

FILE

PUCO EXHIBIT FILING

59

Date of Hearing: 11/5/14

Case No. 14-895-EL-UNC

PUCO Case Caption: OHIO POWER COMPANY

List of exhibits being filed:

JOINT EX-1

STAFF EX 1 and 1A

COMPANY EX 1 and 2

PUCO

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BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

- - -

In the Matter of the :  
Application of Ohio Power : Case No.  
Company for Administration : 14-875-EL-UNC  
of the Significantly Excessive :  
Earning Test for 2013. :

- - -

PROCEEDINGS

Before Greta See, Attorney Examiner, held at the  
offices of the Public Utilities Commission of  
Ohio, 180 East Broad Street, Hearing Room 11-D,  
Columbus, Ohio, on Wednesday, November 5, 2014,  
at 10:00 A.M.

- - -

Armstrong & Okey, Inc.  
222 East Town Street, 2nd Floor  
Columbus, Ohio 43215  
(614) 224-9481 - (800) 223-9481  
Fax - (614) 224-5724

- - -

Joint Ex. 1

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio :  
Power Company for Administration of : Case No. 14-875-EL-UNC  
the Significantly Excessive Earnings Test :  
for 2013 under Section 4928.143(F), :  
Revised Code, and Rule 4901:1-35-10, :  
Ohio Administrative Code. :

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**STIPULATION AND RECOMMENDATION**

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**I. INTRODUCTION**

Rule 4901-1-30, Ohio Administrative Code (O.A.C.), provides that any two or more parties to a proceeding may enter into a written or oral stipulation concerning the issues presented in such a proceeding. This document sets forth the understanding and agreement of the parties who have signed below (Signatory Parties) and jointly recommend that the Public Utilities Commission of Ohio (Commission) approve and adopt this Stipulation and Recommendation (Stipulation) without modification, which resolves all of the issues raised in the above-captioned proceedings involving Ohio Power Company (OPCo) ( AEP Ohio or the Company).

This Stipulation is submitted for purposes of this proceeding only. Except for purposes of enforcement of the terms of this Stipulation, this Stipulation (including the information and data contained therein or attached) shall not be cited as precedent in any future proceeding for or against any Signatory Party. The circumstances of this case are unique; thus, using the terms of this Stipulation in any other case is inappropriate and

undermines the willingness of the parties to compromise. This Stipulation is a reasonable compromise involving a balancing of competing positions and it does not necessarily reflect the position that one or more of the Signatory Parties would have taken if these issues had been fully litigated. This Stipulation recognizes that each Signatory Party may disagree with individual provisions of this Stipulation, but also recognizes that the Stipulation has value as a whole.

## **II. SIGNATORY PARTIES**

The Signatory Parties are AEP Ohio and Staff.<sup>1</sup> The Signatory Parties agree that the Stipulation violates no regulatory principle or precedent, and that it is the product of serious arm's length bargaining among knowledgeable and capable parties in an open and cooperative process in which all Signatory Parties were represented by able counsel and technical experts. While this Stipulation is not binding on the Commission, it is entitled to careful consideration by the Commission where, as here, it represents a comprehensive compromise of issues raised by parties representing a wide range of interests. The Signatory Parties believe that the Stipulation that they are recommending for Commission adoption presents a fair and reasonable result that, as a package, benefits ratepayers and is in the public interest. For purposes of resolving the issues raised by these proceedings,

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<sup>1</sup> Pursuant to Ohio Adm. Code 4901-1-10(C), the Staff of the Commission ("Staff") is considered a party for the purposes of entering into a stipulation under Ohio Adm. Code 4901-1-30.

the Signatory Parties, by and through their respective counsel, stipulate, agree and recommend as set forth below.

### **III. BACKGROUND AND PROCEDURAL RECITALS**

WHEREAS, AEP Ohio is an electric utility and an electric distribution utility as those terms are defined in R.C. 4928.01 and an electric utility operating company subsidiary of American Electric Power Company, Inc.;

WHEREAS, in 2008, the Ohio General Assembly passed Substitute Senate Bill 221, which included new R.C. 4928.14, establishing the option for an electric distribution utility to provide an Electric Security Plan (ESP) as the standard service offer required by R.C. 4928.141;

WHEREAS, the Commission approved an ESP for AEP Ohio in Case Nos. 08-917-EL-SSO and 08-918-EL-SSO (*ESP I Cases*) whose term continued from January 2009, through September 2012; and the Commission approved an ESP for AEP Ohio in Case Nos. 11-346-EL-SSO and 11-348-EL-SSO (*ESP II Cases*) whose term continued from September 2012 through June 2015.

WHEREAS, R.C. 4928.143(F) contains a significantly excessive earnings test (SEET) applicable to AEP Ohio's approved ESP adopted in the *ESP II Cases*;

WHEREAS, on May 15, 2014, AEP Ohio made a filing to initiate Case No. 14-875-EL-UNC as required by Ohio Adm. Code 4901:1-35-10 (*2013 SEET Case*), including prefiled direct testimony which supports findings and conclusions that OPCo did not have significantly excessive earnings during, and passed the SEET for, 2013;

WHEREAS, the Signatory Parties agree on how to resolve the issues presented in the *2013 SEET Case*, as reflected in their recommendations set forth below;

WHEREAS, the Signatory Parties believe that the agreements herein represent a fair and reasonable solution to all of the issues raised in the *2013 SEET Case*;

WHEREAS, the Stipulation represents the product of serious bargaining among capable, knowledgeable parties;

WHEREAS, the Stipulation as a package benefits consumers and the public interest; and

WHEREAS, the terms and conditions of this Stipulation satisfy the policies of the State of Ohio as set forth in R.C. 4928.02 and do not violate any important regulatory policies or principles.

NOW, THEREFORE, the Signatory Parties stipulate, agree and recommend that the Commission should issue its Opinion and Order in these proceedings accepting and adopting this Stipulation and relying upon its provisions as the basis for resolving all issues raised by these proceedings:

#### **IV. RECOMMENDATIONS**

The Signatory Parties recommend the Commission find as follows:

- A. Based upon the Company's testimony and OPCo's FERC Form 1 filing, OPCo's 2013 earned return on equity (ROE) was 11.28 % after adjustments for Off System Sales (OSS) and special accounting items (adjustments) are made in accordance with the methodology used by the Commission in Case Nos. 11-4571-EL-UNC

and 4572-EL-UNC (Opinion and Order) (Oct. 23, 2013) (the *2010 SEET Order*) and in Case Nos. 13-2249-EL-UNC and 13-2250-EL-UNC (Opinion and Order) (Mar. 26, 2014) (the *2011 SEET Order*);

- B. The Company's testimony supports a finding that the comparable risk group's mean earned ROE is 9.09 %. The Staff's testimony supports a finding of 9.04%. For purposes of the SEET analysis conducted in this proceeding in accordance with R.C. 4928.143(F), the Signatory Parties recommend that the Commission find that the comparable risk group's mean earned ROE for 2013 is between 9.04 and 9.09 %.
- C. The *2010 SEET Order* applied an adder to that baseline mean earned ROE using 1.64 standard deviations. In this case that adder would be 5.29% resulting in a SEET threshold of 14.38% using the Company's calculation. The adder would be 5.20% resulting in a SEET threshold of 14.24% using the Staff's calculation. The decision in the *ESP II Cases* also established a SEET threshold of 12 %. Regardless of which SEET threshold calculation is used, OPCo's 2013 adjusted earned ROE does not constitute significantly excessive earnings.
- D. OPCo did not have significantly excessive earnings for 2013 pursuant to R.C. 4928.143(F).

## **V. GENERAL CONDITIONS**

This Stipulation, if adopted by the Commission, will resolve all issues arising from the proceedings referenced above. The settlement agreement embodied in this Stipulation was reached only after negotiations between the Company and Staff, and it reflects a bargained compromise involving a balancing of competing interests. Because the Stipulation is an integrated settlement, it is expressly conditioned upon the Commission adopting the same in its entirety without material modification. Rejection of all or any part of the Stipulation and Recommendation by the Commission shall be deemed to be a material modification for purposes of this provision. Upon the Commission's issuance of a decision that does not adopt this Stipulation in its entirety without material modification, or the alternative proposal, if one is submitted, a Signatory Party may withdraw from the Stipulation by filing a notice with the Commission within thirty (30) days after the Commission's decision. Upon the filing of a notice of termination and withdrawal, the Stipulation shall immediately become null and void.

In such event, this proceeding shall go forward from the procedural point at which the Stipulation was filed, and the parties will be afforded the opportunity to present evidence through witnesses, to cross-examine all witnesses, to present rebuttal testimony, and to brief all issues which shall be decided based upon the record and briefs, as if this Stipulation had never been executed.



AGREED this 9<sup>th</sup> day of October, 2014.

