

EXHIBIT NO. _____

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 2014)	Case No. 15-1022-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: June 1, 2015

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WILLIAM A. ALLEN

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BEFORE
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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 Kentucky Public Service Commission, the West Virginia Public Service
21 Commission and the Virginia State Corporation Commission on behalf of various other
22 electric operating companies of the American Electric Power system.
23

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 2014 and that no refund is
5 necessary. My testimony takes into account the Commission's Finding and Order in
6 Case No. 09-786-EL-UNC (09-786); Opinion and Order in the 2009 SEET, Case No. 10-
7 1261-EL-UNC (10-1261); Opinion and Order in the 2010 SEET, Case Nos. 11-4571 and
8 11-4572-EL-UNC (11-4571); and Opinion and Order in the 2011 SEET, Case Nos. 13-
9 2249 and 13-2250-EL-UNC (13-2249). Additionally, I am sponsoring the AEP 2014
10 Form 10K annual report and the Federal Energy Regulatory Commission (FERC) Form 1
11 (Form 1) for OPCo¹.

12 **Q. ARE YOU SPONSORING ANY EXHIBITS AS A PART OF YOUR**
13 **TESTIMONY?**

14 A. Yes. I am sponsoring Exhibit WAA-1, which presents the 2014 return on common equity
15 for the companies comprising the Utilities Select Sector SPDR. I am also sponsoring
16 Exhibit WAA-2, which sets forth AEP Ohio's actual capital investments for 2014 and
17 projected capital investments for the period June 2015 through May 2018 as presented in
18 the Company's recently filed ESP proceeding in Case No. 13-2385-EL-SSO.
19

¹Both reports for 2014 can be found at the following sites:
<http://www.aep.com/investors/FinancialFilingsAndReports/Filings/>
<http://www.aep.com/investors/FinancialFilingsAndReports/FERCFilings/>

1 **OVERVIEW OF THE SEET**

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

3 A. Senate Bill 221 (SB 221) required electric distribution utilities (EDUs), beginning
4 January 1, 2009, to provide consumers with a standard service offer (SSO) including a
5 firm supply of electric generation service, consisting of either an Electric Security Plan
6 (ESP) or a market rate offer (MRO). Section 4928.143(F), Ohio Revised Code, requires
7 EDUs operating under an ESP to demonstrate that their earned return on common equity
8 (ROE) is not significantly in excess of the ROE earned during the same period by
9 publicly traded companies that face comparable business and financial risk. I have been
10 advised by Counsel that the SEET filing requirements, as detailed in Rule 4901:1-35-
11 03(C)(10)(a), O.A.C., state that the EDU with an established ESP shall provide testimony
12 and analysis which shall include: 1) the EDU's ROE earned during the annual review
13 period as compared to the ROE earned by comparable companies during the same period;
14 2) the FERC Form 1 in its entirety for the annual review period for the EDU; 3) the latest
15 SEC Form 10K for the EDU; and 4) the capital budget requirements for future committed
16 investments in Ohio for each annual period remaining in the ESP for the EDU.

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

19 A. On March 18, 2009, the Commission issued an Opinion and Order in Case Nos. 08-917
20 and 08-918-EL-SSO modifying and approving AEP Ohio's ESP for the years 2009
21 through 2011 (ESP I). In 2009, the Commission initiated Case No. 09-786 to provide
22 SEET guidance to Ohio EDUs. Through the 09-786 case, the Commission provided
23 guidance and interpretations regarding how it would apply the SEET. As a result, in

1 September 2010, AEP Ohio filed its 2009 SEET application in 10-1261, and on January
2 11, 2011, the Commission issued its Opinion and Order. The Company filed its 2010
3 SEET application in 11-4571 on July 29, 2011, and on October 23, 2013 the Commission
4 issued its Opinion and Order. On August 8, 2012, the Commission issued an Opinion
5 and Order in Case Nos. 11-346 and 11-348-EL-SSO modifying and approving AEP
6 Ohio's proposed ESP for the period of September 2012 through May 2015 (ESP II). In
7 that case, the Commission established a SEET threshold of 12% for the ESP II term.² I
8 have been advised by Counsel that this aspect of the Commission's Opinion and Order is
9 the subject of an appeal before the Ohio Supreme Court in Case No. 2013-0521.
10 Accordingly, the methodology I have employed is based on the approach established by
11 the guidance presented in Case No. 09-786-EL-UNC and prior Commission orders. The
12 Company's 2011, 2012 and 2013 SEET cases were settled and the Commission has
13 approved those settlements.

