

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 2016)	Case No. 17-1230-EL-UNC
Under Section 4928.143(F), Revised Code,)	
and Rule 4901:1-35-10, Ohio Administrative)	
Code.)	

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

Filed: May 15, 2017

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WILLIAM A. ALLEN

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BEFORE
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OHIO POWER COMPANY

1 **PERSONAL DATA**

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

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

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

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

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

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

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

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

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

13 A. I am primarily responsible for the supervision, oversight and preparation of major filings
14 with state utility commissions.

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. My testimony reviews the history of the SEET, the accepted SEET methodology, and
4 supports the position that AEP Ohio passes the statutory Significantly Excessive Earnings
5 Test (SEET) for 2016 and that no refund is necessary.

6 **Q. ARE YOU SPONSORING ANY EXHIBITS AS A PART OF YOUR**
7 **TESTIMONY?**

8 A. Yes. I am sponsoring Exhibit WAA-1, which presents the 2016 return on common equity
9 for the companies comprising the Utilities Select Sector SPDR.

10 **OVERVIEW OF THE SEET**

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

12 A. Senate Bill 221 (SB 221) required electric distribution utilities (EDUs), beginning
13 January 1, 2009, to provide consumers with a standard service offer (SSO) including a
14 firm supply of electric generation service, consisting of either an Electric Security Plan
15 (ESP) or a market rate offer (MRO). Section 4928.143(F), Ohio Revised Code, requires
16 EDUs operating under an ESP to demonstrate that their earned return on common equity
17 (ROE) is not significantly in excess of the ROE earned during the same period by
18 publicly traded companies that face comparable business and financial risk. I have been
19 advised by Counsel that the SEET filing requirements, as detailed in Rule 4901:1-35-
20 03(C)(10)(a), O.A.C., state that the EDU with an established ESP shall provide testimony
21 and analysis which shall include: 1) the EDU's ROE earned during the annual review
22 period as compared to the ROE earned by comparable companies during the same period;
23 2) the FERC Form 1 in its entirety for the annual review period for the EDU; 3) the latest

1 SEC Form 10K for the EDU; and 4) the capital budget requirements for future committed
2 investments in Ohio for each annual period remaining in the ESP for the EDU.

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

5 A. In 2009, the Commission initiated Case No. 09-786 to provide SEET guidance to Ohio
6 EDUs. Through the 09-786 case, the Commission provided guidance and interpretations
7 regarding how it would apply the SEET.

8 The methodology I have employed is based on the approach established by the
9 guidance presented in Case No. 09-786-EL-UNC and subsequent Commission orders.
10 The Company's 2011, 2012 and 2013 SEET cases were settled and the Commission has
11 approved those settlements. Further, the Company and Staff filed Joint Stipulations in
12 Case No. 15-1022-EL-UNC (2014 SEET case) and 16-1105-EL-UNC (2015 SEET case)
13 September 1, 2016; these Stipulations employed the same methodology accepted in the
14 prior settlements. These two cases were ultimately resolved by the Commission in the
15 Company's Global Settlement.¹

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

17 **Q. WHAT IS THE LEVEL FOR 2016, ABOVE THE AVERAGE EARNED ROE OF**
18 **THE COMPARABLE RISK GROUP OF COMPANIES, WHERE THE EARNED**
19 **ROE MAY BECOME SIGNIFICANTLY EXCESSIVE, IF ONE USED THE**
20 **THRESHOLD METHODOLOGY AS DESCRIBED BY THE COMMISSION'S**
21 **OPINION AND ORDER IN THE 2010 SEET (CASE NO. 11-4571) AND**
22 **RECOGNIZED IN THE SETTLEMENT APPROVED BY THE COMMISSION IN**
23 **THE 2011 SEET CASE FOR AEP OHIO?**

¹ Opinion and Order in Case No. 10-2929-EL-UNC et al., dated February 23, 2017.

1 A. The mean earned ROE for 2016 of the “Utilities Select Sector SPDR (XLU)” comparable
2 risk group that the Commission utilized in its order in the 2010 SEET and recognized in
3 the approved settlement of the 2011 SEET case for AEP Ohio is 10.69%. In the 2010
4 SEET order the Commission applied an adder to the baseline mean earned ROE using
5 1.64 standard deviations. In this case, that adder would be 7.00%, resulting in a SEET
6 threshold of 17.69%. To calculate the earnings of the companies in the comparable risk
7 group I started with their per books earnings and then made adjustments to remove the
8 effect of impairments that were booked in 2016. This is comparable to the adjustments
9 made to the earnings of AEP Ohio to exclude any non-recurring items, special items and
10 extraordinary items. The calculation of the comparable group ROEs and the associated
11 standard deviation are provided in Exhibit WAA-1.

12 **AEP OHIO’S EARNED ROE FOR 2016**

13 **Q. WHAT IS AEP OHIO’S EARNED ROE FOR 2016 FOR THE SEET?**

14 A. Company witness Ross has determined that AEP Ohio’s earned ROE for 2016 is 14.97%.
15 For details on the AEP Ohio ROE calculations, please see Company witness Ross’s direct
16 testimony.

17 **Q. HOW DOES AEP OHIO’S EARNED ROE FOR 2016 COMPARE TO THE**
18 **COMPARABLE RISK GROUP’S THRESHOLD ROE?**

19 A. AEP Ohio’s earned ROE for 2016 of 14.97% is below the comparable risk group’s SEET
20 ROE threshold of 17.69% that results from calculating the threshold in a manner similar
21 to how the Commission calculated it for 2010. The Company and Commission Staff
22 have calculated the SEET threshold in a similar manner in several other AEP Ohio SEET
23 cases that have been settled.

