

OCC EXHIBIT NO.

**BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of)
Ohio Power Company to Update Its) Case No. 13-1406-EL-RDR
Transmission Cost Recovery Rider Rates.)

**TESTIMONY
OF
BETH E. HIXON**

**On Behalf of the
Office of the Ohio Consumers' Counsel**
*10 West Broad Street, Suite 1800
Columbus, Ohio 43215*

October 18, 2013

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION	1
II. PURPOSE OF TESTIMONY	3
III. AEP OHIO’S PROPOSED PJM REACTIVE SUPPLY CHARGES FOR JULY 2011 THROUGH MARCH 2013	5

ATTACHMENTS

BEH-A	Beth E. Hixon – Utility Testimony Submitted
-------	---------------------------------------------

*Testimony of Beth E. Hixon
On Behalf of the Office of the Ohio Consumers' Counsel
PUCO Case No. 13-1406-EL-RDR*

1 **I. INTRODUCTION**

2

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

4 ***A1.*** My name is Beth Hixon. My business address is 10 West Broad Street, Suite
5 1800, Columbus, Ohio 43215-3485. I am employed by the Office of the Ohio
6 Consumers' Counsel ("OCC") as the Assistant Director of Analytical Services.

7

8 ***Q2. WOULD YOU PLEASE SUMMARIZE YOUR EDUCATIONAL AND***
9 ***PROFESSIONAL BACKGROUND?***

10 ***A2.*** I received a Bachelor of Business Administration degree in accounting from Ohio
11 University in June 1980. For the period June 1980 through April 1982, I was
12 employed as an Examiner in the Field Audits Unit of the Ohio Rehabilitation
13 Services Commission ("ORSC"). In this position, I performed compliance audits
14 of ORSC grants to, and contracts with, various service agencies in Ohio.

15

16 In May 1982, I was employed in the position of Researcher by the OCC. In 1984,
17 I was promoted to Utility Rate Analyst Supervisor and held that position until
18 November 1987 when I joined the regulatory consulting firm of Berkshire
19 Consulting Services. In April 1998, I returned to the OCC and have subsequently
20 held positions as Senior Regulatory Analyst, Principal Regulatory Analyst,
21 Assistant Director of Analytical Services and Interim Director of Analytical
22 Services.

23

*Testimony of Beth E. Hixon
On Behalf of the Office of the Ohio Consumers' Counsel
PUCO Case No. 13-1406-EL-RDR*

1 ***Q3. WHAT EXPERIENCE DO YOU HAVE IN THE AREA OF UTILITY***
2 ***REGULATION?***

3 ***A3.*** In my positions with the OCC, and as a consultant with Berkshire Consulting
4 Services, I have performed analysis and research in numerous cases involving
5 utilities' base rates, fuel and gas rates and other regulatory issues. I have worked
6 with attorneys, analytical staff, and consultants in preparing for, and litigating,
7 utility proceedings involving Ohio's electric companies, the major gas companies,
8 and several telephone and water utilities. At the OCC, I also chair the OCC's
9 cross-functional internal electric team, participate in and/or direct special
10 regulatory projects regarding energy issues, and provide training on regulatory
11 technical issues.

12
13 ***Q4. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY BEFORE***
14 ***REGULATORY COMMISSIONS?***

15 ***A4.*** Yes. I have submitted testimony before the Public Utilities Commission of Ohio
16 ("PUCO") in the cases listed in Attachment BEH-A. As shown on this
17 Attachment, I have also submitted testimony in a case before the Indiana Utility
18 Regulatory Commission.

19

II. PURPOSE OF TESTIMONY

Q5. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A5. The purpose of my testimony is to address the over \$23 million, plus carrying charges, proposed to be charged to customers by Ohio Power Company (“Ohio Power” or “AEP Ohio”) through its Transmission Cost Recovery Rider (“TCRR”) for PJM Reactive Supply charges incurred since July 2011. The \$23 million in PJM Reactive Supply charges for July 2011 through March 2013 was included by AEP Ohio in its TCRR costs during the reconciliation period for this case.¹ The Staff of the PUCO (“PUCO Staff”) recommended a \$13.3 million reduction to AEP’s claimed TCRR costs related to PJM Reactive Supply charges, and associated carrying charges.² On August 28, AEP Ohio was directed to file revised tariffs reflecting Staff’s proposed rates, which reflected this \$13.3 million reduction in the TCRR rate calculation.³

¹ June 17, 2013 Application (“Application”) at 4-5.

² August 13, 2013 Staff’s Review and Recommendations at 1-2.

