

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

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)	Case No. 11-351-EL-AIR
Merged Company (collectively, AEP Ohio))	Case No. 11-352-EL-AIR
for an Increase in Electric Distribution)	
Rates.)	
In the Matter of the Application of)	
Columbus Southern Power Company and)	
Ohio Power Company, Individually and, if)	Case No. 11-353-EL-ATA
Their Proposed Merger is Approved, as a)	Case No. 11-354-EL-ATA
Merged Company (collectively, AEP Ohio))	
for Tariff Approval.)	
In the Matter of the Application of)	
Columbus Southern Power Company and)	
Ohio Power Company, Individually and, if)	Case No. 11-356-EL-AAM
Their Proposed Merger is Approved, as a)	Case No. 11-358-EL-AAM
Merged Company (collectively, AEP Ohio))	
for Approval to Change Accounting)	
Methods.)	

**DIRECT TESTIMONY IN SUPPORT OF THE STIPULATION
OF
WILSON GONZALEZ**

On Behalf of
The Office of the Ohio Consumers' Counsel
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November 29, 2011

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1 **I. INTRODUCTION**

2

3 ***Q1. PLEASE STATE YOUR NAME, ADDRESS AND POSITION.***

4 ***AI.*** My name is Wilson Gonzalez. My business address is 10 West Broad Street,
5 Suite 1800, Columbus, Ohio, 43215-3485. I am employed by the Office of the
6 Ohio Consumers' Counsel ("OCC") as a Senior Energy Policy Advisor.

7

8 ***Q2. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND***

9 ***PROFESSIONAL EXPERIENCE.***

10 ***A2.*** I have a Bachelor of Arts degree in Economics from Yale University and a Master
11 of Arts degree in Economics from the University of Massachusetts at Amherst. I
12 have also completed coursework and passed my comprehensive exams towards a
13 Ph.D. in Economics at the University of Massachusetts at Amherst. I have been
14 employed in the energy industry since 1986, first with the Connecticut Energy
15 Office (Senior Economist, 1986-1992), then Columbia Gas Distribution
16 Companies ("Columbia Gas") (Integrated Resource Planning Coordinator, 1992-
17 1996) and American Electric Power ("AEP") (Marketing Profitability Coordinator
18 and Market Research Consultant, 1996-2002). I have been directing the Resource
19 Planning activities within OCC since 2004, and have been involved in numerous
20 electric industry cases before the Public Utilities Commission of Ohio ("PUCO"
21 or "Commission").

1 **II. PURPOSE OF TESTIMONY**

2

3 **Q3. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

4 **A3.** The purpose of my testimony is to support the Stipulation and Recommendation
5 (“Stipulation”) filed in these cases on November 23, 2011. I believe the
6 Stipulation represents a fair and reasonable compromise of the issues in these
7 proceedings, and it should be adopted in its entirety without material modification
8 by the Commission. There are significant consumer benefits in the Stipulation
9 including the following: AEP Ohio’s proposed annual base distribution increase
10 would be reduced from the company-wide request of \$93 million to zero;
11 residential customers would receive credits to their bills totaling more than \$14
12 million annually from January 2012 through May 2015 (up to \$50.184 million for
13 the period); and \$1 million annually will be contributed to the Neighbor to
14 Neighbor program from January 2012 to May 2015 to aid low-income customers
15 who need assistance paying their electric bills.

16

17 However, this testimony is mostly about decoupling given its relative new status
18 as an issue and the significant consumer benefits it provides. With respect to the
19 decoupling mechanism provisions contained within the Stipulation,¹ in
20 particular, those provisions satisfy the PUCO’s criteria for evaluating the
21 reasonableness of a Stipulation. In this regard, the decoupling mechanism
22 removes the utility’s incentive to sell more electricity between distribution rate

¹ Stipulation at 10, See also Attachment Y.

1 cases to increase its earnings (known as the throughput incentive). It also
2 removes the utility's disincentive to promote comprehensive energy efficiency.
3 Therefore, the decoupling mechanism helps align the Companies' interest with
4 customers' interest in procuring cost-effective energy efficiency resources. Cost-
5 effective energy efficiency resources benefit customers by helping the utility
6 avoid the need to build expensive generation plants or procure more expensive
7 power in the PJM market to meet growing electricity demand. Therefore, it is my
8 opinion that the PUCO should approve the decoupling mechanism as an integral
9 and material component of this Stipulation.

10

11 **III. THE STIPULATION**

12

13 ***Q4. WHAT ARE THE PUCO'S CRITERIA FOR EVALUATING THE***
14 ***REASONABLENESS OF A STIPULATION?***

15 ***A4.*** The criteria are: Is the Stipulation the product of serious bargaining among
16 capable knowledgeable parties? Does the Stipulation benefit ratepayers and the
17 public interest? And does the Stipulation violate any important regulatory
18 principles or practices?

