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June 25, 2018

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Re: *In the Matter of the Application of Ohio Power Company for
Administration of the Significantly Excessive Earnings Test for 201
under Section 4928.143(F), Revised Code, and Rule 4901:1-35-10,
Ohio Administrative Code; Case No. 18-989-EL-UNC*

Dear Ms. McNeal:

Rule 4901:1-35-10, Ohio Administrative Code, provides that an electric utility operating under an Electric Security Plan is to make a separate annual filing with the Commission demonstrating whether or not any rate adjustments authorized by the Commission as part of the electric utility's Electric Security Plan resulted in significantly excessive earnings during the review period as measured by division (F) of section 4928.143 of the Revised Code (referred to as the Significantly Excessive Earnings Test or "SEET"). With this letter, Ohio Power Company ("AEP Ohio" or "the Company") is filing the supporting testimony of Andrea E. Moore, AEP Ohio Director – Regulatory Services, William A. Allen, Managing Director of Regulatory Case Management, and Tyler H. Ross, Director of Regulatory Accounting Services for American Electric Power Service Corporation.

Regarding the requirement that an electric utility must also provide the latest Securities and Exchange Commission Form 10-K in its entirety and the Federal Energy Regulatory Commission Form 1 in its entirety for the period under review, the testimony of Andrea E. Moore references the website links that suffice to meet those filing requirements.

The information (including testimony) that AEP Ohio has included in its filing demonstrates that its 2017 earnings are not significantly excessive. Using a methodology based on the Commission's guidelines established in Case No. 09-786-EL-UNC, AEP Ohio's SEET threshold for 2016 would be 17.00% (11.52% mean earned ROE for the comparable group plus an adder of 5.48% based on 1.64 standard deviations). Through this filing, AEP Ohio submits that it has met its

burden of proving that its 2017 return on equity is not significantly excessive under the statute. Indeed, it is below the “safe harbor” threshold of 13.52% in this case.

Accordingly, the Company should not be required to issue a customer refund as a result of this proceeding.

Respectfully,

//s/ Steven T. Nourse

Counsel for Ohio Power Company

cc: M. Howard Petricoff, Chief of Staff
Tamara Turkenton, Director, Rates and Analysis
Doris McCarter, Chief, Forecasting, Markets & Corporate Oversight Division

EXHIBIT NO. _____

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio)	
Power Company for Administration of the)	
Significantly Excessive Earnings Test for 2017)	Case No. 18-0989-EL-UNC
Under Section 4928.143(F), Revised Code,)	
and Rule 4901:1-35-10, Ohio Administrative)	
Code.)	

DIRECT TESTIMONY OF
ANDREA E MOORE
ON BEHALF OF
OHIO POWER COMPANY

Filed: July 2, 2018

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ANDREA E. MOORE

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
DIRECT TESTIMONY OF
ANDREA E. MOORE
ON BEHALF OF
OHIO POWER COMPANY

1 **PERSONAL DATA**

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

3 A. My name is Andrea E. Moore and my business address is 700 Morrison Road, Gahanna,
4 Ohio 43230.

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

6 A. I am employed by Ohio Power Company, (“AEP Ohio” or “the Company”) as Director –
7 Regulatory Services.

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

10 A. I received a Bachelor of Science in Accounting from the University of Rio Grande and a
11 Master of Business Administration from Franklin University. In addition, I have
12 completed the Basic Concepts on Rate Making class through New Mexico State
13 University.

14 I joined American Electric Service Corporation (AEPSC) in 2001 as an Accountant and
15 joined the Regulatory Tariffs department as a Regulatory Analyst III in 2004. I
16 progressed through various positions before being promoted to my current position of
17 Director – Regulatory Services. My duties within the regulatory department have
18 included preparing cost-of-service studies for regulatory filings, preparing cost-based
19 formula rates for wholesale customers, preparing rider filings and rate designs,

1 maintaining tariff books as well as other projects related to regulatory issues and
2 proceedings, individual customer requests, and general rate matters.

3 **Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR OF REGULATORY**
4 **SERVICES?**

5 A. I am responsible for directing the preparation and presentation of regulatory matters to
6 management as well as regulatory bodies. I plan, organize, and direct team activities to
7 develop and support pricing structures, rider and true-up filings, maintenance of tariffs,
8 pilot programs, special contracts, and other pricing initiatives depending on assigned
9 function.

10 **Q. HAVE YOU PREVIOUSLY TESTIFIED OR SUBMITTED TESTIMONY**
11 **BEFORE A STATE COMMISSION?**

12 A. Yes. I have testified before the Public Utilities Commission of Ohio in several cases. I
13 have also submitted testimony before the Virginia State Corporation Commission on
14 behalf of Appalachian Power Company.

15 **PURPOSE OF TESTIMONY**

16 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

17 A. My testimony addresses the Company's capital investment and other considerations for
18 SEET purposes. In addition, I am sponsoring the AEP 2017 SEC Form 10K annual report
19 and the Federal Energy Regulatory Commission (FERC) Form 1 (Form 1) for AEP
20 Ohio¹.

¹Both reports for 2017 can be found at the following sites:
<http://www.aep.com/investors/FinancialFilingsAndReports/Filings/>
<http://www.aep.com/investors/FinancialFilingsAndReports/FERCFilings/>

1 **Q. ARE YOU SPONSORING ANY EXHIBITS AS A PART OF YOUR**
2 **TESTIMONY?**

3 A. Yes. I am sponsoring Exhibit AEM-1, which sets forth AEP Ohio's actual capital
4 investments for January 2014 through December 2017 and projected capital investments
5 for January 2018 through May 2024, reflecting the Company's recently approved
6 Amended Electric Security Plan in Case No. 16-1852-EL-SSO, *et al.*

7 **CAPITAL INVESTMENTS AND OTHER CONSIDERATIONS**

8 **Q. WHAT ARE SOME ADDITIONAL FACTORS, BESIDES THE EARNED ROE**
9 **CALCULATIONS DISCUSSED BY COMPANY WITNESS ALLEN, THAT THE**
10 **COMMISSION HAS INDICATED THAT IT WILL CONSIDER IN**
11 **EVALUATING WHETHER EARNINGS ARE SIGNIFICANTLY EXCESSIVE?**

12 A. In the Commission's June 30, 2010 Finding and Order in Case No. 09-786-EL-UNC, at
13 page 29, the Commission provided the following guidance:

14 The Commission notes that within Ohio's electric utilities, there is
15 significant variation, including, for example, whether the electric utility
16 provides transmission, generation, and distribution service or only
17 distribution service. For this reason, the Commission will give due
18 consideration to certain factors, including, but not limited to, the electric
19 utility's most recently authorized return on equity, the electric utility's risk,
20 including the following: whether the electric utility owns generation;
21 whether the ESP includes a fuel and purchased power adjustment or other
22 similar adjustments; the rate design and the extent to which the electric
23 utility remains subject to weather and economic risk; capital commitments
24 and future capital requirements; indicators of management performance
25 and benchmarks to other utilities; and innovation and industry leadership
26 with respect to meeting industry challenges to maintain and improve the
27 competitiveness of Ohio's economy, including research and development
28 expenditures/investments in advanced technology, and innovative
29 practices; and the extent to which the electric utility has advanced state
30 policy. We therefore, direct the electric utilities to include this information
31 in their SEET filings.

