BEFORE THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of 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. 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

INITIAL POST-HEARING BRIEF
OF OHIO POWER COMPANY
IN SUPPORT OF THE
JOINT STIPULATION AND RECOMMENDATION

Steven T. Nourse (0046705), Counsel of Record
Matthew S. McKenzie (PHV 5903-2016)
Christen M. Blend (0086881)
American Electric Power Service Corporation
1 Riverside Plaza, 29th Floor
Columbus, Ohio 43215

Eric B. Gallon (0071465)
Porter Wright Morris & Arthur, LLP
41 South High Street, 30th Floor
Columbus, Ohio 43215

Christopher L. Miller (0063259)
Jeremy M. Grayem (0072402)
Ice Miller LLP
250 West Street
Columbus, Ohio 43215

Counsel for Ohio Power Company

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INTRODUCTION

In a challenging and complex Electric Security Plan (ESP) case involving a term that will total nine years when added to the current three-year term, the Signatory Parties expended tremendous effort over several months leading up to a Joint Stipulation and Recommendation ("Stipulation") that was filed on August 25, 2017. Although Ohio Power Company ("AEP Ohio" or the "Company") and other intervenors engaged in serious negotiations with the Office of the Ohio Consumers' Counsel (OCC) and made every attempt to get a unanimous settlement, OCC was not able to join the settlement and chose instead to oppose it. But the Signatory Parties do include industrial, commercial and residential customers; generation suppliers; CRES providers; environmental groups; and Staff.

In evaluating a contested settlement, the Public Utilities Commission of Ohio ("Commission") applies a well-established three-part test:

(1) Is the settlement a product of serious bargaining among capable, knowledgeable parties?
(2) Does the settlement, as a package, benefit ratepayers and the public interest?
(3) Does the settlement package violate any important regulatory principle or practice?

The three-part test has served the Commission well for decades.

Regardless of OCC's attempts to change it, the test should be applied without modification in this proceeding. An additional legal standard is also pertinent here. Because the Stipulation involves an ESP, the Commission should determine that the Stipulation meets the MRO test, which requires that an ESP be more favorable in the aggregate as compared to the expected results under a Market Rate Offer (MRO). *See* R.C. 4928.143(C)(1). As will be demonstrated, the Stipulation satisfies both the three-part test and the MRO test.

The first prong of the three-part tests asks whether a settlement is "a product of serious bargaining among capable, knowledgeable parties." The Stipulation here easily satisfies that standard. Indeed, OCC did not submit any testimony contesting that the first prong is met.

The second prong asks whether the Stipulation, as a package, benefits ratepayers and the public interest. As part of the overall settlement of this case, the following provisions were included in the Stipulation package that benefit customers and the public interest:

- AEP Ohio has committed to file a base distribution rate case by June 1, 2020.

- The Company has agreed to reduce its authorized return on equity (ROE) to 10.0%, which will prospectively be used for all riders that have a capital component until new rates are effective with a new authorized ROE under the next distribution rate case order.

- If AEP Ohio completes a new long-term debt financing or refinancing prior to the next base rate case, the Company agrees to update its weighted average cost of capital (WACC) rate within 90 days of closing for such transaction, to the extent the update would be favorable to ratepayers. That one-way adjustment, by its terms, can only be favorable to ratepayers.

- The Signatory Parties agreed to establish a new Smart City Rider to recover costs associated with technology demonstration projects for electric vehicle charging stations and microgrids.

- The Distribution Investment Rider (DIR) is extended, with lower annual revenue caps than the Company proposed. As the Commission has found in prior ESP proceedings, the DIR supports the replacement of aging infrastructure and the improvement of system reliability as an appropriate incentive to accelerate recovery of the Company's prudently incurred costs for ensuring the reliability of its distribution system.

- AEP Ohio will update its depreciation rates, effective January 1, 2018, to match the rates in the November 29, 2016 Depreciation Study.

- AEP Ohio will also continue the Residential Distribution Credit Rider (RDCR), which will equal approximately $14.6 million annually and will save the typical customer using 1,000 kWh / month approximately $11.40 each year.

- AEP Ohio will also continue to give $1 million each year to the Neighbor-to-Neighbor Program, a low-income bill-payment-assistance funding program.

- The Enhanced Service Reliability Rider (ESRR) is continued at current funding levels, as the Company withdrew its requested 2.5% annual increase as part of the Stipulation package; the ESRR provides a mechanism through which AEP Ohio can recover actual costs for its critical and proactive vegetation/tree trimming program. As a related matter, AEP Ohio has agreed to maintain its current four year trimming cycle.

- The IRP Tariff provision of the Stipulation, which the Commission has determined in the last two ESP proceedings to be beneficial to all customers, addresses the IRP Service and General Terms and Conditions of the Tariff and adds benefits to the Stipulation package.

- The BTCR Pilot Program, continued in the Stipulation, will seek out customers that can help reach the goal of reducing load at peak times through a billing mechanism using the participating customers' coincident peak (1 CP) as established through PJM.

- The Automaker Credit, being proposed in this case under Section III.J.11 of the Stipulation (in fulfillment of Section III.C.8 of the PPA Rider Stipulation), is a $10 per megawatt-hour for consumption above the customer's baseline consumption level in 2009.

- The Stipulation's proposed enroll from your wallet program will make switching, in both ease of engagement and investment of time, more accessible and available to customers.

- AEP Ohio witness Allen also summarized several other provisions of the Stipulation that are part of the settlement package and that clearly benefit ratepayers and the public interest.

In its testimony opposing the Stipulation, OCC ignores these additional benefits (and the Stipulation package as a whole) and instead challenges a few select provisions of the Stipulation as lacking benefits. But each of them contributes to the overall package of benefits reflected in the Stipulation.

The third prong asks whether the Stipulation package violates any important regulatory principle or practice. OCC explicitly challenges three individual provisions under the third prong of the test: the Competition Incentive Rider (CIR), the Supplier Consolidated Billing pilot and the Renewable Generation Rider all supposedly violate important regulatory principles. But none of those provisions violates any important regulatory principle. OCC also generally challenges the ROE and the Smart City Rider/ Power Forward Rider, but those arguments lack merit and do not demonstrate that those aspects of the Stipulation violate any important regulatory principle or practice.

Regarding the CIR, the purpose of the rider is to give customers an incentive to shop, and to recognize that there may be costs associated with providing retail electric service that are not reflected in the Company's SSO bypassable rates. Under the Stipulation in this case, the revenue-neutral CIR rate will be $1.05/MWh and the SSOCR will be $0.48/MWh for a residential customer using 1,000 kWh per month, for a net charge of $0.57/MWh, until the next base rate case. Both the CIR and the SSO Credit Rider (SSOCR) benefit customers and the public. Residential customers who choose to shop will see a reduction to their bills because they will receive the SSO Credit Rider but not pay the CIR. And, the CIR and SSOCR will support growth in the competitive marketplace and promote competition. As such, these shopping incentives are fully consistent with state policy to "[e]nsure the availability of unbundled and comparable retail electric service that provides consumers with the supplier, price, terms, conditions, and quality options they elect to meet their respective needs * * * ." R.C. 4928.02(B). OCC's claim that the CIR violates an important regulatory principle is without merit.

Likewise, OCC is wrong in arguing that the Supplier Consolidated Billing (SCB) pilot violates an important regulatory principle. As a threshold matter, OCC should be estopped from claiming that the SCB pilot violates an important regulatory principle or practice because OCC was a supporting Signatory Party to the Global Settlement, which created the SCB pilot. OCC filed testimony in support of the Global Settlement, asserting in those cases that the settlement creating the SCB pilot fulfilled the three-part test, and recommended that it should be adopted. On the merits, OCC challenges the SCB pilot provision in the Stipulation because it shares cost responsibility between competitive retail electric service (CRES) providers and customers. But it is axiomatic that all customers benefit from enhancements to the retail choice program and features – regardless of whether they currently shop or have shopped in the past. Historically, the Commission has rejected similar objections by OCC and allocated retail choice costs to all customers. If anything, the settlement provisions for sharing by the CRES providers of SCB pilot costs benefits non-shopping customers even more than the established approach of recovering such costs from all customers. Accordingly, OCC's challenge to the SCB pilot should be rejected.

OCC's final explicit argument under the third prong challenges the Renewable Generation Rider (RGR). For transparency, and to better distinguish the issues relating to new renewable projects from the OVEC costs currently being recovered through the PPA Rider, the Signatory Parties propose a separate non-bypassable RGR for recovery of costs associated with renewable generation projects. The RGR is an extension and refinement of the 900 MW renewable project commitment initially made by AEP Ohio as part of the settlement in the PPA Rider cases. Other than the basic rate design and rider mechanics of the placeholder RGR, all parties reserve the right to challenge future filings for approval of renewable projects. OCC's challenge of the RGR is premature and otherwise misguided.

Beyond the direct attacks under prong three, OCC launches general attacks on two additional Stipulation provisions: the reduced ROE and the Smart City/Power Forward Riders. Regarding the ROE to be used for riders that have a capital component, the Signatory Parties agreed to an ROE of 10.0%, which is lower than the Company's current authorized ROE and is lower than the ROE requested in the Company's testimony in this case. OCC witness Duann's 9.30% ROE estimate is based upon unreliable and inaccurate information and, therefore, should be disregarded. Moreover, the unreasonably low and inherently unreliable ROE that Dr. Duann puts forth cannot seriously serve as a maximum value above which an ROE becomes unreasonable. OCC has not established that the Signatory Parties' reasonable recommended 10.0% ROE causes the Stipulation, as a whole, to violate any important regulatory principle or practice.

OCC's challenges to the Smart City Rider (SCR) and the Power Forward Rider are equally unavailing. OCC witness Alexander argues that the costs of the SCR technology demonstration projects should be recovered only in a base distribution rate case, and not in a rider. But Ms. Alexander made clear on cross-examination that her objection to rider recovery is a general, ideological objection to riders that is at odds with the precedents of this Commission and "most other" states as well. Ms. Alexander also argues that the SCR is not authorized by the ESP statute because the SCR technology demonstration projects allegedly have no nexus to the ESP proceeding, which is primarily intended to address the obligation to provide default generation supply service. Ms. Alexander's statutory argument rests on a misinterpretation of the ESP statute; as the Commission has recognized many times, the ESP statute is a broad and flexible statute that permits utilities to include in their ESPs many different types of cost recovery mechanisms, including, specifically, provisions regarding "the utility's distribution service," "infrastructure modernization," and "energy efficiency programs," among others. Importantly, moreover, Ms. Alexander's arguments overlook the fact that the SCR projects are *pilot* projects designed to gather the data that Ms. Alexander believes AEP Ohio should already have.

Ms. Alexander opposes the Power Forward Rider, which the Stipulation proposes to establish as a placeholder with an initial value of zero. However, the Power Forward Rider serves an important purpose: it provides AEP Ohio a mechanism to implement any programs, policies, or findings that may arise from the Commission's pending Power Forward proceeding. If approved, this proposed ESP will be in place until May 31, 2024. It is critical, therefore, that the ESP retain the flexibility to allow AEP Ohio to react to the outcome of the impending Power Forward initiative. Furthermore, the Power Forward Rider is founded on well-established Commission precedent. Many times in the past, for both AEP Ohio and for other utilities, the Commission has established placeholder riders as part of an ESP to be populated through an EL-RDR case at a later time.

Finally, the statutory MRO test is also satisfied under the Stipulation. In applying the statutory test, the Commission looks at the entire ESP as a total package, which includes a quantitative and a qualitative analysis. It is undisputed that the Stipulation does not change SSO generation pricing. The Company will continue to acquire all generation services for SSO customers from competitively bid wholesale auctions through the extended term of the ESP. As Staff witness Turkenton explained, because SSO generation rates have been 100% market-based since June 1, 2015, there should be no difference between market based generation rates under an MRO or an ESP filing. The ESP offers an array of quantitative benefits compared to an MRO, including the Residential Distribution Credit Rider, the Neighbor-to-Neighbor funding, the commitment to update the WACC rate for the anticipated debt refinancing and the litigation cost savings associated with the DIR mechanism. The ESP also offers numerous significant qualitative benefits related to reliability, rate stability and certainty, innovation, economic development, demand response, and retail competition.

OCC witness Haugh criticizes the benefits associated with the RDCR, DIR, and ESRR proposals contained in the Stipulation. As he concedes, however, the Commission has already previously, and unequivocally, determined that each of those riders is beneficial in the context of the MRO test. An additional flaw in Mr. Haugh's criticisms of those riders is that he ignores Commission precedent establishing that the revenue requirements associated with the recovery of incremental distribution investments are considered to be the same under the MRO test whether recovered through an ESP or through a distribution rate case conducted in conjunction with an MRO. In summary, the Stipulation easily passes the statutory MRO test and OCC's criticisms are unavailing.

Given the forgoing, the Commission should readily adopt the Stipulation as its order in these cases.

