

OCC 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) Case No. 15-1022-EL-UNC
2014 Under Section 4928.143 (F),)
Revised Code, and Rule 4901:1-35-10,)
Ohio Administrative Code.)

In the Matter of the Application of Ohio)
Power Company for Administration of the)
Significantly Excessive Earnings Test for) Case No. 16-1105-EL-UNC
2015 Under Section 4928.143 (F),)
Revised Code, and Rule 4901: 1-35-10,)
Ohio Administrative Code.)

**DIRECT TESTIMONY
OF
DANIEL J. DUANN, Ph.D.**

**On Behalf of
The Office of the Ohio Consumers' Counsel**
*10 West Broad Street, Suite 1800
Columbus, Ohio 43215-3485*

August 15, 2016

LIST OF ATTACHMENTS

Attachment DJD-1

Attachment DJD-2

Attachment DJD-3

Attachment DJD-4

1 ***Q1. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.***

2 ***A1.*** My name is Daniel J. Duann. My business address is 10 West Broad Street, Suite
3 1800, Columbus, Ohio, 43215-3485. I am a Principal Regulatory Analyst with
4 the Office of the Ohio Consumers' Counsel ("OCC").
5

6 ***Q2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND***
7 ***PROFESSIONAL EXPERIENCE.***

8 ***A2.*** I received my Ph.D. degree in Public Policy Analysis from the Wharton School,
9 University of Pennsylvania. I also have a M.S. degree in Energy Management
10 and Policy from the University of Pennsylvania, and a M.A. degree in Economics
11 from the University of Kansas. I completed my undergraduate study in Business
12 Administration at the National Taiwan University, Taiwan, Republic of China. I
13 was conferred by the Society of Utility and Regulatory Financial Analysts as a
14 Certified Rate of Return Analyst in April 2011.
15

16 I was a Utility Examiner II in the Forecasting Section of the Ohio Division of
17 Energy, Ohio Department of Development, from 1983 to 1985. The Forecasting
18 Section was later transferred to the Public Utilities Commission of Ohio
19 ("Commission" or "PUCO"). From 1985 to 1986, I was an Economist with the
20 Center of Health Policy Research at the American Medical Association in
21 Chicago. In late 1986, I joined the Illinois Commerce Commission as a Senior
22 Economist at its Policy Analysis and Research Division. I was employed as a
23 Senior Institute Economist at the National Regulatory Research Institute

1 (“NRRI”) at The Ohio State University from 1987 to 1995. My work at NRRI
2 involved many areas of utility regulation and energy policy. I was an independent
3 business consultant from 1996 to 2007.

4
5 I joined the OCC in January 2008 as a Senior Regulatory Analyst. I was
6 promoted to my current position in November 2011. My responsibilities are to
7 assist the OCC by participating in various regulatory proceedings before the
8 PUCO. These proceedings include rate cases, alternative regulation, standard
9 service offer, fuel cost recovery, cost of capital, and other types of proceedings by
10 Ohio’s electric, gas, and water utilities.

11
12 ***Q3. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY OR TESTIFIED***
13 ***BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO?***

14 ***A3.*** Yes. I have submitted expert testimony on behalf of the OCC before the PUCO in
15 a number of cases. A list of these cases is included in Attachment DJD-1.

16
17 ***Q4. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS***
18 ***PROCEEDING?***

19 ***A4.*** The purpose of my testimony is to explain and support OCC’s position regarding
20 the 2014 Significantly Excessive Earnings Test (“SEET”) Application

1 (“Application”) and supporting testimonies filed by Ohio Power Company (“Ohio
2 Power” or “the Utility”) on June 1, 2015.¹

3

4 ***Q5. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.***

5 ***A5.*** Based on my review of the 2014 SEET Application and relevant material, I
6 recommend the following:

- 7 (1) The Commission should affirm the 12% Return on Equity (“ROE”)
8 threshold for SEET that was adopted by the PUCO in Case No. 11-
9 346-EL-SSO, et al. (“*ESP 2 Case*”).² This 12% SEET ROE
10 threshold should be applied to Ohio Power’s 2014 earnings;
11 (2) The Commission should find Ohio Power did have significantly
12 excessive earnings in 2014 and order Ohio Power to return
13 \$20.293 million to its customers assuming the ROE threshold of
14 12% is still applicable.³

¹ See *In the Matter of the Application of Ohio Power Company for Administration of the Significantly Excessive Earnings Test for 2014 under Section 4928.143(F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code*, Case No. 15-1022-EL-UNC (June 1, 2015).

