AEP OHIO EX. NO._________

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

the Matter of the Application of 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.	)))))	Case No. 16-1852-EL-SSO
In the Matter of the Application of Ohio Power Company for Approval of Certain Accounting Authority	)))	Case No. 16-1853-EL-AAM

DIRECT TESTIMONY OF
WILLIAM A. ALLEN
IN SUPPORT OF AEP OHIO'S
AMENDED ELECTRIC SECURITY PLAN

Filed: November 23, 2016

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WILLIAM A. ALLEN

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

PERSONAL DATA

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is William A. Allen, and my business address is 1 Riverside Plaza, Columbus, Ohio 43215.

Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?

A. I am employed by the American Electric Power Service Corporation (AEPSC) as Managing Director of Regulatory Case Management. AEPSC supplies engineering, financing, accounting, and planning and advisory services to the electric operating companies of the American Electric Power System, one of which is Ohio Power Company ("OPCo," "Company," or "AEP Ohio").

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

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

I was employed by AEPSC beginning in 1992 as a Co-op Engineer in the Nuclear Fuels, Safety and Analysis department and upon completing my degree in 1996 was hired on a permanent basis in the Nuclear Fuel section of the same department. In January 1997, the Nuclear Fuel section became a part of Indiana Michigan Power Company (I&M) due to a corporate restructuring. In 1999, I transferred to the Business Planning section of the Nuclear Generation Group as a Financial Analyst. In 2000, I transferred back to AEPSC into the Regulatory Pricing and Analysis section as a Regulatory Consultant. In 2003, I transferred into the Corporate Financial Forecasting department as a Senior Financial Analyst. In 2007, I was promoted to the position of Director of Operating Company Forecasts. In that role, I was primarily responsible for the supervision of the financial forecasting and analysis of the AEP System's operating companies, including AEP Ohio. In 2010, I transferred to the Regulatory Services Department as Director of Regulatory Case Management. I was named to my current position in January 2013.

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

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

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

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

<u>PURPOSE OF TESTIMONY</u>

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to 1) discuss the Competition Incentive Rider and the SSO Credit Rider as part of the Company's approved Purchase Power Agreement (PPA) stipulation (Stipulation), Case No. 14-1693-EL-RDR; 2) review the current shopping statistics for AEP Ohio; 3) describe the replacement of the PPA Rider with two separate mechanisms – one related to renewable resources and one related to the OVEC entitlement; and 4) address the statutory SEET and MRO tests.

<u>ESP COMPONENTS BASED ON THE COMPANY'S APPROVED PPA STIPULATION</u>

Q. ARE YOU SUPPORTING ANY NEW RIDERS IN THIS FILING?

A. Yes. Consistent with the Company's approved Stipulation in Case Nos. 14-1693-EL-RDR et. al, I am supporting two new riders: the Competition Incentive Rider (CIR) and the SSO Credit Rider (SSOCR).

Q. PLEASE DESCRIBE THE COMPETITION INCENTIVE RIDER AND THE SSO CREDIT RIDER.

A. The CIR is a pilot bypassable rider that is an addition to the SSO non-shopping rate, intended to incentivize shopping and recognize that there may be costs associated with providing SSO service that are not fully reflected in the bypassable component of the SSO rate. Revenues collected from the CIR will be credited to all distribution customers through the SSOCR. Company witness Gill addresses the rate design of the two proposed riders.

Q. ARE SHOPPING INCENTIVES NEW TO ELECTRIC CUSTOMERS IN OHIO?

A. Absolutely not. This Commission has, over the years, developed various mechanisms to incent shopping. Shopping incentives have been used in the State of Ohio for a number of years. With the implementation of customer choice for electric providers in 2000 there were incentives for customers to shop – 1) there was a shopping incentive of $2.50/MWh to the first twenty-five percent of the Columbus Southern Power residential class load that switched during the market development period; and 2) the regulatory transition charge was waived on the first twenty percent of Ohio Power residential customers switching from the SSO.[1] More recently, the transition plan that the Commission approved in AEP Ohio's ESP II included discounted capacity provided to CRES providers serving shopping customers to incentivize shopping.[2] Currently, sixty-five percent (65%) of AEP Ohio's customers are served by the SSO.[3] There is a large number of customers that either through their own choosing or lack of action, have chosen not to shop.

Q. ARE THERE ADDITIONAL BENEFITS TO PROVIDING SHOPPING INCENTIVES?

A. Yes. Shopping incentives such as the CIR have been developed with the idea that as more customers shop alternative providers will have an incentive and opportunity to offer more innovative and value-added products. CRES offerings, along with the Company's gridSMART® phase II project and AMI meters, can provide customers opportunities to be more efficient in how they use power or lower the cost of the power that they do consume.