³ August 28, 2013 Entry at 8. In response to this Entry, AEP Ohio filed a revised TCRR tariff on September 3, 2013.

*Testimony of Beth E. Hixon
On Behalf of the Office of the Ohio Consumers' Counsel
PUCO Case No. 13-1406-EL-RDR*

1 ***Q6. WHAT IS YOUR RECOMMENDATION TO THE PUCO REGARDING THE***
2 ***AMOUNT OF PJM REACTIVE SUPPLY CHARGES THAT AEP OHIO***
3 ***SHOULD BE ALLOWED TO CHARGE CUSTOMERS THROUGH THE***
4 ***TCRR IN THIS CASE?***

5 ***A6.*** I recommend excluding \$11.4 million in July 2011 through April 2012 PJM
6 Reactive Supply charges, and recommend excluding \$0.9 million in associated
7 carrying charges, that were for the prior audit period.⁴ I also recommend
8 excluding \$1 million of carrying charges related to the \$11.6 million of PJM
9 Reactive Supply charges for the period May 2012 through April 2013, which is
10 the reconciliation, and audit, period for this case⁵. With regard to these items, I
11 support the position of the PUCO Staff to exclude these charges from TCRR rates
12 that customers pay.

13
14 If the PUCO were to determine that customers must pay for the prior audit period
15 PJM Reactive Supply charges, I recommend that carrying charges of \$1.9 million
16 associated with both the \$11.4 million of prior audit period and the \$11.6 current

⁴ \$11,399,735 PJM Reactive Supply charges for July 2011 through April 2012 and \$856,202 in carrying charges (August 13, 2013 Staff's Review and Recommendations at 1).

⁵ Staff recommends exclusion of \$323,703 in carrying charges associated with the \$11,622,844 in PJM Reactive Supply charges from the current audit period and exclusion of \$744,914 in future carrying charges. (August 13, 2013 Staff's Review and Recommendations at 1-2).

*Testimony of Beth E. Hixon
On Behalf of the Office of the Ohio Consumers' Counsel
PUCO Case No. 13-1406-EL-RDR*

1 audit period PJM Reactive Supply charges be excluded from AEP Ohio's TCRR
2 rate calculation in this case.

3
4 If the PUCO were to determine that customers must pay for both the prior audit
5 and current audit periods' \$23 million in PJM Reactive Supply charges and all
6 associated carrying charges related to AEP Ohio's under-recovery for these
7 charges, I recommend the PUCO clarify that out-of-audit period credits, as well as
8 out-of-audit period charges, will be recognized in the TCRR rate. I also
9 recommend that carrying charges in the TCRR will apply in a similar manner for
10 any future out-of-audit-period adjustments that reduce the TCRR rate calculation,
11 as well as for those that increase the TCRR.

12
13 **III. AEP OHIO'S PROPOSED PJM REACTIVE SUPPLY CHARGES FOR**
14 **JULY 2011 THROUGH MARCH 2013**

15
16 ***Q7. HOW HAS AEP OHIO PROPOSED TO INCLUDE PJM REACTIVE***
17 ***SUPPLY CHARGES FOR JULY 2011 THROUGH MARCH 2013 IN THE***
18 ***TCRR IT WILL BILL TO CUSTOMERS AS A RESULT OF THIS CASE?***

19 ***Q7.*** During the current reconciliation⁶ and audit period, May 2012 through April
20 2013, AEP Ohio increased its TCRR balance by \$23 million for PJM Reactive

⁶ AEP Ohio witness Moore Direct Testimony at 5.

*Testimony of Beth E. Hixon
On Behalf of the Office of the Ohio Consumers' Counsel
PUCO Case No. 13-1406-EL-RDR*

1 Supply charges incurred for the months July 2011 through March 2013. The
2 Utility adjusted its TCRR balance in April 2013.⁷
3 The \$23 million increase included PJM Reactive Supply charges of \$11.4 million
4 incurred from July 2011 through April 2012 -- the "period previously audited"⁸
5 by PUCO Staff. It also included \$11.6 million for the months May 2012 through
6 April 2013 from the "current audit period."⁹

7

8 ***Q8. SHOULD THE \$11.4 MILLION OF PRIOR AUDIT PERIOD PJM***
9 ***REACTIVE SUPPLY CHARGES BE INCLUDED IN THE TCRR THAT***
10 ***CUSTOMERS WILL PAY AS A RESULT OF THIS CASE?***

11 ***A8.*** No. The prior audit period PJM Reactive Supply charges, and associated carrying
12 costs, should be eliminated from the TCRR costs in this case that customers
13 would pay. Additionally, I note that, based on advice of counsel, the PUCO, in a
14 decision affirmed by the Ohio Supreme Court,¹⁰ has held that reconciliation is
15 limited to the audit period under review.