32 **Q. HOW IS AEP OHIO ADVANCING STATE POLICY?**

1 A. The stipulation approved in Case No. 14-1693-EL-RDR includes a commitment by AEP
2 Ohio to pursue development of 900 MW of renewable energy. This plan provides long-
3 term benefits for AEP Ohio's customers and Ohio's economy while also advancing
4 important Ohio energy policies. AEP Ohio's gridSMART® project is advancing electric
5 infrastructure development by testing and implementing advanced smart grid
6 technologies. The Company's plans for gridSMART® Phase II include approximately
7 894,000 Advanced Metering Infrastrucutre (AMI), Distribution Automation Circuit
8 Reconfiguration (DACR on approximately 250 circuits and Volt Var Optimization
9 technology on approximately 160 circuits. The Company will spend an estimated \$516
10 million in investment over a 15 year period for the Phase II rollout. The gridSMART
11 Phase II investments allow for technologies to assist customers in taking a more proactive
12 approach to managing their electric bills.

13 In Case Number 16-1852-EL-SSO, the Commission approved the Smart City Rider. The
14 Smart City Rider promotes the installation of up to 300 Level 2 charging stations and 75
15 DC Fast charging stations. Promoting electric vehicles is one of the main goals of the
16 Smart Columbus project, and installation of electric vehicle charging stations in
17 Columbus and the surrounding area will directly support that goal. In addition, the
18 stipulation in the 16-1852 case provided for a microgrid demonstration pilot. The
19 demonstration microgrids will target non-profit, public-serving AEP Ohio customers such
20 as fire and police stations, municipal facilities, medical facilities, social service agencies,
21 emergency shelters, and water and sewer infrastructure facilities.

22 AEP Ohio and its employees are productive members of the communities we serve. Not
23 only is AEP Ohio investing capital assets and facilities within the state of Ohio, but

1 during 2017, AEP Ohio also paid approximately \$ 377 million in Ohio state and local
2 taxes. This amount does not include expenditures for philanthropic contributions and
3 purchases of Ohio goods and services. Additionally, AEP Ohio has made contributions
4 to the Partnership with Ohio Fund during 2017. Finally, AEP Ohio and its affiliates
5 actively participated in the Commission's PowerForward initiative. PowerForward is the
6 Commission's review of the latest in technological and regulatory innovation that could
7 serve to enhance the consumer electricity experience. The Company and AEP in general
8 brought broad-based experience and expertise to all phases of the PowerForward
9 stakeholder process, including in presentations and discussions.

10 **Q. WHAT IS THE CURRENTLY APPROVED ROE FOR AEP OHIO?**

11 A. The Company's approved ROE for 2017 was 10.2%, which was approved in Case No.
12 13-2385-EL-SSO.

13 **Q. DID AEP OHIO OWN GENERATION IN 2017?**

14 A. No. While AEP Ohio no longer directly owns any generation it does have a contractual
15 entitlement and obligation to a portion of the generation output of the Clifty and Kyger
16 Creek facilities totaling approximately 400 MW. During 2017 the Company faced
17 uncertainty and risk associated with these units.

18 **Q. DID THE ESP INCLUDE A FUEL AND PURCHASED POWER ADJUSTMENT?**

19 A. No. During 2017, the SSO supply was procured through SSO auctions and recovered
20 through the GEN-C, GEN-E, and ACRR riders.

21 **Q. DOES THE COMPANY'S RATE DESIGN SUBJECT THE COMPANY TO**
22 **WEATHER AND ECONOMIC RISK?**

1 A. Yes. The Company has a Pilot Throughput Balancing Adjustment Rider (PTBAR)
2 mechanism for residential and small commercial customers. This mechanism helps to
3 limit the weather impact on revenues but does not insulate the company from the effects
4 of weather. Larger commercial and industrial customers are not included in the PTBAR
5 mechanism and any weather effect on these customers impacts the earnings of AEP Ohio.
6 In addition, the Company faces economic risk in the form of changes in customer usage
7 resulting from the overall economic condition of the state or as a result of adverse
8 economic pressures to specific industries.

9 **Q. HOW DO AEP AND AEP OHIO MAINTAIN ENERGY INDUSTRY**
10 **LEADERSHIP?**

11 A. In implementing the Commission's Alternative Energy Portfolio Standard rules, AEP
12 Ohio led a demand side management (DSM) collaborative to develop energy efficiency
13 and peak demand response programs (EE/PDR) and gridSMART[®] initiatives. As a result
14 of implementing these programs, AEP Ohio customers have saved through reduced
15 electricity bills, and customers will continue to save over the life of the programs and
16 help reduce power plant emissions. As our Portfolio Status Report indicates, AEP Ohio's
17 energy efficiency and peak demand response programs have been very successful,
18 meeting or exceeding the benchmark requirements for both areas.
19 AEP Ohio has received numerous awards and recognition for its work in energy
20 efficiency. The Association of Energy Services Professionals (AESP), an organization
21 dedicated to improving the deliver and implementation of energy efficiency and demand-
22 side management and demand response programs, recently awarded AEP Ohio its
23 Outstanding Achievement Award for Emerging Tools and Technologies for their "Ultra-

1 low Temperature” freezer technology. Energy Star® awarded AEP Ohio the Energy
2 Start Partner Award for Sustained Excellence award for the fifth year in a row. Service
3 Industry Advertising Awards (SIA) awarded AEP Ohio Gold and Silver awards for its
4 Efficiency Today™ magazine, Television and Radio Advertising Series, and the E-Team
5 education coloring book. MarCom Awards, which honors excellence in marketing and
6 communication while recognizing the creativity, hard work, and generosity of industry
7 professionals, awarded AEP Ohio seven Platinum, Gold, or Honorable Mention awards
8 for their Efficiency Today™ magazine, Television and Radio Advertising Series, and the
9 E-Team education coloring book.