² See *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to Section 4928.143, Revised Code, in the Form of an Electric Security Plan*, Case No. 11-346-EL-SSO et al. Opinion and Order at 37 (August 8, 2012).

³ The calculation of the 2014 SEET refund is discussed further in a later part of my testimony and summarized in Attachment DJD-4.

**Q6. WHAT ARE OHIO POWER'S 2014 SEET-ADJUSTED EARNINGS AND
RETURN ON EQUITY?**

A6. In Ohio Power witness Thomas E. Mitchell's testimony, he indicated the Utility had an adjusted net income of \$230,126,000, an adjusted average shareholders' equity of \$1,809,589,000, and a SEET-adjusted, return-on-equity of 12.7170%.⁴ He also determined the revenue value of the potential excessive earnings above the ROE threshold of 12% to be \$20.157 million.⁵ However, in responses to OCC's discovery requests, Ohio Power stated there should be an additional \$155,083 provision or reserve for potential 2014 SEET refund.⁶ This would increase the total 2014 SEET refund provision (reserve) from \$21,288,908 to \$21,443,992.⁷ It is my understanding that an increase in the SEET refund provision, and not reducing the per-book earnings at the same time, would increase the SEET-adjusted earnings, year-end shareholder's equity, and resulting ROE. Ohio Power further stated that the increase of \$155,083 in the 2014 SEET refund provision will be reflected in revised testimony in any future 2014 SEET hearing.⁸ But Ohio Power has not filed any revised testimony regarding its 2014 SEET Application.

I performed my own calculation to account for the effects on the earnings and ROE resulting from an increase in Ohio Power's 2014 SEET refund provision.

⁴ See Case No. 15-1022-EL-UNC, Direct Testimony of Thomas E. Mitchell, Exhibit TEM-1, page 1 of 1 (June 1, 2015).

⁵ See Direct Testimony of Mitchell at 8.

⁶ See Attachment DJD-3.

⁷ Id.

⁸ Id.

1 See Attachment DJD-4. Based on my calculation, which is similar to the
2 calculation done by Ohio Power Mitchell in his testimony, Exhibit TEM 1, the
3 SEET-adjusted earnings would increase from \$230,126,000 to \$230,219,061, the
4 average shareholders' equity from \$1,809,589,000 to \$1,809,636,031, and the
5 SEET-adjusted ROE from 12.7170% to 12.7218%.

6
7 ***Q7. DO YOU SUPPORT USING 12% ROE AS A THRESHOLD FOR***
8 ***DETERMINING WHETHER OHIO POWER'S EARNINGS (OR PROFITS)***
9 ***ARE SIGNIFICANTLY EXCESSIVE AND SHOULD BE RETURNED TO***
10 ***CUSTOMERS?***

11 ***A7.*** Yes. I do. I believe the 12% ROE threshold adopted by the Commission
12 in the *ESP 2 Case* is reasonable and should be applied to Ohio Power's
13 2014 SEET Application.

14
15 It is my understanding as a regulatory economist, that the recent Ohio
16 Supreme Court ("Court") decision concerning Ohio Power's *ESP 2 Case*
17 does not invalidate the 12% SEET ROE threshold.⁹ The 12% SEET ROE
18 threshold adopted in the *ESP2 Case*, along with other issues, has been
19 remanded to the Commission for further consideration. Setting aside any
20 legal argument, I conclude the use of the 12% ROE threshold in the 2014
21 SEET Application is sound regulatory policy and will produce an outcome
22 that is reasonable and fair to all parties.

⁹ See *In re Application of Columbus S. Power Co.*, Slip Opinion No. 2015-521 at ¶ 66 (April 21, 2016).

**Q8. PLEASE EXPLAIN YOUR UNDERSTANDING OF THE PURPOSE AND
BASIC MECHANISMS THAT ARE PART OF THE ANNUAL SEET
REVIEW.**

A8. Before explaining my specific reasons for supporting the 12% SEET ROE threshold, it is useful to discuss the purpose and basic mechanisms that are part of the SEET statutes and rules. As envisioned by the Ohio General Assembly, the annual SEET review provides an important and essential protection for Ohio's electricity customers. The annual SEET review is intended to ensure that any significantly excessive earnings resulting from an ESP will be returned to customers who paid these excessive rates in the first place. The annual SEET review is a customer protection tool mandated to the Commission to essentially "rectify" a prior ESP decision that resulted in significantly excessive earnings received by the regulated utility.