Steven T. Nourse (per telephone authorization)

Steven T. Nourse  
American Electric Power Corporation  
1 Riverside Plaza  
Columbus, OH 43215  
614.716.1608 (telephone)  
614.761.2950 (fax)  
stnourse@aep.com

**On behalf of the Ohio Power Company**

Thomas W. McNamee

**Thomas W. McNamee**  
Assistant Attorney General  
Public Utilities Section  
180 East Broad Street, 6<sup>th</sup> Floor  
Columbus, OH 43215-3723  
614.466.4397 (telephone)  
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thomas.mcnamee@puc.state.oh.us

**On behalf of the Staff of the Public  
Utilities Commission of Ohio**

**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

**10/10/2014 9:44:11 AM**

**In**

**Case No(s). 14-0875-EL-UNC**

**Summary: Stipulation and Recommendation submitted by Assistant Attorney General Thomas W. McNamee. electronically filed by Kimberly L Keeton on behalf of Public Utilities Commission of Ohio**

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of Ohio :  
Power Company for Administration of the : Case No. 14-875-EL-UNC  
Significantly Excessive Earnings Test :  
Pursuant to R.C. 4928.143(F), and Ohio :  
Adm. Code 49901:1-35-10. :

**PREFILED TESTIMONY  
OF  
JOSEPH P. BUCKLEY  
UTILITIES DEPARTMENT  
CAPITAL RECOVERY & FINANCIAL ANALYSIS DIVISION  
PUBLIC UTILITIES COMMISSION OF OHIO**

Staff Exhibit   1  

**October 9, 2014**

1 1. Q. Please state your name and your business address.

2 A. My name is Joseph P. Buckley. My business address is 180 E. Broad  
3 Street, Columbus, Ohio 43215.  
4

5 2. Q. By who are you employed?

6 A. I am employed by the Public Utilities Commission of Ohio (PUCO).  
7

8 3. Q. Would you please state your background?

9 A. I received a Bachelor of Science Degree in Economics from the Ohio State  
10 University and a Master's Degree in Business Administration from the  
11 University of Dayton. In 2000, I earned the Certified in Financial Manage-  
12 ment (CFM) designation, awarded by the Institute of Management  
13 Accountants. Also I attended, The Annual Regulatory Studies Program  
14 sponsored by The National Association of Regulatory Utility Commission-  
15 ers (NARUC) and The Training for Utility Management Analyst also spon-  
16 sored by NARUC. I have been employed by the PUCO since 1987. Since  
17 that time I have progressed through various positions and was promoted to  
18 my current position of Utility Specialist 3, in 2000. In addition, I have  
19 worked on several joint Federal Communication Commission (FCC) and  
20 NARUC projects and audits and served on the Midwest ISO's Finance  
21 Committee as Vice-Chairman and Chairman. Also, in 2011, I was awarded  
22 the professional designation Certified Rate of Return Analyst (CRRA) by

1 the Society of Utility and Regulatory Financial Analysts. This designation  
2 is awarded based upon experience and successful completion of a written  
3 examination.

4  
5 4. Q. What is your involvement in this proceeding?

6 A. I am responsible for determining if Ohio Power (OP) exceeded the common  
7 equity threshold to be used in its Significantly Excessive Earnings Test  
8 (SEET). Based on Staff's review of the information provided in OP's  
9 applications Staff believes that OP fell below the SEET threshold provision  
10 in 2013

11  
12 OP's 2013 earned return on equity (ROE) was 8.95 percent and 11.28 per-  
13 cent after adjustments were made for Off System Sales (OSS) and special  
14 accounting items (adjustments). These amounts fall below the 14.24 per-  
15 cent Staff calculated SEET threshold.

16  
17 5. Q. What is the Staff's recommendation to the Commission in this proceeding?

18 A. The Staff recommends that the Commission find OP did not exceed the  
19 common equity threshold in 2013 and that no refunds are warranted.

20  
21 6. Q. Have OP removed in its calculation Off System Sales (OSS) and special  
22 accounting items?

1           A.    Yes, as detailed in the direct testimony of Company witness Thomas E.  
2               Mitchell, OP's return on equity information removed the effects of Off Sys-  
3               tem Sales (OSS) and special accounting issues. As outlined in the Opinion  
4               and Order in case 10-1261-EL-UNC (on pages 30 and 31), the Commission  
5               believes that the effects of OSS should be removed.

6

7    7.    Q.    Has the Staff reviewed OP's 2013 earnings calculation and concur with its  
8               results?

9           A.    Yes. The Staff has reviewed OP's calculations and supporting information  
10               and finds them to be in conformance with the SEET calculation methodol-  
11               ogy as approved previously by the Commission and is an accurate repre-  
12               sentation of their 2013 earnings.

13

14   8.    Q.    What methodology did Staff employee to determine significant excessive  
15               earnings?

16           A.    Staff used the companies that comprise the SPDR Select Sector Fund –Util-  
17               ity (XLU) as its comparable group. The Staff then totaled the net income  
18               earned by those companies and divided it by the total common equity of  
19               each of the companies as detailed in Staff Exhibit 1

20

21               This produced a ROE of approximately 9.04 percent in 2013. The Staff  
22               then applied an adder of in 5.20 percent, which is the standard deviation of

1 comparable companies multiplied by 1.64 (using a 95 percent confidence  
2 threshold). When the ROE is combined with the adder the result is 14.24  
3 percent. Staff determined any result under 14.24 percent would not be con-  
4 sidered significantly excessive.

5  
6 9. Q. Why did Staff use the components of XLU as its comparables group?

7 A. XLU is the most widely traded utility ETF (electronically traded fund) and  
8 the components are selected by an independent third party that is not  
9 involved in this proceeding. This independence removes any bias in select-  
10 ing the comparable group. That is one reason Staff would advocate having  
11 an independent party selecting the comparables.

12  
13 Also, Staff believes the use of XLU not only removes bias from the selec-  
14 tion of the comparable group, but that it fosters use of a simplistic process  
15 that produces consistent reasonable results. Having more parties under-  
16 stand the process will allow greater participation in the review.

17  
18 Finally the Commission used this approach in cases 11-4571-EL-UNC and  
19 11-4572-EL-UNC, to determine the comparable ROE.

20  
21 10. Q. Why did Staff adopt the standard deviation approach in establishing the  
22 adder to the ROE?

1           A.     In CSP and OP's previous SEET cases (11-4571-EL-UNC and 11-4572-  
2                 EL-UNC), the Commission used this approach<sup>1</sup> in establishing the adder  
3                 to the XLU comparable group ROE.  
4

5   11.   Q.     In Case No. 10-1261-EL-UNC (CSP's and OP's 2009 SEET case) the  
6                 Commission opinion and order stated that "50 percent is a reasonable guide  
7                 for establishing an adder." If the 50 percent adder was applied, would Staff  
8                 consider CSP and / or OP ROEs to be excessive in 2011 and /or 2012?

9           A.     No. In 2013 the threshold would be 13.56 percent which Staff would not  
10                 consider excessive.  
11

12   12.   Q.     Does this conclude your testimony?

13           A.     Yes, it does. However, I reserve the right to submit supplemental testi-  
14                 mony as described herein, as new information subsequently becomes avail-  
15                 able or in response to positions taken by other parties.

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<sup>1</sup>                 *In the Matter of the Application of Columbus Southern Power Company for Administration of the  
Significantly Excessive Earnings Test under Section 4928143(F), Revised Code, and Rule 4901:1-35-10,  
Ohio Administrative Code, Case Nos. 11-4571-EL-UNC, et al. (Opinion and Order at 27) (Oct. 23, 2013).*



### **PROOF OF SERVICE**

I hereby certify that a true copy of the foregoing Prefiled Testimony of **Joseph P. Buckley** submitted on behalf of the Staff of the Public Utilities Commission of Ohio, was served by regular U.S. mail, postage prepaid, hand-delivered, and/or delivered via electronic mail, upon the following parties of record, this 9<sup>th</sup> day of October, 2014.

---

**Thomas W. McNamee**  
Assistant Attorney General

**Parties of Record:**

Steven T. Nourse  
American Electric Power  
1 Riverside Plaza  
Columbus, OH 43215

Attachment 1

Company	Ticker	Common Equity 12/31/13	Common Equity 12/31/12	Average 12 and 13	Net Income	ROE
AES Corp.	AES	4,330.00	4,569.00	4,449.50	934.00	20.99%
AGL Resources	GAS	3,631.00	3,413.00	3,522.00	313.00	8.89%
Amer. Elec. Power	AEP	16,085.00	15,237.00	15,661.00	1,549.00	9.89%
Ameren Corp.	AEE	6,544.00	6,616.00	6,580.00	518.00	7.87%
Center Pont Energy Inc.	CNP	4,329.00	4,301.00	4,315.00	536.00	12.42%
Consol. Edison	ED	3,454.00	11,869.00	7,661.50	454.00	5.93%
CMS Energy Corp.	CMS	12,245.00	3,194.00	7,719.50	1,157.00	14.99%
Dominion Resources	D	11,642.00	10,568.00	11,105.00	1,806.00	16.26%
DTE Energy	DTE	7,921.00	7,373.00	7,647.00	661.00	8.64%
Duke Energy	DUK	41,330.00	40,863.00	41,096.50	2,813.00	6.84%
Edison Int'l	EIX	9,938.00	9,432.00	9,685.00	1,344.00	13.88%
Entergy Corp.	ETR	9,632.00	9,197.09	9,414.55	904.00	9.60%
Exelon Corp.	EXC	22,732.00	21,431.00	22,081.50	1,999.00	9.05%
FirstEnergy Corp.	FE	1,292.00	13,084.00	7,188.00	1,245.00	17.32%
Integrus Energy	TEG	3,261.00	3,025.80	3,143.40	350.00	11.13%
NextEra Energy	NEE	18,040.00	16,068.00	17,054.00	2,062.00	12.09%
NiSource Inc.	NI	5,887.00	5,554.30	5,720.65	491.00	8.58%
Northeast Utilities	NU	9,612.00	9,237.05	9,424.53	794.00	8.42%
NRG Energy	NRG	10,220.00	10,284.00	10,252.00	-395.00	-3.85%
Pepco Holdings	POM	4,315.00	4,446.00	4,380.50	280.00	6.39%
Pinnacle West Capital	PNW	14,342.00	4,102.00	9,222.00	828.00	8.98%
PG&E Corp.	PCG	4,194.00	13,074.00	8,634.00	406.00	4.70%
PPL Corp.	PPL	12,466.00	10,480.00	11,473.00	1,541.00	13.43%
Public Serv. Enterprise	PEG	11,608.00	10,780.00	11,194.00	1,243.00	11.10%
SCANA Corp.	SCG	4,664.00	4,154.00	4,409.00	471.00	10.68%
Sempra Energy	SRE	11,008.00	10,282.00	10,645.00	1,060.00	9.96%
Southern Co.	SO	19,008.00	18,297.00	18,652.50	2,439.00	13.08%
TECO Energy	TE	2,334.00	2,291.80	2,312.90	198.00	8.56%