10 AEP Ohio has exceeded EE/PDR goals every year 2009 – 2016, producing the following
11 estimated benefits from the portfolio of programs: saving customers 3,899 GWhs and
12 over \$1.4 billion; creating green jobs; reducing carbon dioxide emissions by 2.7 million
13 tons, and reducing sulfur dioxide emissions by 10,000 tons. Additionally, AEP Ohio has
14 deployed infrastructure and technology enhancements as part of the gridSMART® Phase
15 1 project. This project demonstrated AEP Ohio’s leadership in the industry and includes
16 the installation of smart meters, distribution automation equipment, demand dispatch and
17 integrated volt-var control circuits to enhance the electricity infrastructure. AEP also
18 developed a Cyber Security Operations Center to provide highly customizable threat
19 management and response on top of AEP’s existing security framework. Additionally,
20 meeting certain project requirements, obligations, and data collection criteria allowed the
21 gridSMART® project to obtain 50 percent funding through the Department of Energy and
22 thus limit Ohio customer impact while enhancing their ability to save energy. AEP Ohio

1 is building on its experience with these technologies through its recently approved
2 gridSMART[®] Phase 2 project as mentioned above.

3 AEP Ohio has demonstrated its leadership in the industry by embracing new
4 renewable generation resources such as wind and solar that benefit the State of Ohio by
5 bringing additional jobs both during and after construction and taxes that provide funding
6 for Ohio Schools, infrastructure and public services.

7 **Q. WHAT INFORMATION HAS AEP OHIO PROVIDED TO IDENTIFY THE**
8 **CAPITAL REQUIREMENTS OF FUTURE INVESTMENTS?**

9 A. AEP Ohio's actual annual capital expenditures for 2014 through 2017 and those projected
10 for the ESP IV term are contained in Exhibit AEM-1 attached to my testimony. Exhibit
11 AEM-1 shows that AEP Ohio invested approximately \$568 million during 2017. The
12 Company is forecasted to spend approximately \$3.7 billion in the ESP IV period – a
13 tremendous amount of capital to invest. These factors should be taken into consideration
14 by the Commission when determining the 2017 SEET decision.

15 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

16 A. Yes.

AEP Ohio Capital Expenditures

Historical Actual Expenditures*				Forecasted Expenditures							
2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024 (Jan-May)
\$640M	\$453M	\$453M	\$416M	\$568M	\$598M	\$581M	\$497M	\$515M	\$506M	\$501M	\$219M

* Historical capital expenditures include the generation function that was separated from the transmission and distribution functions at the end of 2013.

EXHIBIT NO. _____

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio)	
Power Company for Administration of the)	
Significantly Excessive Earnings Test for 2017)	Case No. 18-0989-EL-UNC
Under Section 4928.143(F), Revised Code,)	
and Rule 4901:1-35-10, Ohio Administrative)	
Code.)	

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

Filed: July 2, 2018

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WILLIAM A ALLEN

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

1 **PERSONAL DATA**

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

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

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

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

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

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

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

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

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

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

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

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

1 **PURPOSE OF TESTIMONY**

2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

3 A. My testimony reviews the history of the Significantly Excessive Earnings Test (SEET),
4 the accepted SEET methodology, and supports the position that AEP Ohio passes the
5 statutory SEET for 2017 and that no refund is necessary.

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

8 A. Yes. I am sponsoring Exhibit WAA-1, which presents the 2017 return on common equity
9 for the companies comprising the Utilities Select Sector SPDR (Comparable Group),
10 employing the same methodology the Company has presented to the Commission in the
11 Company's 2010 through 2016 SEET filings. Exhibit WAA-2 presents the 2017 return
12 on common equity for the peer group after the removal of two companies that were not
13 representative of the business risks faced by AEP Ohio. The Company's calculation of
14 the 2017 SEET threshold of 17.00% is provided in Exhibit WAA-2.

15 **OVERVIEW OF THE SEET**

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

17 A. Senate Bill 221 (SB 221) required electric distribution utilities (EDUs), beginning
18 January 1, 2009, to provide consumers with a standard service offer (SSO) including a
19 firm supply of electric generation service, consisting of either an Electric Security Plan
20 (ESP) or a market rate offer (MRO). Section 4928.143(F), Ohio Revised Code, requires
21 EDUs operating under an ESP to demonstrate that their earned return on common equity
22 (ROE) is not significantly in excess of the ROE earned during the same period by
23 publicly traded companies that face comparable business and financial risk. I have been

1 advised by counsel that the SEET filing requirements, as detailed in Rule 4901:1-35-
2 03(C)(10)(a), O.A.C., state that an EDU with an established ESP shall provide testimony
3 and analysis that includes: 1) the EDU's ROE earned during the annual review period as
4 compared to the ROE earned by the Comparable Group during the same period; 2) the
5 EDU's FERC Form 1 in its entirety for the annual review period; 3) the EDU's latest
6 SEC Form 10K; and 4) the EDU's capital budget requirements for future committed
7 investments in Ohio for each annual period remaining in the ESP.

8 **Q. PLEASE BRIEFLY DESCRIBE THE HISTORY OF THE SEET WITH RESPECT**
9 **TO AEP OHIO.**

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

13 The Company's 2011, 2012, and 2013 SEET cases were settled and the
14 Commission has approved those settlements. Further, the Company and Staff filed Joint
15 Stipulations in Case Nos. 15-1022-EL-UNC (2014 SEET case) and 16-1105-EL-UNC
16 (2015 SEET case); these Stipulations employed the same methodology accepted in the
17 prior settlements. The Commission ultimately resolved these two cases in the Company's
18 Global Settlement.¹ Finally, the Company and Staff filed a Joint Stipulation in Case No.
19 17-1230-EL-UNC (2016 SEET) on February 13, 2018; the 2016 SEET proceeding is
20 pending for Commission decision.

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

1 **Q. DID THE COMPANY FOLLOW THE SAME METHODOLOGY IN**
2 **DETERMINING THE 2017 SEET THRESHOLD AS COMPARED TO ITS**
3 **PREVIOUS SEET FILINGS?**

4 A. Yes. Utilizing the methodology based on the approach established by the guidance
5 presented in Case No. 09-786-EL-UNC and subsequent Commission orders, the
6 Company calculated the SEET threshold to be 29.86%, as demonstrated in Exhibit WAA-
7 1.

