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	)	

Prepared Testimony
of
Jeffrey Hecker
Accounting and Electricity Division
Utilities Department

Staff Exhibit _____
File Date October 22, 2013

1. Q. Please state your name and business address.

A. My name is Jeffrey Hecker. My address is 180 East Broad Street, Columbus, Ohio 43215-3793.

2. Q. By whom are you employed and in what capacity?

A. I am a Utility Specialist 2 in the Accounting and Electricity Division of the Utilities Department for the Public Utilities Commission of Ohio.

3. Q. Briefly state your educational background, experience, and qualifications.

A. I graduated from Miami University with a Bachelor of Science Degree in Business with an Accounting major. After graduation, I performed accounting functions for the Dayton Power and Light Company and other companies before joining the PUCO in December 2004. I have also completed various workshops and classes on many regulatory processes and provided workpapers, research, and testimony for previous cases.

4. Q. For what types of cases have you previously filed testimony?

A. I have filed testimony for several rate cases for electric, gas, and water companies, storm recovery cases, and rider cases, among others.

5. Q. What is the purpose of your testimony?

A. I am supporting the Staff's adjustment to Ohio Power Company's (OP) revenue requirement for the Company's annual Transmission Cost Recovery Rider (TCRR) update.

6. Q. How is your testimony organized?

A. I will summarize the Company's request, mostly as it relates to the under-recovery balance, the Staff's investigation and findings, and then Staff's recommended adjustments.

7. Q. Please explain the application and the current under-recovery situation.

A. In the Company's Application for this case, OP is requesting a total of approximately $231 million, which includes a forecast of $180.3 million for the next year's transmission costs plus the under-collection of $47 million including carrying costs of approximately $1.8 million. The Company has also included forecasted carrying costs of $3.3 million on the under-collected balance.

8. Q. What is the Company's explanation for this under-recovery situation?

A. The Company attributes the under-collection primarily to these factors: 1) A tariff change by PJM caused Black Start Service charges to be $11 million more than the amount forecasted; 2) A regulatory lag in implementation of the current TCRR rates from the last annual update resulted in approximately $7 million of the balance; 3) Approximately $23 million, plus carrying charges, in Reactive Supply charges was omitted from the TCRR calculation during the months of July 2011 to March 2013. After the Application for this case was filed, the Company notified Staff of two other possible adjustments to the over/under-collection balance: 1) Similar to the situation with Reactive Supply, the Company notified Staff that $100,101 was omitted from the Spinning Reserve Charges July 2011 to March 2013. Of this amount, $2,758 was from July 2011 to May 2012 and $97,343 was from May 2012 to March 2013; and 2) $7,930,072 for out-of-period over-collections attributable to the change in allocation between OSS and LSE was recorded on the Company's books in September 2013.

9. Q. How does Staff view these situations?

A. Staff does not take issue with the $11 million in Black Start Service charges and the $7 million regulatory lag. Staff believes that these issues were out of the

Company's control and does not object to the Company's request to recover these amounts as part of the under-recovery. However, Staff believes that an adjustment to the amount of the under-recovery due to the Reactive Supply charges and Spinning Reserve charges as well as the over-collection due to the OSS/LSE allocation error is appropriate.

10. Q. Does the Company have any further explanation of the omission of the $23 million in Reactive Supply and Spinning Reserve charges?

A. The Company explains that the PJM bill to the Company includes charges that relate to FERC account 5550074 and credits that relate to FERC account 5550075. From July 2011 through March 2013, the net of the charges and credits has been a credit but the separate charge line item was not recorded in account number 5550074 so it was inadvertently not included in the TCRR rate calculation. In April 2013, the Company adjusted the TCRR costs by reclassifying over $23 million to the proper TCRR charge account.

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11. Q. How much does Staff believe needs to be adjusted?

A. Staff believes that the revenue requirement should be reduced by approximately $21.8 million.

12. Q. Why does staff believe an adjustment is required?

A. Some of the amount that the Company adjusted was from the prior audit period and Staff feels it is inappropriate to look back to prior audit periods for such an adjustment. The Company's rates were put in place based on the level of expenses that were reported during that audit period. Also, the amount of errors (e.g., Reactive Supply, Spinning Reserves, and the over-allocation error) indicate to Staff a lack of reasonable diligence on the part of the Company in respect to a lack of internal controls. Additionally, customers should not be harmed due to the Company's lack of reasonable diligence.