STANDARD OF REVIEW

Rule 4901-1-30 of the Ohio Administrative Code authorizes parties to Commission proceedings to enter into stipulations. Although stipulations are not binding on the Commission, their terms are accorded substantial weight. *See Consumers' Counsel v. Pub. Util. Comm.*, 64 Ohio St.3d 123, 125, 592 N.E.2d 1370 (1992) ("*Consumers' Counsel*"), citing *City of Akron v. Pub. Util. Comm.*, 55 Ohio St.2d 155, 157, 378 N.E.2d 480 (1978). That is especially true where, as here, the stipulation is supported or unopposed by the majority of parties in a proceeding. *See In re Application of Columbus S. Power Co.*, Case No. 09-1089-EL-POR, Opinion and Order at 20 (May 13, 2010) ("*In re Columbus S. Power Co.*"). Although the Commission may place substantial weight on the terms of a stipulation, it must determine from the evidence what is just and reasonable. *In re Application of Columbus S. Power Co.*, 129 Ohio St.3d 46, 2011-Ohio-2383, 950 N.E.2d 164, ¶ 19.

In evaluating a contested settlement, the Commission applies a well-established three-part test:

(1) Is the settlement a product of serious bargaining among capable, knowledgeable parties?
(2) Does the settlement, as a package, benefit ratepayers and the public interest?
(3) Does the settlement package violate any important regulatory principle or practice?

In re Columbus S. Power Co. at 21 (citing numerous cases in support of this standard). The Ohio Supreme Court has repeatedly approved this three-part test. *See, e.g., Indus. Energy Consumers of Ohio Power Co. v. Pub. Util. Comm.*, 68 Ohio St.3d 559, 561, 629 N.E.2d 423 (1994), citing *Consumers' Counsel*, 64 Ohio St.3d at 126.

An additional legal standard is also pertinent here. Because the Stipulation involves an ESP, the Commission should determine that the Stipulation meets the MRO test, which requires that an ESP be more favorable in the aggregate as compared to the expected results under a market rate offer. *See* R.C. 4928.143(C)(1). AEP Ohio addresses the MRO test in a separate proposition of law below.

OCC's attempts to modify the three-part test should be rejected. OCC's testimony opposing the Stipulation attempts to modify and otherwise obscure the Commission's three-part test, but these efforts should be rejected. While it is not yet entirely clear what OCC will argue on brief, the testimony filed in opposition to the Stipulation raises arguments at variance from the three-part test. The Commission should retain the three-part test without modification in evaluating the Stipulation in this case.

As the overall witness addressing the three-part test in this case for OCC, Mr. Haugh agreed during cross-examination regarding the second prong of the test (*i.e.*, whether the total package benefits customers and the public interest) that an individual provision in the Stipulation may or may not convey a benefit even where the total settlement package does convey benefits.

(Tr. IV at 514.) Yet, Mr. Haugh only testified as to four individual provisions in the Stipulation that allegedly do not provide benefits to ratepayers. (*Id.* at 513; OCC Ex. 8 at 4-14.) And although Mr. Haugh was the primary OCC witness to sponsor the three-part test analysis of the Stipulation, he admitted that he is "only evaluating the programs that are listed in my testimony." (Tr. IV at 518.) Thus, it appears that OCC is misapplying the three-part test. The Commission should not modify the second prong of the test; unlike the third prong (prohibiting violation of an important regulatory principle or practice), where an individual provision could trigger failure of that component of the test, the benefit/public interest prong must look at the totality of the settlement package and cannot focus exclusively on a handful of select provisions to conclude that no benefit is conveyed by a settlement as a whole.

Similarly, other OCC witnesses essentially ignore the three-part test and make the same arguments they made in the pre-settlement phase of the case. Merely repeating one's litigation position is not an appropriate basis for contesting a settlement. For example, OCC witnesses Haugh, Williams, and Duann included many of the same points they made in their pre-settlement direct testimony. (*See* OCC Ex. 2A at 4-5, 8-9; OCC Ex. 3A at 2-4, 6, 12-14, 29-30; OCC Ex. 8 at 5-8, 10-11, 15-18, 20-27.) Indeed, Dr. Duann's testimony in opposition to the Stipulation directly indicates that his original recommendations remain unchanged in light of the Stipulation. (OCC Ex. 3A at 3.) OCC's approach of just advancing its litigation position is also an inappropriate application of the three-part test, and such arguments cannot form the basis for rejecting the Stipulation. *Cf. Ohio Partners for Affordable Energy v. Pub. Util. Comm.'n (In re E. Ohio Gas Co.)*, 144 Ohio St.3d 265, 2015-Ohio-3627, ¶ 32 (holding that "[t]he fact that [a] stipulation did not resolve all of [an intervenor]'s opposition arguments does not mean that the commission's approval of the stipulation was unlawful.").

Although it is not clear what OCC plans to argue on brief regarding the diversity of the Signatory Parties (see *infra* at Section I.A.2), the diversity of parties consideration is not part of the three-part test. It cannot cause the Stipulation to fail the test, and it is not relevant. The Commission has repeatedly rejected OCC's attempts to obtain veto power over settlements. The Commission has made clear: "The Commission will not require OCC's approval of stipulations." *Dominion Retail, Inc. v. Dayton Power and Light Co.*, Case No. 03-2405-EL-CSS, *et al.*, Opinion and Order at 18 (Feb. 2, 2005); *see also In re Vectren Energy Delivery of Ohio, Inc.*, Case No. 13-1571-GA-ALT, Opinion and Order at 10 (Feb. 19, 2014); *In re FirstEnergy*, Case No. 12-1230-EL-SSO, *et al.* ("*FirstEnergy ESP III*"), Opinion and Order at 26 (July 18, 2012); *FirstEnergy ESP III*, Entry on Rehearing at 7-8 (Mar. 23, 2005). In fact, the first case that adopted the three-part test approved a stipulation that OCC opposed, and the Ohio Supreme Court affirmed that decision. *See Consumers' Counsel*, 64 Ohio St.3d at 126. The three-part test has served the Commission well for decades; it should not be altered in this proceeding.

ARGUMENT

I. The Stipulation satisfies the three-part test for evaluation of contested settlements.

The Stipulation satisfies the three-part test. Regarding the first prong, OCC did not submit any testimony contesting the first prong and the Stipulation here was clearly the product of serious bargaining among capable, knowledgeable parties (including OCC). Thus, the first prong is met.

Regarding the second prong (Stipulation package benefits customers and the public interest), OCC misapplies this component of the test by examining select provisions of the Stipulation and concluding that those provisions do not convey benefits. OCC admittedly fails to comprehensively examine the total package of the Stipulation and, consequently, its analysis misses the mark. Moreover, OCC advances largely the same litigation position it put forth prior to the settlement being formed; this approach also fails to effectively apply the three-part test. Beyond those threshold flaws in OCC's approach, the Company will demonstrate that the record manifestly supports a finding that the Stipulation satisfies the three-part test and a finding that the testimony filed in opposition to the Stipulation falls short of demonstrating that the Stipulation fails the test. Below, each of the major provisions of the Stipulation are examined under the second prong based on the record, to demonstrate the benefits to customers and the public interest.

OCC explicitly challenges only three individual provisions under the third prong of the test, claiming that the Competition Incentive Rider, the Supplier Consolidated Billing pilot and the Renewable Generation Rider all violate important regulatory principles. But none of those provisions violates any important regulatory principle. OCC also generally challenges the ROE and the Smart City Rider/ Power Forward Rider, but those claims lack support and do not demonstrate that those aspects of the Stipulation violate any important regulatory principle or practice.

A. The Stipulation is the product of serious bargaining among capable, knowledgeable parties.

The first prong of the three-part tests asks whether a settlement is "a product of serious bargaining among capable, knowledgeable parties." *In re Columbus S. Power Co.* at 21. The Stipulation here easily satisfies that standard. Indeed, OCC did not submit any testimony contesting that the first prong is met.[1]

[1] OCC's testimony opposing the Stipulation did address one matter relating to negotiations, but that was not a challenge under prong one of the settlement test. Mr. Haugh included Q/A24 in his testimony. (OCC Ex. 8 at 15.) Mr. Haugh's Q/A 24 addresses a meeting to establish the initial level of the CIR as it relates to the provision in the PPA Rider Stipulation (§ III.C.12)

1. The Stipulation satisfies the first prong of the settlement test.

The Stipulation is the result of a lengthy negotiation involving experienced representatives of many stakeholder groups. The negotiating parties included a variety of diverse interests, including industrial, commercial and residential customers; generation suppliers; CRES providers; environmental groups; and Staff. (AEP Ohio Ex. 1 at 3-4, 19-20; Jt. Ex. 1 at 2, 39 (§III.Q(a)); Staff Ex. 3 at 3.) All negotiating parties were capable and knowledgeable and were represented by experienced counsel; nearly all parties were frequent participants in Commission proceedings. (AEP Ohio Ex. 1 at 19-20; Jt. Ex. 1 at 1, 39 (§III.Q(a)); Staff Ex. 3 at 3.)

The negotiation process was long and involved numerous meetings and discussions with all negotiating parties. (AEP Ohio Ex. 1 at 19-20.) The Stipulation is the product of an intense negotiation period of several months that culminated in the filing of the Stipulation on August 25, 2017. (*Id*.) Throughout that process, all parties were represented and their views were seriously considered. Under the first prong of the test, therefore, the Stipulation is the product of serious bargaining among capable, knowledgeable parties.

2. The Stipulation would satisfy the first prong of the three-part test even under OCC's erroneous "diversity of interests" standard.

OCC witness Haugh also asserts in his discussion of the three-part test that the Commission routinely consider whether the Signatory Parties represent diverse interests. (OCC

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requiring that Signatory Parties in that case (which OCC was not) meet to discuss the initial level of the CIR to be proposed. The Company did conduct the required meeting prior to proposing an initial level of the CIR in its Amended Application (and initial testimony) in this case, thus fulfilling that provision. (AEP Ohio Ex. 3 at 11; Allen Direct Test. at 5 (Nov. 23, 2016).) Mr. Haugh acknowledged that Q/A 24 was not intended to address the first prong of the test. (Tr. IV at 547-549.)

Ex. 8 at 3.) Although OCC has historically raised the "diverse interests" argument in connection with the first prong of the test (serious bargaining among capable, knowledgeable parties), Mr. Haugh confirmed here that his testimony offered no opinion regarding the first prong of the test. (Tr. IV at 513.) In any case, diversity of interests among Signatory Parties is not an element of the first prong of the three-part test.

As the Commission explicitly held in its Opinion and Order in the *PPA Rider*[2] case:

> *The three-prong test utilized by the Commission and recognized by the Ohio Supreme Court does not incorporate the diversity of interest component, as presented by OCC* and APJN. We reject OCC/APJN's attempt to revise the test to evaluate stipulations based on the diversity of signatory parties (OCC Ex. 36 at 2; OCC Ex. 33 at 3). OCC also seeks to hold itself out as the only party speaking for the interests of residential consumers. The Commission has repeatedly determined that we will not require any single party, including OCC, to agree to a stipulation, in order to meet the first prong of the three-prong test. *In re Vectren Energy Delivery of Ohio, Inc*., Case No. 13-1571-GA-ALT, Opinion and Order (Feb. 19, 2014) at 10; *In re FirstEnergy*, Case No. 12-1230-EL-SSO, Opinion and Order (July 18, 2012) at 26, *citing Dominion Retail, Inc. v. The Dayton Power and Light Co*., Case No. 03-2405-EL-CSS, et al., Opinion and Order (Feb. 2, 2005) at 18, Entry on Rehearing (Mar. 23, 2005) at 7-8.

(Emphasis added.) *PPA Rider*, Opinion and Order at 52-53 (Mar. 31, 2016). Moreover, during cross-examination, OCC witness Haugh directly admitted that whether the Signatory Parties represent diverse interests is only an additional consideration for the Commission and is not part of the three-part test. (Tr. IV at 516.) But Mr. Haugh also steadfastly refused to agree that any of the Signatory Parties represented residential customer interests. (*Id.* at 516.)

Specifically, Mr. Haugh disagreed that Ohio Partners for Affordable Energy (OPAE) represents low-income customers; he instead described OPAE as "a trade group that represents weatherization providers." (*Id.*at 517.) But that is simply false. OPAE is a vociferous advocate for residential customers – and a frequent participant in Commission rate proceedings – as the

[2] Case Nos. 14-1693-EL-RDR, *et al.*

Commission has recognized. *See, e.g. FirstEnergy ESP III*, Opinion and Order at 26 ("OPAE advocates on behalf of low and moderate-income customers."). OCC may wish that it had a monopoly on residential advocacy, but it does not. Thus, OPAE's support of the Stipulation as a Signatory Party represents residential interests.

Mr. Haugh also refused to acknowledge that the environmental groups that are Signatory Parties represent members who are residential customers. (Tr. IV at 517.) But it is axiomatic that the members of all these environmental groups are individuals who are residential customers. Importantly, moreover, the Commission's Staff carefully considers impacts of rate proposals on residential customers, and Staff has expressed complete support for the Stipulation. OCC witness Haugh admitted as much, testifying that "staff's position is to represent all parties, or all customer classes." (*Id.* at 517.)

Nonetheless, even if a "diversity of interests" were required (it is not), the Stipulation here would easily fulfill that criterion. Among the Signatory Parties, there are representatives from every customer group and interest, including a representative from every group that participated in the negotiations. This includes representatives from industrial customers (OEG, IEU, OMAEG), commercial customers (OHA, Kroger, WalMart), and residential customers (OPAE, as well as Staff, as discussed above). It includes generators (MAREC), the Electric Vehicle Charging Association (EVCA), and major CRES providers (RESA, Constellation, IGS, Direct Energy, Commerce). It also includes vocal and well-funded environmental advocates with presences both in Ohio and across the nation (OEC/EDF, ELPC, Sierra Club). And, most importantly, the Stipulation is fully supported by Staff. (Jt. Ex. 1 at 41; AEP Ohio Ex. 1 at 3; Staff Ex. 3 at 2-3.) This is unquestionably a "diversity of interests."