19

20 ***Q5. WITH RESPECT TO THE DECOUPLING MECHANISM PROVISIONS OF***
21 ***THE STIPULATION, DOES THE STIPULATION SATISFY THE PUCO'S***
22 ***CRITERIA FOR EVALUATING THE REASONABLENESS OF A***
23 ***STIPULATION?***

1 **A5.** Yes. The Stipulation, with the decoupling mechanism provisions included
2 therein, satisfies each of the PUCO's criteria for evaluating the reasonableness of
3 a stipulation.

4
5 **Q6. IS THE STIPULATION THE PRODUCT OF SERIOUS BARGAINING**
6 **AMONG CAPABLE KNOWLEDGEABLE PARTIES?**

7 **A6.** Yes.

8
9 **Q7. DID YOU PERSONALLY PARTICIPATE IN THE NEGOTIATION**
10 **PROCESS?**

11 **A7.** Yes, I actively participated in the negotiations.

12
13 **Q8. DO YOU HAVE TECHNICAL EXPERIENCE IN PROCEEDINGS WHERE**
14 **REVENUE DECOUPLING RELATED TO ENERGY EFFICIENCY HAS**
15 **BEEN AN ISSUE?**

16 **A8.** Yes. My experience extends to proceedings in Ohio as well as Connecticut,
17 Maryland, and Virginia. In Ohio I have filed testimony on energy efficiency and
18 have discussed revenue decoupling in Case Nos. 04-571-GA-AIR, 05-1444-GA-
19 UNC, 05-474-GA-ATA, 07-829-GA-AIR, 07-589-GA-AIR and 10-388-EL-SSO.

20
21 For the past 7 years at OCC, I have worked extensively on a wide range of topics
22 regarding the standard service offer (SSO) proposals of the following electric
23 utility companies: AEP Ohio, FirstEnergy, Dayton Power & Light and Duke

1 Energy Ohio. I have also focused specifically on energy efficiency related matters
2 which include:

- 3 • Being involved in Demand Side Management (DSM)
4 negotiations resulting in over \$1 billion in energy efficiency
5 programs with Ohio's investor owned utilities;
- 6 • Preparing DSM testimony in numerous PUCO cases as
7 provided in my earlier Direct Testimony in this case;
- 8 • Testifying before the Ohio House Alternative Energy
9 Committee in support of energy efficiency and demand
10 response; and
- 11 • Assisting in the preparation of energy efficiency and
12 renewable energy testimony and amendments for S.B. 221,
13 H.B. 357, and H.B. 487.

14
15 ***Q9. DOES THE STIPULATION BENEFIT CUSTOMERS AND THE PUBLIC***
16 ***INTEREST?***

17 ***A9.*** Yes.

18
19 ***Q10. CAN YOU EXPLAIN THE BENEFIT TO CUSTOMERS AND THE PUBLIC***
20 ***INTEREST AS A RESULT OF THIS STIPULATION?***

21 ***A10.*** Yes. The consumer benefits in the Stipulation include: AEP Ohio's proposed
22 annual base distribution increase would be reduced from the company-wide
23 request of \$93 million to zero; residential customers would receive credits to their

1 bills totaling more than \$14 million annually from January 2012 through May
2 2015 (up to \$50.184 million for the period); and \$1 million annually will be
3 contributed to the Neighbor to Neighbor program from January 2012 to May 2015
4 to aid low-income customers who need assistance paying their electric bills.²
5

6 ***Q11. WOULD YOU EXPLAIN THE ADDITIONAL BENEFITS TO CUSTOMERS***
7 ***AND THE PUBLIC INTEREST AS A RESULT OF THE***
8 ***IMPLEMENTATION OF A DECOUPLING MECHANISM?***

9 ***A11.*** Yes. Revenue decoupling is an approach to rate design that addresses the
10 distribution revenues that can be lost when customers use less utility service
11 because they are participating in utility energy efficiency programs and reducing
12 their usage. Decoupling can be defined generally as separating a utility's
13 revenues and profits from the volume of kWh sold to customers. The decoupling
14 mechanism proposed mechanically trues-up the Companies' distribution revenues
15 via a price adjustment when actual sales are different than the test year sales
16 approved in its distribution rate case.

17
18 In this case, there are at least five benefits to customers and the public interest
19 resulting from decoupling. First, the decoupling mechanism, the Throughput
20 Balancing Adjustment Rider, is being proposed as a pilot program. The pilot
21 program, for the three years 2012 through 2014. will afford the PUCO and

² The Stipulation in these cases (as well as the consumer benefits contained therein), is contingent upon the Commission's approval of the Stipulation in AEP-Ohio's ESP II Cases, Case Nos. 11-346-EL-SSO, et al.