Furthermore, the annual SEET review examines the total earnings (with the possibility of certain exclusions) of a regulated electric utility considering all the rates, service terms, and conditions approved in an ESP. It is not an examination of the earnings from one specific provision, such as a rate increase, a rider, or a deferral, approved under an ESP. In reality, it also would be difficult, if not impossible, to identify and quantify the earnings of a specific ESP provision or the exact source of the money ("earnings") for the SEET refund.

**Q9. SHOULD THE 12% ROE THRESHOLD BE MODIFIED WHEN PART OF
THE RETAIL STABILITY RIDER IS DISALLOWED BY THE OHIO
SUPREME COURT?**

A9. No. As a regulatory economist, I do not believe the recent decision by the Ohio Supreme Court in disallowing the non-deferral part of the Retail Stability Rider ("Rider RSR")¹⁰ will make the Commission's action in choosing the 12% ROE threshold for SEET purposes in the *ESP 2 Case* bad regulatory policy. The 12% ROE threshold for SEET purposes as previously decided by the Commission is reasonable and does not need to be modified in this proceeding. In the Ohio Power *ESP2 Case*, the Commission cited the adoption of the Rider RSR as one factor in setting the SEET ROE threshold of 12%.¹¹ But the elimination of part of the Rider RSR does not make the 12% SEET ROE threshold unreasonable. Specifically, at this time, Ohio Power has already collected the full amount of the 2014 revenues associated with the Rider RSR and has not restated its 2014 earnings to account for the Court's decisions on Rider RSR. Consequently, a change from the previously-set ROE threshold of 12% to another ROE threshold for SEET purposes at this time would result in a mismatch between the reported earnings (which include the full revenues collected under Rider RSR) and a newly proposed ROE for

¹⁰ See *In re Application of Columbus S. Power Co.*, Slip Opinion No. 2015-521 at ¶ 40 (April 21, 2016).

¹¹ See Case No. 11-346-EL-SSO et al., Opinion and Order at 37 (August 8, 2012).

SEET purposes (which may exclude the consideration of the revenue collected under Rider RSR).

Q10. SHOULD THE 12% ROE THRESHOLD FOR SEET PURPOSES BE MODIFIED TO ACCOMMODATE THE NEED TO COMPARE OHIO POWER'S EARNINGS WITH THE EARNINGS OF COMPARABLE PUBLICLY-TRADED COMPANIES DURING THE SAME PERIOD OF TIME?

A10. No. This is unnecessary. From a regulatory policy perspective, there is no inconsistency between a 12% ROE threshold applicable during the entire ESP period and the need of comparing Ohio Power's ROE with the ROEs of comparable publicly traded companies during the same period of time. Clearly, the SEET reviews in general, and this proceeding in particular, are an *annual* comparison of Ohio Power's earnings with those of comparable public companies. However, an annual review does not mean that the ROE threshold for SEET purposes should be re-set annually. As long as the ROE threshold, such as the 12% decided in the *ESP 2 Case*, is deemed reasonable and applicable during the entire ESP period, there is no need to re-set the ROE threshold every year.

In a distribution rate case, the ROE decided by the regulatory agency in calculating the annual revenue requirement is set based on the regulatory principle that the return earned by the regulated utility should be comparable to the returns earned by other comparable businesses with similar risks *at the same time period*.

1 Nevertheless, the ROE set in a rate case is not re-set every year. The ROE
2 decided in a rate case does not change until a new rate case is filed and decided at
3 a later date. The same regulatory principal used in a rate case can be applied
4 when establishing an ROE threshold for SEET purposes. The Commission
5 certainly has the option to re-set the ROE threshold for SEET purposes annually,
6 but it is not required to do so. It is not advisable to do so in this proceeding
7 because the 12% ROE threshold was already decided in the *ESP 2 Case* and any
8 change now will create the mismatch problem I discussed earlier.