In sum, the Stipulation includes multiple parties that advocate for residential customers – as well as a broad coalition of other customer groups and interests – and even if the "diversity of interests" were the standard (it is not), that standard would be satisfied here.

B. The Stipulation as a package benefits ratepayers and the public interest.

1. The rate case filing commitment and the debt refinancing update option are components of a settlement package that benefits ratepayers and the public interest.

As part of the overall settlement of this case, AEP Ohio has committed to file a base distribution rate case by June 1, 2020. (Jt. Ex. 1 at 4 (§III.C.1).) As AEP Ohio witness Allen explained, the Company's base rate case commitment provides certainty to customers regarding the timing of a base rate case that they otherwise would not have. (AEP Ohio Ex. 1 at 17.) Moreover, the base rate case commitment will "help address concerns [that some parties may have] about some of the distribution riders becoming excessive" and will "recalibrate the costs reflected in base rates versus riders." (Jt. Ex. 1 at 4 (§III.C.1).) That commitment is a beneficial component of the Stipulation.

Upon approval of the Stipulation and until new rates are effective with a new authorized return on equity under the next distribution rate case order, the Company has agreed that an ROE of 10.0% will prospectively be used for all riders that have a capital component. (*Id.* at 6 (§III.C.5).) However, if AEP Ohio completes a new long-term debt financing or refinancing prior to the next base rate case, the Company agrees to update its WACC rate within 90 days of closing for such transaction, to the extent the update would be favorable to ratepayers. (*Id.*) That one-way adjustment, by its terms, can only be favorable to ratepayers. (*Id.*; AEP Ohio Ex. 1 at 6.) And, it is not something that the Company would be obligated to do, absent the Stipulation.

OCC witness Duann criticizes the Company's one-time agreement to update its WACC rate to customers' benefit, utilizing a self-serving analysis and selectively chosen and incorrect inputs to "demonstrate" that the one-time WACC rate update supposedly will not benefit customers. (OCC Ex. 3A at 19-26.) Dr. Duann's position is predicated upon his incorrect assumption that the Company's capital structure will also change as a result of the debt refinancing update. (*Id.* at 22-26.) The Stipulation, however, provides that the Company's cost of capital will be as reflected in Attachment B to the Stipulation and will be updated "based on the outcome of the next AIR case." (Jt. Ex. 1 at 6 (§III.C.5).) Thus, prior to the next base rate case – and during the period within which the debt refinancing contemplated in the Stipulation would occur – the Company's capital structure will be as reflected in Attachment B to the Stipulation. Importantly, Dr. Duann *agrees* that a lower WACC rate as a result of debt refinancing would be favorable to ratepayers under these circumstances:

> [I]f we are using the same capital structure and if AEP [Ohio] does go through [with the] refinance and AEP Ohio can get an interest rate lower than what they – what they are paying right now, 6.05 percent, then that – then considering other transaction costs, if that's all true and it does lower the cost of debt, then that would be a benefit to customers.

(Tr. II at 283-284.) Thus, because the Stipulation does not contemplate using an updated capital structure, even OCC's witness agrees that the one-way debt refinancing WACC update component of the Stipulation benefits ratepayers and the public interest.

2. The DIR and related commitments are part of a settlement package that benefits ratepayers and the public interest.

In 2011, the Commission approved the Distribution Investment Rider "as an appropriate incentive to accelerate recovery of the Compan[y's] prudently incurred costs" for ensuring the reliability of its distribution system. *ESP II*,[3] Opinion and Order at 46 (Dec. 14, 2011). "The DIR program supports the replacement of aging infrastructure and the improvement of system reliability." (AEP Ohio Ex. 3 at 13.) In particular, it "provide[s] capital funding for distribution assets needed to support [the Company's] distribution asset management program, distribution capacity and infrastructure additions driven by customer demand[,] and * * * the continued implementation of advanced technology[,] including AEP Ohio's gridSMART® initiative." (*Id.* at 13-14.) Similarly, in the *ESP III*[4] proceedings, the Commission recognized that the DIR proactively "facilitate[s] the timely and efficient replacement of aging infrastructure." *ESP III*, Opinion and Order at 40, 47 (Feb. 25, 2015). The Stipulation continues these benefits and more.

Under the Stipulation, AEP Ohio will continue the DIR through May 31, 2024, so long as AEP Ohio files a distribution rate case application by June 1, 2020. (Jt. Ex. 1 at 4 (§III.C.1).) Otherwise, the DIR will sunset on December 31, 2020. (*Id.* at 4-5 (§III.C.2).) AEP Ohio will continue to update the DIR quarterly (with rates effective 60 days after filing, unless otherwise ordered by the Commission). (*Id.* at 4 (§III.C.2).) The DIR will continue to be subject to an annual compliance audit, with audit costs recoverable under the DIR. (*Id.*)

OCC witness Williams recommends that the Commission "end customer funding of the DIR" at the end of May 2018. (OCC Ex. 2A at 7.) Yet, as noted above, the Commission has twice approved the DIR, in the *ESP II* and *ESP III* cases. And even OCC witness Effron broke from his colleague, testifying that, unlike Williams, he hadn't "made the recommendation the DIR should be eliminated entirely." (Tr. III at 353.) OCC witness Williams's testimony offers the Commission no reason to discontinue the longstanding and successful DIR program.

[3] Case Nos. 11-346-EL-SSO, *et al.*

[4] Case Nos. 13-2385-EL-SSO, et al.

Next, the Stipulation lowers the Company's proposed revenue caps. AEP Ohio's Amended Application originally proposed revenue caps for the DIR ranging from $136 million for the last seven months of 2018 to $373 million in 2021, with further increases through the first five months of 2024. (*See* OCC Exhibit 4 at 5.) OCC witness Duann testified that these caps were inappropriate. Instead, Witness Duann recommended alternative caps that ranged from $215 million for 2018 to $290 million in 2021, again with further increases through the first five months of 2024. (*See id.* at 6.)

The Stipulation modified the DIR annual revenue caps proposed in the Company's Amended Application:

	2018	2019	2020	2021
Application	$233 million (annualized)	$312 million	$343 million	$373 million
Stipulation	$215 million	$240 million	$265 million	$290 million

(Jt. Ex. 1 at 4-5 (§III.C.2).) These annual revenue caps will provide increased rate certainty. (AEP Ohio Ex. 1 at 17.) Starting in 2019, moreover, AEP Ohio will be able to carry over no more than $5 million of unused revenue requirement from the prior year. (Jt. Ex. 1 at 5 (§III.C.2).) And if the unused revenue requirement from any year is greater than $ 5 million, that amount over $5 million will be subtracted from the next year's revenue cap. (*Id.*) Both of these provisions have the potential to lower customers' bills. OCC has not challenged the proposed annual revenue caps or the stipulated limitation on carrying over unused revenue requirements.

Additionally, AEP Ohio will update its depreciation rates, effective January 1, 2018, to match the rates in the November 29, 2016 Depreciation Study filed in AEP Ohio's *ESP III* case. (Jt. Ex. 1 at 5-6 (§III.C.4).) AEP Ohio will amortize the theoretical reserve imbalance of approximately $240 million, adjusted for the 2016 and 2017 amortization and a reallocation based on the retirement of non-AMI meters, based on the schedule in Attachment A to the Stipulation. (*Id.* at 6 (§III.C.4).) AEP Ohio will give Staff an updated theoretical reserve study every year until the Company files its next distribution rate case. (*Id.*) And, for any reserve under accrual, AEP Ohio agrees not to amortize it to correct it until either the next two rate cases or until the reserve recovers from the accelerated gridSMART generated retirements, whichever happens first. (*Id.*) All of these provisions will benefit the Company's customers, and OCC has challenged none of them.

Under the Stipulation, AEP Ohio will also continue the Residential Distribution Credit Rider, which "prevent[s] excess collection of distribution revenue associated with collection of the [DIR],"[5] until new rates go into effect as a result of an order in the Company's next distribution rate case. (Jt. Ex. 1 at 5 (§III.C.3).) The RDCR credit will equal approximately $14.6 million annually and will save the typical customer using 1,000 kWh / month approximately $11.40 each year. (AEP Ohio Ex. 1 at 6, 21.)

During the same period, AEP Ohio will continue to give $1 million each year to the Neighbor-to-Neighbor Program, a low-income bill-payment-assistance funding program.[6] (*Id.* at 6; Jt. Ex. 1 at 5 (§III.C.3).) Continuing its support of the Neighbor-to-Neighbor Program will provide needed financial assistance to the Company's residential low-income customers. (AEP Ohio Ex. 1 at 22; Tr. I at 172.)

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[5] *In the Matter of the Application of Columbus Southern Power Company and Ohio Power Company, Individually and, if Their Proposed Merger is Approved, as a Merged Company (collectively, AEP Ohio) for an Increase in Electric Distribution Rates*, Case Nos. 11-351-EL-AIR, *et al.* ("*2011 Distribution Rate Case*"), Opinion and Order at 5 (Dec. 14, 2011).

[6] *2011 Distribution Rate Case*, Opinion and Order at 6.

The Commission previously held, in *ESP III*, that continuing the RDCR was "reasonable" and that the Company's funding for the Neighbor-to-Neighbor program was "an essential element of the [RDCR] that furthers the state policy in R.C. 4928.02(L)." *ESP III*, Opinion and Order at 64-65. OCC fails to take either of these recognized benefits into account when weighing the Stipulation as a package.

For all of these reasons, the Commission should reaffirm that the DIR and the RDCR provide real benefits to AEP Ohio's customers and the public that support the adoption of the total Stipulation package.

3. The Smart City Rider is part of a settlement package that benefits ratepayers and the public interest.

As part of the Stipulation, the Signatory Parties agreed to establish a new Smart City Rider to recover costs associated with technology demonstration projects for electric vehicle charging stations and microgrids. (*See* AEP Ohio Ex. 1 at 8; Jt. Ex. 1 at 10 (§III.F).) Cost recovery through the SCR is to be capped at $21.1 million over four years, with specific amounts allocated to each SCR cost component. (*See* AEP Ohio Ex. 1 at 8.)

The SCR, as part of a package with the other Stipulation provisions, will bring many benefits to customers. The SCR will promote the development of markets for electric vehicles and microgrids by encouraging adoption of these technologies and developing data to demonstrate their value to the grid and to customers. (*See* Staff Ex. 1 at 3.) The SCR will allow AEP Ohio to conduct research and development concerning these technologies and "produce data and information that can better inform decision makers on related policy matters." (*Id.*) With the likelihood that these technologies will become more prevalent in AEP Ohio's service territory in the future, it is vital that AEP Ohio, the Commission, and stakeholders understand their use and potential.

The electric vehicle charging station portion of the SCR will bring value to customers. As proposed in the Stipulation, AEP Ohio will offer up to $10 million in rebates on a competitively neutral basis to help customers defray the cost of installing electric vehicle charging stations. (*See* AEP Ohio Ex. 1 at 10-11.) AEP Ohio will provide these rebates for up to 300 Level 2 charging stations and 75 DC Fast charging stations. (*Id.*) AEP Ohio has committed in the Stipulation to ensure that at least 10% of the chargers in this program are provided to low-income geographic areas. (*Id.* at 10.) AEP Ohio also has made specific commitments about gathering usage data from the charging stations and sharing this data with Staff and stakeholders in the form of a public final report. (*Id.* at 10-11.)

The benefits of the proposed electric vehicle charging station rebate program are recognized by Staff and other parties to the Stipulation. Staff emphasizes the importance of the final report that AEP Ohio will submit, explaining that the information in this report "will allow Staff and other parties to better understand and assess siting considerations and pricing programs to optimize resources and ensure system reliability." (Staff Ex. 1 at 3-4.) This point is echoed by the EVCA, which notes that the information to be collected will "inform better utility planning decisions and help maintain reliability and affordability." (EVCA Ex. 1 at 16-17.) EVCA and Staff also explain how the rebate program will "foster a scalable and sustainable competitive market for electric vehicles and charging stations in Ohio." (EVCA Ex. 1 at 12-13; *see also* Staff Ex. 1 at 3.)

The microgrid portion of the SCR will bring considerable benefits to customers as well. As Company witness Allen explained:

> A microgrid is a small-scale power grid that can operate independently (called "islanding") or in conjunction with an area's main electric grid. The critical components of a microgrid are a batter storage system and smart controls that can island the microgrid and keep power flowing within the microgrid using energy

> stored in the batteries. Microgrids sometimes also include small-scale generation such as solar arrays, wind turbines, or small gas-fired generators that can supplement the energy and capacity provided by battery storage systems during islanding.

(AEP Ohio Ex. 1 at 9.) The Stipulation allows AEP Ohio to recover costs through the SCR in connection with the establishment of one or more microgrid demonstration projects, with total SCR cost recovery not to exceed $10.5 million. (*Id.* at 8.) The demonstration microgrids will principally target non-profit, public-serving AEP Ohio customers. (*Id.* at 9.) As with the charging station rebate program, the microgrid demonstration projects will allow AEP Ohio to gather valuable data and experience that can better inform future microgrid deployments and aid Staff and other stakeholders in making policy decisions in the future. (*See* Staff Ex. 1 at 3.)