⁷ August 13, 2013 Staff's Review and Recommendations at 1.

⁸ August 13, 2013 Staff's Review and Recommendations at 1.

⁹ August 13, 2013 Staff's Review and Recommendations at 1.

¹⁰ *In the Matter of the Regulation of the Electric Fuel Component Contained Within the rate Schedules of The Cleveland Electric Illuminating Company and Related Matters*, Case No. 83-38-EL-EFC, 1984 Ohio PUC LEXIS 65 at 36, (PUCO February 28, 1984), *affirmed Office of Consumers' Counsel v. Public Utilities Com.*, 16 Ohio St. 3d 9, 475 N.E. 2d 782 (1985).

*Testimony of Beth E. Hixon
On Behalf of the Office of the Ohio Consumers' Counsel
PUCO Case No. 13-1406-EL-RDR*

1 The Utility's required annual filing of a TCRR update¹¹, the required annual
2 reconciliation of TCRR costs¹², and the practice of the PUCO Staff in performing
3 review and audit have established a one year audit period. For example, in the
4 current case the PUCO Staff recognized the one-year current audit period in its
5 recommendation that only PJM Reactive Supply charges for the months May
6 2012 through April 2013 be included in this TCRR.¹³

7
8 AEP Ohio has also recognized in its past TCRR annual update filings that the
9 period for which costs are reconciled is one year. For example, in its Schedule B-
10 1 in AEP Ohio's last annual update filing, the Utility listed the "Prior Year
11 under/(over) collection."¹⁴ In other prior TCCR annual update filings, AEP Ohio
12 also listed the reconciliation on Schedule B-1 as the "Prior Year under/(over)
13 collection."¹⁵ This is in contrast to Schedule B-1 in the current case, in which the
14 term "Prior Year" is no longer listed by AEP Ohio when referring to the
15 reconciliation for under/(over) collection.

16

¹¹ Ohio Administrative Code 4901:1-36-03 (B).

¹² Ohio Administrative Code 4901:1-36-04 (A).

¹³ August 13, 2013 Staff's Review and Recommendations at 1-2.

¹⁴ Case No. 12-1046-EL-RDR, June 15, 2012 Application, Schedule B-1.

¹⁵ See Schedules B-1 in Case No. 11-2473-EL-RDR, April 15, 2012 Application, Case No. 10-477-EL-RDR, April 14, 2010 Application, and Case No. 09-339-EL-UNC, April 16, 2009 Application.

1 **Q9. DO YOU AGREE WITH AEP OHIO'S CLAIM THAT A "CLERICAL**
2 **ERROR" CAUSED THE NEED TO INCREASE ITS APRIL 2013 TCRR**
3 **BALANCE BY \$23 MILLION IN PJM REACTIVE SUPPLY CHARGES?**

4 **A9.** No. In its June 17, 2013 Application, AEP Ohio stated that it "discovered during
5 the review phase for this filing" that \$23 million was "inadvertently omitted"
6 from TCRR rate calculations. In the October 8, 2013 testimony of AEP witness
7 Moore, she describes a "clerical error" that occurred. However, upon reading Ms.
8 Moore's and AEP witness Gleckler's explanations of the "error," it can be seen
9 that this is not a simple clerical error, but instead the Utility's failure to properly
10 construct the TCRR rate calculations annually submitted to the PUCO.

11
12 **Q10. WAS THE FAILURE TO INCLUDE THE PJM REACTIVE SUPPLY**
13 **CHARGES IN THE TCRR RATE CALCULATIONS DUE TO AN**
14 **ACCOUNTING ERROR?**

15 **A10.** No. The Utility did not make an accounting entry error for the PJM Reactive
16 Supply charges, because Ms. Moore states that "accounting entries for these
17 charges were correctly recorded."¹⁶

18

¹⁶ AEP Ohio Witness Moore Direct Testimony at 5.

**Q11. WAS THE FAILURE TO INCLUDE THE CHARGES IN THE TCRR RATE
CALCULATIONS A ONE-TIME MISTAKE?**

A11. No. The Utility did not make a one-time error in not submitting PJM Reactive Supply charges as part of the TCRR rate calculation in an annual update filing. Instead, the failure to include the charges in the TCRR rate calculations began in July 2011 (when AEP Ohio's credits exceeded its charges for PJM Reactive Supply¹⁷) and continued until discovered "during the review phase for this filing,"¹⁸ a period of almost two years.

