

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.	)	

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

SUPPLEMENTAL TESTIMONY OF  
WILLIAM A. ALLEN  
IN SUPPORT OF AEP OHIO'S  
SETTLEMENT AGREEMENT

Filed: September 13, 2016

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

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

2   A. My name is William A. Allen. I am employed by the American Electric Power Service  
3       Corporation (AEPSC) as Managing Director of Regulatory Case Management.

4   **Q. ARE YOU THE SAME WILLIAM A. ALLEN WHO PREVIOUSLY FILED**  
5       **TESTIMONY IN THESE PROCEEDINGS?**

6   A. Yes. I provided direct testimony in Case No. 15-1022-EL-UNC (2014 SEET) as well as 16-  
7       1105-EL-UNC (2015 SEET).

8   **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

9   A. The purpose of my supplemental testimony is to sponsor, summarize and support the  
10       Stipulations filed on September 1, 2016 in these proceedings for the Commission's  
11       consideration. My testimony also discusses the criteria that the Commission typically uses  
12       when considering settlement agreements and explains how the Stipulations in these  
13       proceedings meet those criteria. Specifically, my testimony supports the conclusion that the  
14       Stipulations:

15               (1) are the product of serious bargaining among capable, knowledgeable parties;

16               (2) do not violate any important regulatory principle or practice; and

17               (3) as a package, benefit rate payers and the public interest.

18       Finally, this testimony updates the direct testimony previously filed in the Company's 2014  
19       and 2015 SEET proceedings.

1 **Q. DID YOU PARTICIPATE IN THE NEGOTIATIONS WHICH LED TO THE**  
2 **STIPULATIONS BEING SUBMITTED FOR CONSIDERATION AND APPROVAL**  
3 **BY THIS COMMISSION?**

4 A. Yes. I participated in the negotiations through counsel for AEP Ohio and provided direction  
5 on the elements of the stipulations.

6 **Q. WHO ARE THE SIGNATORY PARTIES TO THE STIPULATIONS?**

7 A. The signatory parties include Ohio Power Company (AEP Ohio) and the Staff of the Public  
8 Utilities Commission of Ohio (Staff).

9 **Q. PLEASE PROVIDE AN OVERVIEW OF THE RETURN ON EQUITY MATTERS**  
10 **IN THE 2014 SEET STIPULATION.**

11 A. Recommendations in the 2014 SEET Stipulation regarding the ROE include:

- 12 1. AEP Ohio's 2014 earned return on equity was 12.717%.
- 13 2. The comparable risk group's mean earned ROE is 10.05%.
- 14 3. The 2014 SEET threshold is 16.04%.
- 15 4. AEP Ohio's reversal of an accounting provision for the earnings between the original  
16 12% threshold and the earned ROE of 12.717% for 2014, resulting from the Supreme  
17 Court of Ohio's decision, will not be included in the Company's earnings for purposes of  
18 the 2016 SEET.

19 **Q. DOES THE STIPULATION INCLUDE ANY RECOMMENDATIONS AS TO THE**  
20 **PIRR AND REMAND CASES?**

21 A. Yes. The signatory parties agree that the additional revenue authorized by the Commission  
22 in the remand proceedings and in the PIRR Case, relating to carrying charges, should be  
23 spread over the entire collection period including an allocation of increased pre-tax earnings

for SEET purposes in 2014 of approximately \$30 million. And to the extent a Commission decision in cases 10-2929-EL-UNC, 11-346-EL-SSO, 14-1186-EL-RDR, et, al (Remand Cases) results in either a net revenue increase or decrease, the resulting impact on earnings will be spread for purposes of the SEET over the entire period of the Retail Stability Rider or the Capacity Charges, August 2012 through May 2015, as applicable, including an allocation to 2014. Additional pre-tax SEET earnings of up to \$90 million, above and beyond the additional PIRR revenue, could be granted under the Remand Cases relating to 2014 without the need to revisit the 2014 SEET. By addressing the treatment of these revenues in the stipulations, the 2014 and 2015 SEET proceedings can be resolved in a timely manner while still allowing the ultimate resolution of the PIRR Case and the Remand Cases to be resolved without the need to revisit the 2014 or 2015 SEET.