9

10 ***Q11. ARE THERE ADDITIONAL FACTORS THE COMMISSION SHOULD***
11 ***CONSIDER WHEN DETERMINING WHETHER TO USE A 12% ROE***
12 ***THRESHOLD IN THIS PROCEEDING?***

13 ***A11.*** Yes. There are two factors the Commission should consider. First, Ohio
14 Power set aside and recorded a SEET refund provision (reserve) of
15 approximately \$21.289 million in its 2014 financial statements based on
16 the SEET ROE threshold of 12%.¹² Furthermore, Ohio Power intends to
17 include an additional 2014 SEET refund provision of \$155,083 to account
18 for a rounded pre-tax provision adjustment.¹³ By doing so, it seemed Ohio
19 Power was expecting, at least for accounting purposes, that approximately
20 \$21.289 million or more be refunded or credited to its customers as a result
21 of the 2014 SEET Application. A SEET refund of approximately that

¹² See Direct Testimony of Mitchell, Exhibit TEM-1, Page 1 of 1.

¹³ See Attachment DJD-3.

1 amount would not negatively affect the 2014 per-book earnings of Ohio
2 Power. If no refund or credit is ordered in this proceeding, Ohio Power's
3 2014 earnings will actually increase by approximately \$21,289 million or
4 more. Second, there is no indication that Ohio Power's ability to provide
5 reliable distribution services to its customers, to make capital investments,
6 and to meet all other commitments would be diminished or negatively
7 affected by this SEET refund based on a 12% SEET ROE threshold.

8
9 ***Q12. IS IT NECESSARY OR APPROPRIATE FOR OHIO POWER TO PROPOSE***
10 ***A NEW SEET ROE THRESHOLD OF 16.04% IN ITS 2014 SEET***
11 ***APPLICATION?***

12 ***A12.*** No. It is not necessary or appropriate to propose a new ROE threshold for
13 SEET purposes at this time. The Commission has already set an ROE
14 threshold of 12%, which it has determined to be fair and reasonable. The
15 Court's decision in the *ESP 2 Case* does not invalidate the 12% SEET
16 ROE threshold. A newly-proposed SEET ROE threshold of 16.04% by
17 Ohio Power at this time is irrelevant and should not be considered in this
18 proceeding.

1 **Q13. DID OHIO POWER HAVE SIGNIFICANTLY EXCESSIVE EARNINGS AS**
2 **A RESULT OF THE ELECTRIC SECURITY PLAN RATES PAID FOR BY**
3 **CUSTOMERS IN 2014?**

4 **A13.** Yes. Based on my calculation, Ohio Power did have significantly
5 excessive earnings in 2014 because it had a SEET-adjusted ROE of
6 12.7218%,¹⁴ which exceeded the ROE threshold of 12% set by the
7 Commission in the *ESP 2 Case*. Even by the Utility's own calculation,
8 Ohio Power's 2014 adjusted SEET ROE was 12.7170%,¹⁵ which also
9 exceeded the 12% SEET ROE threshold set by the Commission in the *ESP*
10 *2 Case*. Although the Utility claimed that it did not have significantly
11 excessive earnings in 2014,¹⁶ there is no plausible or reasonable
12 explanation provided by Ohio Power to support that claim.

13
14 **Q14. HOW MUCH MONEY SHOULD BE RETURNED TO OHIO POWER'S**
15 **CUSTOMERS BASED ON THE SIGNIFICANTLY EXCESSIVE 2014**
16 **EARNINGS OF OHIO POWER?**

17 **A14.** Ohio Power has calculated the amount of earnings (after tax) exceeding
18 the 12% ROE to be \$12,974,760.¹⁷ The pre-tax earnings (revenue
19 collection), assuming an effective tax rate of 35.63%, becomes

¹⁴ See Attachment DJD-4.

¹⁵ See Direct Testimony of Mitchell at 6.

¹⁶ See Direct Testimony of Allen at 15-16.

¹⁷ See Direct Testimony of Mitchell at Exhibit TEM-1, Page 1 of 1. In its responses to OCC discovery requests, Ohio Power indicated that "The Calculations on Exhibit TEM-1, Page 1 of 1 relating to Line 57 (\$20.157 million) should be disregarded. But Ohio Power did not provide any updated calculation. See Attachment DJD-3.

1 \$20,156,530.¹⁸ As explained earlier in my testimony, Ohio Power did not
2 provide revised testimony to account for an increase of \$155,083 in its
3 2014 SEET refund provision. My recalculation indicates that Ohio Power
4 would have a SEET-adjusted ROE of 12.7218% and an average SEET-
5 adjusted shareholders' equity of \$1,809,636,031.¹⁹ The excessive earnings
6 above the 12% ROE threshold would be \$13,062,737 and the pre-tax
7 revenue collection would be \$20,293,206.²⁰ This is the amount of money
8 that should be returned to customers through either a credit on their bills,
9 or a reduction in money owed to the Utility by customers.