4. The Enhanced Service Reliability Rider is part of a settlement package that benefits ratepayers and the public interest.

The Enhanced Service Reliability Rider provides a mechanism through which AEP Ohio can recover actual costs for its critical and proactive vegetation/tree trimming program. AEP Ohio has agreed to maintain its current four year trimming cycle. (AEP Ohio Ex. 1 at 13; Jt. Ex. 1 at 34 (§III.J.17).) AEP Ohio's current ESRR recovery is $27.6 million annually, and AEP Ohio initially proposed a 2.5% annual increase in this amount to reflect increased costs and expenses associated with the program. (Dias Direct Test. at 14 (Nov. 23, 2016).) AEP Ohio agreed as part of the Stipulation to withdraw its request for that 2.5% annual increase. (Jt. Ex. 1 at 34 (§III.J.17).) AEP Ohio will continue to collect $27.6 million annually for its vegetation/tree trimming program, but the ESRR will sunset on December 31, 2020, and be reset to zero if a new rate case is not filed by June 1, 2020. (*Id*.) Importantly, the Commission annually reviews costs recovered through the ESRR for prudency.

The ESRR funds AEP Ohio's critical program of clearing its circuits of trees and vegetation that could pose a danger to AEP Ohio's lines and facilities. This program directly reduces the risk of trees and vegetation contacting power lines and poles during weather-related events. *ESP III*, Opinion and Order at 47. The benefits of the ESRR are well-established and this is a longstanding program approved in every ESP to date. The ESRR was originally approved by the Commission in *ESP I*,[7] and was again approved in *ESP II* and *ESP III*. *Id.* at 47-49. Further, in *ESP III*, Staff had reservations about AEP Ohio's request to increase the annual recovery amount to the current level. *Id.* at 48. Despite Staff's reservations, the Commission approved AEP Ohio's requested ESRR. *Id.* at 49.

Through the ESRR proposal contained in the Stipulation, the Signatory Parties are simply requesting a continuation of funding at the rider's current annual $27.6 million level. AEP Ohio has withdrawn its request for any annual increase. (Jt. Ex. 1 at 34 (§III.J.17).) The ESRR only permits recovery of dollars actually spent on vegetation management. OCC witness Williams admitted during cross-examination that ESRR costs are based on "actual dollars spent" by AEP Ohio for this program, and that these costs are independently reviewed by the Commission. (Tr. II at 229.) AEP Ohio is simply seeking to continue to collect the actual dollars it spends keeping its transmission circuits and distribution lines clear from potential dangers, which in turn, promotes safe and reliable electric service for its customers.

OCC's objection is based on the unsupported claim that AEP's vegetation and tree trimming program is not "effective in significantly reducing outages caused by trees." (OCC Ex. 2A at 8.) OCC witness Williams testified at hearing, however, that AEP Ohio exceeded its Commission-established service reliability standards, as measured by SAIFI and CAIDI, for the years 2013-2016. (Tr. II at 205.) Mr. Williams also argues that any vegetation and tree trimming costs should be addressed in a base rate case, as opposed to recovery through a rider

[7] Case No. 08-917-EL-SSO, *et al.*

such as the ESRR. (OCC Ex. 2A at 9.) The familiar refrain from OCC that these types of costs should only be addressed through a distribution rate case ignores the fact that rate cases are expensive and time-consuming for the utilities and all related parties, and the costs of those rate cases are ultimately passed on to consumers. The creation and implementation of reviewable and verifiable rider mechanisms, such as the ESRR, alleviates the need for constant base rate cases.

Maintaining a proactive vegetation and tree trimming program is critical to securing safe and reliable electric service for AEP Ohio's customers. The costs associated with this program are independently reviewed by Staff for prudence. AEP Ohio's request for a continuation of its current ESRR annual recovery, foregoing what would typically be a reasonable annual increase, demonstrates that AEP Ohio is committed to providing this service to its customers at a fair and reasonable cost.

5. The IRP-D Rider is part of a settlement package that benefits ratepayers and the public interest.

The IRP Tariff provision of the Stipulation (Jt. Ex. 1 at 20-26 (§III.I)) addresses the IRP Service and General Terms and Conditions of the Tariff and adds benefits to the Stipulation package. Participation in AEP Ohio's IRP program will be expanded from 200 MW to 480 MW of interruptible load and will be divided into three categories of IRP service: a) Legacy Customers IRP for the two existing IRP-D participants; b) Expanded IRP for existing AEP Ohio customers who are not currently participating in the IRP program; and c) New Industry IRP for customers that are new to the AEP Ohio service area. (*Id.*) Beginning June 1, 2018, the Legacy Customers IRP credit will increase from $8.21/kW-month to $9/kW-month. (*Id.* at 22.) The Expanded IRP will include an additional amount of up to 160 MW of interruptible capacity to be made available as outlined in the Stipulation. (*Id.* at 23.) The Expanded IRP Credit will be calculated by multiplying the quantity of the monthly interruptible capacity times the RPM BRA market clearing price for the AEP Zone in the applicable PJM Delivery Year times 0.7. (*Id.* at 25.) Total AEP Ohio retail payments for the Expanded IRP will be capped at $28.5 million in the aggregate. (*Id.*) And finally, for the New Industry IRP category, the Company will offer up to 120 MW for new industrial operations. (*Id.* at 26.) The credit for the New Industry IRP will be calculated in the same manner as for the Expanded IRP. (*Id.*) The New Industry IRP program will be capped at a total expenditure by AEP Ohio of $22.2 million in credits paid in the aggregate to New Industry IRP program participants. (*Id.*)

As part of his discussion of the second prong (the settlement package benefits customers and the public interest), OCC witness Haugh offers two main concerns about the IRP credits not being justified or beneficial: (1) the program "is giving payments only to parties that signed or did not oppose" the Stipulation, and (2) "demand response is part of the PJM portfolio for reliability and it is best managed by the regional transmission organization, not the local utility." (OCC Ex. 8 at 7.) Neither of these concerns is valid, nor do they offset the benefits associated with the IRP program for purposes of evaluating the Stipulation under the three-part test.

Regarding Mr. Haugh's first concern, AEP Ohio witness Allen confirmed that the Stipulation's IRP Tariff program is not limited to Signatory Parties. (Tr. I at 56-57.) He stated that the IRP legacy customers are not Signatory Parties and that New Industry IRP customers are not required to be Signatory Parties. (*Id.* at 57.) Upon cross-examination, OCC witness Haugh admitted that the Legacy IRP participants are not Signatory Parties and he agreed that nothing in the Stipulation limits participation in the New Industry IRP program to Signatory Parties. (Tr. IV at 523-524.) Moreover, Mr. Haugh was not aware of any customers that are otherwise eligible and interested in participating in the IRP program that are not permitted to do so under the Stipulation. (*Id.* at 525.) So, his concern about limiting IRP program participation to Signatory Parties is misguided and academic, at best.

Mr. Haugh's second concern about demand response being more appropriate for PJM than local utilities is also flawed. As a threshold matter, his position ignores that electric distribution utilities in Ohio have a statutory obligation to meet mandatory peak demand reductions under R.C. 4928.66. The peak demand reductions achieved under the IRP program count toward AEP Ohio's compliance and provide value in that respect to all customers. Mr. Haugh admitted that customers participating in the IRP program are distinguished from all other customers because they are subject to interruption. (*Id.* at 522.) Thus, the voluntary sacrifice in the level of service quality and the compliance value of the peak demand interruptions create value and benefit to other non-participating customers.

As a related matter, Mr. Haugh's position that there is no incremental value to AEP Ohio's program (as compared to PJM's demand response programs) is also wrong. Mr. Haugh acknowledged that there were distinct differences between the PJM programs and AEP Ohio's IRP program (*e.g.*, advance warning times for curtailment, calculation of the load subject to interruption, the penalties for failing to curtail). (*Id.* at 505-507.) And he agreed that a curtailment notice under the IRP program can be the result of either a PJM emergency event or a local emergency called by AEP Ohio. (*Id.* at 505.) Mr. Haugh further acknowledged that PJM programs in effect today do not permit year-round interruption. (*Id.* at 527.) Indeed, the Polar Vortex curtailments from January 2014 were not mandatory under the PJM programs. (*Id.* at 528.) But the IRP program in effect during 2014, as with the current program, required mandatory curtailment. (*Id.* at 528-529.) Even if historical interruptions of this critical nature had not occurred, the potential for such interruptions in the future demonstrates the IRP program's value.

The Commission has determined in the last two ESP proceedings that the IRP program is beneficial to all customers. *See ESP III,* Opinion and Order at 40, citing *ESP II*, Opinion and Order at 26, 66 (Aug. 8, 2012) ("[T]he Commission agrees * * * that the IRP-D offers numerous benefits, including the promotion of economic development and the retention of manufacturing jobs, and furthers state policy, which we recognized in the ESP 2 Case.). Mr. Haugh openly admitted that he disagrees with the Commission's finding that the IRP program offers numerous benefits and further Ohio's effectiveness in the global economy. (Tr. IV at 521.) But based on the Commission's prior ESP findings and the record evidence here, there can be no question that the Stipulation's modification and continuation of the IRP program is a provision that creates benefits for other customers as part of the total settlement package.

6. The BTCR Pilot is part of a settlement package that benefits ratepayers and the public interest.

The BTCR Pilot Program, continued in Section III.J.8 of the Stipulation (Jt. Ex. 1 at 28-31), will adopt a billing mechanism using the participating customers' coincident peak (1 CP) as established through PJM. This provision also adds benefits to the Stipulation package. Participating customers are required to provide preliminary participation requests by December 1st each year. (AEP Ohio Ex. 1 at 14.) Participating customers' transmission rates will change on January 1st each year based on their new 1CP as applied to the then-current rate. (*Id.*) The Company will file its BTCR filing on January 15th each year, with rates effective 75 days after the filing unless otherwise ordered by the Commission. (*Id.*) Pilot customers' rates will then change again on April 1st each year based on the updated transmission rates. (*Id.*)

The Stipulation limits participation in the Pilot BTCR to 34 customers to be signed up by the sponsoring parties, as follows: 10 for OMAEG members, 10 for OEG members, 9 for IEU – Ohio members, 3 for Direct Energy public school customers, and 2 for IGS customers. (*Id.*; Jt. Ex. 1 at 28.) The total load under the BTCR will also be limited to up to 400 MW in 2018, and to up to 500 MW in 2019 and 2020 for the participation described above. (Jt. Ex. 1 at 29.) If the load of the participating 34 customers exceeds the limits, there will be a reallocation of the 1CP so that the total estimated savings under the BTCR Pilot for that year is equal to what would have occurred if the subscription met the limit. (*Id.*) An additional 20 MW of load will be available for schools and will not be limited in the number of participants. (*Id.*) However, the same reallocation as stated above will apply to the school load for any subscription over 20 MW. (*Id.*) The BTCR Pilot will continue in operation until the effective date of the new rates in the Company's base distribution case. (*Id.* at 28.)

OCC witness Haugh seemed to acknowledge the underlying purpose and benefit of the BTCR Pilot program when he suggested that the program "should seek out the customers that can benefit the goal of reducing load at peak times," but he incorrectly went on to claim that only Signatory Parties can benefit from the program. (OCC Ex. 8 at 10.) Upon cross-examination, however, Mr. Haugh admitted that there is nothing in the Stipulation that restricts the 20 MW set-aside for schools to entities with Signatory Party status. (Tr. IV at 538.) The 20 MW set-aside for schools provides a significant benefit to non-Signatory Parties. And Mr. Haugh did not identify any customer that is able to participate and interested in participating in the BTCR Pilot that has been excluded – so his criticism is not only wrong, but it is also academic and artificial. In any case, OCC's initial criticism of the BTCR Pilot lacks merit.

Next, Mr. Haugh criticizes the BTCR Pilot as encouraging customers to jump back and forth into the pilot. (OCC Ex. 8 at 9.) But during cross-examination, he acknowledged that if a customer did not meet the 1CP for a given calendar year and wanted to drop out of the program, that customer would have to continue paying the BTCR Pilot rate for several months before being able to drop back to the normal BTCR rate. (Tr. IV at 536-537.) That enrollment process hardly promotes gaming the system or jumping back and forth, as Mr. Haugh's written testimony suggested.

More to the point of the program, Mr. Haugh was correct in focusing on seeking out the customers that can benefit the goal of reducing load at peak times. That is the purpose of the pilot program. Of course, as a pilot program, the BTCR Pilot is intended to provide learning and experience to fully understand the potential benefits or barriers to an effective long-term program. The BTCR Pilot program was initially created in Section IV.G of the Global Settlement Stipulation (pages 16-19). *See* Case No. 10-2929-EL-UNC, *et al.*, Order on Global Settlement Stipulation ("Global Settlement Order") at 32-35 (Feb. 23, 2017). In the Global Settlement Order, the Commission found as follows:

> Further, the Global Settlement Stipulation * * * accelerates the implementation of the BTCR pilot program. Accordingly, based on the evidence presented, the Commission finds the Global Settlement Stipulation, as a package, benefits ratepayers and the public interest. Thus, the Commission finds that the Global Settlement Stipulation meets the second criterion of the three-part test to evaluate stipulations.

