

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of Ohio Power Company's)
Implementation of the Tax Cuts and Jobs) Case No. 18-1007-EL-UNC
Act of 2017)

In the Matter of the Application of Ohio)
Power Company to Establish the Tax) Case No. 18-1451-EL-ATA
Savings Credit Rider.)

**DIRECT TESTIMONY
OF
WM. ROSS WILLIS**

IN SUPPORT OF THE STIPULATION AND RECOMMENDATION

On Behalf of
The Office of the Ohio Consumers' Counsel
65 East State Street, 7th Floor
Columbus, Ohio 43215

October 3, 2018

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ATTACHMENTS

WRW Attachment A - List of Previous Testimony Filed at the PUCO by Wm Ross Willis
WRW Attachment B – Approximate Total Value by Category and the Residential Value
of the Total.

1 **I. INTRODUCTION**

2

3 ***Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.***

4 ***A1.*** My name is Wm. Ross Willis. My business address is 65 East State Street,
5 Columbus, Ohio 43215.

6

7 ***Q2. BY WHOM ARE YOU EMPLOYED?***

8 ***A2.*** I am employed by the Office of the Ohio Consumers' Counsel ("OCC").

9

10 ***Q3. WHAT IS YOUR CURRENT POSITION WITH OCC AND WHAT ARE***
11 ***YOUR DUTIES?***

12 ***A3.*** I am a Senior Regulatory Analyst within the Analytical Department. My duties
13 include performing analysis of impacts on the utility bills of residential consumers
14 with respect to utility filings before the Public Utilities Commission of Ohio
15 ("PUCO") and PUCO-initiated investigations. I examine utility financial and asset
16 records to determine operating income, rate base, and the revenue requirement, on
17 behalf of residential consumers.

18

19 ***Q4. WOULD YOU BRIEFLY STATE YOUR EDUCATIONAL BACKGROUND?***

20 ***A4.*** I earned a Bachelor of Business Administration degree that included a major in
21 finance and a minor in management from Ohio University in December 1983. In
22 November 1986, I attended the Academy of Military Science and received a

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1 commission in the Air National Guard. Moreover, I have attended various
2 seminars and rate case training programs sponsored by the PUCO.

3

4 ***Q5. PLEASE OUTLINE YOUR WORK EXPERIENCE.***

5 ***A5.*** I joined the PUCO in February 1984 as a Utility Examiner in the Utilities
6 Department. I held several technical and managerial positions with the PUCO
7 over my 30-plus year career. I retired from the PUCO on December 1, 2014. My
8 last position with the PUCO was Chief, Rates Division within the Rates and
9 Analysis Department. In that position, my duties included developing, organizing,
10 and directing the PUCO staff during rate case investigations and other financial
11 audits of public utility companies subject to the jurisdiction of the PUCO. The
12 determination of revenue requirements in connection with rate case investigations
13 was under my purview. I joined OCC in October 2015.

14

15 My military career spans 27 honorable years of service with the Ohio National
16 Guard. I earned the rank of Lieutenant Colonel and I am a veteran of the war in
17 Afghanistan. I retired from the Air National Guard in March 2006.

18

19 ***Q6. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THE PUCO?***

20 ***A6.*** Yes, attached to my testimony is WRW Attachment A listing the cases in which I
21 presented testimony before the PUCO.

1 ***Q7. WHAT IS THE PURPOSE OF YOUR TESTIMONY?***

2 ***A7.*** The purpose of my direct testimony is to recommend that the PUCO adopt the
3 Stipulation and Recommendation (“Settlement”) filed by parties, including OCC,
4 in these cases on September 26, 2018. The Settlement addresses converting AEP
5 Ohio’s tax savings (under the federal Tax Cuts and Jobs Act) into consumer
6 savings on AEP Ohio’s electric bills.

7

8 ***Q8. WHAT ARE THE PUCO’S STANDARDS OF REVIEW FOR EVALUATING***
9 ***PROPOSED SETTLEMENTS?***

10 ***A8.*** The PUCO uses three criteria for evaluating the reasonableness of a proposed
11 settlement:

- 12 1. Is the settlement a product of serious bargaining among
13 capable, knowledgeable parties?
- 14 2. Does the settlement, as a package, benefit customers and
15 the public interest?
- 16 3. Does the settlement package violate any important
17 regulatory principle or practice?

18

19 The PUCO also routinely considers whether the parties represent a diversity of
20 interests.

1 ***Q9. PLEASE SUMMARIZE YOUR OPINIONS REGARDING THE***
2 ***SETTLEMENT.***

3 ***A9.*** I recommend that the PUCO adopt the Settlement as filed. The proposed
4 Settlement meets the PUCO's three-prong test. This Settlement represents a fair
5 and reasonable compromise among the parties to resolve issues in these cases
6 involving Ohio Power Company ("AEP Ohio") and its 1.5 million customers. It is
7 a product of serious bargaining among parties with diverse interests, including
8 OCC which represents AEP Ohio's 1.3 million residential consumers. The
9 Settlement, as a package, benefits customers and the public interest. And the
10 package does not violate important regulatory principles or practices.