Wisconsin Energy	WEC	4,233.00	4,135.10	4,184.05	579.00	13.84%
Xcel Energy Inc.	XEL	9,566.00	8,874.08	9,220.04	948.00	10.28%
ROE		299,863.00	296,232.22	298,047.61	29,528.00	
					9.91%	
Standard Deviation						4.38%
Adder						1.64
SEET Threshold						7.18%
						17.09%

**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

**10/9/2014 12:35:26 PM**

**in**

**Case No(s). 14-0875-EL-UNC**

**Summary: Testimony Prefiled Testimony of Joseph P. Buckley submitted by Assistant Attorney General Thomas McNamee on behalf of the Staff of the Public Utilities Commission of Ohio. electronically filed by Kimberly L Keeton on behalf of Public Utilities Commission of Ohio**

**2014-1492. Macon v. Toledo Mun. Court.**

In Mandamus. On respondents' motions to dismiss. Motions granted. Cause dismissed.

O'Connor, C.J., and Pfeifer, O'Donnell, Kennedy, French, and O'Neill, JJ., concur.

Lanzinger, J., not participating.

**MOTION AND PROCEDURAL RULINGS**

**2014-0328. In re Application of Duke Energy Ohio, Inc., for Increase in its Natural Gas Distrib. Rates.**

Public Utilities Commission Nos. 12-1685-GA-AIR, 12-1686-GA-ATA, 12-1687-GA-ALT, and 12-1688-GA-AAM. On court-ordered briefing on the appropriate amount of bond that appellants must post in order to continue the stay. It is ordered that appellants shall post bond in the amount of \$2,506,295 with the clerk of this court to continue the stay. If appellants fail to post the bond within ten days of the date of this entry, the stay will be lifted.

**2014-1602. State v. Miller.**

Warren App. No. CA2013-06-057, 2014-Ohio-5093. On motion for delayed appeal. Motion denied.

**2014-1612. In re R.E.**

Cuyahoga App. No. 100954, 2014-Ohio-3595. On motion to stay judgment. Motion denied.

**2014-1619. State v. Brooks.**

Summit App. No. 26831, 2014-Ohio-679. On motion for delayed appeal. Motion denied.

O'Neill, J., dissents.

**2014-1638. State v. Blackley.**

Cuyahoga App. No. 100574, 2014-Ohio-3140. On motion for delayed appeal. Motion denied.

Kennedy and O'Neill, JJ., dissent.

**2014-1656. State v. Scott.**

Cuyahoga App. Nos. 98809, 100085, and 100570, 2013-Ohio-1559. On motion for delayed appeal. Motion denied.



**MIKE DEWINE**

★ OHIO ATTORNEY GENERAL ★

Public Utilities Section  
Office 614.466.4395  
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180 East Broad Street, 6<sup>th</sup> Floor  
Columbus, OH 43215-3793  
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Staff Ex. 1A

October 10, 2014

The Honorable Greta Neely-See, Attorney Examiner  
Public Utilities Commission of Ohio  
180 East Broad Street, 12<sup>th</sup> Floor  
Columbus, OH 43215-3793

Re: Attachment to Prefiled Testimony of  
Joseph P. Buckley, Case No. 14-875-EL-  
UNC

Dear Examiner See:

When the testimony of Joseph P. Buckley was submitted for filing, the wrong attachment was inadvertently included. Enclosed is the attachment that should have been included.

Sincerely,

*/s/ Thomas W. McNamee*

**Thomas W. McNamee**  
Assistant Attorney General  
Public Utilities Section  
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TWM/klk

Enc.

Attachment 1

Company	Ticker	Common Equity 12/31/13	Common Equity 12/31/12	Average 12 and 13	Net Income	ROE
AES Corp.	AES	4,330.00	4,569.00	4,449.50	284.00	6.38%
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Amer. Elec. Power	AEP	16,085.00	15,237.00	15,661.00	1,573.00	10.04%
Ameren Corp.	AEE	6,544.00	6,616.00	6,580.00	518.00	7.87%
Center Point Energy Inc.	CNP	4,329.00	4,301.00	4,315.00	311.00	7.21%
Consol. Edison	ED	12,245.00	11,869.00	12,057.00	1,062.00	8.81%
CMS Energy Corp.	CMS	3,454.00	3,194.00	3,324.00	452.00	13.60%
Dominion Resources	D	11,642.00	10,568.00	11,105.00	1,789.00	16.11%
DTE Energy	DTE	7,921.00	7,373.00	7,647.00	661.00	8.64%
Duke Energy	DUK	41,330.00	40,863.00	41,096.50	3,071.00	7.47%
Edison Int'l	EIX	9,938.00	9,432.00	9,685.00	879.00	9.08%
Energy Corp.	ETR	9,632.00	9,197.09	9,414.55	957.00	10.17%
Exelon Corp.	EXC	22,732.00	21,431.00	22,081.50	2,149.00	9.73%
FirstEnergy Corp.	FE	12,692.00	13,084.00	12,888.00	786.00	6.10%
Integrus Energy	TEG	3,261.00	3,025.80	3,143.40	347.00	11.04%
NextEra Energy	NEE	18,040.00	16,068.00	17,054.00	1,720.00	10.09%
NISource Inc.	NI	5,887.00	5,554.30	5,720.65	491.00	8.58%
Northeast Utilities	NU	9,612.00	9,237.05	9,424.53	794.00	8.42%
NRG Energy	NRG	10,220.00	10,284.00	10,252.00	-76.00	-0.74%
Pepco Holdings	POM	4,315.00	4,446.00	4,380.50	110.00	2.51%
Pinnacle West Capital	PNW	4,340.00	4,102.00	4,221.00	406.00	9.62%
PG&E Corp.	PCG	14,342.00	13,074.00	13,708.00	814.00	5.94%
PPL Corp.	PPL	12,466.00	10,480.00	11,473.00	1,131.00	9.86%
Public Serv. Enterprise	PEG	11,608.00	10,780.00	11,194.00	1,243.00	11.10%
SCANA Corp.	SCG	4,664.00	4,154.00	4,409.00	471.00	10.68%
Sempra Energy	SRE	11,008.00	10,282.00	10,645.00	1,001.00	9.40%
Southern Co.	SO	19,008.00	18,297.00	18,652.50	2,499.00	13.40%
TECO Energy	TE	2,334.00	2,291.80	2,312.90	198.00	8.56%
Wisconsin Energy	WEC	4,233.00	4,135.10	4,184.05	577.00	13.79%
Xcel Energy Inc.	XEL	9,566.00	8,874.08	9,220.04	948.00	10.28%
		311,409.00	296,232.22	303,820.61	27,479.00	

ROE

Standard Deviation  
Adder  
SEET Threshold

9.04%

3.17%  
1.64  
5.20%  
14.24%



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**In**

**Case No(s). 14-0875-EL-UNC**

Summary: Testimony /CORRECTED Attachment to Prefiled Testimony of Joseph P. Buckley submitted by Assistant Attorney General Thomas McNamee on behalf of the Staff of the Public Utilities Commission of Ohio. electronically filed by Kimberly L Keeton on behalf of Public Utilities Commission of Ohio

EXHIBIT NO. *Company 1*

BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio	)	
Power Company for Administration of the	)	
Significantly Excessive Earnings Test for 2013	)	Case No. 14-875-EL-UNC
Under Section 4928.143(F), Revised Code,	)	
and Rule 4901:1-35-10, Ohio Administrative	)	
Code.	)	

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

Filed: May 15, 2014

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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, Columbus,  
4           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           Managing Director of Regulatory Case Management. AEPSC supplies engineering,  
8           regulatory, financing, accounting, and planning and advisory services to the electric  
9           operating companies of the American Electric Power System, one of which is Ohio  
10          Power Company ("OPCo" or "AEP Ohio").

11   **Q.    WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL AND**  
12       **PROFESSIONAL BACKGROUND?**

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

16                I was employed by AEPSC beginning in 1992 as a Coop Engineer in the Nuclear  
17          Fuels, Safety and Analysis department and upon completing my degree in 1996 was hired  
18          on a permanent basis in the Nuclear Fuel section of the same department. In January  
19          1997, the Nuclear Fuel section became a part of Indiana Michigan Power Company

1 (I&M) due to a corporate restructuring. In 1999, I transferred to the Business Planning  
2 section of the Nuclear Generation Group as a Financial Analyst. In 2000, I transferred  
3 back to AEPSC into the Regulatory Pricing and Analysis section as a Regulatory  
4 Consultant. In 2003, I transferred into the Corporate Financial Forecasting department as  
5 a Senior Financial Analyst. In 2007, I was promoted to the position of Director of  
6 Operating Company Forecasts. In that role, I was primarily responsible for the  
7 supervision of the financial forecasting and analysis of the AEP System's operating  
8 companies, including AEP Ohio. In 2010, I transferred to the Regulatory Services  
9 Department as Director of Regulatory Case Management. I was named to my current  
10 position in January 2013.