Global Settlement Order at 47.

Thus, the Commission found that the BTCR Pilot creates benefits in the context of the Second Prong of the three-part test and it should reaffirm that finding here because continuation and expansion of the BTCR Pilot program adds benefits to the total Stipulation package.

7. The Automaker Credit is part of a settlement package that benefits ratepayers and the public interest.

The Automaker Credit, being proposed in this case under Section III.J.11 of the Stipulation (in fulfillment of Section III.C.8 of the *PPA Rider* Stipulation), is a $10 per megawatt-hour credit for consumption above the customer's baseline consumption level in 2009. (*See* Jt. Ex. 1 at 31 (§III.J.11); Tr. I at 72.) As AEP Ohio witness Allen explained, the Automaker Credit is limited to $500,000 annually, with recovery through the EDR. (Tr. I at 73.) The Automaker credit tariff will be reflected in the compliance tariff to be filed after the Commission adopts the Stipulation. (*Id*.) The Automaker Credit adds benefits to the Stipulation package.

OCC witness Haugh criticizes the Automaker Credit's incorporation of a 2009 baseline for usage as lacking justification and claims that it "greatly increases the amount of the credit." (OCC Ex. 8 at 11.) But AEP Ohio witness Allen explained that the Stipulation used 2009 as the baseline period for the Automaker Credit to incent producers within AEP Ohio's service territory to maintain production above those levels, to provide economic development benefits within the Company's service territory. (Tr. I at 55-56.) And during cross-examination, Mr. Haugh admitted that his criticism of the 2009 baseline assumes that there have been increases in production since 2009. (Tr. IV at 540.) He further admitted that changing the baseline to a different year "may or may not" increase the credit. (*Id.* at 541.) And Mr. Haugh did not look at specific automaker customers in the Company's service territory as part of his analysis. (*Id.* at 540.) But he did acknowledge that the size of the credit would not be affected if an automaker did not increase its production between 2009 and the time it took advantage of the credit. (*Id.* at 541.) Finally in this regard, Mr. Haugh agreed that the baseline would be zero for any new automaker that was incented to locate in AEP Ohio's service territory, in part, to take advantage of the credit – regardless of the year selected for the baseline. (*Id.* at 541-542.)

Thus, if the Commission approves the Stipulation, an automaker would be incented in 2018 to locate or expand in the Company's service territory. That provides an economic development benefit to customers in the Company's service territory. The Stipulation's Automaker Credit provision creates benefits for other customers as part of the total settlement package.

8. The enroll from your wallet program is part of a settlement package that benefits ratepayers and the public interest.

Since the introduction of customer choice in 2001, numerous developments and enhancements have been employed by Ohio, its electric distribution utilities and CRES providers to ensure that customers are able to safely, easily and effectively procure competitive electric service. Currently, in order for a customer to choose competitive generation service from a CRES provider in the AEP Ohio service territory, a customer must provide the CRES provider with a unique service delivery identifier ("SDI") number as an authorization. (AEP Ohio Ex. 1 at 16.) The SDI number can be found on a customer's AEP Ohio bill or the customer may contact AEP Ohio directly to obtain the SDI number. This is done by supplying the phone number associated with the customer's account and either the last four digits of the customer's social security number or the amount of one of the customer's last three bills. (Jt. Ex. 1 at 38 (§III.P).) In order for a customer to enroll into a CRES provider's service, the customer must provide the SDI number it obtained from its bill (or from directly contacting AEP) to the CRES provider, who then must provide the customer's unique SDI number to AEP Ohio.

Because customers do not normally have their SDI numbers available when outside their homes, that requirement complicates the ease of customer switching. (RESA Ex. 1 at 15.)

Today, in our world of mobile commerce and internet-enabled transactions, providers of goods and services are focused on customers' ability to efficiently access information and to participate in transactional platforms that allow for efficiency and provide a satisfactory customer experience. In order to promote customer participation in a competitive environment, the Signatory Parties have agreed in the Stipulation to the creation of the "enroll from your wallet" program. (Jt. Ex. 1 at 37-39 (§III.P).) The program provides an alternate means for CRES providers to obtain access to a customer's unique SDI number and authorization to enroll a customer. (AEP Ohio Ex. 1 at 16.) The program will make it easier and simpler for customers to switch to competitive generation service. The Stipulation requires that AEP Ohio, within nine months of approval, implement the program using AEP Ohio's electronic CRES Portal. (Jt. Ex. 1 at 37.) Customers that have previously opted out of CRES provider enrollment lists will be excluded from the program. (*Id.* at 38.)

When the program is implemented, CRES providers will be able to directly provide AEP Ohio with the same information that a customer would today supply to AEP Ohio in order to facilitate the transfer of the customer to the CRES portfolio. This process would free the customer from the need to gather significant additional personal information and the requirement that they track down prior service invoices. The process will make switching, in both ease of engagement and investment of time, more accessible and available to customers. Even though a customer may not have direct access to their bill in order to obtain their SDI number, almost all customers will be able to identify from memory their phone number or the last four digits of their social security number. Because of the ease of availability of the information required, customers will be able to interact with a CRES provider in person, online or via voice communication at any time of day and in any location.

The Stipulation also commits to additional safeguards in order to ensure that the enroll from your wallet program will be operated in a manner that protects customers and validates that both CRES providers and AEP Ohio are only switching customers as may be appropriate. CRES providers must have a customer Letter of Authorization ("LOA"), as required by O.A.C. Rule 4901:1-10-24(E), on file for the release of SDI numbers. And, AEP Ohio is to conduct random audits of CRES providers, at a minimum of once a year, to ensure that CRES providers have and continue to retain LOAs for enrolled customers. (*Id.* at 38.) With each audit, AEP Ohio is not only required to provide Staff with all audit results, but also to notify Staff prior to such audit being conducted and allow Commission Staff to participate. (*Id.*) Finally, Staff will not be precluded from conducting its own audits at random to ensure compliance. (*Id.*)

Following the establishment of the enroll from your wallet program, AEP Ohio ratepayers will benefit from an improved customer experience and a simplified mechanism to facilitate the ability to select a generation supplier, thereby serving as an additional catalyst to further advance competitive generation service subscription in Ohio.

9. The other provisions in the Stipulation summarized in AEP Ohio witness Allen's testimony are part of a settlement package that benefits ratepayers and the public interest.

AEP Ohio witness Allen also summarized several other provisions of the Stipulation that are part of the settlement package and that clearly benefit ratepayers and the public interest. In its testimony opposing the Stipulation, OCC ignores these additional benefits. But each of them contributes to the overall package of benefits reflected in the Stipulation.

For example, despite initially proposing to modify its customer charge, AEP Ohio agreed to maintain the current residential rate design until the next base distribution rate case. At the time of the next rate case, AEP Ohio can present evidence supporting what AEP Ohio believes to be the appropriate customer charge and other rate design proposals based upon available test-year data and other smart-meter-related data. All parties to that rate case will have the right to support or contest AEP Ohio's proposals. (AEP Ohio Ex. 1 at 5; Jt. Ex. 1 at 4.) AEP Ohio's initial proposal to modify the customer charge was met with significant pushback at public hearings across AEP Ohio's service territory, and AEP Ohio's decision to maintain the current customer charge reflects significant compromise by the Company as part of the Stipulation package.

The Stipulation also extends the terms of the ESP III through May 31, 2024, with the Signatory Parties recommending that: (1) the Amended Application meets the SSO filing requirements; (2) the statutory MRO test continues to be fulfilled for the extended term; (3) the Commission approve all necessary and appropriate accounting authority to implement the riders and rate mechanisms contained in the Stipulation; and (4) any needed waivers be granted by the Commission. (AEP Ohio Ex. 1 at 5; Jt. Ex. 1 at 3-4.) This provides certainty for AEP Ohio and its customers and is in the public interest.

The Stipulation provides that AEP Ohio will retain the current recovery of OVEC costs through the extended ESP III term, absent legislation that provides an alternative recovery opportunity. (AEP Ohio Ex. 1 at 7; Jt. Ex. 1 at 9-10.) However, AEP Ohio will continue reasonable efforts to explore divestiture of the OVEC contractual entitlement and will report on this by June 20 annually. (*Id.*) If AEP Ohio is able to divest the OVEC contractual entitlement, the PPA Rider will terminate upon final reconciliation or pre-transfer cost recovery. (*Id.*)

AEP Ohio witness Allen's testimony also summarizes the following provisions in the Stipulation, which benefit AEP Ohio's customers and are in the public interest:

- AEP Ohio has withdrawn its request for current approval of a Sub-metering Rider and LED Tariff, but reserves the right to: (1) seek recovery of the appropriate value of distribution facilities acquired in connection with sub-metering either through the base rate case or other appropriate filing; and (2) file a proposed LED tariff in a separate filing.

- AEP Ohio will create a placeholder PEV Tariff which, through a separate filing, may be populated pursuant to findings of Power Forward or the Smart City information.
- AEP Ohio will continue and/or adopt the GEN-E and GEN-C Riders, the gridSMART Phase 2 Rider, the Alternative Energy Rider, the Fairgrounds Accounts Transmission Tariff, the Optional Demand Metered Residential Tariff, and the Automaker Credit Rider Tariff through the term of the Extended ESP 3 pursuant to AEP Ohio's Amended Application. The Commission and OCC assessment fees will be removed from the GEN-E and Gen-C Riders.
- The Auction Cost Reconciliation Rider (ACRR) will continue through the term of the Extended ESP III without modification, but AEP Ohio may seek recovery of payments to customers with cogeneration facilities related to the COGEN schedule through a separate proceeding – and such costs, if approved, could be recovered through the ACRR. The Commission and OCC assessment fees will be removed from the ACRR.
- The Storm Damage Recovery Mechanism and Rider will remain in effect through the term of Extended ESP III. AEP will increase the baseline by $120,000, but that will be reset as part of the next distribution rate case.
- The Energy Efficiency/Peak Demand Reduction (EE/PDR) Rider and Economic Development Rider (EDR) will continue for the Extended ESP III term with the provision that 50% of normal EE/PDR costs for transmission and sub-transmission customers will be transferred to EDR and 50% of IRP credits will be transferred to the

EDR. Further, for 2017-2018, AEP Ohio will support the concept of a pilot battery storage/demand side management program with Kroger and Walmart in AEP Ohio's service territory.

- The Pilot Throughput Balancing Adjustment Rider (PTBAR) will be adjusted, if necessary, to account for customer participation in the demand metered residential tariff, and AEP Ohio may propose continuation of the PTBAR as part of its next base distribution rate case.
- The Stipulation adopts the revised Auction Bidding Rules reflected in Exhibit DBW-5 of AEP Ohio witness Weiss's testimony.
- The Stipulation adopts the revised Master Standard Service Offer Supply Agreement reflected in Exhibit DBW-4 of AEP Ohio witness Weiss's testimony, with the minor exceptions noted in Stipulation Section III.M at 35.
- The Stipulation recommends approval of the updated CRES-EDU agreement, as reflected in Exhibit SDG-1 and modified in Attachment E to the Stipulation; the EDI agreement reflected in Exhibit SDG-2; and the Supplier Tariff, as reflected in Exhibit SDG-3 and as modified by the changes as reflected in Attachment F to the Stipulation.

(AEP Ohio Ex. 1 at 12-15; Jt. Ex. 1 at 26-35.)

Under the second prong of the test for evaluating contested settlements, the Commission reviews the total package of terms and conditions. The above provisions of the Stipulation reflect additional benefits ignored by OCC in selectively evaluating the Stipulation. The Stipulation in this case satisfies the second prong of the test because the settlement, as a package, benefits customers and the public interest.

C. The Stipulation does not violate any important regulatory principles or practices.

The third prong asks whether the Stipulation package violates any important regulatory principle or practice. OCC explicitly challenges three individual provisions under the third prong of the test: the Competition Incentive Rider (CIR), the Supplier Consolidated Billing pilot and the Renewable Generation Rider all supposedly violate important regulatory principles. But none of those provisions violates any important regulatory principle. OCC also generally challenges the ROE and the Smart City Rider/ Power Forward Rider, but those arguments lack merit and do not demonstrate that those aspects of the Stipulation violate any important regulatory principle or practice. As will be demonstrated, the Stipulation satisfies the third prong of the test.

1. The Competition Incentive Rider does not violate any important regulatory principle or practice.

In the *PPA Rider* Stipulation, AEP Ohio agreed to "file and advocate for a pilot program that establishes a bypassible competition incentive rider (CIR)," with the total collected from that rider to be "refunded to all distribution customers through a new rider established in the 2016 ESP amendment case." *PPA Rider*, Opinion and Order at 29. The Company also agreed to "provide an analysis as part of its next distribution rate case to show all of the actual costs required to provide SSO generation service that are included in the Company's cost of service study." *Id.* at 29-30.