11

12 **II. EVALUATION OF THE PROPOSED SETTLEMENT**

13

14 ***Q10. WHO ARE THE SIGNATORY PARTIES TO THE SETTLEMENT?***

15 ***A10.*** The Signatory Parties are OCC, the staff of the PUCO ("PUCO Staff"), AEP
16 Ohio, Ohio Energy Group, Ohio Manufacturers' Association Energy Group,
17 Industrial Energy Users-Ohio, Ohio Cable Telecommunications Association,
18 Ohio Partners for Affordable Energy, and The Kroger Company.

1 ***Q11. IS THE SETTLEMENT IN THESE CASES A PRODUCT OF SERIOUS***
2 ***BARGAINING AMONG CAPABLE, KNOWLEDGEABLE PARTIES THAT***
3 ***REPRESENT DIVERSE INTERESTS?***

4 ***A11.*** Yes. The various parties and their counsel have participated in numerous
5 proceedings before the PUCO. The signatory parties have a history of active
6 participation in PUCO proceedings and are represented by experienced and
7 competent counsel. The parties are knowledgeable on issues addressed by the
8 Settlement. AEP Ohio and interested parties participated in negotiations that
9 required numerous meetings, resulting in concessions, as evidenced by the
10 Settlement. I was actively involved on behalf of OCC in these negotiations. The
11 Consumers' Counsel and AEP Ohio particularly reflect diversity of interests,
12 with the Consumers' Counsel signing for residential consumers and AEP Ohio
13 for shareholders.

14
15 ***Q12. DOES THE SETTLEMENT, AS A PACKAGE, BENEFIT AEP OHIO'S***
16 ***CUSTOMERS AND THE PUBLIC INTEREST?***

17 ***A12.*** Yes. The principal reason that the Consumers' Counsel signed the Settlement is
18 for the benefits to the customers and the public interest that OCC represents.
19 Benefits to customers and the public interest in the Settlement include tax-related
20 rate reductions of approximately \$541 million. The residential portion of the tax-
21 related rate reduction is worth approximately \$292 million for consumers.¹
22 Attached to my testimony is WRW Attachment B which is a chart that illustrates

¹ See Settlement Section IV Paragraphs B-D.

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1 the approximate value of each federal income tax category addressed in the
2 Settlement and the residential value of the total estimated benefit. Specific
3 benefits to customers by category are as follows:

- 4 • Amortization of the protected excess accumulated deferred
5 income tax balance valued at approximately \$278 million
6 will flow-back to all customers through a reduction to the
7 Distribution Investment Rider (DIR) annual revenue caps.
8 The residential share of this benefit is approximately
9 \$169.5 million.²
- 10 • The unprotected excess accumulated deferred income tax
11 balance is valued at approximately \$177.6 million. The
12 residential share of this benefit is approximately \$69
13 million. This will be returned to customers in two ways:
14 1) \$48.2 million of which will be used to reduce a future
15 charge to consumers by offsetting the residential Pilot
16 Throughput Balancing Adjustment Rider ("PTBAR")
17 deferred balance; and 2) The remaining \$20.8 million
18 residential share of this tax-related benefit will be a credit
19 on customers' bills through a new Tax Savings Credit
20 Rider ("TSCR"). This bill credit will flow-back to
21 customers over a period of six and one quarter years.³

² Settlement at 3-4.

³ Settlement at 4-5.

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- AEP Ohio will credit customers \$20.4 million annually to reflect the reduced federal income tax expense. This rate reduction will appear as a credit on customers' bills through the TSCR. This tax-related benefit is allocated to customers based on distribution revenues. The residential share of this benefit is approximately \$12.4 million.⁴
- AEP will apply a carrying charge (interest) to the federal income tax rate reduction from January 1, 2018 until the effective date of the TSCR, to compensate consumers for the time value of their money that AEP holds until the funds are used to reduce consumers' bills.⁵
- AEP Ohio will provide \$1 million annually beginning 2018 through 2021 to support the Neighbor-to-Neighbor Fund for bill payment assistance to low-income residential customers.⁶

Q13. DOES THE SETTLEMENT VIOLATE ANY IMPORTANT REGULATORY PRINCIPLES?

A13. No. As discussed above, all consumer benefits related to AEP Ohio's tax savings from the corporate federal income tax rate reduction are reflected in this

⁴ Settlement at 6.

⁵ Settlement at 6.