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

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

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

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

1    **PURPOSE OF TESTIMONY**

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

3    A.    I am AEP Ohio's overall policy witness supporting the position that AEP Ohio passes the  
4           statutory Significantly Excessive Earnings Test (SEET) for 2013. My testimony takes  
5           into account the Commission's Finding and Order in Case No. 09-786-EL-UNC (09-  
6           786), Opinion and Order in the 2009 SEET, Case No. 10-1261-EL-UNC (10-1261), and  
7           Opinion and Order in the 2010 SEET, Case Nos. 11-4571 and 11-4572-EL-UNC (11-  
8           4571). Additionally, I am sponsoring the AEP 2013 Form 10K annual report and the  
9           Federal Energy Regulatory Commission (FERC) Form 1 (Form 1) for OPCo<sup>1</sup>.

10   **Q.    ARE YOU SPONSORING ANY EXHIBITS AS A PART OF YOUR**  
11       **TESTIMONY?**

12   A.    Yes. I am sponsoring Exhibit WAA-1 which presents the 2013 return on common equity  
13           for the companies comprising the Utilities Select Sector SPDR. I am also sponsoring  
14           Exhibit WAA-2 which sets forth the actual capital investments for 2013 and the projected  
15           capital investments for the period June 2015 through May 2018 as presented in the  
16           Company's recently filed ESP proceeding in Case No. 13-2385-EL-SSO.

17   **OVERVIEW OF THE SEET**

18   **Q.    PLEASE BRIEFLY DESCRIBE THE SEET PROCESS.**

19   A.    Senate Bill 221 (SB 221) required electric distribution utilities (EDUs), beginning  
20           January 1, 2009, to provide consumers with a standard service offer (SSO) including a  
21           firm supply of electric generation service, consisting of either an Electric Security Plan

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<sup>1</sup>Both reports for 2013 can be found at the following sites:  
<http://www.aep.com/investors/FinancialFilingsAndReports/Filings/>  
<http://www.aep.com/investors/FinancialFilingsAndReports/FERCFilings/>

(ESP) or a market rate offer (MRO). Section 4928.143(F), Ohio Revised Code, requires EDUs operating under an ESP to demonstrate that their earned return on common equity (ROE) is not significantly in excess of the ROE earned during the same period by publicly traded companies that face comparable business and financial risk. I have been advised by Counsel, that the SEET filing requirements, as detailed in Rule 4901:1-35-03(C)(10)(a), O.A.C., state that the EDU with an established ESP shall provide testimony and analysis which shall include: 1) the EDU's ROE earned during the annual review period as compared to the ROE earned by comparable companies during the same period; 2) the FERC Form 1 in its entirety for the annual review period for the EDU; 3) the latest SEC Form 10K for the EDU; and 4) the capital budget requirements for future committed investments in Ohio for each annual period remaining in the ESP for the EDU.

**Q. PLEASE BRIEFLY DESCRIBE THE HISTORY OF THE SEET WITH RESPECT TO AEP OHIO.**

A. On March 18, 2009, the Commission issued an Opinion and Order in Case Nos. 08-917 and 08-918-EL-OSS modifying and approving the Companies' ESP for the years 2009 through 2011 (ESP I). In 2009, the Commission initiated Case No. 09-786 to provide SEET guidance to Ohio EDUs. Through the 09-786 case, the Commission provided guidance and interpretations regarding how it would apply the SEET. As a result, in September 2010, AEP Ohio filed their 2009 SEET application in 10-1261, and on January 11, 2011, the Commission issued its Opinion and Order. The Company filed its 2010 SEET application in 11-4571 on July 29, 2011, and on October 23, 2013 the Commission issued its Opinion and Order. On August 8, 2012, the Commission issued an Opinion and Order in Case Nos. 11-346 and 11-348-EL-SSO modifying and

1 approving AEP Ohio's proposed ESP for the period of September 2012 through May  
2 2015 (ESP II). In that case the Commission established a SEET threshold of 12% for the  
3 ESP II term.<sup>2</sup> I have been advised by Counsel that this aspect of the Commission's  
4 Opinion and Order is the subject of an Appeal before the Ohio Supreme Court in Case  
5 No. 2013-0521. Accordingly, the methodology I have employed is based on the  
6 approach established by the guidance presented in Case No. 09-786-EL-UNC and prior  
7 Commission orders. The Company's 2011 and 2012 SEET cases have been settled and  
8 approved by the Commission.

9 **ROE OF THE COMPARABLE RISK GROUP OF PUBLICLY TRADED COMPANIES**

10 **Q. WHAT IS THE LEVEL FOR 2013, ABOVE THE AVERAGE EARNED ROE OF**  
11 **THE COMPARABLE RISK GROUP OF COMPANIES, WHERE THE EARNED**  
12 **ROE MAY BECOME SIGNIFICANTLY EXCESSIVE, IF ONE USED THE**  
13 **THRESHOLD METHODOLOGY AS DESCRIBED BY THE COMMISSION**  
14 **OPINION AND ORDER IN CASE NO. 11-4571 AND RECOGNIZED IN THE**  
15 **SETTLEMENT OF THE 2011 AND 2012 SEET CASES FOR AEP OHIO?**

16 **A.** The mean earned ROE for 2013 of the "Utilities Select Sector SPDR (XLU)" comparable  
17 risk group that the Commission utilized in its order in 11-4571 and recognized in the  
18 settlement of the 2011 and 2012 SEET cases for AEP Ohio is 9.09%. The 11-4571 order  
19 applied an adder to that baseline mean earned ROE using 1.64 standard deviations. In  
20 this case that adder would be 5.29% resulting in a SEET threshold of 14.38%. These  
21 calculations are provided in Exhibit WAA-1.

22  

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<sup>2</sup> Opinion and Order in Case Nos. 11-346-EL-SSO et. al, dated August 8, 2012, at page 37.



1    **AEP OHIO'S EARNED ROE FOR 2013**

2    **Q.    WHAT IS AEP OHIO'S EARNED ROE FOR 2013 FOR THE SEET?**

3    A.    Company witness Mitchell has determined that AEP Ohio's earned ROE for 2013 is  
4        11.28%. For details on the AEP Ohio ROE calculations, please see Company witness  
5        Mitchell's direct testimony.

6    **Q.    HOW DOES AEP OHIO'S EARNED ROE FOR 2013 COMPARE TO THE**  
7        **COMPARABLE RISK GROUP'S THRESHOLD ROE?**

8    A.    AEP Ohio's earned ROE for 2013 of 11.28% is below the comparable risk group's SEET  
9        ROE threshold of 14.38% that results from calculating the threshold in a manner similar  
10       to how the Commission calculated it for 2010. It is also below the 12.00% level provided  
11       for in the Commission's Opinion and Order in the ESP II case.

12   **Q.    DID THE COMMISSION ESTABLISH OTHER THRESHOLD GUIDANCE IN**  
13       **THE 09-786 CASE REGARDING ROE CALCULATIONS FOR EDUs?**

14   A.    Yes. The Commission also concluded that for SEET purposes, any Ohio electric utility's  
15       earnings found to be less than 200 basis points above the mean ROE of the comparable  
16       risk group of companies would not be significantly excessive.<sup>3</sup> This 200 basis point  
17       threshold is what is referred to as a "safe harbor."

18   **Q.    DOES THE 200 BASIS POINT "SAFE HARBOR" APPLY TO AEP OHIO FOR**  
19       **2013?**

20   A.    No. AEP Ohio's earned ROE is slightly higher than 11.09%, which is 200 basis points  
21       above the 9.09% mean earned ROE of the Utilities Select Sector SPDR (XLU) group.  
22       Thus, AEP Ohio's 2013 earned ROE of 11.28% is not within the "safe harbor"  
23       established by the Commission.

---

<sup>3</sup> 09-786, Order at 29 (June 30, 2010) and 11-4571, Order at 27-28 (October 23, 2013)

1    **ADJUSTMENTS TO THE SEET**

2    **Q.    HOW ARE OFF-SYSTEM SALES NET MARGINS TREATED IN THE 2013**  
3       **SEET?**

4    A.   Consistent with the Commission's orders, AEP Ohio excluded off-system sales (OSS) net  
5       margins, after federal and state income tax, from the calculation of the 2013 ROE. This  
6       adjustment aligns to the Commission's interpretation and guidance under Section  
7       4928.143(F), Revised Code, that OSS net margins and the related equity should be  
8       excluded from the SEET calculation<sup>4</sup> since OSS net margins are not a result of rate  
9       adjustments included in AEP Ohio's ESP.

10   **Q.   DID THE COMPANY HAVE OTHER ADJUSTMENTS TO THE 2013 SEET?**

11   A.   Yes. As detailed by Company witness Mitchell, adjustments were made to the  
12       Company's 2013 earned ROE calculations for special accounting items, related to the  
13       impairment of certain OPCo generating assets and certain restructuring charges. Please  
14       see witness Mitchell's testimony for additional details on these adjustments.