13. Q. Please describe in general your audit process to determine the amount of the adjustment.

A. The Company began to omit Reactive Supply charges in July 2011. The TCRR rate is calculated based on the prior period over/under-collection plus the forecasted TCRR charges for the next year. Staff found no issues with the forecast; therefore, the rate charged during the current period was calculated properly. If anything, during the prior period, there would have been an over-collection of the amount based on Reactive Supply because the amount collected was sufficient to recover the forecasted Reactive Supply expense but the actual charges recorded were below the proper amount because of the accounting mentioned above. The

Company discovered this error and made a correcting entry in April 2013 for approximately $23 million. Because the correcting entry was to cover a two-year period, the effect on the under-collection in the current filing was increased. Staff requested detail for the amount of the Reactive Supply charges that should have been applied each month from July 2011 through April 2013.

Staff determined that the amount of Reactive Supply charges for the period from July 2011 to April 2012, which amounts to $11,399,735, were from the previous audit period. If the expenses were properly applied during that period, the TCRR rate for the current period would have been set to account for a lower under-recovery. To now apply a higher rate to recover those expenses would not be fair to customers. The Company also is requesting carrying charges of $856,202 associated with this under-collection. Staff does not believe it is appropriate to recover these dollars from customers because if the charges were properly applied, no carrying charges would have accumulated.

14. Q. What does Staff have to say about the Reactive Supply expenses incorrectly recorded during the current audit period?

A. Of the large April 2013 correcting entry, $11,622,844 was from the time period from May 2012 through April 2013. Staff agrees that the Company be allowed to recover this amount because the rate calculated in this filing is based on the projected expenses and the under-collection from the current period is subject to change based on Staff's audit findings for this time period. However, the Company should not be allowed to recover carrying charges of $323,703 that has been calculated based on this error. Again, Staff believes that customers should not be harmed because of the lack of reasonable diligence by the Company.

15. Q. What does Staff conclude regarding the "Forecast Carrying Charges" requested by the Company?

A. In its Application, the Company included $3,331,644 in "Forecast Carrying Charges" in addition to the other elements of its requested revenue requirement. These carrying charges were calculated going forward on the entire amount of the under-recovery. From information provided by the Company in response to data requests, Staff was able to determine that $744,914 was related to the amount of Reactive Supply in the under-recovery balance. Customers should not be harmed due to the lack of reasonable diligence of the Company.

16. Q. Should the Company adjust for the Spinning Reserves omission?

A. The Company should adjust for this omission in the same way as adjustments for Reactive Supply should be made. Staff does not recommend recovery of the $2,758 plus carrying charges from July 2011 to May 2012, and does not recommend future carrying charges on the entire $100,101. However, Staff recommends recovery of the $97,343 for Spinning Reserves for May 2012 to March 2013 (without carrying charges).

17. Q. How should the Company handle the $7.9 million that should be credited back to the over/under-recovery?

A. As stated above, customers should not be harmed by the lack of reasonable diligence of the Company. Staff believes that the entire credit amount, with carrying charges, should be netted against the additional charges that would be forthcoming with the corrections to the charges. Again, Staff does not believe this error represents a simple clerical error, but rather an indication of weak internal controls and reviews.

18. Q. Please summarize your recommended adjustments.

A.

Staff Recommended Adjustments

Out-of-period Reactive Supply Charges	$	11,399,735
Carrying charges from July 2011-April 2013 due to Reactive Supply		1,179,905
Future Carrying Charges due to Reactive Supply		744,914
Out-of-Period Spinning Reserve Charges plus Carrying Charges *		2,758
Out-of-period Overcollection due to Allocation Error		7,930,072
Carrying charges on Allocation Error		524,805
Total Staff Revenue Requirement Reduction		21,782,189

* Immaterial carrying charges not calculated

19. Q. The Company in its Reply Comments for this case stated that according to Rule 4901:1-36-02(A), Ohio Administrative Code (OAC), "This chapter authorizes an electric utility to recover, through a reconcilable rider on the electric utility's distribution rates, **all** transmission and transmission-related costs...." How do you respond to this?

A. As stated above, the Company in its Reply Comments has labeled these omissions as "simple clerical errors." Staff views these as more than simple clerical errors because they were an on-going situation that occurred for 22 months and the amounts were significant on a monthly basis. Having reasonable internal controls and performing a simple budget variance analysis on a monthly basis sometime during the period would have shown that there was a significant omission in this area and the under-collection and carrying charges would not have continued to accumulate. It is the Company's responsibility to include the proper costs in the application for calculation of the rates and it failed to do so. Therefore, Staff believes that due to the lack of reasonable diligence that caused this error, customers should not be responsible for paying for mistakes that could have been corrected and the carrying charges associated with it.

20. Q. Does this conclude your testimony?

A. Yes, it does.

CERTIFICATE OF SERVICE

I certify that a copy of *Jeffrey Hecker's Direct Testimony* was served via email on October 22, 2013 to:

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