am primarily responsible for the supervision, oversight and preparation of major
14 filings with state utility commissions and the Federal Energy Regulatory
15 Commission.

16 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN ANY**
17 **REGULATORY PROCEEDINGS?**

18 A. Yes. I have previously testified before the Public Utilities Commission of Ohio on
19 behalf of OPCo. I have also submitted testimony or testified before the Michigan
20 Public Service Commission, the Indiana Utility Regulatory Commission, the West
21 Virginia Public Service Commission and the Virginia State Corporation
22 Commission on behalf of various other electric operating companies of the
23 American Electric Power System.

1 **PURPOSE OF TESTIMONY**

2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

3 A. The purpose of my testimony is to demonstrate the financial harm to AEP Ohio
4 under an RPM-priced capacity compensation mechanism and to describe the
5 current and projected levels of shopping in Ohio Power's service territory.

6 **Q. WHAT EXHIBITS ARE YOU SPONSORING?**

7 A. I am sponsoring the following exhibits:

8 Exhibit WAA-1 Estimate of AEP Ohio's Earnings

9 Exhibit WAA-2 Switching Statistics as of March 1, 2012

10 **FINANCIAL IMPACT**

11 **Q. HAVE YOU DEVELOPED AN ESTIMATE OF AEP OHIO'S EARNINGS**
12 **UNDER AN RPM-PRICED CAPACITY COMPENSATION**
13 **MECHANISM?**

14 A. Yes. I prepared an estimate of AEP Ohio's earnings for 2012 and 2013 under the
15 scenario that AEP Ohio was only able to charge a rate for its capacity used by
16 CRES providers that was equal to the RPM price in the unconstrained region of
17 PJM. I have estimated the earnings to be \$344M in 2012 with a return on equity
18 of 7.6% and \$109M with a return on equity of 2.4% in 2013. This estimate is
19 provided in Exhibit WAA-1 and clearly demonstrates that there would be
20 significant financial harm to AEP Ohio if the Company were required to provide
21 RPM-priced capacity to CRES providers to serve all shopping load.

22 **Q. CAN YOU DESCRIBE HOW YOU DEVELOPED THIS ESTIMATE OF**
23 **AEP OHIO'S EARNINGS?**

1 A. Yes. The starting point of the analysis, the Projected Earnings (Two Tiered
2 Capacity Pricing) included the following assumptions reflecting the
3 Commission's rejection of the Stipulation:

- 4 a. 23% of customer load switched in 2012 and 36% in 2013 with capacity
5 cost recovery based upon RPM pricing;
- 6 b. Distribution Investment Rider (DIR) revenues ceased in March 2012;
- 7 c. Market Transition Rider (MTR) quarterly net revenues of \$6M ceased in
8 March 2012;
- 9 d. December 2011 generation rates including the Environmental Investment
10 Carrying Cost Rider (EICCR) were implemented in March 2012;
- 11 e. carrying costs on the Phase-In Recovery Rider (PIRR) regulatory assets
12 were calculated at a weighted average cost of capital (WACC) rate
13 beginning in March 2012;
- 14 f. liability for the Ohio Growth Fund and Partnership with Ohio was
15 reversed in 2012; and
- 16 g. the income tax effect of the above was calculated at 35%.

17 The impact of the rejected Stipulation also included elements related to increased
18 customer switching with capacity cost recovery based upon RPM pricing. This
19 element of the analysis showed a net unfavorable impact on earnings of \$126M in
20 2012 and \$222M in 2013. This portion of the analysis included the following
21 assumptions:

- 22 a. customer switching increased to 65% of load for residential customers,
23 80% of load for commercial customers and 90% of load for industrial

1 customers (excluding a single large customer) by the end of 2012 and
2 remained at those levels throughout 2013;

3 b. lost base generation revenues associated with switched load were partially
4 offset by off-system sales margins and capacity sales to CRES providers;
5 and

6 c. the income tax effect of the above was calculated at 35%.