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

15 **Q. WHAT IS THE LEVEL FOR 2014, ABOVE THE AVERAGE EARNED ROE OF**
16 **THE COMPARABLE RISK GROUP OF COMPANIES, WHERE THE EARNED**
17 **ROE MAY BECOME SIGNIFICANTLY EXCESSIVE, IF ONE USED THE**
18 **THRESHOLD METHODOLOGY AS DESCRIBED BY THE COMMISSION'S**
19 **OPINION AND ORDER IN THE 2010 SEET (11-4571) AND RECOGNIZED IN**
20 **THE SETTLEMENT APPROVED BY THE COMMISSION IN THE 2011 SEET**
21 **CASE FOR AEP OHIO?**

22 **A.** The mean earned ROE for 2014 of the "Utilities Select Sector SPDR (XLU)" comparable
23 risk group that the Commission utilized in its order in the 2010 SEET (11-4571) and

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

1 recognized in the approved settlement of the 2011 SEET case for AEP Ohio is 10.05%.
2 In the 2010 SEET (11-4571) order the Commission applied an adder to the baseline mean
3 earned ROE using 1.64 standard deviations. In this case, that adder would be 5.99%,
4 resulting in a SEET threshold of 16.04%. These calculations are provided in Exhibit
5 WAA-1.

6 **AEP OHIO'S EARNED ROE FOR 2014**

7 **Q. WHAT IS AEP OHIO'S EARNED ROE FOR 2014 FOR THE SEET?**

8 A. Company witness Mitchell has determined that AEP Ohio's earned ROE for 2014 is
9 12.7170%. For details on the AEP Ohio ROE calculations, please see Company witness
10 Mitchell's direct testimony.

11 **Q. HOW DOES AEP OHIO'S EARNED ROE FOR 2014 COMPARE TO THE**
12 **COMPARABLE RISK GROUP'S THRESHOLD ROE?**

13 A. AEP Ohio's earned ROE for 2014 of 12.7170% is substantially below the comparable
14 risk group's SEET ROE threshold of 16.04% that results from calculating the threshold in
15 a manner similar to how the Commission calculated it for 2010.

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

18 A. Yes. The Commission also concluded that for SEET purposes, any Ohio electric utility's
19 earnings found to be less than 200 basis points above the mean ROE of the comparable
20 risk group of companies would not be significantly excessive.³ This 200 basis point
21 threshold is what is referred to as a "safe harbor."
22

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

1 **Q. DOES THE 200 BASIS POINT “SAFE HARBOR” APPLY TO AEP OHIO FOR**
2 **2014?**

3 A. No. AEP Ohio’s earned ROE is slightly higher than 12.05%, which is 200 basis points
4 above the 10.05% mean earned ROE of the Utilities Select Sector SPDR (XLU) group.
5 Thus, AEP Ohio’s 2014 earned ROE of 12.7170% is not within the “safe harbor”
6 established by the Commission. It would not be appropriate for the Commission to order
7 a SEET refund using an ROE threshold that is within the “safe harbor.”

8 **Q. ARE THERE ANY PENDING CASES THAT COULD IMPACT THE**
9 **COMPANY’S EARNINGS FOR PURPOSES OF THE 2014 SEET?**

10 A. Yes. As the Company noted in its Application for a Limited Waiver to extend the filing
11 date for its 2014 SEET, the resolution of Case Nos. 11-5906-EL-FAC, *et al.* (the pending
12 audit concerning the allegations of double recovery of certain demand costs) could have
13 the potential to impact the Company’s 2014 earnings for SEET purposes. The so-called
14 “double recovery” case could affect the adjusted 2014 earnings for SEET purposes if a
15 disallowance is imposed by the Commission. The Company is confident that no such
16 double recovery has occurred and remains optimistic that the Commission will confirm
17 that result. In addition, the pending appeal of the 12% SEET threshold before the Ohio
18 Supreme Court in Case No. 2013-0521 could also impact the results of this case. Any
19 resolution of the SEET for 2014 should incorporate the results of these cases as
20 recognized by the Commission in its April 22, 2015 Order in Case No. 15-386-EL-WVR.