8 **Q. HAS STAFF UTILIZED A DIFFERENT METHODOLOGY IN DETERMINING**
9 **THE SEET THRESHOLD IN PREVIOUS SEET FILINGS?**

10 A. Yes. In the 2016 SEET filing, Staff witness Buckley performed two calculations. He
11 first calculated the SEET threshold of the Comparable Group following his standard
12 process of totaling the net income of the Comparable Group and dividing it by the
13 aggregate total common equity of the Comparable Group. He then applied an adder
14 equal to the standard deviation of the Comparable Group multiplied by 1.64, or a 95
15 percent confidence level.² However, as the resulting SEET threshold level of 39.7% was
16 unreasonable to Mr. Buckley, he performed a second calculation. Mr. Buckley
17 determined three companies deviated significantly from the average ROEs of the
18 Comparable Group. Those deviations resulted in those companies not being considered
19 comparable. Therefore, Mr. Buckley removed three companies from the calculation.
20 Without the three removed companies, Mr. Buckley's analysis resulted in a SEET
21 threshold of 16.08%.³

² Direct testimony of Staff witness Joseph Buckley, Case No. 17-1230-EL-UNC, page 4, lines 1 through 12.

³ Direct testimony of Staff witness Joseph Buckley, Case No. 17-1230-EL-UNC, page 4, lines 13 through page 5, line 2.

1 **CALCULATION OF THE SEET THRESHOLD**

2 **Q. WHAT IS A SEET THRESHOLD?**

3 A. As described by the Commission's Opinion and Order in Case No. 11-4751-EL-UNC, the
4 SEET threshold is the level above the average ROE of the Comparable Group where the
5 earned ROE may become significantly excessive.

6 **Q. PLEASE EXPLAIN THE COMPANY'S INITIAL STEP IN CALCULATING THE**
7 **2017 SEET THRESHOLD.**

8 A. To calculate the earnings of the companies in the Comparable Group I started with their
9 per books earnings and then made adjustments to remove the effect of impairments that
10 were booked in 2017. I next removed the effect of the Tax Cut and Jobs Act (TCJA) that
11 was signed into law on December 22, 2017. This is comparable to the adjustments that
12 Company witness Ross made to AEP Ohio's earnings to exclude any non-recurring
13 items, special items, and extraordinary items. The calculation of the Comparable Group
14 ROEs and the associated standard deviation are provided in Exhibit WAA-1.

15 **Q. PLEASE EXPLAIN THE COMPANY'S SECOND AND FINAL STEP IN**
16 **CALCULATING THE 2017 SEET THRESHOLD.**

17 A. The second and final step I performed was to identify companies within the Comparable
18 Group that experienced business activities that resulted in their earnings not being
19 representative of the business risks faced by AEP Ohio. I then removed those companies
20 from the calculation. After review of past and current financial performance, I removed
21 FirstEnergy and NRG Energy (NRG).

22 **Q. PLEASE EXPLAIN WHY YOU CHOSE TO REMOVE FIRSTENERGY AND**
23 **NRG.**

1 A. Due to the imminent bankruptcy of a significant subsidiary of FirstEnergy and substantial
2 write-offs in recent years that have eliminated nearly 70% of its equity,⁴ FirstEnergy was
3 excluded from the calculation. Similarly, NRG has lost approximately \$9.5 billion in the
4 past five years resulting in a negative equity balance, and it was also removed from the
5 calculation.

6 **Q. WITH THE REMOVAL OF THE TWO COMPANIES, WHAT IS THE 2017**
7 **SEET THRESHOLD?**

8 A. After removing FirstEnergy and NRG from the Comparable Group, the 2017 SEET
9 threshold is 17.00%. As shown in Exhibit WAA-2, the average ROE for the Comparable
10 Group is 11.52% and the standard deviation is 3.34%.

11 **AEP OHIO'S EARNED ROE FOR 2017**

12 **Q. WHAT IS AEP OHIO'S EARNED ROE FOR 2017 FOR THE SEET?**

13 A. Company witness Ross has determined that AEP Ohio's earned ROE for 2017 is 9.87%.
14 For details on the AEP Ohio ROE calculations, please see the direct testimony of
15 Company witness Ross.

16 **Q. HOW DOES AEP OHIO'S EARNED ROE FOR 2017 COMPARE TO THE**
17 **COMPARABLE GROUP'S THRESHOLD ROE?**

18 A. AEP Ohio's earned ROE for 2017 of 9.87% is well below the Comparable Group's SEET
19 ROE threshold of 17.00%.

20 **Q. DID THE COMMISSION ESTABLISH OTHER THRESHOLD GUIDANCE IN**
21 **THE 09-786-EL-UNC CASE REGARDING ROE CALCULATIONS FOR EDUs?**

⁴ First Energy's 2017 10k, page 48. Equity declined from \$12.4 billion in 2015 to \$3.9 billion in 2017.

1 A. Yes. The Commission also concluded that for SEET purposes, any Ohio electric utility's
2 earnings found to be less than 200 basis points above the mean ROE of the comparable
3 risk group of companies would not be significantly excessive.⁵ This 200 basis point
4 threshold is what is referred to as a "safe harbor."

5 **Q. DOES THE 200 BASIS POINT "SAFE HARBOR" APPLY TO AEP OHIO FOR**
6 **2017?**

7 A. Yes. AEP Ohio's 2017 earned ROE of 9.87% is within the "safe harbor" established by
8 the Commission. AEP Ohio's earned ROE is below 13.52%, which is 200 basis points
9 above the 11.52% mean earned ROE of the Comparable Group.

10 **CONCLUSION**

11 **Q. WERE THE COMPANY'S 2017 EARNINGS SIGNIFICANTLY EXCESSIVE?**

12 A. No. The Company's 2017 earnings of 9.87% is below both the SEET threshold of
13 17.00% and the safe harbor of 13.52%. As a result, AEP Ohio did not have significantly
14 excessive earnings in 2017 and no refund is necessary.

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

16 A. Yes.

⁵ 09-786, Order at 29 (June 30, 2010) and 11-4571, Order at 27-28 (October 23, 2013)