Consistent with the *PPA Rider* Stipulation, AEP Ohio proposed in this case to establish a bypassable CIR. As indicated in the prior stipulation, the purpose of the rider is to give customers an incentive to shop, and to "recognize that there may be costs associated with providing retail electric service that are not reflected in [the Company's] SSO bypassable rates." (AEP Ohio Ex. 3 at 11.) And, as previously stipulated, AEP Ohio proposed to refund the revenue collected from the CIR to all customers through a new SSO Credit Rider (SSOCR). (*Id.*)

Under the Stipulation in this case, the CIR rate will be $1.05/MWh and the SSOCR will be $0.48/MWh for a residential customer, for a net charge of $0.57/MWh, until the next base rate case. (Jt. Ex. 1 at 31.) The CIR rate includes costs like bad debt expense and regulatory assessment fees. (Tr. I at 46.) The CIR will be trued up annually for over/under-recovery. (Jt. Ex. 1 at 31.) The SSOCR will be used to collect the discount rate costs related to the Supplier Consolidated Billing pilot program (discussed below). (*Id.* at 31-32.) Furthermore, AEP Ohio has agreed in its next distribution rate case to undertake an analysis of its actual costs required to provide SSO generation service and to propose that those actual costs be allocated to the default service. (*Id.* at 32.)

OCC witness Haugh opines that the Commission should reject the CIR because the CIR would give CRES providers an "artificial[ ] * * * advantage" and, consequently, "violate the regulatory principle that rates should be just and reasonable." (*See* OCC Ex. 8 at 15, 18.) Of course, the "just and reasonable" standard does not apply here. Ohio statute directs the Commission to "approve or modify and approve an [ESP] application" if the ESP is more favorable in the aggregate than the expected results under a market rate offer. R.C. 4928.143(C)(1). It does not dictate that ESP rates be "just and reasonable." Regardless, the CIR would not give CRES providers an artificial advantage. Even Mr. Haugh acknowledges that there may be "costs associated with the CRES providers that are being covered in distribution rates[,]" such as costs for "call center personnel who answer questions about Marketers, * * * mailings * * * regarding Choice, and verifications that the billing costs incurred by AEP Ohio for utility consolidated billing are correct." (OCC Ex. 8 at 16.) He further agrees that any such costs "should be removed from base distribution rates and properly allocated * * * to Choice suppliers." (*Id.*) Moreover, some parties contend that the actual amount that should be reallocated to AEP Ohio's SSO service through the CIR may be higher than the proposed CIR. (*See* RESA Ex. 1 at 8.) The CIR proposed in the Stipulation, RESA witness White testified, reflects "the costs that are, for the most part, uncontested" – those costs where "it's hard to refute that it should be allocated to default service." (Tr. IV at 439.)

Both the CIR and the SSO Credit Rider benefit customers and the public. Residential customers who choose to shop will see a reduction to their bills because they will receive the SSO Credit Rider but not pay the Competition Incentive Rider. And, the CIR and SSOCR will "support growth in the competitive marketplace" (AEP Ohio Ex. 1 at 19) and "promote competition" (Tr. I at 171; *see also id.* at 165 (Staff witness Turkenton, testifying that the CIR and SSOCR "are enhancements to the retail competitive market")).

As such, these shopping incentives are fully consistent with state policy. Under R.C. 4928.02, it is state policy to "[e]nsure the availability of unbundled and comparable retail electric service that provides consumers with the supplier, price, terms, conditions, and quality options they elect to meet their respective needs * * * ." R.C. 4928.02(B). Shopping incentives such as the CIR encourage shopping because, as more customers shop, CRES providers will have greater incentives and opportunities to offer more innovative and value-added products. It is also state policy to "recognize the continuing emergency of competitive electricity markets through the development and implementation of flexible regulatory treatment * * * ." R.C. 4928.02(G). Indeed, the Commission has long employed shopping incentives to promote retail shopping. For example, the stipulation that the Commission approved in *ESP II* included discounted capacity provided to CRES providers to encourage shopping. *ESP II*, Opinion and Order at 54-55. For both of these reasons, the CIR is fully consistent with state policy.

2. OCC should be estopped from challenging the Supplier Consolidated Billing pilot program, but in any case the program does not violate any important regulatory principle or practice.

In his testimony, OCC witness Haugh claims in passing that the Supplier Consolidated Billing pilot violates an important regulatory principle. (OCC Ex. 8 at 19.) As a threshold matter, OCC should be estopped from claiming that the SCB pilot violates an important regulatory principle or practice. Even if the Commission entertains the merits of OCC's argument, it is clearly not the case that the SCB pilot violates any important regulatory principle.

The SCB pilot was first agreed to in the *PPA Rider* case. *PPA Rider* Stipulation at Paragraph III.D.7 (pages 16-19). Paragraph III.D contained commitments from the Company that were not dependent upon the ESP III Extension cases (unlike the provisions in Paragraph III.C of the Stipulation in the *PPA Rider* case). In adopting the Stipulation, the Commission characterized the SCB pilot as a commitment intended to promote retail competition and listed the provision as a benefit under prong two:

> Other customer benefits of the stipulation include AEP Ohio's * * * commitment to propose a supplier consolidated billing pilot program, with half of the costs paid by the CRES signatory parties.

PPA Rider, Opinion and Order at 84-85. Thus, in adopting the *PPA Rider* Stipulation characterizing the provision as a benefit, the Commission referenced the same cost-splitting allocation being attacked by OCC witness Haugh in this proceeding as failing to properly allocate costs in violation of an important regulatory principle.

The SCB Pilot was previously expanded and continued in the Global Settlement, Case Nos. 10-2929-EL-UNC, *et al.* – incorporating the same cost sharing allocation that OCC challenges here. Global Settlement Order at 35-38; Global Settlement Stipulation at 19-21 (Dec.

21, 2016). OCC was a supporting Signatory Party to the Global Settlement and filed testimony in support of that settlement. (Tr. IV at 530.) Indeed, Mr. Haugh – the same witness arguing on behalf of OCC in this case that the SCB Pilot violates an important regulatory principle – also filed testimony in support of the Global Settlement, asserting in those cases that the agreement fulfilled the three-part test, and recommended that it should be adopted. (*Id.* at 534-535.)

When asked whether a settlement provision could be adopted in one case as part of a Stipulation that passed the three-part test and whether the same provisions could subsequently be held to violate a regulatory principle in a subsequent case, OCC witness Haugh indicated that the details of such a provision would have to be evaluated before he could confirm or deny that possibility. (*Id.* at 515.) But violating an important regulatory policy or principle under prong three of the test is not dependent upon the balance of the settlement package or whether the provision is beneficial to other customers (as opposed to individual provisions that are examined for benefits as part of the settlement package under prong two). On the contrary, if something violates an important regulatory principle or practice in one case, it would equally violate that principle or practice in another case. OCC unequivocally supported adoption of the SCB pilot as part of the Global Settlement. When it comes time to hash out the details and implement that same program, OCC cannot oppose the same program as violating an important principle or practice. *Accord Doe v. Archdiocese of Cincinnati*, 116 Ohio St.3d 538, 2008-Ohio-67, 880 N.E.2d 892, ¶ 7.

In any case, OCC's challenge of the SCB pilot lacks merit. As part of a very brief and conclusory argument in his pre-filed testimony, Mr. Haugh argues that the SCB pilot "does not properly allocate costs to those who cause the costs." (OCC Ex. 8 at 19.) During cross-examination, Mr. Haugh further alleged that the SCB Pilot requires "people that have no desire to shop to pay for a system that is of no benefit to them." (Tr. IV at 464.) Even if the Commission does not summarily preclude OCC from raising this challenge due to its support of the Global Settlement, which incorporated the same cost-sharing allocation that OCC challenges in this case, this half-hearted challenge is misguided and should be rejected.

It is axiomatic that all customers benefit from enhancements to the retail choice program and its features – regardless of whether they currently shop or have shopped in the past. The Commission has never allocated retail choice costs only to shopping customers or to CRES providers. Historically, the Commission has recognized that the costs incurred by AEP Ohio to implement and enhance customer choice programs should be recovered from all customers, since all customers have the right and opportunity to shop. (*See e.g. In the Matter of Columbus Southern Power Company and Ohio Power Company for an Increase in Electric Distribution Rates*, Case Nos. 11-351-EL-AIR *et al.*, December 14, 2011 Opinion and Order at 7 (approving the Distribution Asset Recovery Rider as a nonbypassable charge to recover retail choice costs).) If anything, the settlement provisions for sharing by the CRES of SCB pilot costs benefits non-shopping customers even more than the normal approach of recovering such costs from all customers. Accordingly, OCC's challenge to the SCB pilot should be rejected.

3. The Renewable Generation Rider does not violate any important regulatory principle or practice.

For transparency and to better distinguish the issues relating to new renewable projects from the OVEC costs being recovered through the PPA Rider, the Signatory Parties agreed to propose a separate non-bypassable Renewable Generation Rider for recovery of costs associated with renewable generation projects. (Jt. Ex. 1 at 7-9 (§III.D).) Although the rate design and rider mechanics are resolved through the Stipulation, the RGR will be a placeholder rider until such time in the future as the Commission approves a specific renewable project in an EL-RDR proceeding. (*Id.*) The requirements and conditions imposed by the Commission in the *PPA Rider* case will generally apply to future renewable projects, including the wholesale sale of the project's output, the auditing process, cost exclusions and the netting revenues. And the Company will demonstrate in the EL-RDR cases that the criteria in R.C. 4928.143(B)(2)(c) are met. But the Stipulation also proposes a new "reasonable arrangement" option (in parallel to the EL-RDR filings) that would permit the output of a renewable project owned by an AEP affiliate or other non-affiliate entity (but not a project owned by AEP Ohio) to be purchased by a retail customer or customers upon approval of a reasonable arrangement for such customer(s) under R.C. 4905.31. (*Id.*) All parties reserve the right to contest the individual project filings proposed by the Company under the EL-RDR and reasonable arrangement filings and the details will be determined by the Commission in those future cases.

The RGR is an extension and refinement of the 900 MW renewable project commitment initially made by AEP Ohio as part of the settlement in the PPA Rider cases. AEP Ohio witness Allen explained that the reasonable arrangement option under the RGR would present the Commission with an opportunity to evaluate the total benefits of each reasonable arrangement associated with a specific power price in conjunction with the proposal in totality. (Tr. I at 28-29.) And he described a "win-win" example of the reasonable arrangement option under the RGR, where a large renewable energy customer enters into a reasonable arrangement to pay an energy price greater than the market price for non-renewable power and less than the market price for renewable power; the other customers would pay a lower RGR rate than they would without the reasonable arrangement. (*Id.* at 27.) The provisions of the Stipulation relating to the RGR are reasonable and lawful, with specific requirements to comply with applicable statutes.

OCC witness Haugh's testimony superficially criticizes the RGR, arguing that: (1) the General Assembly provided that customers should have choice for the source of their generation, (2) AEP Ohio already has too many riders, and (3) R.C. 4905.33 prohibits below-cost service for the purpose of destroying competition. (OCC Ex. 8 at 20.) During cross-examination, Mr. Haugh acknowledged that the ESP statute permits an electric utility to build new generation capacity under the requirements set forth in the statute. (Tr. IV at 550-551.) Of course, that is the same statute being relied upon to create the RGR under the Stipulation. (Jt. Ex. 1 at 8 (§III.D.2), citing R.C. 4928.143(B)(2)(c).) And Mr. Haugh's second criticism ignores the primary advantages of creating a new rider for renewable power: transparency in pricing and separately tracking and auditing costs relating to specific projects. (Tr. IV at 552.) Regarding his third criticism, Mr. Haugh acknowledged during cross-examination that until there are projects developed or proposed for Commission approval under the RGR, there can be no issue of competition being destroyed. (*Id.* at 554-555.) Indeed, the statute referenced by Mr. Haugh (*i.e.*, R.C. 4905.33) merely prohibits discounted services offered "for the purpose of destroying competition." Because the reasonable arrangement statute (*i.e.*, R.C. 4905.31) is part of the same Chapter of the Revised Code and affirmatively permits discounts for individual customers, the Commission would have to review the merits and context of an actual proposal in a future case before passing judgment about the purpose of a specific proposal. Thus, OCC's concerns are premature, at best.

Other than basic rate design and rider mechanics of the placeholder RGR, all parties reserve the right to challenge future filings for approval of renewable projects. The proposed RGR and provisions of the Stipulation are reasonable and lawful and permitted under the existing statutory framework. OCC's premature and superficial challenge of the RGR as violating an important regulatory principle or practice should be rejected.

4. OCC's objections to the authorized ROE do not establish that any important regulatory principle or practice is violated by the Stipulation.

The Signatory Parties have agreed that an ROE of 10.0% will prospectively be used for all riders that have a capital component until new rates are effective with a new authorized ROE in the Company's next distribution rate case. (Jt. Ex. 1 at 6 (§III.C.5).) OCC witness Duann contends that the 10.0% ROE – which is a compromise from the Company's initial proposed 10.41% ROE (Tr. II at 272-273) – is unreasonably high and therefore "counter to sound regulatory policy." (OCC Ex. 3A at 11-19, 27-29.) As Dr. Duann concedes, however, the 10.0% ROE agreed upon in the Stipulation is actually already lower than the 10.20% ROE that the Commission most recently approved in AEP Ohio's *ESP III* case. (Tr. II at 265, 273); *see also* *ESP III*, Opinion and Order at 84 (noting that the Commission initially approved a 10.20% ROE for AEP Ohio in the Company's last base rate case).