21 “We are aware of the relationship between the 2014 SEET proceedings
22 and the pending cases cited by AEP Ohio, and we will take necessary
23 steps in the conduct of the 2014 SEET proceeding to ensure that the
24 decisions in those cases are appropriately considered by the Commission.”
25

26

1 **ADJUSTMENTS TO THE SEET**

2 **Q. DID THE COMPANY HAVE ADJUSTMENTS TO THE 2014 SEET?**

3 A. Yes. As detailed by Company witness Mitchell, an adjustment was made to the
4 Company's 2014 earned ROE calculations for a special accounting item related to
5 estimated 2014 earnings that would exceed a 12% ROE threshold. Please see witness
6 Mitchell's testimony for additional details on this adjustment. In accordance with
7 Commission guidance, this adjustment to AEP Ohio's 2014 SEET ROE is considered a
8 special accounting item and thus, removing it from the earned ROE maintains
9 comparability with the earned ROEs of the comparable risk group of companies.

10 **CAPITAL INVESTMENTS AND OTHER CONSIDERATIONS**

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

15 A. In the Commission's June 30, 2010, Finding and Order in Case No. 09-786-EL-UNC, at
16 page 29, the Commission provided the following guidance:

17 The Commission notes that within Ohio's electric utilities, there is
18 significant variation, including, for example, whether the electric
19 utility provides transmission, generation, and distribution service or
20 only distribution service. For this reason, the Commission will give
21 due consideration to certain factors, including, but not limited to, the
22 electric utility's most recently authorized return on equity, the electric
23 utility's risk, including the following: whether the electric utility owns
24 generation; whether the ESP includes a fuel and purchased power
25 adjustment or other similar adjustments; the rate design and the
26 extent to which the electric utility remains subject to weather and
27 economic risk; capital commitments and future capital requirements;
28 indicators of management performance and benchmarks to other
29 utilities; and innovation and industry leadership with respect to

meeting industry challenges to maintain and improve the competitiveness of Ohio's economy, including research and development expenditures/investments in advanced technology, and innovative practices; and the extent to which the electric utility has advanced state policy. We therefore, direct the electric utilities to include this information in their SEET filings.

Q. HAS AEP OHIO ADVANCED STATE POLICY?

A. Yes. AEP Ohio and its employees are active members of the communities we serve. Not only is AEP Ohio investing capital assets and facilities within the state of Ohio, but during 2014, AEP Ohio also paid approximately \$374 million in Ohio state and local taxes. This amount does not include expenditures for philanthropic contributions and purchases of Ohio goods and services. Additionally, as explained above, AEP Ohio is currently advancing SB 221 and other state policies in Ohio. AEP Ohio's gridSMART® project is advancing electric infrastructure development by testing and implementing advanced smart grid technologies. Contributions to the emerging solar power industry through AEP Ohio's commitment to purchase and invest in Ohio renewable solar power on a commercial basis beginning in 2010 and beyond demonstrates AEP Ohio's advancement of Ohio renewable goals. Finally, AEP Ohio has made contributions to the Partnership with Ohio Fund during the 2014 to be used across the AEP Ohio territory for food banks, United Way programs, and other public-private partnerships in the state and local economic development arenas.

Q. ARE THERE OTHER WAYS THAT THE COMPANY IS WORKING TO ADVANCE STATE POLICY?

A. Yes. The Company's Purchase Power Agreement (PPA) Rider filing (Case No. 14-1693-EL-RDR), is a proposal that provides long-term benefits for AEP Ohio's customers and Ohio's economy while also advancing important Ohio energy policies. AEP Ohio's PPA

1 proposal presents a significant financial hedge – representing 3,100 MW of Ohio
2 generating capacity which is over one-third of the Company’s connected load – that can
3 truly stabilize retail customer rates. The PPA proposal also yields substantial benefits to
4 Ohio’s economy – including both preservation of the tax and local economic benefits of
5 the generation plants remaining operational as well as the economic development benefit
6 of attracting new business to Ohio with stable electric rates. The Company projects in its
7 filing that the PPA proposal could yield a direct financial benefit to customers through
8 rate credits over the next ten years of \$574 million, with the potential of additional
9 revenues from PJM’s Capacity Performance that would boost the net benefit to \$770
10 million during the same time period. In addition, preserving operation of the Ohio-based
11 generation units included in the Company’s amended PPA proposal also has significant
12 reliability benefits for the PJM grid that would avoid \$1.6 billion in transmission
13 upgrades that would be needed if the units retire.