⁶ Settlement at 7.

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1 Settlement. These benefits are given to customers, resulting in a just and
2 reasonable outcome related to the implementation of the Tax Cuts and Jobs Act of
3 2017.

4

5 **III. CONCLUSION**

6

7 ***Q14. DOES THIS CONCLUDE YOUR TESTIMONY?***

8 ***A14.*** Yes. However, I reserve the right to incorporate new information that may
9 subsequently become available. I also reserve the right to supplement my
10 testimony if other parties submit new or corrected information in connection with
11 this proceeding.

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Direct Testimony of Wm. Ross Willis on behalf of the Office of the Ohio Consumers' Counsel has been served upon those persons listed below via electronic service this 3rd day of October 2018.

/s/Christopher Healey
Christopher Healey
Assistant Consumers' Counsel

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Testimony before The Public Utilities Commission of Ohio

Dayton Power & Light Company – Case No. 15-1830-EL-AIR

Commission Ordered Investigation (TCJA) – Case No. 18-47-AU-COI

Ohio Gas Company – Case No. 17-1139-GA-AIR

Aqua Ohio, Inc. – Case No. 16-907-WW-AIR

Globe Metallurgical, Inc. - Case No. 16-737-EL-AEC

Ohio Power Company - Case No. 13-2385-EL-SSO

Aqua Ohio, Inc. – Case No. 13-2124-WW-AIR

Camplands Water LLC. - Case No. 13-1690-WW-AIR

Duke Energy Ohio, Inc. - Case No. 12-1685-GA-AIR

Duke Energy Ohio, Inc. - Case No. 12-1682-EL-AIR

Ohio American Water Company - Case No. 11-4161-WS-AIR

Water and Sewer LLC. - Case No. 11-4509-ST-AIR

Aqua Ohio, Inc. - Case No. 09-1044-WW-AIR

Duke Energy Ohio, Inc. - Case No. 08-709-EL-AIR

*Ohio Edison Company, The Cleveland Electric Illuminating Company
And The Toledo Edison Company - Case No. 07-551-EL-AIR*

Northeast Ohio Natural Gas Corp. - Case No. 03-2170-GA-AIR

Water and Sewer LLC. – Case No. 03-318-WS-AIR

Southeast Natural Gas Company – Case No. 01-140-GA-AEM

Masury Water Company - Case No. 00-713-WW-AIR

Akron Thermal, Limited Partnership - Case No. 00-2260-HT-AEM

GTE North, Inc. - Case No. 87-1307-TP-AIR

The Cleveland Electric Illuminating Company - Case No. 85-675-EL-AIR

AEP Ohio Settlement By Category
Tax Case
Case No. 18-1007-EL-UNC

Settlement Section IV	Federal Income Tax Category	Total Value	Amort. (Yr)	Annual Value	Residential Allocation	Total Value Residential	Annual Value Residential
Paragraph B	(1) Excess Protected ADIT	\$ 278 million	25	\$ 11.12 million	61%	\$ 169.6 million	\$ 6.78 million
Paragraph C	(2) Unprotected Excess ADIT	\$ 177.6 million	6.25	\$ 28.416 million	38.85%	\$ 69 million	\$ 11.04 million
Paragraph D	(3) Tax Savings	\$ 81.6 million	4	\$ 20.4 million	61%	\$ 49.78 million	\$ 12.44 million
Paragraph D	(4) Low-Income Funding	\$ 4 million	4	\$ 1 million	100%	\$ 4 million	\$ 1 million
	(5) Total	\$ 541.2 million		\$ 60.936 million		\$ 292.38 million	\$ 31.26 million

Footnotes:

- (1) Protected ADIT - assumed straight-line 25 year flow-back
- (2) Unprotected ADIT - One half allocation based on 50% demand using 5 CP / one half allocated based on 2017 KWH sales.
\$48.2 million of residential allocation used to offset residential PTBAR
Remaining \$20.8 million of residential allocation will be credited to customers through a new Tax Savings Credit Rider (TSCR) based on a per kWh energy rate over 6.25 years.
- (3) Annual tax savings of \$20.4 million related to the reduction in the FIT rate to include a one time carrying charge will continue until new distribution rates resulting from a rate case. This credit will flow through the TSCR allocated to customer classes based on distribution revenues.
- (4) Low-Income Funding - AEP Ohio will contribute \$1 million annually for bill assistance beginning in 2018.

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Case No(s). 18-1007-EL-UNC, 18-1451-EL-ATA

Summary: Testimony Direct Testimony of Wm. Ross Willis in Support of the Stipulation and Recommendation on Behalf of the Office of the Ohio Consumers' Counsel electronically filed by Ms. Deb J. Bingham on behalf of Healey, Christopher Mr.