

**BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO**

In the Matter of the Application of the Ohio	)	
Development Services Agency for an Order	)	
Approving Adjustments to the Universal	)	Case No. 15-1046-EL-USF
Service Fund Riders of Jurisdictional Ohio	)	
Electric Distribution Utilities.	)	

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**PREFILED REPLY TESTIMONY OF  
DAVID R. GILL  
ON BEHALF OF OHIO POWER COMPANY**

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**Filed August 10, 2015**

1    **Q.     WHAT IS YOUR NAME AND BUSINESS ADDRESS?**

2    A.     My name is David R. Gill and my business address is 850 Tech Center Drive,  
3    Gahanna, Ohio 43230.

4    **Q.     ARE YOU THE SAME DAVID R. GILL WHO FILED DIRECT**  
5    **TESTIMONY IN THIS CASE ON AUGUST 3, 2015?**

6    A.     Yes.

7    **Q.     WHAT IS THE PURPOSE OF YOUR REPLY TESTIMONY?**

8    A.     The purpose of my reply testimony is to respond to the testimony of Ohio  
9    Development Services Agency (“ODSA”) witness Susan M. Moser and explain why the  
10   Commission should reject the Stipulation filed in this case on August 3, 2015  
11   (“Stipulation”), if it does not include a single AEP Ohio Universal Service Fund (USF)  
12   rate structure. Specifically, I will demonstrate how the filed Stipulation violates each  
13   prong of the Commission’s three-prong test.

14   **Q.     ODSA WITNESS MOSER TESTIFIES THAT THE STIPULATION**  
15   **REPRESENTS A PRODUCT OF SERIOUS BARGAINING AMONG CAPABLE,**  
16   **KNOWLEDGEABLE PARTIES (PG. 5). DO YOU AGREE?**

17   A.     No. The AEP team never had any meaningful opportunity to discuss its filed  
18   objections with ODSA before the Stipulation and supporting testimony was filed.

19         I am part of a team at AEP Ohio working on the USF update in this case that  
20   would be involved in any serious bargaining. That did not occur. The fact is that AEP  
21   Ohio offered to meet with ODSA staff and discuss the nature of our objections multiple  
22   times. Those requests were rejected by ODSA through their counsel. Even after ODSA  
23   filed a motion seeking more time to resolve the objections, AEP Ohio offered repeatedly

1 to be available at any time to meet and make sure the two sides understood each other's  
2 positions. Those offers were rebuffed. AEP Ohio was told ODSA was considering the  
3 position of the objections, but then the Stipulation was circulated without any discussion  
4 to address AEP Ohio's position.

5 **Q. ODSA WITNESS MOSER TESTIFIES THAT THE STIPULATION**  
6 **BENEFITS CONSUMERS AND THE PUBLIC INTEREST (PG. 6). DO YOU**  
7 **AGREE?**

8 A. No. The Stipulation and ODSA witness Moser's support fails to factor in the  
9 benefits that could be realized by implementing a single AEP Ohio USF rate structure.  
10 Therefore, the Stipulation perpetuates inefficiencies within AEP Ohio's operations by  
11 maintaining the bifurcation of AEP Ohio's USF rider rates into Columbus Southern  
12 Power (CSP) and Ohio Power (OP) rate zones. These inefficiencies do not benefit the  
13 Company's customers or the public interest. Inefficiencies are expenditures of resources  
14 with nothing gained in return. The Stipulation also perpetuates inefficiencies within the  
15 ODSA, which expends resources to maintain the rate zone bifurcation without adding  
16 value to the customers it seeks to serve. Finally, the Stipulation perpetuates inefficiencies  
17 within external groups that review the ODSA's work. There is a cost associated with  
18 hiring the accounting firm chosen by the ODSA to audit the performance of the electric  
19 distribution utilities (EDUs). That cost is included in the revenue requirement of the USF  
20 rates. The Commission Staff is tasked with reviewing ODSA's rate calculations and are  
21 employees of a government agency. In both examples, the additional work resulting  
22 from the existence of two AEP Ohio rate zone structures is an unnecessary cost added to  
23 the USF rate or taking of time which is not in the public interest.