Q. HOW WAS THE PROPOSED INITIAL LEVEL OF THE CIR DECIDED?

A. Consistent with Section III.C.12 of the Stipulation, AEP Ohio and the Signatory Parties, including the Commission Staff, met to determine the proposed level of the CIR to include in this filing. However, a consensus agreement was not reached and, as such, the initial charge for the rider to be included in the Company's filing is to be determined by the

[1] See order in Case Nos. 99-1729-EL-ETP and 99-1730-EL-ETP
[2] See order in Case Nos. 11-346-EL-SSO and 11-348-El-SSO
[3] PUCO reported customer switch rates as of December 2015

Commission Staff per the terms of the stipulation. The Commission Staff has provided an initial CIR level for inclusion in this filing of $0.62/MWh. In accordance with Section III.C.12 of the Stipulation, the Company will provide an analysis in its next distribution case showing all of the actual costs required to provide SSO service which can be used to help determine whether this pilot rider should be continued and, if continued, what the level of the rider should be on a going forward basis.

Q. PLEASE DESCRIBE THE CREDIT RIDER ASSOCIATED WITH THE CIR.

A. An additional companion pilot rider, the Company is proposing the SSOCR. The SSOCR is a mechanism that will provide a credit to all distribution customers equal to the amount collected in the CIR, using the same rate design as adopted for the PPA Rider. The CIR and the SSOCR are proposed to be in place through the term of the PPA Rider, or until new distribution base rates are put into effect.

Q. ARE THERE CHANGES BEING PROPOSED TO THE ENERGY EFFICIENCY AND PEAK DEMAND REDUCTION (EE/PDR) RIDER AND THE ECONOMIC DEVELOPMENT RIDER (EDR)?

A. Yes. Sections III.D.4 and III.D.5 of the Stipulation included an agreement amongst the Signatory Parties to transfer 50% of the EE/PDR rider costs for transmission and sub-transmission voltage customers to the EDR and to transfer 50% of the IRP credits from the EE/PDR rider to the EDR. As part of the Commission's Order in that case, the Commission stated that these "are proposals that should be included in AEP Ohio's application to extend the ESP through May 31, 2024." Consistent with the Commission's directive, the Company is including those proposals in this proceeding. Company witness Gill further addresses this modification to the riders.

Q. PLEASE DESCRIBE THE BENEFITS OF TRANSFERRING A PORTION OF THE EE/PDR COSTS TO THE EDR.

A. The transfer of 50% of the IRP credits from the EE/PDR Rider to the EDR recognizes that the IRP credits provide both peak demand reduction benefits and economic development benefits. Transferring 50% of the EE/PDR rider costs for transmission and sub-transmission voltage customers to the EDR lowers the cost of participation in the Company's EE/PDR programs for transmission and sub-transmission voltage customers which could have the effect of lowering the number of customers that opt-out of the Company's program. In addition, the EDR is paid by all customers which ensures that even those customers that opt-out of the Company's EE/PDR programs continue to pay a portion of those costs.

CUSTOMER SHOPPING TRENDS

Q. PLEASE DESCRIBE THE CURRENT LEVEL OF CUSTOMER LOAD THAT IS TAKING SERVICE UNDER THE SSO AND FROM CRES PROVIDERS.

A. As of the end of June 2016, approximately 26% of AEP Ohio's retail load was taking service under the SSO and 74% was taking service from a CRES provider. Sixty-five percent (65%) of AEP Ohio's customers take service under the SSO. The table below shows additional detail by customer class.

	MWH		Customer	
	SSO	CRES	SSO	CRES
Residential	66%	34%	68%	32%
Commercial	14%	86%	48%	52%
Industrial	5%	95%	47%	53%
Total	26%	74%	65%	35%

Q. PLEASE DESCRIBE THE LEVEL OF CRES PARTICIPATION IN THE COMPANY'S SERVICE TERRITORY.

A. There are currently 97 CRES providers registered and 68 CRES providers actively serving customers in the Company's service territory. In addition to customers being served individually by CRES providers, 152 communities have active aggregation programs.

PPA RIDER REPLACEMENT

Q. IS THE COMPANY PROPOSING TO EXTEND THE PPA RIDER THAT WAS APPROVED BY THE COMMISSION IN ITS ESP III DECISION NOVEMBER 3, 2016?