15   **Q.   WHY ARE THESE OTHER ADJUSTMENTS REMOVED FROM THE EARNED**  
16       **ROE FOR THE 2013 SEET?**

17   A.   In accordance with Commission guidance, these adjustments to AEP Ohio's 2013 SEET  
18       ROE are considered special accounting items and thus, removing them from the earned  
19       ROE maintains comparability with the earned ROEs of the comparable risk group of  
20       companies.

21

---

<sup>4</sup>11-4571, Order at 14-15 (October 23, 2013)

1 **CAPITAL INVESTMENTS AND OTHER CONSIDERATIONS**

2 **Q. WHAT ARE SOME ADDITIONAL FACTORS, BESIDES THE EARNED ROE**  
3 **CALCULATIONS DISCUSSED ABOVE, THAT THE COMMISSION**  
4 **INDICATED IN ITS 09-786 ORDER THAT IT WOULD CONSIDER IN**  
5 **EVALUATING WHAT IS SIGNIFICANTLY EXCESSIVE?**

6 **A.** In the Commission's June 30, 2010, Finding and Order at page 29, the Commission  
7 provided the following guidance:

8 The Commission notes that within Ohio's electric utilities, there is  
9 significant variation, including, for example, whether the electric  
10 utility provides transmission, generation, and distribution service or  
11 only distribution service. For this reason, the Commission will give  
12 due consideration to certain factors, including, but not limited to, the  
13 electric utility's most recently authorized return on equity, the electric  
14 utility's risk, including the following: whether the electric utility owns  
15 generation; whether the ESP includes a fuel and purchased power  
16 adjustment or other similar adjustments; the rate design and the  
17 extent to which the electric utility remains subject to weather and  
18 economic risk; capital commitments and future capital requirements;  
19 indicators of management performance and benchmarks to other  
20 utilities; and innovation and industry leadership with respect to  
21 meeting industry challenges to maintain and improve the  
22 competitiveness of Ohio's economy, including research and  
23 development expenditures/investments in advanced technology, and  
24 innovative practices; and the extent to which the electric utility has  
25 advanced state policy. We therefore, direct the electric utilities to  
26 include this information in their SEET filings.  
27

28 **Q. WHAT IS THE CURRENTLY APPROVED ROE FOR AEP OHIO?**

29 **A.** The Company's most recently approved ROE is 10.2%.

30 **Q. DID AEP OHIO OWN GENERATION IN 2013?**

31 **A.** Yes. AEP Ohio owned generating capacity exceeding 11,500 MW during 2013. During  
32 2013 the Company faced uncertainty and risk associated with the operation of these units.

1 In addition, during 2013, the Company faced significant uncertainty and risk associated  
2 with the corporate separation of those units out of AEP Ohio. Corporate separation was  
3 completed at the close of 2013.

4 **Q. DID THE ESP INCLUDE A FUEL AND PURCHASED POWER ADJUSTMENT?**

5 A. Yes. In 2013 the ESP included a fuel adjustment clause mechanism.

6 **Q. DOES THE COMPANY'S RATE DESIGN SUBJECT THE COMPANY TO**  
7 **WEATHER AND ECONOMIC RISK?**

8 A. Yes. The Company has a Pilot Throughput Balancing Adjustment Rider (PTBAR)  
9 mechanism for residential and small commercial customers. This mechanism helps to  
10 limit the weather impact on revenues but does not insulate the company from the effects  
11 of weather. Larger commercial and industrial customers are not included in the PTBAR  
12 mechanism and any weather effect on these customers impacts the earnings of AEP Ohio.  
13 In addition, the Company faces economic risk in the form of changes in customer usage  
14 resulting from the overall economic condition of the state or pressures to specific  
15 industries. Throughout 2013 the Company continued to face substantial financial risks  
16 resulting from customer switching and the associated loss of revenues.

17 **Q. HOW DOES AEP MAINTAIN ENERGY INDUSTRY LEADERSHIP?**

18 A. Throughout its century-plus history, AEP has led the industry through enhancements and  
19 technological advances to the generation, transmission, and distribution components of  
20 the electric industry. Some examples of these advancements are the first supercritical and  
21 ultra-supercritical coal-fired generating plants, development and construction of 765-kV  
22 transmission lines, and deployment of sodium-sulfur (NAS) batteries. AEP has also  
23 created new and innovative ways to provide power for today while preparing for the

1 needs of tomorrow, such as developing and operating a product validation facility for  
2 carbon capture and storage and then partnering with the Department of Energy (DOE) on  
3 an engineering study to scale the technology commercially. Our commitment to  
4 environmental compliance is evidenced by our focus on finding reasonable, achievable,  
5 and affordable solutions that meet increasingly stringent state and federal energy  
6 regulations that properly address environmental issues in a realistic, cost effective  
7 manner.

8 In implementing the Commission's Alternative Energy Portfolio Standard rules,  
9 AEP Ohio led a demand side management (DSM) collaborative to develop energy  
10 efficiency and peak demand response programs (EE/PDR) and gridSMART® initiatives.  
11 As a result of implementing these programs, AEP Ohio customers have the potential to  
12 save through reduced electricity bills over the life of the programs and help reduce power  
13 plant emissions. As our Portfolio Status Report indicates, AEP Ohio's energy efficiency  
14 and peak demand response programs have been very successful, meeting or exceeding  
15 the benchmark requirements for both areas. Additionally, AEP Ohio has been  
16 undertaking infrastructure and technology enhancements for the gridSMART® Phase 1  
17 project. This project demonstrates AEP Ohio's leadership in the industry and includes  
18 the installation of smart meters, distribution automation equipment, demand dispatch and  
19 integrated volt-var control circuits to enhance the electricity infrastructure. Additionally,  
20 meeting certain project requirements, obligations, and data collection criteria allowed the  
21 gridSMART® project to obtain 50 percent funding through the Department of Energy and  
22 thus limit Ohio customer impact while enhancing their ability to save energy. AEP Ohio  
23 is building on this through its proposed gridSMART® Phase 2 project.

1           In response to SB 221, AEP Ohio has demonstrated its leadership in the industry  
2           by embracing and harnessing new generation resources such as wind, biomass and solar  
3           to comply with Ohio's renewable portfolio standard. For example, AEP Ohio facilitated  
4           development of an 80-acre solar project located in Wyandot County, as Ohio's first  
5           utility-scale solar power facility in which all the output is purchased through contract by  
6           AEP Ohio. Thus, AEP Ohio is promoting diversity of electricity supplies and suppliers  
7           while maximizing Ohio economic development value within the state.

8   **Q.   PLEASE EXPLAIN THE REGULATORY RISK IMPACTS ON CUSTOMERS.**

9   A.   Balancing customer expectations for better EDU performance while continuing to be a  
10       low cost utility within the state of Ohio is an ever increasing risk for AEP Ohio. As the  
11       result of a struggling economy the increased pressure on regulators to maintain existing  
12       utility electric rates can create regulatory lag issues for EDUs. One way regulators can  
13       alleviate pressure to control rates is to defer previously spent utility costs to the balance  
14       sheet. And, while deferrals delay the immediate collection of rates in the near term,  
15       deferrals can increase regulatory risk and eventually impact customers when the time  
16       comes to pay for those deferrals. This rate volatility impacts the timing of cash flow  
17       which can also potentially impact an EDU's credit ratings. Rate volatility, combined  
18       with our desire to fulfill increased customer expectations regarding reliability, increasing  
19       infrastructure mandates and investment requirements, put electric utilities and regulators  
20       under very different demands. In Ohio, a combination of outstanding deferred assets, SB  
21       221 requirements, environmental mandates, and ESP timing, has forced AEP Ohio into  
22       an elevated level of risk.

1   **Q.   PLEASE EXPLAIN CUSTOMER SERVICE RELIABILITY RISKS.**

2   A.   The information shown in the following table reflects both the System Average  
3       Interruption Frequency Index (SAIFI) and the Customer Average Interruption Duration  
4       Index (CAIDI) indices used to gauge service reliability for AEP Ohio. The 2013 SAIFI  
5       of 1.03 for frequency of interruption was significantly below the SAIFI standard for AEP  
6       Ohio of 1.20. The 2013 CAIDI of 141.0 for outage duration was significantly below the  
7       CAIDI standard for AEP Ohio of 150.0. While these reliability indices indicate steady to  
8       improving performance over recent years, AEP Ohio will need to make substantial and  
9       continuing investments in infrastructure to maintain or improve its reliability  
10      performance.

11                                   **AEP Ohio Reliability Indices**

12                                   **(Per O.A.C. Rule 1-10-10(B))**

<b>12 Months Ending</b>	<b>SAIFI</b>	<b>CAIDI</b>
Dec-10	1.09	138.2
Dec-11	1.23	145.6
Dec-12	0.98	145.0
Dec-13	1.03	141.0

13

14   **Q.   PLEASE EXPLAIN CUSTOMER MIGRATION RISKS.**

15   A.   The state of Ohio is unique compared to fully-regulated jurisdictions in that significant  
16       customer switching has occurred during recent years. Additionally, there is a potential  
17       that high customer switching levels will continue into the future due to increases in  
18       governmental aggregation. At December 31, 2013, 64% of AEP Ohio's load has

1 switched to Competitive Electric Retail Service (CRES) providers. This was an increase  
2 of 15% over the level of 49% experienced at the end of 2012. Additionally, migrating  
3 customers can return at any point to their jurisdictional EDU based on the decision of  
4 their CRES provider and/or the market price fluctuations. As defined by SB 221, these  
5 customer shopping risks are unique to the state of Ohio.