Mr. Gleckler's explanation of the PJM Reactive Supply charges and credits for AEP Ohio reveals that the PJM invoices separate the charges from the credits, as they are shown on separate lines.¹⁹ As detailed on page 4 of his testimony, it was AEP Ohio's decision how to treat the net amounts on its books that resulted in PJM Reactive Supply Charges since July 2011 not being charged to an account which Utility personnel recognized as related to the TCRR. (i.e. Account 4470098 PJM Operating Reserves Revenue – Off-System Sales).

¹⁷ AEP Ohio Witness Gleckler Direct Testimony at 5.

¹⁸ Application at 5.

¹⁹ AEP Ohio Witness Gleckler Direct Testimony at 3.

**Q12. DID AEP OHIO HAVE PROCESSES IN PLACE TO DISCOVER ITS
FAILURE TO INCLUDE THE PJM REACTIVE SUPPLY CHARGES IN
THE TCRR RATE CALCULATIONS?**

A12. Since Ms. Moore indicates that now AEP Ohio “has a plan in place to ensure the charges are included in the TCRR going forward,”²⁰ and since the incorrect calculation of the TCRR rate continued for almost two years, it does not appear the Utility had processes in place that allowed it to discover the fact that it was improperly calculating the TCRR rates submitted in annual filings to the PUCO. In addition, Mr. Gleckler explains that it was when the Utility was “investigating the treatment of PJM Reactive Supply charges and credits” that it also identified the potential for similar mistakes to be made in the TCRR calculations for charges for two other services (Regulation and Synchronous Reserve).²¹ For one of these items, Synchronous Reserve, Mr. Gleckler states that these “charges were no longer recorded in expense accounts,” which is similar to treatment that led to the failure to include PJM Reactive Supply charges in the TCRR rate calculations.²² However, Mr. Gleckler does not provide further detail of the impact on the TCRR rate calculations of this new discovery about Synchronous Reserve charges.

An additional concern regarding the Utility’s processes related to its TCRR rate calculations is raised in AEP Witness Moore’s testimony about an error from a

²⁰ AEP Ohio Witness Moore Direct Testimony at 8.

²¹ AEP Ohio Witness Gleckler Direct Testimony at 7.

²² AEP Ohio Witness Gleckler Direct Testimony at 7.

*Testimony of Beth E. Hixon
On Behalf of the Office of the Ohio Consumers' Counsel
PUCO Case No. 13-1406-EL-RDR*

1 prior period that might lower the TCRR revenue requirement. Ms. Moore reveals
2 that now AEP Ohio has “discovered an error totaling approximately \$8 million
3 that will result in a credit to the over/under recovery balance that will be reflected
4 in the next TCRR update filing.”²³ Further details are not provided in her
5 testimony, but she indicates that this \$8 million, like some of the proposed PJM
6 Reactive Supply charges in this case, would be for months outside the next audit
7 period. If so, this seems to indicate the untimely discovery by the Utility of a
8 further failure to properly construct its TCRR rate calculations submitted to the
9 PUCO.

10
11 ***Q13. IF THE PUCO WERE TO DETERMINE THAT THE OUT-OF-AUDIT-***
12 ***PERIOD PJM REACTIVE SUPPLY CHARGES SHOULD BE CHARGED TO***
13 ***CUSTOMERS, SHOULD IT ALSO ALLOW AEP TO CHARGE CUSTOMERS***
14 ***FOR CARRYING CHARGES ON THE TOTAL \$23 MILLION OF***
15 ***CHARGES?***

16 ***A13.*** No. AEP Ohio failed to properly construct its TCRR rate calculations due to its
17 chosen accounting treatment of the PJM Reactive Supply charges. The Utility
18 also failed to have processes in place that would allow it to discover the improper
19 TCRR rate calculations in a timely manner. Therefore, customers should not be
20 penalized further through the imposition of carrying charges that resulted from
21 these failures by the Utility.

²³ AEP Ohio Witness Moore Direct Testimony at 7.