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

15 A. The Company’s most recently approved ROE is 10.2%, which was approved in Case No.
16 13-2385-EL-SSO.

17 **Q. DID AEP OHIO OWN GENERATION IN 2014?**

18 A. No. While AEP Ohio no longer directly owns any generation it does have a contractual
19 entitlement and obligation to a portion of the generation output of the Clifty and Kyger
20 Creek facilities totaling approximately 400 MW. During 2014 the Company faced
21 uncertainty and risk associated with the operation of these units.

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

23 A. Yes. In 2014 the ESP included a fuel adjustment clause mechanism.

1 **Q. DOES THE COMPANY’S RATE DESIGN SUBJECT THE COMPANY TO**
2 **WEATHER AND ECONOMIC RISK?**

3 A. Yes. The Company has a Pilot Throughput Balancing Adjustment Rider (PTBAR)
4 mechanism for residential and small commercial customers. This mechanism helps to
5 limit the weather impact on revenues but does not insulate the company from the effects
6 of weather. Larger commercial and industrial customers are not included in the PTBAR
7 mechanism and any weather effect on these customers impacts the earnings of AEP Ohio.
8 In addition, the Company faces economic risk in the form of changes in customer usage
9 resulting from the overall economic condition of the state or as a result of adverse
10 economic pressures to specific industries.

11 **Q. HOW DO AEP AND AEP OHIO MAINTAIN ENERGY INDUSTRY**
12 **LEADERSHIP?**

13 A. Throughout its century-plus history, AEP has led the industry through enhancements and
14 technological advances to the generation, transmission, and distribution components of
15 the electric industry. Some examples of these advancements are the first supercritical and
16 ultra-supercritical coal-fired generating plants, development and construction of 765-kV
17 transmission lines, and deployment of sodium-sulfur (NAS) batteries. AEP has also
18 created new and innovative ways to provide power for today while preparing for the
19 needs of tomorrow, such as developing and operating the world’s first carbon dioxide
20 capture and storage process at a coal fired power plant and then partnering with the
21 Department of Energy (DOE) on an engineering study to scale the technology
22 commercially. Our commitment to environmental compliance is evidenced by our focus
23 on finding reasonable, achievable, and affordable solutions that meet increasingly

1 stringent state and federal energy regulations that properly address environmental issues
2 in a realistic, cost effective manner.

3 In implementing the Commission's Alternative Energy Portfolio Standard rules,
4 AEP Ohio led a demand side management (DSM) collaborative to develop energy
5 efficiency and peak demand response programs (EE/PDR) and gridSMART® initiatives.
6 As a result of implementing these programs, AEP Ohio customers have saved through
7 reduced electricity bills, and customers will continue to save over the life of the programs
8 and help reduce power plant emissions. As our Portfolio Status Report indicates, AEP
9 Ohio's energy efficiency and peak demand response programs have been very successful,
10 meeting or exceeding the benchmark requirements for both areas. AEP Ohio has received
11 numerous awards and recognition for its work in energy efficiency. The Midwest Energy
12 Efficiency Alliance covers fourteen states in the Midwestern area of the country and has
13 recognized AEP Ohio for its e3smart school program educating students on energy
14 efficiency and for its industrial continuous energy improvement program as two
15 examples. The US Environmental Protection agency through its Energy Star program
16 has recognized AEP Ohio multiple times for its residential new homes program and for
17 its Efficient Products program. The Association of Energy Services Professionals, a
18 national organization that is focused on energy efficiency, recognized AEP Ohio's
19 Community Energy Savers program for marketing and communications excellence.