1 interested parties (including OCC) the opportunity to evaluate the results of the
2 revenue decoupling for purposes of considering the future design of a more
3 permanent mechanism, if one were adopted.³ Second, there is a cap that protects
4 customers against an annual increase attributable to the pilot program exceeding 3
5 percent (based on total distribution revenues for a customer class).⁴ Third, there
6 is no cap on annual decreases to distribution revenues for a customer class,
7 attributable to the Throughput Balancing Adjustment Rider.⁵ Fourth, as a result
8 of the implementation of the Throughput Balancing Adjustment Rider, AEP-Ohio
9 will not automatically collect from customers an estimated \$45 million⁶ in net lost
10 distribution revenues associated with its 2012-2014 energy efficiency/peak
11 demand reduction plans. It will have to credit customers if it exceeds its
12 authorized distribution revenue requirement on an annual basis during 2012
13 through 2015.⁷ The decoupling mechanism adjustment in the Stipulation is
14 symmetrical and can increase or decrease the revenue collected from customers.
15 In contrast, a lost revenue approach mechanism, as previously requested by AEP
16 in its energy Efficiency/Peak Demand Reduction Case,⁸ only increases revenue

³ Stipulation at 10.

⁴ Id.

⁵ Id.

⁶ Direct Testimony of Wilson Gonzalez in Case No. 11-351-EL-AIR et al, October 24, 2011, page 14, and Attachment WG-3 (page 1 of 3). The figure represents a pre-decoupling estimate of net lost revenues based on residential and business customer savings in AEP-Ohio's draft 2012-2014 EE/PDR Portfolio and customer rates from the 11-351-EL-AIR Staff Report. The estimate is modeled after the net lost revenue calculation found in Schedule 3, Company Application in Case No. 11-2768-EL-RDR.

⁷ Stipulation at 10.

⁸ Case No. 11-5568-EL-POR et al.

1 collection even if the utility has already collected its authorized revenue. Finally,
2 revenue decoupling will remove the utility disincentive to procure all cost-
3 effective energy efficiency that in AEP-Ohio's 2012-2014 energy efficiency
4 portfolio is estimated to save customers \$880 million on their bills.⁹

5

6 **Q12. DOES THE STIPULATION VIOLATE ANY IMPORTANT REGULATORY**
7 **PRINCIPLES OR PRACTICES?**

8 **A12.** No.

9

10 **Q13. WHY NOT?**

11 **A13.** First of all, Ohio law contemplates the implementation of a decoupling
12 mechanism. Revised Code 4928.66(D) allows the Commission to approve a
13 decoupling application. Second, decoupling mechanisms have been adopted in
14 many states. I am generally aware that decoupling has been adopted in different
15 states throughout the country. Specifically, I am familiar with a report prepared
16 by Pamela Lesh in 2009, which documented that 28 gas utilities and 12 electric
17 utilities across 17 states had revenue decoupling mechanisms.¹⁰ Finally, the
18 Commission has demonstrated an interest in the revenue decoupling issue. On
19 December 29, 2010, the Commission issued an Entry in Case No. 10-3126-EL-
20 UNC asking for public comments on whether Ohio's electric distribution utilities'

⁹ AEP-Ohio Energy Efficiency/Peak Demand Reduction Action Plan, Vol. 1, page 3, in Case No. 11-5568-EL-POR et al.

¹⁰ Pamela G. Lesh, "Rate Impacts and Key Design Elements of Gas and Electric Utility Decoupling: A Comprehensive Review." The Electricity Journal, October 2009, page 65.

1 rate structures should be modified to include decoupling rate designs to better
2 align utility performance with Ohio's desired public policy outcomes.

3

4 **IV. CONCLUSION**

5

6 ***Q14. ARE YOU RECOMMENDING THAT THE PUCO APPROVE THE***
7 ***STIPULATION INCLUDING THE DECOUPLING MECHANISM***
8 ***PROVISIONS CONTAINED THEREIN?***

9 ***A14.*** Yes. The decoupling mechanism provisions contained in this Stipulation are
10 integral and material to OCC's decision to participate as a Signatory Party to this
11 Stipulation.

12

13 ***Q15. DOES THIS CONCLUDE YOUR TESTIMONY?***

14 ***A15.*** Yes it does.

CERTIFICATE OF SERVICE

It is hereby certified that a true copy of the foregoing the *Testimony of Wilson Gonzalez in Support of the Stipulation on Behalf of the Office of the Ohio Consumers' Counsel* has been served electronically this 29th day of November 2011.

/s/ Maureen R. Grady _____
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Assistant Consumers' Counsel

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Summary: Testimony Direct Testimony in Support of the Stipulation of Wilson Gonzalez on Behalf of the Office of the Ohio Consumers' Counsel electronically filed by Ms. Deb J. Bingham on behalf of Grady, Maureen R. Ms.