*Testimony of Beth E. Hixon
On Behalf of the Office of the Ohio Consumers' Counsel
PUCO Case No. 13-1406-EL-RDR*

1 ***Q14. IF THE PUCO WERE TO DETERMINE THAT CUSTOMERS MUST PAY***
2 ***THE TOTAL AMOUNT AEP OHIO SEEKS (\$23 MILLION IN PJM***
3 ***REACTIVE SUPPLY CHARGES AND ALL ASSOCIATED CARRYING***
4 ***CHARGES), DO YOU HAVE A FURTHER RECOMMENDATION?***

5 ***A14.*** Yes. If the PUCO rejects my recommendation for protecting customers from
6 paying portions of AEP Ohio's proposed PJM Reactive Supply charges, and
7 associated carrying charges, I recommend that the PUCO clarify in its order in
8 this case that any out-of-audit-period credits will also be credited to customers,
9 similar to the treatment of the out-of-audit-period costs that are charged to
10 customers. Additionally, carrying charges in the TCRR should be applied in a
11 similar manner for future out-of-audit-period adjustments that reduce the TCRR
12 rate calculation. This will ensure fairness through comparable treatment in the
13 future for carrying charges applied to any out-of-the-audit-period adjustments –
14 both those that increase, and those that decrease the TCRR rate calculation.

15

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

17 ***A15.*** Yes. However, I reserve the right to incorporate new information that may
18 subsequently become available. I also reserve the right to supplement my
19 testimony in the event that the Utility, the PUCO Staff or other parties submit new
20 or corrected information in connection with this proceeding.

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing *Direct Testimony of Beth E. Hixon* was served via electronic transmission to the persons listed below on this 18th day of October 2013.

/s/ Edmund "Tad" Berger

Edmund "Tad" Berger

Assistant Consumers' Counsel

PARTIES OF RECORD

Thomas Lindgren
Ryan O'Rourke
Attorney General's Office
Public Utilities Commission of Ohio
180 East Broad Street, 6th Floor
Columbus, OH 43215
Thomas.lindgren@puc.state.oh.us
Ryan.orourke@puc.state.oh.us

Steven T. Nourse
Yazen Alami
American Electric Power Service
Corporation
1 Riverside Plaza, 29th Floor
Columbus, Ohio 43215
stnourse@aep.com
yalami@aep.com

David F. Boehm
Michael L. Kurtz
Jody Kyler Cohn
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, Ohio 45202
dboehm@BKLawfirm.com
mkurtz@BKLawfirm.com
jkylercohn@BKLawfirm.com

Samuel C. Randazzo
Frank P. Darr
Joseph E. Olikier
Matthew R. Pritchard
McNees Wallace & Nurick LLC
21 East State Street, 17th Floor
Columbus, OH 43215-4228
sam@mwncmh.com
fdarr@mwncmh.com
joliker@mwncmh.com
mpritchard@mwncmh.com

AEs: Sarah.parrot@puc.state.oh.us
Jonathan.tauber@puc.state.oh.us

Beth E. Hixon
Testimony Submitted on Public Utility Regulation

As an employee of the Office of the Ohio Consumers' Counsel (OCC):

Company	Docket No.	Date
Ohio Power	83-98-EL-AIR	1984
Ohio Gas	83-505-GA-AIR	1984
Dominion East Ohio Gas	05-474-GA-ATA	2005
Dayton Power & Light	05-792-EL-ATA	2006
Duke Energy Ohio	03-93-EL-ATA et al.	2007
Dominion East Ohio	08-729-GA-AIR	2008
AEP Ohio	08-917-EL-SSO et al.	2008
AEP Ohio	11-346-EL-SSO et al.	2012
Duke Energy Ohio	12-1682-EL-AIR et al.	2013
Duke Energy Ohio	12-1685-GA-AIR et al.	2013
Dayton Power & Light	12-426-EL-SSO et al.	2013

As an employee of Berkshire Consulting Service:

Company	Docket No.	Date	Client
Toledo Edison	88-171-EL-AIR	1988	OCC
Cleveland Electric Illuminating	88-170-EL-AIR	1988	OCC
Columbia Gas of Ohio	88-716-GA-AIR et al.	1989	OCC
Ohio Edison	89-1001-EL-AIR	1990	OCC
Indiana American Water	Cause No. 39595	1993	Indiana
	Office of the Utility Consumer		Counsel
Ohio Bell	93-487-TP-CSS	1994	OCC
Ohio Power	94-996-EL-AIR	1995	OCC
Toledo Edison	95-299-EL-AIR	1996	OCC
Cleveland Electric Illuminating	95-300-EL-AIR	1996	OCC
Cincinnati Gas & Electric	95-656-GA-AIR	1996	City of Cincinnati, OH

This foregoing document was electronically filed with the Public Utilities

Commission of Ohio Docketing Information System on

10/18/2013 5:15:29 PM

in

Case No(s). 13-1406-EL-RDR

Summary: Testimony Testimony of Beth E. Hixon on Behalf of the Office of the Ohio Consumers' Counsel electronically filed by Ms. Deb J. Bingham on behalf of Berger, Tad Mr.