10

11 ***Q15. DOES THIS CONCLUDE YOUR TESTIMONY?***

12 ***A15.*** Yes. However, I reserve the right to supplement my testimony in the event that
13 additional testimony is filed, or if new information or data in connection with this
14 proceeding becomes available.

¹⁸ Id.

¹⁹ See Attachment DJD-4.

²⁰ Id.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing *Direct Testimony of Daniel J. Duann, Ph.D. on Behalf of the Office of the Ohio Consumers' Counsel's*, was served via electronic transmission to the persons listed below on this 15th day of August 2016.

/s/ Jodi Bair
Jodi Bair
Assistant Consumers' Counsel

SERVICE LIST

stnourse@aep.com
Bojko@carpenterlipps.com
orourke@carpenterlipps.com
mkurtz@BKLawfirm.com
kboehm@BKLawfirm.com
jkylercohn@BKLawfirm.com
Thomas.mcnamee@ohioattorneygeneral.com

Attorney Examiners:

Sarah.Parrot@puc.state.oh.us
Greta.See@puc.state.oh.us

Daniel J. Duann, Ph.D.
List of Testimonies Filed Before PUCO

1. *Application of The Dayton Power and Light Company for Approval of Its Electric Security Plan*, Case No. 08-1094-EL-SSO (January 26, 2009).
2. *Application of Ohio American Water Company to Increase Its Rates for Water and Sewer Service Provided to Its Entire Service Area*, Case No. 09-391-WS-AIR (January 4, 2010).
3. *Application of Aqua Ohio, Inc. for Authority to Increase its Rates and Charges in its Masury Division*, Case No. 09-560-WW-AIR (February 22, 2010).
4. *Application of Aqua Ohio, Inc. for Authority to increase its Rates and Charges in its Lake Erie Division*, Case No. 09-1044-WW-AIR (June 21, 2010).
5. *In the Matter of the Fuel Adjustment Clauses for Columbus Southern Power Company and Ohio Power Company*, Case Nos. 09-872-EL-FAC and 09-873-EL-FAC (August 16, 2010).
6. *In the Matter of the Application of Columbus Southern Power Company for Approval of an Electric Security Plan; an Amendment to its Corporate Separation Plan; and the Sale or Transfer of Certain Generating Asset (Remand)*, Case Nos. 08-917-EL-SSO et al (June 30, 2011).
7. *In the Matter of the Application of The East Ohio Gas Company d/b/a Dominion East Ohio for Approval of Tariffs to Modify and further Accelerate its Pipeline Infrastructure Replacement Program and to Recover the Associated Costs et al.*, Case Nos. 11-2401-GA-ALT and 08-169-GA-ALT (July 15, 2011).
8. *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to 4928.143, Ohio Rev. Code in the Form of an Electric Security Plan (ESP)*, Case Nos. 11-346-EL-SSO, et al (July 25, 2011).
9. *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Merge and Related Approval (ESP Stipulation)*, Case Nos. 10-2376-EL-UNC, et al (September 27, 2011).
10. *In the Matter of the 2010 Annual Filing of Columbus Southern Power Company and Ohio Power Company Required by Rule 4901:1-35-10, Ohio Administrative Code*, Case Nos. 11-4571-EL-UNC and 11-4572-EL-UNC (October 12, 2011).
11. *In the Matter of the Application of Ohio American Water Company to Increase Its Rates for Water and Sewer Service Provided to Its Entire Service Area*, Case No. 11-4161-WS-AIR (March 1, 2012).