EXHIBIT WAA-1

Company	Symbol	2017 Non-GAAP Income (\$000)	2017 Equity (\$000)	2016 Equity (\$000)	Average Equity (\$000)	Return on Common Equity
NextEra	NEE	\$3,759	\$28,208	\$24,341	\$26,275	14.31%
Duke	DUK	\$3,037	\$41,737	\$41,033	\$41,385	7.34%
Southern	SO	\$2,893	\$24,167	\$24,758	\$24,463	11.83%
Dominion	D	\$2,148	\$17,142	\$14,605	\$15,874	13.53%
Exelon	EXC	\$2,999	\$29,857	\$25,837	\$27,847	10.77%
AEP	AEP	\$1,803	\$18,287	\$17,397	\$17,842	10.11%
PG&E	PCG	\$1,793	\$19,220	\$17,940	\$18,580	9.65%
Sempra	SRE	\$1,126	\$12,670	\$12,951	\$12,811	8.79%
Edison International	EIX	\$1,479	\$11,671	\$11,996	\$11,834	12.50%
PPL Corporation	PPL	\$1,449	\$10,761	\$9,899	\$10,330	14.03%
Consolidated Edison	ED	\$1,266	\$15,418	\$14,298	\$14,858	8.52%
Public Service Enterprise Group	PEG	\$1,406	\$13,847	\$13,130	\$13,489	10.42%
Xcel Energy Inc	XEL	\$1,171	\$11,455	\$11,021	\$11,238	10.42%
WEC Energy Group Inc	WEC	\$997	\$9,461	\$8,930	\$9,196	10.84%
DTE Energy Company	DTE	\$1,034	\$9,512	\$9,011	\$9,262	11.16%
Eversource Energy	ES	\$988	\$11,086	\$10,712	\$10,899	9.07%
FirstEnergy	FE	\$967	\$3,925	\$6,241	\$5,083	19.02%
Entergy Corporation	ETR	\$1,300	\$7,993	\$8,082	\$8,038	16.18%
American Water Works Company	AWK	\$437	\$5,385	\$5,218	\$5,302	8.24%
Ameren Corporation	AEE	\$677	\$7,184	\$7,103	\$7,144	9.48%
CMS Energy Corporation	CMS	\$608	\$4,441	\$4,253	\$4,347	13.99%
CenterPointEnergy Inc	CNP	\$679	\$4,688	\$3,460	\$4,074	16.67%
SCANA Corporation	SCG	\$601	\$5,255	\$5,725	\$5,490	10.95%
Pinnacle West Capital Corporation	PNW	\$488	\$5,007	\$4,804	\$4,905	9.95%
Alliant Energy Corporation	LNT	\$439	\$4,182	\$3,862	\$4,022	10.92%
AES Corporation	AES	\$601	\$2,465	\$2,794	\$2,630	22.86%
NiSource Inc	NI	\$290	\$4,320	\$4,071	\$4,196	6.90%
NRG Energy	NRG	(\$444)	(\$346)	\$2,041	\$848	-52.39%
					Average	9.50%
					Standard Deviation	12.42%
					Standard Deviation Multiplier (95% Confidence)	1.64
					SEET Threshold	29.86%

EXHIBIT WAA-2

Company	Symbol	2017 Non-GAAP Income (\$000)	2017 Equity (\$000)	2016 Equity (\$000)	Average Equity (\$000)	Return on Common Equity
NextEra	NEE	\$3,759	\$28,208	\$24,341	\$26,275	14.31%
Duke	DUK	\$3,037	\$41,739	\$41,033	\$41,386	7.34%
Southern	SO	\$2,893	\$24,167	\$24,758	\$24,463	11.83%
Dominion	D	\$2,148	\$17,142	\$14,605	\$15,874	13.53%
Exelon	EXC	\$2,999	\$29,857	\$25,837	\$27,847	10.77%
AEP	AEP	\$1,803	\$18,287	\$17,397	\$17,842	10.11%
PG&E	PCG	\$1,793	\$19,220	\$17,940	\$18,580	9.65%
Sempra	SRE	\$1,126	\$12,670	\$12,951	\$12,811	8.79%
Edison International	EIX	\$1,479	\$11,671	\$11,996	\$11,834	12.50%
PPL Corporation	PPL	\$1,449	\$10,761	\$9,899	\$10,330	14.03%
Consolidated Edison	ED	\$1,266	\$15,418	\$14,298	\$14,858	8.52%
Public Service Enterprise Group	PEG	\$1,406	\$13,847	\$13,130	\$13,489	10.42%
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Eversource Energy	ES	\$988	\$11,086	\$10,712	\$10,899	9.07%
FirstEnergy	FE					
Entergy Corporation	ETR	\$1,300	\$7,993	\$8,082	\$8,038	16.18%
American Water Works Company	AWK	\$437	\$5,385	\$5,218	\$5,302	8.24%
Ameren Corporation	AEE	\$677	\$7,184	\$7,103	\$7,144	9.48%
CMS Energy Corporation	CMS	\$608	\$4,441	\$4,253	\$4,347	13.99%
CenterPointEnergy Inc	CNP	\$679	\$4,688	\$3,460	\$4,074	16.67%
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Pinnacle West Capital Corporation	PNW	\$488	\$5,007	\$4,804	\$4,905	9.95%
Alliant Energy Corporation	LNT	\$439	\$4,182	\$3,862	\$4,022	10.92%
AES Corporation	AES	\$601	\$2,465	\$2,794	\$2,630	22.86%
NiSource Inc	NI	\$290	\$4,320	\$4,071	\$4,196	6.90%
NRG Energy	NRG					
					Average	11.52%
					Standard Deviation	3.34%
					Standard Deviation Multiplier (95% Confidence)	1.64
					SEET Threshold	17.00%

EXHIBIT NO. _____

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio)	
Power Company for Administration of the)	
Significantly Excessive Earnings Test for 2017)	Case No. 18-0989-EL-UNC
Under Section 4928.143(F), Revised Code,)	
and Rule 4901:1-35-10, Ohio Administrative)	
Code.)	

DIRECT TESTIMONY OF
TYLER H. ROSS
ON BEHALF OF
OHIO POWER COMPANY

Filed: July 2, 2018

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TYLER H. ROSS

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
DIRECT TESTIMONY OF
TYLER H. ROSS
ON BEHALF OF
OHIO POWER COMPANY

1 **PERSONAL DATA**

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

3 A. My name is Tyler H. Ross. My business address is 1 Riverside Plaza, Columbus, Ohio
4 43215.

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

6 A. I am employed by American Electric Service Corporation (AEPSC) as Director of
7 Regulatory Accounting Services. AEPSC is a wholly-owned subsidiary of American
8 Electric Power Company, Inc. (AEP).

9 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

10 A. I am testifying on behalf of Ohio Power Company (“AEP Ohio” or the “Company”).
11 AEP is the parent company of AEP Ohio.

12 **Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND**
13 **PROFESSIONAL EXPERIENCE.**

14 A. I received a Bachelor of Science Degree in Accounting from The Ohio State University
15 in 1996. I have been a Certified Public Accountant since 2003 and am a member of the
16 Ohio Society of Certified Public Accountants. Starting with my hiring by AEPSC in
17 August 2001, I held staff and leadership positions within AEP’s External Financial
18 Reporting department. I was a Staff Accountant in External Financial Reporting from
19 August 2001 through February 2005. In March 2005, I was promoted to Manager of
20 External Financial Reporting and in August 2008, I was promoted to Director of External

1 Financial Reporting. For AEP and its reporting subsidiaries, I led External Financial
2 Reporting in the preparation and filing of quarterly and annual reports in accordance with
3 both Generally Accepted Accounting Principles (GAAP) and the reporting requirements
4 of the Securities and Exchange Commission (SEC) and the Federal Energy Regulatory
5 Commission (FERC). In January 2014, I started my present position as Director of
6 Regulatory Accounting Services.