7 **Q. DID YOU PREPARE A FORECAST OF AEP OHIO'S 2012 EARNINGS**
8 **BASED UPON THE STIPULATION AND RECOMMENDATION FILED**
9 **ON SEPTEMBER 7, 2011 IN CASE NOS 11-346-EL-SSO ET. AL.?**

10 A. Yes, I did. That forecast showed that the earnings for AEP Ohio in 2012 would
11 be \$353.8M with a return on equity of 7.7% when off-system sales margins are
12 excluded and \$499.6M with a return on equity of 10.9% when off-system sales
13 margins are included.

14 **CURRENT CUSTOMER SHOPPING**

15 **Q. CAN YOU DESCRIBE THE CURRENT LEVEL OF SHOPPING IN AEP**
16 **OHIO'S SERVICE TERRITORY?**

17 A. Yes. As of March 1, 2012, 26.1% of the AEP Ohio's connected load had
18 switched to an alternative supplier with another 2.2% with a pending switch. An
19 additional 8.4% of the load served by AEP Ohio had provided notice to the
20 company of their intent to switch to an alternate supplier. That means customers
21 representing 36.7% of the Company's load have switched or indicated their intent
22 to switch. See Exhibit WAA-2 for the breakdown of this information by
23 residential, commercial and industrial classes.

1 **Q. HAS CUSTOMER SWITCHING OCCURRED BASED UPON CAPACITY**
2 **COST RATES TO CRES PROVIDERS THAT EXCEEDED THE RPM**
3 **RATES?**

4 A. Yes. The initial increase in shopping, under the ESP Settlement structure, in AEP
5 Ohio was not limited to the RPM-priced capacity. Of the switched load, 3.2
6 million MWh, representing 6.8% of the total AEP Ohio load, switched at
7 \$255/MW-day.

8 **Q. ARE YOU AWARE OF ANY OTHER FACTORS THAT COULD**
9 **PROVIDE ADDITIONAL OPPORTUNITIES FOR CUSTOMER**
10 **SHOPPING?**

11 A. Yes. Over the last seven months, energy prices in the PJM market for the balance
12 of 2012 have decreased by approximately \$10MWh or 25%. This significant
13 reduction in energy prices should translate into additional shopping opportunities
14 for customers and increased headroom for CRES providers.

15 **Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?**

16 A. Yes, it does.

Exhibit WAA-1

Estimate of AEP Ohio's Earnings

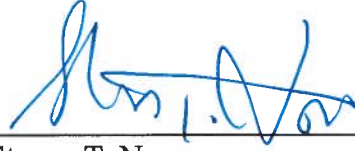
	Ohio Power Company					
	2012			2013		
	<u>\$ millions</u>	<u>\$ millions</u>	<u>ROE</u>	<u>\$ millions</u>	<u>\$ millions</u>	<u>ROE</u>
Projected Earnings (Two Tiered Capacity Pricing)*		471	10.4%		331	7.3%
Estimate of February 23, 2012 Ruling:						
Additional Switching net of OSS Margins and Capacity Revenues	(194)			(341)		
Income Taxes	<u>68</u>			<u>119</u>		
Total adjustment (after-Tax)		<u>(126)</u>			<u>(222)</u>	
Projected Earnings (all capacity at RPM)		<u>344</u>	7.6%		<u>109</u>	2.4%

Switching Statistics as of March 1, 2012
(as a percentage of annual kWh Sales)

	Switched	Pending	Noticed	Total
Residential	8.43%	1.07%	0.05%	9.54%
Commercial	41.44%	2.26%	4.39%	48.09%
Industrial	28.10%	3.08%	18.52%	49.70%
Total	26.08%	2.20%	8.43%	36.71%

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a true and correct copy of the foregoing Columbus Southern Power Company's and Ohio Power Company's testimony of William A. Allen has been served upon the below-named counsel via electronic mail this 23rd day of March, 2012.



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Case No(s). 10-2929-EL-UNC

Summary: Testimony of William A. Allen electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company