A. No. The Company is proposing to replace the PPA Rider with two separate mechanisms, the Renewable Generation Rider and the inclusion of the OVEC entitlements through riders GENE, GENC and the Auction Cost Reconciliation Rider (ACRR). First, the Company is proposing that OVEC directly serve SSO load on a bypassable basis. The costs of the OVEC units will be blended with the SSO auction rates and will be recovered through riders GENE and GENC with a true-up to actual costs through the ACRR. The implementation details associated with this proposal are described in detail in the testimonies of Company witnesses Gill and Weiss. Second, the Company is proposing a change in how the costs of renewable power are recovered from customers. As opposed to the delta between the market price of power and the cost of renewable power being recovered from all customers, the Company's proposed approach is that, consistent with my understanding of Section (B)(2)(c) of the ESP statute, the Commission would approve a nonbypassable charge for the life of a facility when it reviews and approves individual projects. In this case, the Company is proposing that a zero-rate placeholder Renewable Generation Rider would be established to be filled in future RDR cases upon approval of individual renewable projects. If both of the cost recovery proposals are approved, the PPA Rider mechanism would no longer be needed going forward and could be terminated at that time. Under the Company's proposal, all of the other provisions of the PPA Stipulation – including all of the Company's commitments – would continue to be implemented and remain fully effective as modified and approved by the Commission.

Q. PLEASE DESCRIBE THE COMPANY'S PROPOSAL FOR THE RECOVERY OF THE OVEC ENTITLEMENTS?

A. The Company is proposing that the SSO load served by OVEC would approximately equal the ratio of the OVEC Capacity Performance MW cleared in the 2017/2018 PY to the 5CP SSO load. As referenced by AEP Ohio witness Weiss, this percentage will determine the number of tranches that will be served by AEP Ohio outside of the SSO auctions. The energy and capacity to serve these tranches of the SSO load will come from a combination of OVEC deliveries and market purchases. If the OVEC capacity and energy falls short in serving its share of the SSO load during a period of time, market purchases would be made to cover the difference; if it is more than needed, the excess would be liquidated into the market and revenues credited back to the ACRR.

Consistent with the Commission's decision allowing OVEC cost recovery through the PPA Rider, the Company's will be obligated to provide Staff and its auditors access to information and cooperatively support the audit process. While the underlying cost recovery mechanism would be different from the PPA Rider, the audit and cost review process would be consistent with the PPA Stipulation and the Commission's existing directives. AEP Ohio witness Gill further discusses the mechanics of how OVEC cost recovery would be implemented under this proposal. AEP Ohio witness Weiss details the transition from the current SSO auction process to the outcome of OVEC entitlement serving a portion of SSO load, which precipitates the need for interim relief as described in the Amended Application and in the testimony of Company witness Weiss.

Further, I have been advised by counsel that this approach is consistent with Section (B)(2)(a) of the ESP statute, R.C. 4928.143. Indeed, the OVEC entitlement was used to serve SSO load and the associated costs were recovered through bypassable retails rates during *ESP I* and *ESP II*. Finally, the OVEC cost recovery proposal does not affect the Company's ongoing obligation to pursue transfer or sale of its contractual interest; but as discussed by AEP Ohio witness Moore, the Company will need to obtain a modification of its current corporate separation plan during the period this cost recovery method is effective (in order to use OVEC to serve SSO load). In short, the Company's proposal here is to achieve OVEC cost recovery through a more traditional, established and straightforward method going forward.

Q. PLEASE DESCRIBE THE RENEWABLE GENERATION RIDER PROPOSAL IN MORE DETAIL.

A. AEP Ohio would permanently dedicate the capacity and energy associated with the facility or facilities to its Ohio consumers. From a financial perspective, this proposal is essentially equivalent for customers (to the PPA rider mechanism) over the long-term. Since customers are paying a market based price for power either through the SSO or from a CRES provider, having a portion of their power sourced from a specific renewable facility will result in their bill being either higher or lower depending upon whether the price of power from the renewable power facility is higher or lower than the market price for power.

This is the same financial result that would have occurred under the PPA rider included in the Stipulation. One difference is that customers will actually be served by the renewable power facility. Another difference is that the Commission would approve a nonbypassable charge for the life of the facility (versus the ESP term), upon approval of individual projects in a future RDR proceeding. This approach is more appropriate for new capacity and I have been advised by counsel that it would be consistent with Section (B)(2)(c) of the ESP statute, R.C. 4928.143(B). Aside from the cost recovery vehicle, the parameters, evaluation criteria and process would all remain as provided for in the PPA Stipulation.

MRO TEST

Q. PLEASE GENERALLY DESCRIBE THE MRO TEST.

A. The purpose of the MRO test is to determine whether the Company's proposed ESP, or in this case the extension and amendment to the current ESP, including pricing and all other terms and conditions, is more favorable in the aggregate as compared to the expected results that would apply under an MRO.

Q. DO YOU BELIEVE THAT THE PROVISIONS OF THE COMPANY'S PROPOSED ESP ARE MORE FAVORABLE IN THE AGGREGATE THAN WHAT WOULD BE EXPECTED UNDER A MRO?

A. Yes. As discussed below, the ESP is more favorable to customers from both a qualitative and quantitative perspective.

The DIR mechanism and associated revenues under the ESP proposal provide a benefit to customers that is equal to or greater than the customer benefit that would be expected under a MRO. The DIR mechanism provides a streamlined approach to recovering many of the costs associated with investment in distribution infrastructure.