**Q. HOW DID THE COMPANY DETERMINE THAT ADDITIONAL REVENUES OF \$90 MILLION FROM THE REMAND CASES WOULD AVOID REVISITING THE 2014 SEET ?**

A. Additional revenues of \$90 million, would keep the Company's earned ROE under the 16.04% threshold as shown in the table below.

<b>2014 SEET (15-1022-EL-UNC) (Income Tax Rate = 35.63%)</b>	
2014 OPCo Earnings/Equity Balances	230,126,007
Less: SEET Adjustment - Made in 2014 (\$21,288,909 pre tax)	(13,703,671)
<b>2014 OPCo SEET Earnings - As filed with PUCO</b>	<b>216,422,336</b>
Plus: PIRR CC Income Due to June 2016 Ruling (\$29,980,443 pre tax)	19,298,411
Plus: Additional SEET Earnings based on Remand (\$90,000,000 pre tax)	57,933,000
Plus: Reversal of 2014 SEET Provision (\$21,288,909 pre tax)	13,703,671
<b>2014 OPCo Earnings - Amended</b>	<b>307,357,418</b>
<b>2013/2014 Average Equity</b>	<b>1,917,676,427</b>
<b>2014 ROE</b>	<b>16.03%</b>
<b>2014 ROE Threshold</b>	<b>16.04%</b>

**Q. PLEASE PROVIDE AN OVERVIEW OF THE RETURN ON EQUITY MATTERS  
IN THE 2015 SEET STIPULATION.**

A. Recommendations in the 2015 SEET Stipulation regarding the ROE include:

1. AEP Ohio's 2014 earned return on equity was 11.73%.
2. The comparable risk group's mean earned ROE is 9.74%.
3. The 2015 SEET threshold is 15.36%.

**Q. DO THE STIPULATIONS INCLUDE ANY RECOMMENDATIONS AS TO THE  
PIRR AND REMAND CASES?**

A. Yes. The signatory parties agree that the additional revenue authorized by the Commission in the remand proceedings and in the PIRR Case, relating to carrying charges, should be spread over the entire collection period including an allocation of increased pre-tax earnings for SEET purposes in 2015 of approximately \$29 million. And to the extent a Commission decision in the Remand Cases results in either a net revenue increase or decrease, the resulting impact on earnings will be spread for purposes of the SEET over the entire period of the Retail Stability Rider or the Capacity Charges, August 2012 through May 2015, as applicable, including an allocation to 2015. Additional pre-tax SEET earnings of up to \$128 million, above and beyond the additional PIRR revenue, could be granted under the Remand Cases relating to 2014 without the need to revisit the 2014 SEET.

**Q. HOW DID THE COMPANY DETERMINE THAT ADDITIONAL REVENUES OF  
\$128 MILLION FROM THE REMAND CASES WOULD AVOID REVISITING  
THE 2015 SEET?**

A. Additional revenues of \$128 million, would keep the Company's earned ROE under the 15.36% threshold as shown in the table below.

<b>2015 SEET (16-1105-EL-UNC) (Income Tax Rate = 35.63%)</b>	
<b>2015 OPCo SEET Earnings - As filed with PUCO</b>	<b>232,737,352</b>
Plus: PIRR CC Income due to June 2016 Ruling (\$28,839,940 pre tax)	18,564,269
Plus: Additional SEET Earnings based on Remand (\$128,000,000 pre tax)	82,393,600
<b>2015 OPCo Earnings - Amended</b>	<b>333,695,221</b>
<b>2014/2015 Average Equity</b>	<b>2,174,499,801</b>
<b>2015 ROE</b>	<b>15.35%</b>
<b>2015 ROE Threshold</b>	<b>15.36%</b>

**Q. WHAT IS THE STANDARD THAT THE COMMISSION HAS USED WHEN CONSIDERING APPROVAL OF A STIPULATION?**

A. My understanding, and as advised by counsel, the Commission typically weighs adoption of stipulations it is presented for consideration by applying a three part test for review. The questions that the Commission considers, as I understand it, are:

(1) is the Stipulation a product of serious bargaining among capable, knowledgeable parties?;

(2) does the stipulation violate any important regulatory principle or practice?; and

(3) does the stipulation, as a whole, benefit customers and the public interest?