20 Additionally, AEP Ohio has deployed infrastructure and technology
21 enhancements as part of the gridSMART® Phase 1 project. This project demonstrated
22 AEP Ohio's leadership in the industry and includes the installation of smart meters,
23 distribution automation equipment, demand dispatch and integrated volt-var control

1 circuits to enhance the electricity infrastructure. AEP also developed a Cyber Security
2 Operations Center to provide highly customizable threat management and response on
3 top of AEP's existing security framework. Additionally, meeting certain project
4 requirements, obligations, and data collection criteria allowed the gridSMART® project
5 to obtain 50 percent funding through the Department of Energy and thus limit Ohio
6 customer impact while enhancing their ability to save energy. AEP Ohio is building on
7 this through its proposed gridSMART® Phase 2 project.

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

15 **Q. PLEASE EXPLAIN THE REGULATORY RISK IMPACTS ON THE COMPANY**
16 **AND ITS CUSTOMERS.**

17 A. Balancing customer expectations for better EDU performance while continuing to be a
18 low cost utility within the state of Ohio is an ever increasing risk for AEP Ohio. As the
19 result of a struggling economy, the increased pressure on regulators to maintain existing
20 utility electric rates can create regulatory lag issues for EDUs. One way regulators can
21 alleviate pressure to control rates is to allow EDUs to defer previously spent utility costs
22 to the balance sheet. And, while deferrals delay the immediate collection of rates in the
23 near term, deferrals can increase regulatory risk to the EDU and eventually impact

1 customers when the time comes to pay for those deferrals. This rate volatility impacts the
2 timing of cash flow, which can also potentially impact an EDU's credit ratings. Rate
3 volatility, combined with our desire to fulfill increased customer expectations regarding
4 reliability, increasing infrastructure mandates and investment requirements, put electric
5 utilities and regulators under very different demands. In Ohio, a combination of
6 outstanding deferred assets, SB 221 requirements, environmental mandates, and ESP
7 timing, has left AEP Ohio with an elevated level of risk.

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

9 A. The information shown in the following table reflects both the System Average
10 Interruption Frequency Index (SAIFI) and the Customer Average Interruption Duration
11 Index (CAIDI) indices used to gauge service reliability for AEP Ohio. The 2014 SAIFI
12 of 1.13 for frequency of interruption was below the SAIFI standard for AEP Ohio of
13 1.20. The 2014 CAIDI of 146.6 for outage duration was below the CAIDI standard for
14 AEP Ohio of 150.0. While these reliability indices indicate steady to improving
15 performance over recent years, AEP Ohio will need to make substantial and continuing
16 investments in infrastructure to maintain or improve its reliability performance. The
17 Distribution Investment Rider (DIR) mechanism that has been in place since mid-2012
18 has allowed AEP Ohio to make the investments necessary to support these reliability
19 standards.
20

1
2

AEP Ohio Reliability Indices
(Per O.A.C. Rule 1-10-10(B))

12 Months Ending	SAIFI	CAIDI
Dec-10	1.09	138.2
Dec-11	1.23	145.6
Dec-12	0.98	145.0
Dec-13	1.03	141.0
Dec-14	1.13	146.6

3

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

6 A. AEP Ohio's actual annual capital expenditures for 2011 through 2014 and those projected
7 for the ESP III term are contained in Exhibit WAA-2 attached to my testimony. Exhibit
8 WAA-2 shows that AEP Ohio invested approximately \$453 million during 2014. The
9 Company is forecast to spend approximately \$1.0 billion in the ESP III period – a
10 tremendous amount of capital to invest. The actual level of capital expenditures during
11 the ESP III term will be subject to a number of considerations, including the resolution of
12 the request for rehearing related to the DIR caps. These factors should be taken into
13 consideration by the Commission when determining the 2014 SEET decision.

14 **CONCLUSION**

15 **Q. WERE THE COMPANY'S 2014 EARNINGS SIGNIFICANTLY EXCESSIVE?**

16 A. No. Based upon the Company's 2014 earnings of 12.717%, which is below the SEET
17 threshold of 16.04%, and the additional factors that the Commission indicated in its 09-

1 786 Order that it would consider in evaluating what is significantly excessive, AEP Ohio
2 did not have significantly excessive earnings in 2014 and no refund is necessary.