12. *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company for Authority to Establish a Standard Service Offer Pursuant to 4928.143, Ohio Rev. Code in the Form of an Electric Security Plan (Modified ESP), Case Nos. 11-346-EL-SSO, et al (May 4, 2012).*
13. *In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company For Authority to Establish a Standard Service Offer Pursuant to R.C. § 4928.143 in the Form Of an Electric Security Plan, Case No. 12-1230-EL-SSO (May 21, 2012).*
14. *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Electric Distribution Rates, et al. Case Nos. 12-1682-EL-AIR (February 19, 2013).*
15. *In the Matter of the Application of Duke Energy Ohio, Inc., for an Increase in Gas Rates, Case Nos. 12-1685-GA-AIR, et al (February 25, 2013).*
16. *In the Matter of the Application of Dayton Power & Light Company for Authority to Establish a Standard Service Offer in the Form Of an Electric Security Plan Pursuant to R.C. 4928.143, Case No. 12-426-EL-SSO et al. (March 1, 2013).*
17. *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover of Certain Storm-related Service Restoration Costs, Case Nos. 12-3062-EL-RDR, et al. (January 31, 2014).*
18. *In the Matter of the Application of The Dayton Power and Light Company for Authority to Recover of Certain Storm-related Service Restoration Costs, Case Nos. 12-3062-EL-RDR, et al. (May 23, 2014).*
19. *In the Matter of the Application of Aqua Ohio, Inc. to Increase Its Rates and Charges for Its Waterworks Service, Case No. 13-2124-WW-AIR (August 4, 2014).*
20. *In the Matter of the Application Seeking Approval of Ohio Power Company's Proposal to Enter into an Affiliate Power Purchase Agreement for Inclusion in the Power Purchase Agreement Ride, Case No. 14-1693-EL-RDR, et al. (September 11, 2015).*
21. *In the matter of the Application of Duke Energy Ohio, Inc. for Approval of an Alternative Rate Plan Pursuant to R.C. 4929.05, Revised Code, for an Accelerated Service Line Replacement Program, Case No. 14-1622-GA-ALT (November 6, 2015).*
22. *See In the Matter of the Application of Ohio Edison Company, The Cleveland Electric Illuminating Company, and The Toledo Edison Company for Authority to Establish a Standard Service Offer Pursuant to R.C. 4928.141 in the Form of an Electric Security Plan, Case No. 14-1297-EL-SSO (June 22, 2016).*

Daniel J. Duann, Ph.D.
List of Professional Publications

Journal Articles

Regulation, The Cato Review of Business & Government, "Turning up the Heat in the Natural Gas Industry," Vol. 19, 1996, (with Kenneth W. Costello).

Managerial And Decision Economics, "Designing a Preferred Bidding Procedure for Securing Electric Generating Capacity," Vol. 12, 1991.

The Journal of Energy and Development, "Direct Gas Purchases by Local Distribution Companies: Supply Reliability and Cost Implications," Vol. 14, 1989.

Public Utilities Fortnightly, "Alternative Searching and Maximum Benefit in Electric Least-Cost Planning," December 21, 1989.

Research Reports and Presentations

The National Regulatory Research Institute, *Pricing Local Distribution Services in a Competitive Market*, 1995.

Ninth NARUC Biennial Regulatory Information Conference, Ohio State University, *The Unbundling and Restructuring of Local Distribution Services in the Post-636 Gas Market*, 1994.

The National Regulatory Research Institute, *A Survey of Recent State Initiatives on EPACT and FERC Order 636*, 1994 (with Belle Chen).

The National Regulatory Research Institute, *Restructuring Local Distribution Services: Possibilities and Limitations*, 1994.

The National Regulatory Research Institute, *The FERC Restructuring Rule: Implications for Local Distribution Companies and State Public Utilities Commissions*, 1993.

The National Regulatory Research Institute, *A Synopsis of the Energy Policy Act of 1992: New Tasks for State Public Utility Commissions*, 1993.

International Symposium on Energy, Environment & Information Management, Argonne National Laboratory, *Natural Gas Vehicles: Barriers, Potentials, and Government Policies*, 1992.

The National Regulatory Research Institute, *Natural Gas Vehicles and the Role of State Public Service Commissions*, 1992 (with Youssef Hegazy).

The National Regulatory Research Institute, *Incentive Regulation for Local Gas Distribution Companies under Changing Industry Structure*, 1991 (with Mohammad Harunuzzaman, Kenneth W. Costello, and Sung-Bong Cho).

The National Regulatory Research Institute, *Discussion Papers on Competitive Bidding and Transmission Access and Pricing issues in the Context of Integrated Resource Planning*, 1990 (with Robert E. Burns, Kenneth Rose, Kevin Kelly, and Narayan Rau).

The National Regulatory Research Institute, *Gas Storage: Strategy, Regulation, and Some Competitive Implications*, 1990 (with Peter A. Nagler, Mohammad Harunuzzaman, and Govindarajan Iyyuni).