These same types of costs would be recoverable from customers through base distribution cases although with higher costs to customers and other parties as a result of the added complexity of a distribution base case.

The Distribution Technology Rider (DTR) allows the Company to invest in advanced technology and programs that support the Smart Columbus initiative in a way that would not be possible under an MRO. The DTR allows the Company to rapidly invest in advanced technology with a streamlined recovery mechanism. Without such a mechanism the Company could be required to undertake a time consuming approach to investing in advanced infrastructure that could significantly delay investments and customer benefits.

As part of the total amended ESP proposal the Company is extending the Residential Distribution Credit Rider through the earlier of May 31, 2024, or when new base distribution rates are set. This rider is currently scheduled to expire May 31, 2018. Extending this rider provides an annual benefit to residential customers of $14,688,000. This benefit would not exist under a MRO.

In the Commission's March PPA Order, the Commission found that the PPA Rider is reasonably estimated to provide a net benefit to customers. As proposed in this filing the Company is recommending that OVEC entitlement be used to directly serve SSO load. Under this proposal the OVEC entitlement will provide a price stabilizing benefit to customers that chose to be served under the SSO. Under an MRO customers would not have the ability to choose a Commission-approved pricing structure that included a long-term cost-based generation resource and would, consequently, not receive the benefits associated with that option.

The ESP also has several non-quantifiable benefits as compared to a MRO – increased rate stability is provided by the Renewable Generation Rider and the OVEC entitlement serving SSO load; distribution investments are encouraged by the DIR; economic development and increased demand response are supported through expansion of the IRP tariff; the provision allowing certain customers to participate in a pilot 1CP transmission rate encourages more efficient use of the transmission grid; the CIR and SSOCR support growth in the competitive marketplace; and economic development is supported by the automaker credit.

The quantifiable benefits in combination with the non-quantifiable benefits clearly demonstrate that the provisions of the Company's proposed ESP are more favorable in the aggregate than what would be expected under a MRO.

SIGNIFICANTLY EXCESSIVE EARNINGS TEST

Q. HAVE YOU REVIEWED THE COMMISSION'S ORDER IN THE COMPANY'S 2010 SEET PROCEEDING WHICH WAS RECOGNIZED IN THE SETTLEMENTS APPROVED BY THE COMMISSION FOR THE COMPANY'S 2011 THROUGH 2013 SEET CASES?

Yes. In Case No. 10-1261-EL-UNC, the Commission found that "the conceptual construct of Staff's proposal to use a percentage of the average of the comparable companies to be more appropriately related to the purpose of the SEET." The Commission determined that the ROE of comparable companies was 11% in 2009. The Commission then went on to conclude that 50% of the comparable ROE "is a reasonable guide for establishing an adder."[4] The Commission then made an upward adjustment to the adder to 60% and established a SEET threshold of 17.6%.

In Case Nos. 11-4571-EL-ENC and 11-4572-EL-UNC, the Commission once again determined that the SEET threshold should be based upon the ROE of comparable companies plus an adder – in this case 1.64 standard deviations. This same methodology was applied and approved in the settlement agreements for the Company's 2012 and 2013 SEET filings.[5]

Q. HAS THE STAFF AGREED TO THIS METHODOLOGY FOR THE 2014 AND 2015 SEET?

A. Yes. The Company and Staff entered into a Stipulation for the 2014 and 2015 SEET filings (Case Nos. 15-1022-EL-UNC and 16-1105-EL-UNC). In this Stipulation the parties agreed the methodology used in the Company's analysis to determine the comparable risk group's mean ROE was consistent with the Commission's 2011 through 2013 SEET orders.

Q. DO YOU HAVE A RECOMMENDATION CONCERNING HOW THE COMMISSION SHOULD ADDRESS THE SEET ISSUE IN THIS PROCEEDING?

A. Yes. Based upon a guiding regulatory principle that commission decisions should maintain a level of consistency that provides investors and utility managers a reasonably predictable basis to make the significant investments in utility

[4] Opinion and Order date January 11, 2011, at pages 24 and 25.
[5] Case Nos. 13-2251-EL-UNC and 14-875-EL-UNC

infrastructure that is necessary to meet customer's needs and expectations, this Commission should confirm in this proceeding the methodology by which the Company has utilized in the past four SEET filings, and has been approved by the Commission or agreed to by Staff in those filings, should continue to be the standard in future SEET filings.

Q. DOES THIS CONCLUDE YOUR DIRECT TESITMONY?

A. Yes.

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 *Ohio Power Company's Direct Testimony of William A. Allen* was sent by, or on behalf of, the undersigned counsel to the following parties of record this 23rd day of November 2016, via electronic transmission.

/s/ Steven T. Nourse
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