Dr. Duann's position that any ROE above 9.30% would violate regulatory and state electric service policies is unsupportable and incorrect. Dr. Duann's proposed ROE is principally based upon the average ROE authorized in 12 rate cases for delivery-only electric utilities decided in 2016 and summarized in a report attached to his direct testimony. (*See* OCC Ex. 3 at Ex. DJD-2; OCC Ex. 3A at 12; Tr. II at 257.) Dr. Duann, however, did not know whether that report included all rate cases involving investor-owned electric utilities in a given year, or how those 12 rate cases were selected for inclusion in the report. (Tr. II at 258-259, 266-268.) Dr. Duann had no knowledge of the financial or business risks that the companies included in that report face. (*Id.* at 268.) Nor did he know how any of the companies compares to AEP

Ohio. (*Id.*) When confronted on cross-examination with the fact that the same report for 2015 decisions did not include the Commission's February 25, 2015 decision in AEP Ohio's *ESP III* case (in which the Commission approved a 10.20% ROE (*id.* at 259-265)), Dr. Duann argued that an "ESP case is not a rate case." (*Id.* at 265.) The Commission should decline Dr. Duann's invitation to apply an ROE that is based upon companies whose business and financial risks are unknown, including a report whose completeness and accuracy are unknown and whose subject is cases that are different from this one.

Dr. Duann cites Staff litigation positions in three other pending electric rate cases, but those cites also do not support Dr. Duann's unreasonably low ROE estimate. (*See* OCC Ex. 3A at 14-19; Tr. II at 277-278.) Two of those cases involve utilities in jurisdictions and regulatory environments different from AEP Ohio's. (*Id.* at 277.) The ROEs Dr. Duann cites are the staff's litigation positions in those cases – not the approved number. (*Id.* at 277-278.) Moreover, the one Ohio Commission proceeding that Dr. Duann cites – Duke Energy Ohio, Inc.'s distribution rate case, Case No. 17-0032-EL-AIR – actually *supports* the 10.0% ROE agreed upon by the Signatory Parties in this case. Although Dr. Duann's testimony misleadingly states that Staff recommends a midpoint ROE of 9.73% in that case (*see* OCC Ex. 3A at 15), Dr. Duann conceded at hearing that Staff's actual recommendation is an ROE range of up to 10.24%. (Tr. II at 279.) Thus, as Dr. Duann admitted, Staff agreed in that case that an ROE of 10.24% is a reasonable ROE. (*Id.* at 279-280.)

In summary, Dr. Duann's 9.30% ROE estimate is based upon unreliable and inaccurate information and, therefore, should be disregarded. Moreover, the unreasonably low and inherently unreliable ROE that Dr. Duann puts forth cannot seriously serve as a maximum value above which an ROE becomes unreasonable, particularly in light of Staff's recommended ROE range of up to 10.24% in Duke Energy Ohio, Inc.'s pending base rate case. Accordingly, it follows that Dr. Duann has not established that the Signatory Parties' reasonable recommended 10.0% ROE causes the Stipulation, as a whole, to violate any important regulatory principle or practice.

5. OCC's objections to the Smart City Rider and Power Forward Rider do not establish that any important regulatory principle or practice is violated by the Stipulation.

OCC, principally through its witness Barbara Alexander, levies a number of criticisms of the SCR and Power Forward Rider, but each one is meritless. The SCR and Power Forward Rider do not violate any important regulatory principle or practice. On the contrary, as demonstrated above (*supra* at Section III.B.3), these provisions are beneficial to customers and promote the public interest.

First, Ms. Alexander argues that the costs of the SCR technology demonstration projects should be recovered only in a base distribution rate case, and not in a rider. (OCC Ex. 5 at 6.) But Ms. Alexander made clear on cross-examination that her objection to rider recovery is a general, ideological objection to riders that is at odds with the precedents of this Commission and "most other" states as well. (*See* Tr. III at 381-82 (Ms. Alexander acknowledges that she opposes riders "as a very-high-level general matter" and that "any opinion I may have about the highest-level view of riders is not relevant because we do have riders, you do have riders in Ohio, and frankly most other places as well").)

Second, Ms. Alexander claims in her supplemental testimony that the SCR discriminates among AEP Ohio's customers by creating a disparity between "certain EV charging station owners in the Smart City footprint" who are eligible to "receive discounted prices for distribution service" and "other changing station owners outside the footprint." (OCC Ex. 5 at 15-16.) But on cross-examination, Mr. Alexander acknowledged that she was mistaken: the rebate program is not limited to the Smart Columbus footprint but is available to anyone in AEP Ohio's service territory. (Tr. III at 385.) The claim of discrimination, therefore, is illusory.

Third, Ms. Alexander argues that the SCR is not authorized by the ESP statute because the SCR technology demonstration projects allegedly "have no nexus to the ESP proceeding, which is primarily intended to address the obligation to provide default generation supply service." (OCC Ex. 5 at 14.) As an initial matter, Ms. Alexander is not qualified to opine on legal matters such as statutory interpretation. Although she is a lawyer, Ms. Alexander (and OCC counsel) made clear that Ms. Alexander was *not* offering any legal opinions in her testimony. (*See* Tr. III at 377 ("I am not here as an attorney."); *accord id.* at 392.)

Moreover, Ms. Alexander's statutory argument rests on a misinterpretation of the ESP statute. R.C. 4928.143 does not contain any "nexus" requirement, as Ms. Alexander acknowledged on cross-examination. (*See* Tr. III at 388 ("[Q]. Does the word "nexus" appear in the ESP statute? A. I don't know. Probably not.").) Rather, as the Commission has recognized many times, R.C. 4928.143 is a broad and flexible statute that permits utilities to include in their ESPs many different types of cost recovery mechanisms, including, specifically, provisions regarding "the utility's distribution service," "infrastructure modernization," and "energy efficiency programs," among others. *See, e.g.*, R.C. 4928.143(h)-(i). Time and again, the Commission has authorized rider recovery of distribution and smart technology program costs as part of ESPs; AEP Ohio's gridSMART Rider, EE/PDR Rider, and Distribution Investment Rider are just a few examples. The SCR falls well within this established line of precedent and is authorized by R.C. 4928.143. Ms. Alexander's exceedingly narrow interpretation of R.C. 4928.143 is at odds with the text and the intent of the statute and has long been rejected by the Commission. It should be rejected again here too.

Fourth, Ms. Alexander repeatedly criticizes the SCR technology demonstration projects on the ground that "they are not supported by specific evaluation plans and an analysis of their costs and benefits." (*See, e.g.*, OCC Ex. 5 at 6.) As an initial matter, AEP Ohio *has* conducted an analysis of the benefits of EV charging stations in the form of a study conducted by E3, which is entitled "Cost/Benefit Analysis of Plug-In Electric Vehicle Adoption in the AEP Ohio Service Territory." Ms. Alexander acknowledged on cross-examination that AEP Ohio provided this study in discovery and that she was familiar with it. (*See* Tr. III at 389.) Yet among her repeated claims that the SCR projects are not supported by "*any* analysis," she made no mention of the E3 study. (Emphasis added.) (*See* OCC Ex. 5 at 6, 15, 15 fn.8, 26.) This omission undercuts Ms. Alexander's credibility and objectivity.

Importantly, moreover, Ms. Alexander's arguments overlook the fact that the SCR projects are *pilot* projects designed to gather the data that Ms. Alexander believes AEP Ohio should already have. The proposed SCR projects are limited and their proposed cost recovery is modest – $21 million spread over four years. To require a utility to conduct a full-blown cost-benefit analysis to justify a pilot program with just over $5 million in annual costs would be unreasonable, would stifle innovation, and would conflict with the very purpose of pilot programs. As with AEP Ohio's gridSMART project, which the Commission initially approved on a pilot basis in a limited footprint, the SCR projects will allow AEP Ohio, Staff, and stakeholders to gather data and learn about the costs and benefits of electric vehicle charging stations and microgrids. That data can then be used to make well-informed decisions about the merits of further deployments.

Fifth, and relatedly, Ms. Alexander repeatedly argues against the use of "customer funds" for the SCR projects. Yet on cross-examination, Ms. Alexander expressly acknowledged that the average customer impact of the SCR will be a "*very small amount of money*." (Emphasis added.) (Tr. III at 391; *see also* OCC Ex. 5 at 14 (acknowledging that the SCR programs have a "relatively modest budget").) Given the substantial customer benefits of the SCR technology demonstration projects recognized by Staff and other signatory parties, *see supra* Section I.B.2, the "relatively modest" SCR cost recovery budget and "very small" customer impact is fully justified.

Finally, Ms. Alexander opposes the Power Forward Rider, which the Stipulation proposes to establish as a placeholder with an initial value of zero. This Rider, she claims, is "unnecessary and inappropriate." (OCC Ex. 5 at 18.) However, the Power Forward Rider serves an important purpose: it provides AEP Ohio a mechanism to implement any programs, policies, or findings that may arise from the Commission's pending Power Forward proceeding. (*See* AEP Ohio Ex. 1 at 8; Staff Ex. 1 at 4.) If approved, this proposed ESP will be in place until May 31, 2024. It is critical, therefore, that the ESP retain the flexibility to allow AEP Ohio to react to the outcome of the Power Forward initiative.

Furthermore, the Power Forward Rider is not "inappropriate" (OCC Ex. 5 at 18), but rather founded on well-established Commission precedent. Many times in the past, both for AEP Ohio and for other utilities, the Commission has established placeholder riders as part of an ESP to be populated through an EL-RDR case at a later time. *See, e.g.*, *ESP III*, Opinion and Order at 25, citing *ESP II*, Opinion and Order at 24-25; *In re Duke Energy Ohio, Inc.*, Case No. 08-920-EL-SSO, Opinion and Order at 17 (Dec. 17, 2008); *In re Ohio Edison Co. et al.*, Case No. 08-935-EL-SSO, Second Opinion and Order at 15 (Mar. 25, 2009).

Ms. Alexander states that "the actual purpose of pre-approving the rider is to force customers to pay AEP Ohio as soon as possible for unknown additional projects approved in the

Power Forward initiative, without the benefit of ensuring that the project expenses are prudently incurred and used and useful in providing customers' service." (OCC Ex. 5 at 18.) But that claim is patently false. The Stipulation makes clear that the Power Forward Rider will remain at zero, with no impact to customers, until cost recovery is expressly approved in a future EL-RDR proceeding. This EL-RDR proceeding will provide OCC and all other parties the opportunity to present argument and evidence concerning any proposed Power Forward Rider cost recovery. (*See* Jt. Ex. 1 at 11 (§III.F.4).) When confronted with this fact on cross-examination, Ms. Alexander admitted that she could not even define "EL-RDR," let alone speak to the due process and procedural protections that an EL-RDR hearing provides. Ms. Alexander's arguments against the SmartCity Rider, therefore, lack credibility, and are plainly meritless.

II. The Amended ESP satisfies the statutory MRO test.

The Commission must approve an ESP proposal if it finds that the ESP "so approved, including its pricing and all other terms and conditions, including any deferrals and any future recovery of deferrals, is more favorable in the aggregate as compared to the expected results that would otherwise apply under [an MRO authorized under] section 4928.142 of the Revised Code." R.C. 4928.143(C)(1). R.C. 4928.143(C)(1) "'does not bind the commission to a strict price comparison. On the contrary, * * * the statute instructs the commission to consider "pricing *and all other terms and conditions*"' in evaluating whether the ESP is more favorable in the aggregate than an expected MRO." *In re Application of Ohio Edison Co.*, 146 Ohio St.3d 222, 2016-Ohio-3021, 54 N.E.3d 1218, ¶ 22, quoting *In re Application of Columbus S. Power Co.*, 128 Ohio St.3d 402, 2011-Ohio-958, 945 N.E.2d 501, ¶ 27. Thus, the Commission looks "at the entire * * * ESP as a total package, which includes a quantitative and a qualitative analysis." *In the Matter of the Dayton Power and Light Company for Approval of its Electric Security Plan*, Case No. 12-426-EL-SSO, *et al.*, Opinion and Order at 48 (Sept. 4, 2013). Here, the Signatory Parties agree that the Stipulation passes the statutory MRO test. (Jt. Ex. 1 at 39 (§III.R).)

A. ESP Pricing and Quantitative Benefits

It is undisputed that the Stipulation does not change SSO generation pricing. The Company will continue to acquire all generation services for SSO customers from competitively bid wholesale auctions under the extended term of the ESP. (AEP Ohio Ex. 3 at 9; OCC Ex. 8 at 22.) As Staff witness Turkenton explained, because SSO generation rates have been 100% market-based since June 1, 2015, "there should be no difference between market based generation rates under an MRO or an ESP filing." (Staff Ex. 3 at 5.) SSO generation rates therefore will continue to be equivalent to the results that would be obtained under an MRO. *Accord ESP III*, Opinion and Order at 94.

The ESP offers an array of quantitative benefits compared to an MRO. First, the Stipulation provides for the extension of the Residential Distribution Credit Rider, which would otherwise expire May 31, 2018, through the earlier of May 31, 2024, or when new base distribution rates are set. (AEP Ohio Ex. 1 at 18; AEP Ohio Ex. 3 at 16; Jt. Ex. 1 at 5 (§III.C.3).) Extending the RDCR provides an annual benefit to residential customers of $14,688,000. (*Id.*; Staff Ex. 3 at 5-6; *see also ESP III*, Opinion and Order at 94 (finding that the RDCR provides a quantifiable benefit that would not be available under an MRO).) Another quantifiable benefit is the Company's commitment to contribute $1,000,000 annually to the Neighbor-to-Neighbor program over the ESP's term. (AEP Ohio Ex. 1 at 18; Jt. Ex. 1 at 5 (§III.C.3); Staff Ex. 3 at 6.)