The National Regulatory Research Institute, *State Gas Transportation Policies: An Evaluation of Approaches*, 1989 (with Robert E. Burns and Peter A. Nagler).

The National Regulatory Research Institute, *Direct Gas Purchases by Gas Distribution Companies: Supply Reliability and Cost Implications*, 1989, (with Robert E. Burns and Peter A. Nagler).

The National Regulatory Research Institute, *Competitive Bidding for Electric Generating Capacity: Application and Implementation*, 1988 (with Robert E. Burns, Douglas N. Jones, and Mark Eifert).

**OHIO POWER COMPANY'S RESPONSES TO
THE OFFICE OF THE OHIO CONSUMERS' COUNSEL DISCOVERY REQUESTS
PUCO CASE NO. 15-1022-EL-UNC
FIRST SET**

INTERROGATORY

INT-1-001 Referring to the Exhibit TEM-1, Page 1 of 1, Line 27, please explain the calculation regarding the Preliminary Pre-Tax 2014 SEET Provision Recorded Adjustment of \$21,289,000.

RESPONSE

In September and October 2014, preliminary pre-tax 2014 SEET provisions were recorded on OPCo's ledger. The estimated provisions were based actual OPCo earnings through July 2014, projected earnings through the remainder of 2014, the average of OPCo's equity balances as of July 31, 2014 and December 31, 2013 and the calculated 12% threshold of OPCo's net-of-tax earnings as a percentage of average equity. Final true-ups to the 2014 SEET provision were recorded in December 2014 based on OPCo's final 2014 net-of-tax earnings and OPCo's average equity for 2014 and 2013.

The net provision of \$21,288,908 included a rounded pre-tax provision adjustment resulting in an average ROE of 12.0052%. If the December 31, 2014 SEET provision adjustment had not been rounded, the total pre-tax provision would have been \$21,443,992, which would have resulted in a return on average equity of exactly 12%. The difference of \$155,083 will be reflected in revised testimony of witness Mitchell in any future OPCo 2014 SEET hearing.

The calculations on Exhibit TEM-1, Page 1 of 1 relating to Line 57 (\$20.157 million) should be disregarded.

Revised 2014 SEET Earnings and Return on Equity

(1)	Actual 2014 Earnings Attributable to Common Shareholder	\$ 216,422,000
(2)	Revised Pre-Tax 2014 SEET Provision	\$ 21,443,992
(3)	Less: Income Tax Impact (35.63% Effective Tax Rate)	\$ 7,636,931
(4)	Revised Net-of-Tax 2014 SEET Provision: (2) – (3)	\$ 13,797,061
(5)	Revised 2014 SEET Earnings: (1) + (4)	<u>\$ 230,219,061</u>
(6)	Total Common Shareholder's Equity – 12/31/2014	\$ 1,980,210,000
(7)	Revised Net-of-Tax 2014 SEET Provision	\$ 13,797,061
(8)	Revised Total Common Shareholder's Equity – 12/31/2014: (6) + (7)	\$ 1,994,007,061
(9)	Total Common Shareholder's Equity – 12/31/2013	\$ 1,625,265,000
(10)	Revised 2014 Average Shareholder's Equity: ((8) + (9)) / 2	<u>\$ 1,809,636,031</u>
(11)	Revised 2014 ROE for SEET: (5) / (10)	12.7218%
(12)	2014 SEET ROE Threshold	12.0000%
(13)	ROE above 12%: (11) – (12)	<u>0.7218%</u>
(14)	Revised 2014 Average Common Shareholder's Equity	\$ 1,809,636,031
(15)	ROE above 12%	0.7218%
(16)	2014 Earnings above 12%: (14) * (15)	<u>\$ 13,062,737</u>
(17)	Income Tax (35.63% Effective Tax Rate): ((16) / (1 – 0.3563)) * (16)	\$ 7,230,469
(18)	2014 Pre-Tax Earnings above 12% ROE: (16) + (17)	<u>\$ 20,293,206</u>

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in

Case No(s). 15-1022-EL-UNC, 16-1105-EL-UNC

Summary: Testimony Direct Testimony of Daniel J. Duann, Ph.D., on Behalf of the Office of the Ohio Consumers' Counsel electronically filed by Ms. Gina L Brigner on behalf of Bair, Jodi Ms.