7 **Q. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR OF REGULATORY**
8 **ACCOUNTING SERVICES?**

9 A. My primary responsibilities involve providing the AEP operating companies, including
10 AEP Ohio, with accounting support for regulatory filings. This support includes the
11 preparation of cost-of-service adjustments, accounting schedules, and accounting
12 testimony. I work with a group of professionals who provide accounting expertise,
13 compile necessary historical accounting schedules, present expert accounting testimony
14 and respond to data requests in connection with rate filings made by AEP subsidiaries at
15 state commissions within AEP's seven eastern state jurisdictions and the FERC.

16 **Q. HAVE YOU PREVIOUSLY TESTIFIED AND/OR SUBMITTED TESTIMONY IN**
17 **ANY REGULATORY PROCEEDINGS?**

18 A. Yes, I previously submitted testimony before the Public Utilities Commission of Ohio
19 ("Commission") on AEP Ohio's behalf in the Company's 2015 and 2016 Significantly
20 Excessive Earnings Test (SEET) proceedings, Case Nos. 16-1105-EL-UNC and 17-1230-
21 EL-UNC, respectively. I have also testified on behalf of Kentucky Power Company (an
22 AEP Ohio affiliate) before the Kentucky Public Service Commission.

1 **PURPOSE OF TESTIMONY**

2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

3 A. My testimony explains the calculation of AEP Ohio's per books 2017 return on common
4 equity (ROE) (page 1 of Exhibit THR-1) and AEP Ohio's adjusted 2017 ROE (page 2 of
5 Exhibit THR-1). My testimony also describes necessary adjustments to my calculation of
6 AEP Ohio's 2017 SEET earnings to: a) exclude any non-recurring items, special items
7 and/or extraordinary items as defined by the Commission's Order on page 18 of Case No.
8 09-786-EL-UNC, and b) include certain components of the December 2016 Global
9 Settlement as approved by the Commission in Case No. 09-872-EL-FAC, *et al.*

10 **Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS PROCEEDING?**

11 A. Yes, I am sponsoring the following exhibit:
12 Exhibit THR-1 – Per Books ROE and Adjusted ROE

13 **AEP OHIO 2017 PER BOOKS EARNINGS CALCULATION**

14 **Q. PLEASE DESCRIBE THE METHOD YOU USED TO CALCULATE AEP OHIO'S**
15 **PER BOOKS ROE (PRIOR TO ANY ADJUSTMENTS FOR SEET PURPOSES)**
16 **AS SHOWN IN EXHIBIT THR-1.**

17 A. Consistent with prior SEET reviews, I calculated AEP Ohio's 2017 ROE based on AEP
18 Ohio's 2017 per books (unadjusted) net earnings available to common shareholder (AEP)
19 compared to the average of AEP Ohio's per books (unadjusted) equity balances as of
20 December 31, 2017 and December 31, 2016. These per books net earnings and equity
21 amounts were included in AEP Ohio's 2017 SEC Form 10-K. As shown on Line 6 of
22 Page 1 within Exhibit THR-1, my calculation of AEP Ohio's per books ROE was
23 14.63%.

1 **Q. IS YOUR CALCULATION OF AEP OHIO'S 2017 PER BOOKS AVERAGE**
2 **RETURN ON COMMON EQUITY PREPARED IN COMPLIANCE WITH**
3 **GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)?**

4 A. Yes, AEP Ohio's 2017 per books earnings attributable to common shareholder (\$323.9
5 million, net-of-tax as shown on Line 6 of Page 1 within Exhibit THR-1) and AEP Ohio's
6 December 31, 2017 average common shareholder equity balance (\$2,213.9 million as
7 shown on Line 15 of Page 1 within Exhibit THR-1) were prepared in accordance with
8 GAAP.

9 **ADJUSTMENTS TO DETERMINE AEP OHIO'S 2017 SEET EARNINGS**

10 **Q. WHAT ADJUSTMENTS DID YOU MAKE TO AEP OHIO'S PER BOOKS**
11 **EARNINGS WHEN CALCULATING AEP OHIO'S 2017 SEET EARNINGS?**

12 A. As shown on page 2 of Exhibit THR-1, I made six adjustments related to the following
13 items:

- 14 • Removal of non-operating net-of-tax gain of \$14.4 million related to an accumulated
15 deferred Federal income tax (ADFIT) adjustment booked in 2017 as a result of AEP
16 Ohio's implementation of the Tax Cuts and Jobs Act of 2017 ("Tax Reform") (Line
17 7).
- 18 • Inclusion of the following net-of-tax cash refunds/credits provided to customers in
19 2017 related to the December 2016 Global Settlement:
 - 20 ○ \$9.3 million net-of-tax refund related to 2014 SEET (Line 12).
 - 21 ○ \$53.7 million net-of-tax refund related to the Fuel Adjustment Clause (FAC)
 - 22 (Line 17).

1 ○ \$2.7 million net-of-tax customer credit to Kroger, Ohio Energy Group (OEG)
2 and Ohio Manufacturers' Association Energy Group (OMAEG) (Line 22).

3 • Removal of net-of-tax income of \$5.1 million for incremental Phase-in Recovery
4 Rider (PIRR) equity carrying charges recorded as income in 2017 that related to years
5 prior to 2017 (Line 32).

6 • Removal of net-of-tax income of \$21.0 million for Retail Stability Rider (RSR)
7 earnings recorded as income in 2017 that related to years prior to 2017 (Line 27).

8 **Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN THE COMPANY'S**
9 **REPRESENTATION OF PER BOOKS EARNINGS AND SEET EARNINGS.**

10 A. Consistent with the Commission's direction and similar to ratemaking treatment
11 generally, my analysis starts with per books earnings (prepared on a basis consistent with
12 GAAP) and then makes any necessary non-GAAP adjustments to earnings to both
13 exclude any non-recurring items, special items and/or extraordinary items as defined by
14 the Commission's Order on page 18 of Case No. 09-786-EL-UNC and include any
15 special items previously approved by the Commission in the 2016 Global Settlement.