6 **Q. WHAT INFORMATION HAS AEP OHIO PROVIDED TO IDENTIFY THE**  
7 **CAPITAL REQUIREMENTS OF FUTURE INVESTMENTS?**

8 A. AEP Ohio's actual annual capital expenditures for 2011 through 2013, those budgeted for  
9 2014 and those projected for the ESP III term are contained in Exhibit WAA-2 attached  
10 to my testimony. Exhibit WAA-2 shows that AEP Ohio invested approximately \$640  
11 million during 2013. The Company plans to spend approximately \$400M in 2014 with  
12 an additional \$1.0 billion forecast in the ESP III period – a tremendous amount of capital  
13 to invest. These factors should be taken into consideration by the Commission when  
14 determining the 2013 SEET decision.

15 **Q. HAS AEP OHIO ADVANCED STATE POLICY?**

16 A. Yes. AEP Ohio and its employees are active members of the communities we serve. Not  
17 only is AEP Ohio investing capital assets and facilities within the state of Ohio, but  
18 during 2013, AEP Ohio also paid more than \$634 million in Ohio payroll taxes and  
19 approximately \$337 million in property, state, and local taxes. These amounts do not  
20 include expenditures for philanthropic contributions and purchases of Ohio goods and  
21 services. Additionally, as explained above, AEP Ohio is currently advancing SB 221 and  
22 other state policies in Ohio. AEP Ohio's gridSMART® project is advancing electric  
23 infrastructure development by testing and implementing advanced smart grid



1 technologies. Contributions to the emerging solar power industry through AEP Ohio's  
2 commitment to purchase and invest in Ohio renewable solar power on a commercial basis  
3 beginning in 2010 and beyond demonstrates AEP Ohio's advancement of Ohio  
4 renewable goals. Finally, AEP Ohio has made contributions to the Partnership with Ohio  
5 Fund during the 2013 to be used across the AEP Ohio territory for food banks, United  
6 Way programs, and other public-private partnerships in the state and local economic  
7 development arenas.

8 **Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?**

9 **A. Yes.**

## Utilities Select Sector SPDR Comparison

Company	Ticker	Common Equity <sup>1</sup>			Net Income <sup>2</sup>	Return on
		YE 2012	YE 2013	Average	YE 2013	Common Equity
AES Corp.	AES	\$4,569	\$4,330	\$4,450	\$284	6.38%
AGL Resources, Inc.	GAS	\$3,413	\$3,631	\$3,522	\$313	8.89%
American Electric Power Co., Inc.	AEP	\$15,237	\$16,085	\$15,661	\$1,573	10.04%
Ameren Corp.	AEE	\$6,616	\$6,544	\$6,580	\$518	7.87%
CenterPoint Energy Inc.	CNP	\$4,301	\$4,329	\$4,315	\$311	7.21%
Consolidated Edison, Inc.	ED	\$11,869	\$12,245	\$12,057	\$1,062	8.81%
CMS Energy Corp.	CMS	\$3,194	\$3,454	\$3,324	\$452	13.60%
Dominion Resources, Inc.	D	\$10,568	\$11,642	\$11,105	\$1,789	16.11%
DTE Energy Company	DTE	\$7,373	\$7,921	\$7,647	\$661	8.64%
Duke Energy Corp.	DUK	\$40,863	\$41,330	\$41,097	\$3,071	7.47%
Edison International	EX	\$9,432	\$9,938	\$9,685	\$879	9.08%
Entergy Corp.	ETR	\$9,197	\$9,632	\$9,415	\$957	10.16%
Exelon Corp.	EXC	\$21,431	\$22,732	\$22,082	\$2,149	9.73%
FirstEnergy Corp.	FE	\$13,084	\$12,692	\$12,888	\$786	6.10%
Integrus Energy Group, Inc.	IEG	\$3,026	\$3,261	\$3,144	\$347	11.04%
NextEra Energy, Inc.	NEE	\$16,068	\$18,040	\$17,054	\$1,720	10.09%
NSource Inc.	NI	\$5,554	\$5,887	\$5,720	\$491	8.58%
Northeast Utilities	NU	\$9,237	\$9,612	\$9,424	\$794	8.42%
NRG Energy, Inc.	NRG	\$10,284	\$10,220	\$10,252	(\$76)	(0.74%)
Pepco Holdings, Inc.	POM	\$4,414	\$4,315	\$4,365	\$110	2.52%
Pinnacle West Capital Corp.	PNW	\$4,102	\$4,340	\$4,221	\$406	9.62%
PG&E Corp.	PCG	\$13,074	\$14,342	\$13,708	\$814	5.94%
PPL Corp.	PPL	\$10,480	\$12,466	\$11,473	\$1,131	9.86%
Public Service Enterprise Group Inc.	PEG	\$10,780	\$11,608	\$11,194	\$1,243	11.10%
SCANA Corp.	SCG	\$4,154	\$4,664	\$4,409	\$471	10.68%
Sempra Energy	SRE	\$10,282	\$11,008	\$10,645	\$1,001	9.40%
Southern Co.	SO	\$18,297	\$19,008	\$18,653	\$2,499	13.40%
TECO Energy, Inc.	TE	\$2,292	\$2,334	\$2,313	\$198	8.55%
Wisconsin Energy Corp.	WEC	\$4,135	\$4,233	\$4,184	\$577	13.80%
Xcel Energy, Inc.	XEL	\$8,874	\$9,566	\$9,220	\$948	10.28%
Total						9.09%
<sup>1</sup> Total common equity excluding preferred equity and non-controlling interest.						
<sup>2</sup> Net income attributable to common shares.						
\$ in millions						
Standard Deviation						3.22%
Standard Deviation Multiplier						1.64
SEET Threshold						14.38%

**AEP Ohio Capital Expenditures**

Historical Actual Expenditures*			Forecasted ESP II Expenditures	Forecasted ESP III Expenditures			
2011	2012	2013	2014	Jun-Dec 2015	2016	2017	Jan-May 2018
\$455M	\$518M	\$640M	\$400M	\$210M	\$307M	\$346M	\$149M

\* Historical capital expenditures include the generation function that was separated from the transmission and distribution functions at the end of 2013.

EXHIBIT NO. Company 2

BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio	)	
Power Company for Administration of the	)	
Significantly Excessive Earnings Test for 2013	)	Case No. 14-874-EL-UNC
Under Section 4928.143(F), Revised Code, )		
and Rule 4901:1-35-10, Ohio Administrative	)	
Code.	)	

DIRECT TESTIMONY OF  
THOMAS E. MITCHELL  
ON BEHALF OF  
OHIO POWER COMPANY

Filed: May 15, 2014

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THOMAS E. MITCHELL

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BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO  
DIRECT TESTIMONY OF  
THOMAS E. MITCHELL  
ON BEHALF OF  
OHIO POWER COMPANY

1    **PERSONAL BACKGROUND**

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

3    A.    My name is Thomas E. Mitchell and my business address is 1 Riverside Plaza  
4           Columbus, Ohio 43215.

5    **Q.    ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6    A.    I am testifying on behalf of Ohio Power Company (OPCo or AEP Ohio or the  
7           Company).

8    **Q.    BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

9    A.    I am employed by American Electric Power Service Corporation (AEPSC), a  
10          subsidiary of American Electric Power Company, Inc. (AEP), as Managing Director  
11          of Regulatory Accounting Services. AEP is the parent company of OPCo.

12   **Q.    WHAT ARE YOUR RESPONSIBILITIES AS MANAGING DIRECTOR OF**  
13          **REGULATORY ACCOUNTING SERVICES?**

14   A.    My primary responsibilities include providing the AEP System operating  
15          subsidiaries, including OPCo, with accounting support for regulatory filings. This  
16          support includes the preparation of cost-of-service adjustments, accounting  
17          schedules, and accounting testimony. I direct a group of professionals who provide  
18          accounting expertise, compile necessary historical accounting schedules, present  
19          expert accounting testimony and respond to data requests in connection with rate

1 filings for eleven state regulatory commissions and the Federal Energy Regulatory  
2 Commission (FERC).

3 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**  
4 **PROFESSIONAL EXPERIENCE.**

5 A. I received a Bachelor of Science Degree in Accounting from Virginia Polytechnic  
6 Institute and State University (Virginia Tech) in 1977. I also hold a Master of  
7 Business Administration Degree from Virginia Tech and a Bachelor of Arts Degree  
8 in Government from the University of Notre Dame. I have been a Certified Public  
9 Accountant since 1978. I was first employed by Appalachian Power Company  
10 (APCo) in 1979, an affiliated operating company of OPCo and, except for  
11 employment with Norfolk Southern Corporation as an Assistant Accounting  
12 Manager (1984-1985), have held various positions in the AEPSC Accounting  
13 Department continuously since that date. In 1998, I was promoted to Director,  
14 Accounting Policy & Research and in 2008, I was promoted to my present position  
15 as Managing Director of Regulatory Accounting Services. I have served as  
16 Chairman of the Accounting Standards Committee of the Edison Electric Institute  
17 (EEI) and am currently Chairman of the Joint Accounting Liaison Committee of the  
18 EEI which meets annually with the FERC Accounting Staff to discuss accounting  
19 issues of mutual interest to EEI and the FERC.