The Company's agreement to update the WACC rate to reflect savings from debt refinancing (*see* Section III.B.1, *supra*) is another quantitative benefit that would not be included in an MRO. (AEP Ohio Ex. 1 at 18; Jt. Ex. 1 at 6 (§III.C.5).) That update will only occur if it will be favorable to ratepayers. (Jt. Ex. 1 at 6 (§III.C.5).) Based on current interest rates, Company witness Allen explained that the interest rate after refinancing is expected to be lower than the current interest rate for that instrument. (Tr. I at 25.) Absent this provision of the ESP, any savings from debt refinancing during an MRO would not flow through to customers until the Company's next base distribution case. (AEP Ohio Ex. 1 at 18.)

Mr. Allen also explained that 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. (*Id.* at 17.) He noted that the DIR mechanism provides a streamlined approach to recovering many of the costs associated with investment in distribution infrastructure. (*Id.*) Specifically, these same types of costs would be recoverable from customers through base distribution cases but with higher costs to customers and other parties as a result of the added complexity of a distribution base case. (*Id.*) Although perhaps not as readily quantifiable as other pricing elements of the ESP, the reduced time and expense related to the streamlined process of implementing the DIR through an ESP results in a cost advantage compared to what would be necessary in an MRO environment.

B. Qualitative Benefits of the ESP

The ESP also offers numerous significant qualitative benefits related to reliability, rate stability and certainty, innovation, economic development, demand response, and retail competition. (*Id.* at 17-19; Staff Ex. 3 at 6-7.) In addition to the quantitative benefits set forth above, the DIR provides reliability benefits to customers in the form of distribution investments that are being made sooner than would be the case if the Company had to recover the costs of those investments through a base distribution case. (AEP Ohio Ex. 1 at 18.) As the Commission has previously recognized, the DIR (along with the Company's other distribution-related riders) enables AEP Ohio to make "significant investments in distribution infrastructure and improving service reliability" during the ESP period. *ESP III*, Opinion and Order at 95. Moreover, the DIR annual revenue caps agreed upon by the Signatory Parties also provide increased rate certainty for customers. (AEP Ohio Ex. 1 at 17.)

The ESP provides other rate stability and certainty benefits through the Renewable Generation Rider and the OVEC entitlement. (*Id.* at 18.) Additionally, the Company's commitment to file a base distribution rate case by June 1, 2020, provides customers with increased certainty regarding the timing of a base rate case as compared to the uncertainty that would exist under an MRO. (*Id.* at 17.) This attribute of the ESP will ensure that the costs being reflected in base rates versus riders is recalibrated sooner than might otherwise be the case, thus helping to address some stakeholders' concerns regarding distribution riders. (Jt. Ex. 1 at 4 (§III.C.1).)

Significantly, the ESP promotes innovation that could serve to enhance the consumer electricity experience and that would not otherwise be possible under an MRO. As Mr. Allen explained, the SCR allows the Company to invest in advanced technology and programs that support the Smart Columbus initiative with a streamlined recovery mechanism. (AEP Ohio Ex. 1 at 17.) The Stipulation also provides for a mechanism to promote EV charging market development through a rebate program, which includes targeted deployment to economically disadvantaged communities, data sharing, and detailed reporting on the technology demonstration program for the public's benefit. (*Id.* at 18.) This mechanism should accelerate EV charger deployment in the Company's service territory and will help to mitigate one of the barriers to EV adoption by AEP Ohio's customers. (*Id.*) Neither of these innovative benefits would occur under an MRO, and absent these mechanisms in the ESP, the Company would need to consider the timing of such investments and how to align them with potential base rate cases.

(*Id.* at 17-18.) The Power Forward Rider will allow the Company to move forward with any findings or directives that come out of the Commission's Power Forward initiative in a streamlined manner without having to wait for a base rate case to implement those findings or directives. (*Id.* at 18.) Staff witness Turkenton agreed that the "promotion of innovative measures related to the Smart City and Power Forward initiatives" are qualitative benefits of the ESP. (Staff Ex. 3 at 6.)

The Automaker Credit rider and IRP tariff provisions of the Stipulation both provide qualitative benefits through the ESP in the form of support for economic development. (*Id.*; AEP Ohio Ex. 1 at 18-19.) The Automaker Credit rider promotes economic development by supporting increased utilization or expansion of automaker facilities in AEP Ohio's service territory. (Jt. Ex. 1 at 31 (§III.J.11); AEP Ohio Ex. 3 at 17.) The Legacy IRP and New Industry IRP proposals respectively facilitate the specific economic development goals contemplated in existing reasonable arrangements and enable new business entrants in Ohio to participate in the IRP program in order to attract new business to locate in Ohio. (Jt. Ex. 1 at 22, 26 (§III.I.2, III.I.5).) The Expanded IRP proposal both facilitates economic development for certain existing customers and facilitates those customers' participation in demand response programs. (*Id.* at 23-25 (§III.I.3-4).) Finally, the SSOCR and CIR provide qualitative benefits to promote retail competition. (*Id.* at 31-32 (§III.J.12); AEP Ohio Ex. 1 at 13; Staff Ex. 3 at 6.) Absent those mechanisms, the unbundling of certain SSO-related costs form distribution rates would not be reflected in customer rates until the Company's next base distribution rate case. (*Id.*)

C. OCC's Criticisms that the ESP is Not More Favorable than an MRO are Without Merit.

OCC witness Haugh raises several criticisms of the Company's evaluation of the costs and benefits of the ESP and concludes that the ESP set forth in the Stipulation is not more favorable, in the aggregate, than what would result from an MRO. (OCC Ex. 8 at 21-28.) Mr. Haugh's criticisms are misguided, and his conclusion that the proposed ESP is not more favorable than an MRO is incorrect.

Mr. Haugh criticizes the benefits associated with the RDCR, DIR, and ESRR proposals contained in the Stipulation. (*Id.* at 24-25.) As he concedes, however (*see* Tr. IV at 556-560), the Commission has already previously, and unequivocally, determined that each of those riders is beneficial in the context of the MRO test. *See ESP III*, Opinion and Order at 64; 94-95. Moreover, although Mr. Haugh characterizes the RDCR as "a requirement to prevent double recovery" through the DIR, the Commission expressly determined in the *ESP III* case that "[n]o party ha[d] submitted any record evidence that a likelihood of double recovery of distribution investment costs exists * * *." *Id.* at 65. The fact is that the $14,688,000 per year residential credit expires as of May 31, 2018, *id*., and there is no requirement that the Company provide that credit after that date, either as part of an ESP or as part of a future distribution rate case. Thus, the agreement to continue the rider constitutes a significant quantitative benefit. The Commission squarely rejected the notion that the RDCR does not provide a quantitative benefit to customers in the *ESP III* case, and it should continue to do so here.

Beyond ignoring the fact that the Commission has already found that the DIR and ESRR are beneficial components of the ESP, the additional flaw in Mr. Haugh's criticisms of those riders is that he fails to recognize, for the purposes of the MRO test analysis, that the revenue requirements associated with the recovery of incremental distribution investments are considered to be the same whether recovered through an ESP or through a distribution rate case conducted in conjunction with an MRO. *Id.* at 94. For this reason, the Commission has correctly declined to consider such investments in its quantitative MRO/ESP analysis. *Id.*

The remainder of Mr. Haugh's MRO test analysis fares no better. In discussing the costs of the SCR, Mr. Haugh fails to account for the significant benefits, discussed by AEP Ohio witness Allen and Staff witness Turkenton, associated with the rider enabling the Company to rapidly invest in advanced technology and programs to support the Smart Columbus initiative. (*See* AEP Ohio Ex. 1 at 17; Staff Ex. 3 at 6.) Moreover, as Ms. Turkenton correctly noted, the capital costs associated with the rider are more than offset by the quantifiable benefits of the ESP. (Staff Ex. 3 at 6.) And although he characterizes his criticism regarding the costs and benefits of the OVEC and RGR proposals contained in the Stipulation as "quantitative" (*see* OCC Ex. 8 at 26), in reality, Mr. Haugh is advancing more general complaints about those proposals that the Commission has already thoroughly considered and decided in other proceedings. Specifically, the Commission already thoroughly evaluated the significant quantitative benefits of the Company's OVEC proposal in the *PPA Rider* case. *See PPA Rider*, Opinion and Order at 105. In this proceeding, the Signatory Parties have agreed that the Company "will retain the *status quo* recovery of OVEC costs." (AEP Ohio Ex. 1 at 7; Jt. Ex. 1 at 9.) Thus, no additional quantitative analysis is necessary, as nothing has changed with respect to the recovery of those costs. Moreover, the Commission has repeatedly made clear that the unknown future costs and benefits of zero-dollar placeholder riders like the RGR are not included in the MRO test. *See, e.g., PPA Rider*, Second Entry on Rehearing at 111 (Nov. 3, 2016); *ESP II*, Entry on Rehearing at 8-9 (Jan. 30, 2013) (rejecting argument that estimates of costs associated with zero-dollar riders should have been included in the MRO test).

In summary, as set forth above, the ESP provides significant quantitative and qualitative benefits to customers that would not be readily available through the more narrowly focused

MRO process. OCC witness Haugh's arguments to the contrary are misplaced and unavailing. The Stipulation thus easily passes the statutory MRO test.

CONCLUSION

For the foregoing reasons, the Commission should adopt the Stipulation without modification.

Respectfully submitted,

/s/ Steven T. Nourse

Steven T. Nourse (0046705), Counsel of Record
Matthew S. McKenzie (PHV 5903-2016)
Christen M. Blend (0086881)
American Electric Power Service Corporation
1 Riverside Plaza, 29th Floor
Columbus, Ohio 43215
Telephone: (614) 716-1608
Fax: (614) 716-2950
Email: stnourse@aep.com
msmckenzie@aep.com
cmblend@aep.com

Eric B. Gallon (0071465)
Porter Wright Morris & Arthur, LLP
41 South High Street, 30th Floor
Columbus, Ohio 43215
Telephone: (614) 227-2190
Fax: (614) 227-2100
Email: egallon@porterwright.com

Christopher L. Miller (0063259)
Jeremy M. Grayem (0072402)
Ice Miller LLP
250 West Street
Columbus, Ohio 43215
Telephone: (614) 462-2339
Fax: (614) 222-4707
Email: christopher.miller@icemiller.com
jeremy.grayem@icemiller.com

(willing to accept service by e-mail)

Counsel for Ohio Power Company

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 was sent by, or on behalf of, the undersigned counsel to the following parties of record this 30th day of November, 2017, via electronic transmission.

/s/ Steven T. Nourse
Steven T. Nourse

E-Mail Service List:

Amy.Spiller@duke-energy.com;
campbell@whitt-sturtevant.com;
paul@carpenterlipps.com;
charris@spilmanlaw.com;
cmblend@aep.com;
cpirik@dickinsonwright.com;
Christopher.Miller@icemiller.com;
cmooney@ohiopartners.org;
dclark1@aep.com;
dwilliamson@spilmanlaw.com;
dborchers@bricker.com;
ehewell@bricker.com;
egallon@porterwright.com;
Elizabeth.Watts@duke-energy.com;
EAkhbari@bricker.com;
fdarr@mwncmh.com;
Greg.Tillman@walmart.com;
Greta.See@puc.state.oh.us;
glpetrucci@vorys.com;
ibatikov@vorys.com;
perko@carpenterlipps.com;
jeremy.grayem@icemiller.com;
jkylercohn@BKLlawfirm.com;
Sechler@carpenterlipps.com;
joe.halso@sierraclub.org;

joliker@igsenergy.com;
Kevin.moore@occ.ohio.gov;
Bojko@carpenterlipps.com;
kboehm@BKLlawfirm.com;
Kurt.Helfrich@ThompsonHine.com;
lhawrot@spilmanlaw.com;
mfleisher@elpc.org;
whitt@whitt-sturtevant.com;
msmckenzie@aep.com;
mpritchard@mwncmh.com;
MWarnock@bricker.com;
Michael.Austin@ThompsonHine.com;
mkurtz@BKLlawfirm.com;
mnugent@igsenergy.com;
mjsettineri@vorys.com;
mdortch@kravitzllc.com;
mleppla@theoec.org;
glover@whitt-sturtevant.com;
rsahli@columbus.rr.com;
Rick.Sites@ohiohospitals.org;
rdove@attorneydove.com;
robert.eubanks@ohioattorneygeneral.gov;
rkelter@elpc.org;
Sarah.Parrot@puc.state.oh.us;
sasloan@aep.com;
ssheely@bricker.com;
Stephanie.Chmiel@ThompsonHine.com;
Stephen.Chriss@walmart.com;
stnourse@aep.com;
todonnell@dickinsonwright.com;
tony.mendoza@sierraclub.org;
tdougherty@theOEC.org;
wvorys@dicksonwright.com;
Werner.margard@ohioattorneygeneral.gov;
William.michael@occ.ohio.gov;