16 **Adjustment 1 – December 2017 ADFIT Adjustment**

17 **Q. PLEASE DESCRIBE THE ADJUSTMENT TO REMOVE THE \$14.4 MILLION**
18 **NET-OF-TAX NON-OPERATING GAIN RELATED TO EXCESS ADFIT UPON**
19 **AEP OHIO'S IMPLEMENTATION OF TAX REFORM.**

20 A. Tax Reform legislation was signed into law in December 2017. In accordance with
21 related accounting guidance, AEP Ohio's deferred tax assets and liabilities were re-
22 measured using the newly-enacted Federal corporate income tax rate of 21%. As the
23 result of this re-measurement, AEP Ohio recorded a non-recurring, favorable income tax

benefit of \$14.4 million related to certain deferred fuel amounts since the ADFIT was not used in the calculation of PUCO-approved carrying charges in the determination of Phase-in Recovery Rider (PIRR) revenues recoverable from ratepayers. The treatment of the \$14.4 million adjustment as non-operating is consistent with AEP's (and AEP Ohio's) 2017 earnings call and earnings release and with Company witness Allen's assessment of the Comparable Risk Group's earnings to determine the 2017 SEET threshold.

Adjustment 2 – Global Settlement – 2014 SEET Refund

Q. PLEASE DESCRIBE ADJUSTMENT 2 RELATED TO 2014 SEET REFUNDS TO CUSTOMERS MADE IN 2017, AS ORDERED BY THE COMMISSION IN THE 2016 GLOBAL SETTLEMENT.

A. As approved by the Commission, AEP Ohio and intervening parties to the 2016 Global Settlement agreed on the following 2017 SEET treatment for the 2014 SEET refund provided to customers:

For purposes of settlement and without precedential effect, including as to the method used to calculate significantly excessive earnings, \$20.3 million will be returned to customers, on a kWh basis over a twelve-month period within 45 days of a final Commission order adopting the Global Settlement, to resolve the Company's 2014 SEET proceeding (Case No. 15-1022-EL-UNC). The refund under the paragraph will be includable as an expense in 2017 for purposes of applying the SEET.

For the year ended December 31, 2017, AEP Ohio provided \$14.5 million in pre-tax refunds (\$9.3 million, net-of-tax) related to the 2014 SEET resolution, with the remaining \$5.8 million in pre-tax refunds to be provided in 2018. Consistent with the above language from the 2016 Global Settlement regarding 2017 SEET treatment of the 2014 SEET refund, \$9.3 million of 2014 SEET net-of-tax refunds provided to customers in 2017 was included as a net expense in AEP Ohio's calculation of 2017 SEET earnings. Note that the \$20.3 million pre-tax 2014 SEET refund was recorded in 2016 for book

purposes in accordance with GAAP but excluded from AEP Ohio's 2016 SEET earnings calculation in Case No. 17-1230-EL-UNC.

Adjustment 3 – Global Settlement – FAC Refund

Q. PLEASE DESCRIBE ADJUSTMENT 3 RELATED TO THE FUEL ADJUSTMENT CLAUSE (FAC) REFUND TO CUSTOMERS MADE IN 2017, AS ORDERED BY THE COMMISSION IN THE 2016 GLOBAL SETTLEMENT.

A. As approved by the Commission, AEP Ohio and intervening parties to the 2016 Global Settlement agreed that the "FAC refund of \$100 million will be an includable expense in 2017 for purposes of applying the SEET." As a result, Adjustment 3 reflects actual pre-tax refunds to customers of \$83.9 million (\$53.7 million, net-of-tax) made during the year ended December 31, 2017. Following future adjudication by the Commission for the remaining \$16.1 million yet to be refunded to customers, AEP Ohio will reduce future SEET earnings when those refunds are made to customers. Note that the \$100 million pre-tax FAC refund was recorded in 2016 for book purposes in accordance with GAAP but excluded from AEP Ohio's 2016 SEET earnings calculation in Case No. 17-1230-EL-UNC.

Adjustment 4 – Global Settlement – Kroger, OEG and OMAEG Credit

Q. PLEASE DESCRIBE ADJUSTMENT 4 RELATED TO THE CREDIT TO KROGER, OEG, AND OMAEG MADE IN 2017, AS ORDERED BY THE COMMISSION IN THE 2016 GLOBAL SETTLEMENT.

A. Consistent with AEP Ohio's proposed SEET treatment of the 2014 SEET and FAC refunds provided to customers in 2017 as described above, an adjustment was also made to reduce AEP Ohio's 2017 SEET earnings for the pre-tax \$4.2 million credit to customers (\$2.7 million, net-of-tax) that was made in 2017 as a result of the 2016 Global

Settlement. Note that the \$4.2 million pre-tax credit to Kroger, OEG, and OMAEG was recorded in 2016 for book purposes in accordance with GAAP but excluded from AEP Ohio's 2016 SEET earnings calculation in Case No. 17-1230-EL-UNC.

Adjustment 5 – PIRR Equity Carrying Charges

Q. PLEASE DESCRIBE ADJUSTMENT 5 RELATED TO THE REMOVAL OF PIRR EQUITY CARRYING CHARGES FROM 2017 SEET EARNINGS.

A. Following the Supreme Court of Ohio's June 2015 decision in Case No. 2012-2008 which ruled in favor of AEP Ohio's appeal for reinstatement of a Weighted-Average Cost of Capital (WACC) rate of return on the PIRR and the Commission's subsequent June 2016 Order approving AEP Ohio's request to increase PIRR rates for a WACC return on the PIRR effective September 2012, AEP Ohio recognized incremental PIRR equity carrying charges during the period July 2016 through February 2017. AEP Ohio ceased recording incremental PIRR equity carrying charges in March 2017 as a result of the Commission-approved 2016 Global Settlement which reduced AEP Ohio's PIRR revenue requirement by \$97.4 million. AEP Ohio requested to remove \$22.8 million in pre-tax income (\$14.7 million, net-of-tax) from its 2016 SEET earnings in Case No. 17-1230-EL-RDR. Adjustment 5 reduces AEP Ohio's 2017 SEET earnings for \$8.0 million in pre-tax PIRR equity carrying charges (\$5.1 million, net-of-tax) that the Company should have earned during the period 2012 – 2016 if the Commission had timely approved the recovery of the PIRR equity carrying charges in that five-year period.

Q. IS YOUR FIFTH ADJUSTMENT CONSISTENT WITH YOUR SIMILAR 2016 SEET ADJUSTMENT?

A. Yes, consistent with the PIRR equity carrying charge adjustment in the 2016 SEET (Case No. 17-1230-EL-UNC), AEP Ohio made Adjustment 5 to remove PIRR equity carrying

1 charges, recorded in 2017 in accordance with GAAP, that related to prior years for
2 determination of SEET.