20 **Q. HAVE YOU PREVIOUSLY TESTIFIED OR SUBMITTED TESTIMONY IN**  
21 **ANY REGULATORY PROCEEDINGS?**

22 A. Yes, I testified on behalf of AEP Ohio before the Public Utilities Commission of  
23 Ohio (PUCO or the Commission) to establish a Standard Service Offer (SSO) in  
24 Case No. 11-346-EL-SSO and Case No. 11-348-EL-SSO. In addition, I testified

1 before the PUCO on behalf of the Company regarding the 2010 Significantly  
2 Excessive Earnings Test (SEET) proceeding, Case No. 11-4571-EL-UNC and Case  
3 No. 11-4572-EL-UNC and 2009 SEET proceedings, Case No. 10-1261-EL-UNC  
4 and the 2012 storm cost recovery proceeding in Case No. 12-3255-EL-RDR. I also  
5 filed accounting testimony in the Company's distribution base rate case in Case  
6 Nos. 11-351-EL-AIR and 11-352-EL-AIR, rebuttal testimony in the Ohio Remand  
7 Case No. 08-917-EL-SSO and Case No. 08-918-EL-SSO, the 2011 and 2012 SEET  
8 Reviews in Case Nos. 13-2249-EL-UNC and 13-2251-EL-UNC and the Company's  
9 request to establish an SSO in Case Nos. 13-2385-EL-SSO and 13-2386-EL-AAM.  
10 I have filed accounting testimony and testified on behalf of APCo and Wheeling  
11 Power Company before the Public Service Commission of West Virginia, and on  
12 behalf of APCo before both the Virginia State Corporation Commission and the  
13 FERC. Finally, I have also filed accounting testimony on behalf of Indiana  
14 Michigan Power Company before the Indiana Utility Regulatory Commission and  
15 on behalf of Kentucky Power Company before the Kentucky Public Service  
16 Commission.

17 **PURPOSE OF TESTIMONY**

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

20 **A.** My testimony describes the method I used for calculating the Company's earned  
21 return on common equity (ROE) including adjustments to exclude Off-System Sales  
22 (OSS) net margins and special accounting items. No adjustments were made to  
23 remove extraordinary items, minority interest or non-recurring items for 2013  
24 because there were no such items recorded. However, I did remove certain special



1 items as detailed later in my testimony. I then calculated the earned ROE for OPCo  
2 for the year ended December 31, 2013 and provided my calculations to AEP Ohio  
3 witness Allen. As in the previous 2011 – 2012 SEET Reviews, I have not  
4 calculated those provisions of AEP Ohio's ESP that directly produce earnings which  
5 serve as a cap to ESP amounts that might be subject to being returned to customers  
6 in the event that OPCo had excessive earnings in 2013 because OPCo's ROE for  
7 2013 falls below the SEET threshold.

8 **EXHIBIT**

9 **Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS PROCEEDING?**

10 A. Yes, I am sponsoring Exhibit TEM-1: Earned ROE

11 **RETURN ON EQUITY**

12 **Q. PLEASE DESCRIBE THE METHOD YOU USED TO CALCULATE THE**  
13 **ROES FOR OPCO AS SHOWN IN EXHIBIT TEM-1.**

14 A. The calculation of the ROEs was performed in two steps. I first calculated the per  
15 books (unadjusted) 2013 ROE (refer to Exhibit TEM-1) for OPCo using the  
16 amounts for 2013 net earnings available to common shareholders compared to the  
17 average of the beginning and ending equity for the year ended December 31, 2013.  
18 The use of average equity was determined by the PUCO to be appropriate in the  
19 previous SEET Reviews and is consistent with the calculation of the average equity  
20 for the comparable risk group supported by Company witness Allen.

21 **Q. RECOGNIZING THAT OPCO TRANSFERRED ITS GENERATION**  
22 **ASSETS TO AFFILIATES DUE TO CORPORATE SEPARATION AS OF**  
23 **DECEMBER 31, 2013, DID YOU USE THE EQUITY BALANCE PRIOR TO**  
24 **CORPORATE SEPARATION IN ORDER TO MEASURE THE ROE**

1           **RELATED TO OPCO'S TOTAL 2013 EARNINGS PRIOR TO CORPORATE**  
2           **SEPARATION?**

3       A.     Yes, corporate separation occurred at the end of the day on December 31, 2013.  
4           Accordingly, it was appropriate to use the equity balance just prior to corporate  
5           separation of \$4.635 billion as shown on Exhibit TEM-1, page 1 using amounts  
6           from OPCo's 2013 SEC Form 10-K. The reconciliation of equity in OPCo's SEC  
7           Form 10-K on page 194 detailed the amounts for the distribution of equity to  
8           OPCo's parent for the transfer of generation assets and liabilities as well as a related  
9           state income tax rate adjustment. I excluded both of these corporate separation  
10          amounts from the calculation of ending equity as of December 31, 2013 in order to  
11          determine the equity balance prior to corporate separation.

12       **Q.     WHAT WAS THE SECOND STEP FOR YOUR DETERMINATION OF THE**  
13       **APPROPRIATE ROES?**

14       A.     In accordance with the PUCO order in previous SEET Reviews, I made adjustments  
15           (after federal and state income tax) to remove certain special accounting items from  
16           the net earnings available to common shareholders (or numerator) and common  
17           shareholder equity (or denominator), as well as adjustments related to the removal  
18           of OSS net margins. For 2013, there were no minority interest, non-recurring or  
19           extraordinary items

20

21

22

23

24       **Q.     WHAT ARE THE RESULTS OF THE TWO STEPS OF THE**

1           **CALCULATION OF THE ROES?**

2    A.    The results are summarized as follows:

<u>Step</u>	<u>OPCo</u>
Step 1: Per Books ROE	8.95%
Step 2: Adjusted SEET ROE	11.28%

3    Q.    **DID YOU PROVIDE THE RESULTS OF YOUR CALCULATIONS OF THE**  
4           **2013 ROE FOR OPCO TO AEP OHIO WITNESS ALLEN?**

5    A.    Yes.

6    Q.    **PLEASE DESCRIBE HOW YOU MADE ADJUSTMENTS TO THE**  
7           **NUMERATOR.**

8    A.    I took the net total amount of all the adjustments as shown on page 1 of Exhibit  
9           TEM-1 for the twelve months ended December 31, 2013 and removed their impact  
10          on earnings for purposes of the 2013 SEET review. The amounts derived for each  
11          of these adjustments are shown on page 2 of Exhibit TEM-1 and are discussed later  
12          in my testimony.

13   Q.    **HOW DID YOU MAKE ADJUSTMENTS TO THE DENOMINATOR?**

14   A.    For all adjustments except OSS net margins and the 2010 SEET refund, I used the  
15          same after tax amount calculated for the numerator to adjust the denominator.

16   Q.    **DID YOU ADJUST THE DENOMINATOR FOR OSS NET MARGINS**  
17          **CONSISTENT WITH THE METHOD APPROVED BY THE PUCO IN THE**  
18          **2010 SEET REVIEW?**

19   A.    Yes, I compared the Megawatt hours (MWh) sold for OSS to the MWh generated  
20          by those plants as shown on page 5 of Exhibit TEM-1. This MWh ratio was then  
21          multiplied by the amount of equity related to generation and transmission plant net

1 book value (NBV) as shown on page 4 of Exhibit TEM-1. The inclusion of an  
2 allocated portion of transmission plant is based on the Commission's order in  
3 OPCo's 2010 SEET proceeding.

4 **Q. WHAT WAS THE RESULT OF YOUR CALCULATION OF OPCO'S OSS**  
5 **NET MARGIN ADJUSTMENT TO EQUITY (DENOMINATOR) USING**  
6 **THE MWH METHOD DISCUSSED ABOVE?**

7 A. My adjustments to OPCo's equity are a reduction of \$603.607 million and \$137.855  
8 million, for generation and transmission respectively as shown on page 4 of Exhibit  
9 TEM-1.

10 **Q. PLEASE DESCRIBE THE ADJUSTMENTS (AFTER FEDERAL AND**  
11 **STATE INCOME TAX) MADE TO REMOVE SPECIAL ACCOUNTING**  
12 **ITEMS FROM THE NET EARNINGS AVAILABLE TO COMMON**  
13 **SHAREHOLDERS (OR NUMERATOR) AND COMMON SHAREHOLDER**  
14 **EQUITY (OR DENOMINATOR).**

15 A. The special accounting items relate to impairment of certain OPCo generating units  
16 and certain restructuring charges. The 2013 after-tax amounts for each specific item  
17 have been added back to net earnings available for common shareholders and  
18 common shareholder equity which is used in the calculation of average equity and  
19 are shown on page 2 of Exhibit TEM-1.

20 **Q. PLEASE DESCRIBE THE 2010 SEET ADJUSTMENT (AFTER FEDERAL**  
21 **AND STATE INCOME TAX) MADE TO REMOVE SPECIAL**  
22 **ACCOUNTING ITEMS FROM THE NET EARNINGS AVAILABLE TO**  
23 **COMMON SHAREHOLDERS (OR NUMERATOR) AND COMMON**  
24 **SHAREHOLDER EQUITY (OR DENOMINATOR).**

1     A.     The after-tax amount of the 2010 SEET refund ordered by the Commission in 2013  
2           in Case Nos. 11-4571-EL-UNC & 11-4572-EL-UNC has been added back to  
3           earnings. No adjustment was made to the 2013 equity balance as that would have  
4           the impact of removing the lower equity value already reflected in the 2013 equity  
5           balance due to the Commission order in 2013.

