

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio)	
Power Company for Authority to)	
Establish a Standard Service Offer)	Case No. 13-2385-EL-SSO
Pursuant to § 4928.143, Ohio Rev. Code,)	
in the Form of an Electric Security Plan.)	
)	
In the Matter of the Application of Ohio)	
Power Company for Approval of Certain)	Case No. 13-2386-EL-AAM
Accounting Authority.)	

**INITIAL BRIEF OF WAL-MART STORES EAST, LP
AND SAM'S EAST, INC.**

Wal-Mart Stores East, LP, and Sam's East, Inc. (collectively, "Walmart"), by its attorneys, respectfully submits its post-hearing brief in the above-referenced proceeding concerning the Application of Ohio Power Company (collectively, "AEP-Ohio," "OPC," or "Company") for approval of a Standard Service Offer ("SSO") and Electric Security Plan ("ESP"). Walmart actively participated in this proceeding and caused to be admitted into the evidentiary record the Direct Testimony and Exhibits of Steve W. Chriss, Walmart's Senior Manager, Energy Regulatory Analysis, as Walmart Exhibit 1.¹

Through the testimony of Mr. Chriss, Walmart has addressed discrete issues regarding the multiple rate riders employed (and sought) by AEP-Ohio and the Company's proposed Return on Equity ("ROE"). Consistent with that testimony, Walmart respectfully requests that:

1. The Commission require in this proceeding that AEP-Ohio file a base rate case such that any resulting base rate changes would be effective on or before May 31, 2018; and,
2. The Commission approve an ROE of no higher than 9.57 percent to calculate the Company's relevant revenue requirement in this case.

¹ Transcript Volume VI, p. 1386.

I. ARGUMENT

A. The Commission Should Direct that the Company File a Full Base Rate Case for New Base Rates to be Effective on or before May 31, 2018.

AEP-Ohio's rates (current and as proposed) are inordinately complex. In fact, the Company's proposal in this case is comprised of no less than 23 rate riders.² Thus, to the extent that a commercial "shopping" customer wishes to engage in a bill analysis, an examination of as many as 18 riders (some adjusted quarterly) is required, in addition to an evaluation of applicable base rates.³ For a Standard Service Office commercial customer, at least 22 riders would require examination for the customer to determine complete billing impact.⁴ It is, simply put, untenable for customers to be able to evaluate their rates given the array of multiple riders that apply under the Company's rate and rider framework.

Accordingly, the Commission should utilize this case to evaluate ways to simplify AEP-Ohio's rate structure.⁵ In pertinent part, the Commission should require the Company to file a base rate case wherein multiple cost elements that are reflected in the numerous current (and proposed) riders are rolled into base rates.⁶ Even the Company acknowledges that a base rate case "has its place" and that "at some point in time" rider investments should go back into base rates.⁷ Walmart believes the Commission should insure that such a "point in time" is clearly defined for the Company in this case. Otherwise, customers will be plagued indefinitely with a multi-part rate structure that is virtually impossible for the individual customer to fairly analyze in evaluating current and proposed bill impacts.

² See Walmart Exhibit 1 (Direct Testimony of Steve W. Chriss, pp. 4-6).

³ Id. at 6.

⁴ Id.

⁵ Id.

⁶ See id.

⁷ See Transcript Volume II, p. 424, line 17; p. 425, lines 3-5 (Testimony of AEP-Ohio witness Selwyn J. Dias).

B. The Commission Should Approve an ROE of No Higher than 9.57 Percent in Calculating Relevant Revenues in this Case.

In this proceeding, AEP-Ohio proposes to continue and expand its array of riders, including expansion of its Distribution Investment Rider ("DIR"),⁸ including increases to the DIR rate cap over the term of the ESP. The amount of revenues the Company will collect through the DIR (and other riders) is dependent upon the ROE factored into the calculation of its weighted average cost of capital. The Company proposes to use an ROE of 10.65 percent.⁹ The Commission should reject the Company's proposed ROE proposal as it is unreasonable for at least two key reasons.