3
4 **Adjustment 6 – RSR Earnings**

5 **Q. PLEASE DESCRIBE YOUR SIXTH ADJUSTMENT FOR THE \$21.0 MILLION**
6 **NET-OF-TAX REMOVAL OF RSR EARNINGS.**

7 A. As approved by the Commission, AEP Ohio continues to recover, through the RSR,
8 capacity costs that were deferred during the period January 2012 through May 2015 as
9 well as an energy credit that was included in the 2016 Global Settlement and approved
10 for recovery by the Commission. AEP Ohio's recovery of RSR revenues will continue
11 through June 2019.

12 For the year ended December 31, 2017, AEP Ohio's RSR earnings were determined
13 based on \$159.6 million of RSR revenues received from AEP Ohio distribution
14 customers less RSR amortization of regulatory assets of \$126.8 million, resulting in
15 \$32.8 million in pre-tax RSR earnings (\$21.0 million, net-of-tax) that the Company
16 should have earned prior to 2017. Consistent with the Company's proposed 2016 SEET
17 treatment of PIRR equity carrying charges, earnings related to RSR recorded in 2017 in
18 accordance with GAAP were removed from the calculation of 2017 AEP Ohio SEET.
19 The Commission is currently considering AEP Ohio's SEET treatment of the PIRR
20 equity carrying charges as reflected in AEP Ohio's 2016 SEET filing (Case No. 17-1230-
21 EL-UNC).

1 **AEP OHIO ADJUSTED 2017 SEET EARNINGS CALCULATION**

2 **Q. AFTER MAKING THE SPECIAL ADJUSTMENTS DISCUSSED ABOVE, WHAT**
3 **WAS AEP OHIO'S ADJUSTED 2017 ROE FOR SEET PURPOSES?**

4 A. As shown on Line 34 of Page 2 within Exhibit THR-1, AEP Ohio's ROE was 9.87% after
5 the adjustments to: a) remove the December 2017 ADFIT non-operating adjustment, b)
6 remove the 2017 SEET impact of Global Settlement refunds and c) remove PIRR equity
7 carrying charges and RSR earnings that related to prior SEET years.

8 **Q. DID YOU PROVIDE THE RESULTS OF YOUR CALCULATIONS OF AEP**
9 **OHIO'S 2017 SEET ROE TO AEP OHIO WITNESS ALLEN?**

10 A. Yes I did.

11 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

12 A. Yes.

Ohio Power Company (AEP Ohio)
2017 SEET Filing
Per Books ROE
For the Twelve Months Ended December 31, 2017

Exhibit THR - 1
Page 1 of 2

**Line
Number:**

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Step 1 - Per Books Return on Equity (ROE):

Calculation of Per Books ROE	(000's)	ROE
Per Books 2017 Earnings Attributable to Common Shareholder	\$ 323,887 (A)	14.63%
Per Books 2017 Average Total Common Shareholder's Equity (line 15 below)	\$ 2,213,938	

Calculation of Average Common Shareholder's Equity	(000's)
Total Common Shareholder's Equity - December 31, 2016	\$ 2,117,544 (A)
Total Common Shareholder's Equity - December 31, 2017	2,310,331 (A)
Per Books Average Common Shareholder's Equity	\$ 2,213,938

(A) December 31, 2017 SEC Form 10-K

Ohio Power Company (AEP Ohio)
2017 SEET Filing
Adjusted ROE
For the Twelve Months Ended December 31, 2017

Exhibit THR - 1
Page 2 of 2

Line
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Step 2 - Adjusted Return on Equity:

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Calculation of Adjusted ROE		Earnings (a) (in thousands)	Average Equity (in thousands)	ROE
Per Books 2017 Earnings Attributable to Common Shareholder - <u>Prior to Adjustments</u>		\$ 323,887	(b) \$ 2,213,938	14.63%
<u>Adjustment 1</u> - Removal of Impact of Nonoperating Accumulated Deferred Federal Income Tax (ADFIT) Adjustments		(14,420)	(7,210)	
<u>Adjustment 2</u> - Include Global Settlement 2014 SEET Refund Provided to Customers in 2017				
- Pre-Tax Impact of 2014 SEET Refund Provided to Customers in 2017		(14,544)		
- Less: Income Tax Impact (35.94% Effective Tax Rate)		<u>(5,227)</u>		
- Net-of-Tax Inclusion of 2014 SEET Refund Provided to Customers in 2017		(9,317)		0 (c)
<u>Adjustment 3</u> - Include Global Settlement Fuel Adjustment Clause (FAC) Refund Provided to Customers in 2017				
- Pre-Tax Impact of FAC Refund Provided to Customers in 2017		(83,878)		
- Less: Income Tax Impact (35.94% Effective Tax Rate)		<u>(30,146)</u>		
- Net-of-Tax Inclusion of FAC Refund Provided to Customers in 2017		(53,732)		0 (c)
<u>Adjustment 4</u> - Include Kroger, OEG and OMAEG Customer Credit Provided to Customers in 2017				
- Pre-Tax Impact of Kroger, OEG and OMAEG Customer Credit Refund Provided to Customers in 2017		(4,225)		
- Less: Income Tax Impact (35.94% Effective Tax Rate)		<u>(1,518)</u>		
- Net-of-Tax Inclusion of Kroger, OEG and OMAEG Customer Credit Provided to Customers in 2017		(2,707)		0 (c)
<u>Adjustment 5</u> - Remove PIRR Equity Carrying Charges Earned in 2017				
- Pre-tax Impact of PIRR Equity Carrying Charges Recorded in 2017		(7,959)		
- Less: Income Tax Impact (35.94% Effective Tax Rate)		<u>(2,860)</u>		
- Net-of-Tax Removal of PIRR Equity Carrying Charges Recorded in 2017		(5,099)	(2,549)	
<u>Adjustment 6</u> - Remove RSR Earnings Recorded in 2017				
- Pre-tax Impact of RSR Earnings Recorded in 2017 (RSR Rider Revenue of \$159.6 million less Amortization of \$126.8 million)		(32,832)		
- Less: Income Tax Impact (35.94% Effective Tax Rate)		<u>(11,800)</u>		
- Net-of-Tax Removal of RSR Earnings Recorded in 2017		(21,032)		0 (c)
<u>Adjusted</u> 2017 SEET Earnings Attributable to Common Shareholder		<u>\$ 217,581</u>	<u>\$ 2,204,179</u>	<u>9.87%</u>

(a) Net-of-Tax earnings adjustments reflect AEP Ohio effective tax rate of 35.94% for the Twelve Months Ended December 31, 2017

(b) From December 31, 2017 SEC Form 10-K

(c) Both 2016 and 2017 AEP Ohio equity balances reflect impact of Global Settlement that was booked in December 2016

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

6/25/2018 10:47:33 AM

in

Case No(s). 18-0989-EL-UNC

Summary: Testimony (SEET Supporting Testimonies) electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company