6     **Q.     DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

7     A.     Yes.

**Ohio Power Company**  
**Annual SEET Filing**  
**Earned ROE**  
**For the 12 Months Ended December 31, 2013**

Exhibit TEM - 1  
Page 1 of 5

**Step 1 Per Books ROE**

<u>Description</u>	<u>OPCo</u> (000's)
Earnings Attributable to Common Stock	\$ 409,980 (A)
12 Month Average Total Common Shareholder's Equity	\$ 4,580,660 (B)
Return on Equity (%)	8.95%

**Step 2 Per Books ROE Calculation - Excluding Off-System Sales Net Margins and Other Adjustments**

<u>Description</u>	<u>OPCo</u> (000's)
Earnings Attributable to Common Stock	\$ 409,980
Plus: OSS Net Margins and Other Adjustments After-Tax	\$ 28,875 (E)
Earnings Attributable to Common Stock (excluding OSS and Other Adjustments)	\$ 438,855
Adjusted 12 Month Average Total Common Shareholder's Equity	\$ 3,891,054 (E)
Return on Equity (%)	11.28%

(A) - From December 31, 2013 10K

**(B) Per Books Common Shareholder's Equity (SHE)**

<u>OPCo</u>	<u>Total Common SHE</u> (000's)
<u>Period Ended</u>	
12/31/2012	\$ 4,525,709 (C)
12/31/2013	\$ 4,635,610 (D)
Per Books Average Common SHE (Pre-Corp. Sep.)	<u>\$ 4,580,660</u>

(C) - From December 31, 2012 10K

(D) - Reconciliation of 12/31/2013 SHE 2013 10K page 194:

	(000's)				
	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Total SHE at December 31, 2012	\$ 321,201	\$ 1,744,099	\$ 2,626,134	\$ (165,725)	\$ 4,525,709
Common Stock Dividends			(375,000)		(375,000)
Net Income			409,980		409,980
Other Comprehensive Income				77,572	77,572
Distribution of Cook Coal Terminal to Parent			(22,303)	19,652	(2,651)
<b>Pre-Corp Separation Total SHE @ 12/31/13</b>	<b>\$ 321,201</b>	<b>\$ 1,744,099</b>	<b>\$ 2,638,811</b>	<b>\$ (68,501)</b>	<b>\$ 4,635,610</b>

(E) See Exhibit TEM-1 page 2

**Ohio Power Company**  
**Annual SEET Filing**  
**Adjustment Support**  
**For the Year-Ended December 31, 2013**

**Exhibit TEM - 1**  
**Page 2 of 5**

Line Number:	Adjustments:	OPCo-2013 (000's)
	Description	
1	OSS (See page 3)	\$ (79,274) (A)
2	MR Unit 5 Impairment	\$ 91,691 (B)
3	Adjustment to Ohio Plant Impairments	\$ 9,211 (B)
4	Restructuring Program	\$ 2,811 (B)
5	SEET Adjustments	\$ 4,436 (C)
6	Sub-total	\$ 28,875
7	Exclude OSS	\$ 79,274
8	Exclude SEET Adjustments	\$ (4,436)
9	Total w/o OSS and SEET Adjustments	\$ 103,713

10 (A) - See Exhibit TEM-1 page 3

	(000s)		
	<u>Pre-tax</u>	<u>Tax Rate</u>	<u>After-Tax</u>
11 <u>(B) - Special items added back in 2013</u>			
12 MR Unit 5 Impairment	143,401	36.06%	91,691
13 Adjustment to Ohio Plant Impairments	14,406	36.06%	9,211
14			
15 Restructuring Program	4,397	36.06%	2,811
16			103,713

17 (C) - 2010 SEET Refund ordered by PUCO in 2013 in Case Nos. 11-4571-EL-UNC & 11-4572-EL-UNC

	(000s)		
	<u>Pre-Tax</u>	<u>Tax Rate</u>	<u>After-Tax</u>
18			
19			
20	6,938	36.06%	4,436

21 Adjusted Common SHE

	OPCo Total Common SHE (000's)
22	
23	
24 <u>Period Ended</u>	
25 12/31/2013	4,635,610
26 Current year adjustments	
27 excluding OSS and SEET adjustments	103,713 (Line 9)
28 Adjusted 12/31/13 Common SHE	4,739,323
29 Unadjusted 12/31/12 Common SHE	4,525,709
30 Adjusted Avg. Common SHE w/o OSS	4,632,516
31 OSS Adjustment	741,462 (D)
32 Adjusted Average Common SHE	3,891,054

33 (D) - See Exhibit TEM-1 Page 4

**Ohio Power Company**  
**Annual SEET Filing**  
**Off-System Sales Net Margins**  
**For the 12 Months Ended December 31, 2013**  
**Off-System Sales Net Margins**

**Exhibit TEM - 1**  
**Page 3 of 5**

<u>Month</u>	<u>OPCo - Before Tax</u>	<u>OPCo - After Tax</u>	<u>OPCo - After Tax</u>
	<u>(000's)</u>	<u>(000's)</u>	<u>Cummulative</u>
			<u>(000's)</u>
January	\$ 10,774	\$ 6,889	\$ 6,889
February	7,243	4,631	11,520
March	9,832	6,286	17,806
April	7,339	4,692	22,498
May	7,118	4,551	27,049
June	12,397	7,926	34,975
July	21,459	13,721	48,696
August	13,413	8,576	57,272
September	4,594	2,937	60,209
October	8,642	5,526	65,735
November	6,321	4,041	69,776
December	14,855	9,498	79,274
<b>Total Off-System Sales Net Margins</b>	<b>\$ 123,986</b>	<b>\$ 79,274</b>	

Tax Rate 36.06%



Ohio Power Company  
Annual SEET Filing  
OSS Equity Adjustment  
For the 12 Months Ended December 31, 2012

Exhibit TEM - 1  
Page 4 of 5

**OSS Equity Adjustment**

	<u>Generation</u>		<u>Transmission</u>		<u>Total</u>
	OPCo 2013		OPCo 2013		OPCo 2013
	(000's)		(000's)		(000's)
1. Calculate PP&E Ratio					
Total Average Net Plant	\$ 5,311,409		\$ 1,212,890		
Total Net Plant	\$ 9,093,879		\$ 9,093,879		
Total Avg. / Total Plant	58.41% (A), (1)		13.34%		(A), (2) - See below
2. Calculate OSS in Equity					
Per Books Average Equity	\$ 4,580,660 <---(B)--->		\$ 4,580,660		
Amount of equity "supporting" Plant	\$ 2,675,564 <---(C) = (A) X (B)--->		\$ 611,060		
3. MWH Allocation					
Average OSS as % of Net Plant (See Page 5)	22.56% <---(D)--->		22.56%		
Amount of equity "supporting" Plant	\$ 2,675,564 <---(C)--->		\$ 611,060		
	\$ 603,607 <---(C) X (D)--->		\$ 137,855	\$	741,462

**Total Avg. Generation / Total Plant**

OPCo (Source Company General Ledger and Fixed Asset System)

2013	Gross	Accumulated Depreciation	Net
Intangible Plant	147,737	110,434	37,303
Production Plant	8,558,170	3,322,796	5,235,374 (E)
Transmission Plant	2,064,707	829,510	1,235,197 (F)
Distribution Plant	3,872,948	1,417,094	2,455,854
General Plant	243,521	106,303	137,218
Totals	14,887,083	5,786,137	9,100,946 (G)

OPCo (Source Company FERC Form 1 pgs. 204 - 207, 219)

2012	Gross	Accumulated Depreciation (J)	Net
Intangible Plant	138,964	108,425	30,539
Production Plant	9,635,707	4,248,264	5,387,443 (H)
Transmission Plant	2,007,735	817,153	1,190,582
Distribution Plant	3,718,113	1,391,679	2,326,434
General Plant	243,598	91,784	151,814
Totals	15,744,117	6,657,305	9,086,812 (I)

Average Gen 5,311,409 (E+H)/2  
Average Total 9,093,879 (G+I)/2  
Avg. Gen./Total 58.41% (1) - See above

Average Trans. 1,212,890 (F+H)/2  
Average Total 9,093,879 (G+I)/2  
Avg. Trans./Total 13.34% (2) - See above

(J) - Intangible plant accumulated depreciation is recorded in FERC account 111 and is from Company internal property records.

Annual SEET Filing  
 Company Proposed OSS Equity Adjustment  
 For the 12 Months Ended December 31, 2012

Exhibit TEM - 1  
 Page 5 of 5

Source: Monthly AEP Interchange Power Statements (IPS) Page 10s - MWhs

2013	OPCo		
	Total Gen	Total LSE	Gen to OSS
January	4,613,919	3,450,386	1,163,533
February	4,621,700	3,644,482	977,219
March	5,462,319	4,621,891	840,428
April	4,274,346	3,478,807	795,539
May	3,802,672	3,268,544	534,128
June	4,011,892	3,098,319	913,573
July	4,790,272	3,409,754	1,380,519
August	5,018,044	3,608,326	1,409,718
September	4,079,499	2,953,175	1,126,324
October	3,841,355	3,017,051	824,304
November	3,591,088	2,979,067	612,021
December	4,384,106	3,119,444	1,264,662
Total	52,491,212	40,649,246	11,841,967
Average OSS as % of Net Plant			22.56%

**This foregoing document was electronically filed with the Public Utilities**

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**Case No(s). 14-0875-EL-UNC**

Summary: Notice electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company