1 **Q. IF THE COMMISSION DETERMINES THAT AEP OHIO'S 2016 SEET**
2 **EARNINGS EXCEED THE SEET THRESHOLD, ARE THERE ANY OTHER**
3 **FACTORS THAT THE COMMISSION SHOULD CONSIDER AS PART OF**
4 **THIS CASE?**

5 A. Yes, in addition to the factors described in the testimony of Company witness Moore, the
6 Commission should also consider the shared savings component of the Company's
7 Energy Efficiency/Peak Demand Reduction (EE/PDR) program. On March 21, 2012, the
8 Commission approved the Company's EE/PDR program that provided the Company the
9 ability to retain a small portion of the customer savings attributable to exceeding the
10 annual EE/PDR targets. The amount of customer savings retained by the Company is
11 referred to as shared savings. AEP Ohio's 2016 EE/PDR program produced customer
12 savings exceeding \$295 million over the lives of the measures associated with those
13 programs. As a result, AEP Ohio recorded \$31.2 million (pre-tax) of shared savings in
14 2016.² If the Commission determines in this proceeding that AEP Ohio's 2016 SEET
15 earnings exceed the SEET threshold, the Commission should allow AEP Ohio to retain
16 the first \$31.2 million (pre-tax) of earnings that are attributable to EE/PDR program
17 shared savings to ensure that the Company's incentive to implement EE/PDR programs
18 that have provided significant customer benefits is not diminished or eliminated. In
19 addition, it is sound regulatory policy to ensure that an incentive provided in one
20 proceeding is not clawed back, after the fact, in another proceeding when the Company
21 has met or even exceeded the standards that provided for such an incentive. It is also

² AEP Ohio's shared savings methodology was approved in Case No.11-5568-EL-POR, including the after tax cap of \$20 million annually (equivalent in 2016 to a before tax cap of \$31.2 million)

1 important to recognize that the cap on shared savings has already limited the Company's
2 collection of shared savings.

3 **CONCLUSION**

4 **Q. WERE THE COMPANY'S 2016 EARNINGS SIGNIFICANTLY EXCESSIVE?**

5 A. No. Based upon the Company's 2016 earnings of 14.97%, which is below the SEET
6 threshold of 17.69%, and the additional factors that the Commission should consider in
7 evaluating what is significantly excessive, AEP Ohio did not have significantly excessive
8 earnings in 2016 and no refund is necessary.

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

10 A. Yes.

Exhibit WAA-1

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Company	Symbol	2016 Non-GAAP Income	2016 Equity	2015 Equity	Average Equity	Return on Common Equity
NextEra	NEE	\$2,912	\$24,341	\$22,574	\$23,458	12.41%
Duke	DUK	\$2,858	\$41,033	\$39,727	\$40,380	7.08%
Southern	SO	\$2,678	\$24,758	\$20,592	\$22,675	11.81%
Dominion	D	\$2,123	\$14,605	\$12,664	\$13,635	15.57%
Exelon	EXC	\$1,726	\$25,837	\$25,793	\$25,815	6.69%
AEP	AEP	\$2,078	\$17,397	\$17,892	\$17,645	11.78%
PG&E	PCG	\$1,393	\$17,940	\$16,576	\$17,258	8.07%
Sempra	SRE	\$1,465	\$12,951	\$11,809	\$12,380	11.83%
Edison International	EIX	\$1,311	\$11,996	\$11,368	\$11,682	11.22%
PPL Corporation	PPL	\$1,902	\$9,899	\$9,919	\$9,909	19.19%
Consolidated Edison	ED	\$1,245	\$14,298	\$13,052	\$13,675	9.10%
Public Service Enterprise Group	PEG	\$1,283	\$13,130	\$13,066	\$13,098	9.80%
Xcel Energy Inc	XEL	\$1,123	\$11,021	\$10,601	\$10,811	10.39%
WEC Energy Group Inc	WEC	\$939	\$8,930	\$8,655	\$8,793	10.68%
DTE Energy Company	DTE	\$868	\$9,011	\$8,772	\$8,892	9.76%
Eversource Energy	ES	\$942	\$10,712	\$10,352	\$10,532	8.94%
FirstEnergy	FE	\$928	\$6,241	\$12,422	\$9,332	9.94%
Entergy Corporation	ETR	\$1,293	\$8,082	\$9,257	\$8,670	14.91%
American Water Works Company	AWK	\$468	\$5,218	\$5,049	\$5,134	9.12%
Ameren Corporation	AEE	\$653	\$7,103	\$6,946	\$7,025	9.30%
CMS Energy Corporation	CMS	\$551	\$4,253	\$3,938	\$4,094	13.46%
CenterPointEnergy Inc	CNP	\$432	\$3,460	\$3,461	\$3,461	12.48%
SCANA Corporation	SCG	\$595	\$5,725	\$5,443	\$5,584	10.66%
Pinnacle West Capital Corporation	PNW	\$442	\$4,804	\$4,584	\$4,694	9.42%
Alliant Energy Corporation	LNT	\$423	\$3,862	\$3,724	\$3,793	11.14%
AES Corporation	AES	\$609	\$2,794	\$3,149	\$2,972	20.49%
NiSource Inc	NI	\$331	\$4,071	\$3,844	\$3,957	8.36%
NRG Energy	NRG	(\$104)	\$2,041	\$2,707	\$2,374	-4.39%
					Average	10.69%
					Standard Deviation	4.27%
					Standard Deviation Multiplier (95% Confidence)	1.64
					SEET Threshold	17.69%

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