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

4 A. Yes.

Ohio Power Company						
Peer Group ROE Analysis						
Company	Ticker	Common Equity ¹			Adjusted	Return on Common Equity
		YE 2013	YE2014	Average	Net Income ² YE2014	
AES Corp.	AES	\$4,330	\$4,272	\$4,301	\$789	18.34%
AGL Resources, Inc.	GAS	\$3,568	\$3,784	\$3,676	\$562	15.29%
American Electric Power Co., Inc.	AEP	\$16,085	\$16,820	\$16,453	\$1,634	9.93%
Ameren Corp.	AEE	\$6,544	\$6,713	\$6,629	\$593	8.95%
CenterPoint Energy Inc.	CNP	\$4,329	\$4,548	\$4,439	\$611	13.77%
Consolidated Edison, Inc.	ED	\$12,245	\$12,585	\$12,415	\$1,092	8.80%
CMS Energy Corp.	CMS	\$3,454	\$3,670	\$3,562	\$477	13.39%
Dominion Resources, Inc.	D	\$11,642	\$11,555	\$11,599	\$1,310	11.29%
DTE Energy Company	DTE	\$7,921	\$8,327	\$8,124	\$905	11.14%
Duke Energy Corp.	DUK	\$41,330	\$40,875	\$41,103	\$2,465	6.00%
Edison International	EIX	\$9,938	\$10,960	\$10,449	\$1,427	13.66%
Entergy Corp.	ETR	\$9,632	\$10,008	\$9,820	\$941	9.58%
Eversource Energy (formerly NU)	ES	\$9,612	\$9,977	\$9,794	\$820	8.37%
Exelon Corp.	EXC	\$22,732	\$22,608	\$22,670	\$1,623	7.16%
FirstEnergy Corp.	FE	\$12,692	\$12,420	\$12,556	\$213	1.70%
Integrus Energy Group, Inc.	TEG	\$3,261	\$3,300	\$3,281	\$275	8.38%
NextEra Energy, Inc.	NEE	\$18,040	\$19,916	\$18,978	\$2,465	12.99%
NiSource Inc.	NI	\$5,887	\$6,175	\$6,031	\$531	8.80%
NRG Energy, Inc.	NRG	\$10,467	\$11,676	\$11,072	\$78	0.70%
Pepco Holdings, Inc.	POM	\$4,315	\$4,322	\$4,319	\$242	5.60%
Pinnacle West Capital Corp.	PNW	\$4,194	\$4,367	\$4,281	\$398	9.29%
PG&E Corp.	PCG	\$14,342	\$15,748	\$15,045	\$1,436	9.54%
PPL Corp.	PPL	\$12,466	\$13,628	\$13,047	\$1,583	12.13%
Public Service Enterprise Group Inc.	PEG	\$11,608	\$12,185	\$11,897	\$1,518	12.76%
SCANA Corp.	SCG	\$4,664	\$4,987	\$4,826	\$538	11.15%
Sempra Energy	SRE	\$11,008	\$11,326	\$11,167	\$1,161	10.40%
Southern Co.	SO	\$19,008	\$19,949	\$19,479	\$1,969	10.11%
TECO Energy, Inc.	TE	\$2,334	\$2,575	\$2,454	\$206	8.41%
Wisconsin Energy Corp.	WEC	\$4,233	\$4,420	\$4,326	\$588	13.60%
Xcel Energy, Inc.	XL	\$9,566	\$10,214	\$9,890	\$1,021	10.33%
Total		\$311,447	\$323,910	\$317,678	\$29,471	10.05%
¹ Total common equity excluding preferred equity and non-controlling interest.						
² Net income attributable to common shares.						
					Standard Deviation	3.65%
\$ in millions						
(source: Companies' 10-K filings)					Standard Deviation Multiplier (95% Confidence)	1.64
					SEET Threshold	16.04%

AEP Ohio Capital Expenditures

Historical Actual Expenditures*				Forecasted ESP III Expenditures			
2011	2012	2013	2014	Jun-Dec 2015	2016	2017	Jan-May 2018
\$455M	\$518M	\$640M	\$ 453M	\$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.

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