First, the Company's proposed ROE of 10.65 percent fails to reflect a reduction in regulatory lag.¹⁰ In fact, by 2018, the DIR alone, as proposed, could account for approximately 27 percent of AEP-Ohio's revenues that otherwise would be recovered through base rates.¹¹ As explained by Walmart witness Chriss, the DIR, as expanded, would reduce AEP-Ohio's regulatory lag, and provide for DIR rate increases and quarterly adjustments, further reducing regulatory lag over the term of the ESP.¹²

Yet, the Company's chief ROE witness gave no direct consideration or adjustment to reflect regulatory lag in recommending an ROE for the Company.¹³ This is so even though the Company has acknowledged that, through the use of riders and expansion of the DIR, cost recovery is more timely and the risk of under-recovering costs is reduced.¹⁴ The Company's

⁸ Company Exhibit 4, Direct Testimony of Selwyn J. Dias, p. 16; Company Exhibit 13, Direct Testimony of Andrea E. Moore, p. 6.

⁹ Company Exhibit 17, Direct Testimony of Renee V. Hawkins, Exh. RVH-1.

¹⁰ Walmart Exhibit 1, p. 7.

¹¹ Id. at 7, citing Company Exhibit AEM-2.

¹² Id.

¹³ Transcript Volume V, p. 1299, line 2, line 17 (Testimony of AEP-Ohio witness William E. Avera).

¹⁴ See Transcript Volume II, p. 313, lines 9-13; p. 314, lines 12-17 (Testimony of AEP-Ohio witness Selwyn J. Dias).

proposed ROE of 10.65 percent is therefore excessive and unreasonable and should be rejected in that it ignores the reduction in regulatory lag.¹⁵

Second, the Company's proposed ROE is unreasonable on its face in comparison to ROEs approved by other utility commissions, particularly in comparison to "delivery-only" utilities.¹⁶ In fact, as established by Walmart witness Chriss, the median authorized ROE reported for 96 electric utilities since 2012 has been 9.95 percent.¹⁷ For distribution-only utilities, the average for that same time-frame has been 9.57 percent.¹⁸ Furthermore, these average authorized ROEs have been declining since 2012.¹⁹ Clearly, the Company's proposed 10.65 percent ROE (which includes a so-called flotation cost adjustment) is out of step with the norm and is inflated in that it is 108 basis points higher than the distribution-only utility average of 9.57 percent.²⁰ To adopt such an inflated ROE would harm AEP-Ohio customers.

The Office of Consumer Counsel ("OCC"), on the other hand, has proposed an ROE of 9.0 percent for the Company.²¹ Walmart believes the OCC recommendation fairly reflects the Company's reduced regulatory lag. Further, Walmart believes that the OCC recommendation is more in line with distribution-only utility ROEs approved in 2014 (within 50 basis points).²²

In short, the Commission should consider the reduction in regulatory lag and lower cost recovery risk that occurs due to the Company's use of multiple riders and the DIR, the returns authorized for other utilities as it relates to the investor market, and the ultimate impact of ROE on ratepayers. Walmart supports the Commission's adoption of OCC's recommendation of 9.0

¹⁵ Walmart Exhibit 1, p. 8.

¹⁶ Id.

¹⁷ Id. at 9; Exhibit SWC 2, p. 2.

¹⁸ Id.

¹⁹ Id. at 9-10.

²⁰ See id. at 9.

²¹ Transcript Volume VIII, p. 1863 (Revised Testimony of OCC witness J. Randall Woolridge).

²² See Walmart Exhibit 1, Exhibit SWC-2, p. 2.

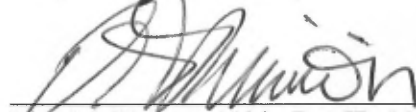
percent. At a minimum, however, the Commission should limit the Company's authorized ROE in this case to no more than 9.57 percent.

II. CONCLUSION

WHEREFORE, Walmart respectfully requests that:

1. The Commission require that AEP-Ohio file a base rate case such that any resulting base rate changes would be effective on or before May 31, 2018; and,
2. The Commission approve an ROE of no higher than 9.57 percent to calculate the Company's relevant revenue requirement in this case.

Respectfully submitted,



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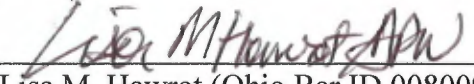
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Dated: July 23, 2014

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing *Initial Brief*, submitted on behalf of Wal-Mart Stores East, LP, and Sam's East, Inc., was served by electronic mail, upon the following Parties of Record on this 23rd day of July, 2014.



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Summary: Brief Initial Brief of Wal-Mart Stores East, LP, and Sam's East, Inc. electronically filed by Derrick P Williamson on behalf of Wal-Mart Stores East, LP and Sam's East, Inc.