**Q. DO THE PROPOSED STIPULATIONS IN THESE PROCEEDINGS SATISFY THE ABOVE CRITERIA?**

A. Yes, they do.

**Q. ARE THE STIPULATIONS SUBMITTED IN THESE CASES THE PRODUCT OF SERIOUS BARGAINING AMONG CAPABLE AND KNOWLEDGEABLE PARTIES?**

A. Yes. The Company contacted the parties that filed testimony in the cases to discuss settlement of the issues in the cases. These parties included the Staff, the Office of the Ohio Consumers' Counsel (OCC), and the Ohio Energy Group. The discussions with the parties

1 considered various options for resolving the limited issues presented in these cases. After  
2 discussing settlement positions with the parties the Company and the Staff entered into two  
3 separate stipulations – one related to the 2014 SEET case and one related to the 2015 SEET  
4 case. After filing the stipulations the Company contacted the Ohio Manufacturers’  
5 Association Energy Group (OMAEG) to discuss opportunities for settlement. All of these  
6 parties actively participate in Commission proceedings and are capable, knowledgeable  
7 parties.

8 **Q. DO THE STIPULATIONS VIOLATE ANY IMPORTANT REGULATORY**  
9 **PRINCIPLE OR PRACTICE?**

10 A. No. The Stipulations do not violate any important regulatory principle or practice. None of  
11 the individual provisions of the Stipulations is inconsistent with or violates any important  
12 Commission principle or practice. The earned return on equity for AEP Ohio, the  
13 comparable risk group’s mean earned ROE and the SEET threshold were calculated  
14 consistent with the manner accepted by the Commission in the Company’s previous SEET  
15 cases.

16 **Q. SPECIFICALLY REGARDING THE THIRD CRITERIA, PLEASE EXPLAIN HOW**  
17 **THE STIPULATIONS BENEFIT CUSTOMERS AND THE PUBLIC INTEREST.**

18 A. The stipulations benefit customers and the public interest by resolving these cases timely,  
19 with judicial efficiency and in a manner consistent with past Commission decisions.

20 **Q. DOES THIS COMPLETE YOUR SUPPLEMENTAL TESTIMONY IN SUPPORT**  
21 **OF THE STIPULATIONS?**

22 A. Yes, it does.

### **CERTIFICATE OF SERVICE**

In accordance with Rule 4901-1-05, Ohio Administrative Code, the PUCO's e-filing system will electronically serve notice of the filing of this document upon the following parties. In addition, I hereby certify that a service copy of the foregoing *Supplemental Testimony of William A. Allen* was sent by, or on behalf of, the undersigned counsel to the following parties of record this 13<sup>th</sup> day of September 2016, via electronic transmission.

/s/ Steven T. Nourse

\_\_\_\_\_  
Steven T. Nourse

### **EMAIL SERVICE LIST**

dconway@porterwright.com;  
Jodi.bair@occ.ohio.gov;  
jkylercohn@BKLawfirm.com;  
Bojko@carpenterlipps.com;  
kboehm@BKLawfirm.com;  
mkurtz@BKLawfirm.com;  
O'Rourke@carpenterlipps.com;  
Sarah.Parrot@puc.state.oh.us;  
sasloan@aep.com;  
stnourse@aep.com;  
william.wright@ohioattorneygeneral.gov;



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

**Commission of Ohio Docketing Information System on**

**9/13/2016 4:50:44 PM**

**in**

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

Summary: Testimony - Supplemental Testimony of William A Allen in Support of AEP Ohio's Settlement Agreement electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company