1 **Q. ODSA WITNESS MOSER TESTIFIES THAT ODSA HAS YET TO**  
2 **IDENTIFY ANY INTERNAL EFFICIENCY THAT WOULD RESULT FROM**  
3 **THE MERGED RATE STRUCTURE THAT WOULD BENEFIT CUSTOMERS**  
4 **OR THE PUBLIC INTEREST (PGS. 6-7). WHAT EFFICIENCIES CAN THE**  
5 **ODSA REALIZE BY SWITCHING TO A SINGLE AEP OHIO USF RIDER RATE**  
6 **STRUCTURE?**

7 A. The ODSA must process the rate-zone specific data submitted by AEP Ohio in  
8 the monthly USF-301 and USF-302 reports. A single set of reports rather than the  
9 current two will give the ODSA half the current data points. The resources needed to  
10 receive, track, verify, and utilize this data should be cut in half. The resources needed for  
11 any analysis performed for the two AEP Ohio rate zones will similarly be halved under a  
12 unified set of rates. Examples include the calculations, filed in recent years as exhibits to  
13 Ms. Moser's testimony, which support the annual USF rider rates. Because the ODSA  
14 must review the work of the external auditor, a reduction in the work done by the auditor  
15 should translate into a reduction in the agency resources needed to conduct the review.  
16 To the extent that ODSA realizes these operational efficiencies, the administrative costs  
17 the agency passes on to ratepayers may decrease.

18 **Q. IS ODSA WITNESS MOSER'S POSTION RELATED TO WAITING FOR**  
19 **OTHER FACTORS BEFORE IMPLEMENTING A SINGLE AEP OHIO USF**  
20 **RATE STRUCTURE (PGS. 6-7) CONSISTENT WITH PAST COMMISISION**  
21 **GUIDANCE?**

22 A. No. In fact, previous guidance from the Commission supports a merger of the  
23 rates at this time. Ms. Moser's testimony portrays the current separate rates for each AEP

1 Ohio zone as consistent with the Merger Entry (Pg. 6). However, the Commission noted  
2 in that entry that, “Any proposed rate adjustments will be considered in AEP-Ohio ESP2  
3 and distribution rate cases currently pending before the Commission or subsequent  
4 proceedings (*Merger Entry* 10-2376-EL-UNC, March 7, 2012 @ ¶ 37).” The resolution  
5 of the ESP2 case yielded merged AEP Ohio rates for most riders, including the  
6 Company’s Transmission Cost Recovery Rider. The ESP2 also provided for a phase-in  
7 of auction-based energy and Commission-ordered capacity pricing. The effect of these  
8 two changes is that generation rates are now completely merged between the rate zones.  
9 As detailed in my direct testimony, the Company’s base distribution case resulted in  
10 merged CSP and OP Residential Service schedules as of January 1, 2015. The associated  
11 bad debt expense is shared by all Residential Service customers, regardless of rate zone.  
12 Pricing for all generation, all transmission, Residential Service base distribution, and  
13 most riders is merged between the rate zones. The residual rate zone separation makes up  
14 only approximately three percent of the entire Residential Service bill. The Commission  
15 approval of the merger of CSP into OP contemplated merging rates between the rate  
16 zones in subsequent cases. This is the subsequent docket and now is the time to merge  
17 the USF rate structure for AEP Ohio.

18

1 **Q. ODSA WITNESS MOSER TESTIFIES THAT THE STIPULATION DOES**  
2 **NOT VIOLATE ANY IMPORTANT REGULATORY PRINCIPLES OR**  
3 **PRACTICES (PG. 7). DO YOU AGREE?**

4 A. No. General utility practice is to spend resources prudently to provide utility  
5 service. The Company's objection in this case highlights the type of review that should  
6 be done to remove inefficiencies. Knowingly maintaining inefficiencies is not a prudent  
7 expense of Company resources. Likewise, just because the USF is created by statute and  
8 run by a state agency does not mean it is guarded from review. The Commission should  
9 ensure that the USF system is managed efficiently and that the mechanism approved does  
10 not require EDUs to provide outdated information or report in an inefficient manner. The  
11 Stipulation violates the practice of cost prudence within the operations of the Company  
12 and within the operations of the ODSA and the Commission, two government agencies.

13 **SHOULD THE COMMISSION REJECT THE STIPULATION WITHOUT A**  
14 **SINGLE AEP USF RATE STRUCTURE?**

15 A. Yes, to the extent such approval does not include a single AEP Ohio USF rate  
16 structure. There are real efficiencies to be gained by making this change. The difference  
17 in the Residential Service bill total does not justify years of continued inefficiencies that  
18 will result if the CSP and OP rate zone USF Rider rates are not merged. The  
19 Commission approved the merger of CSP into OP. The USF docket is the appropriate  
20 docket to reflect the single USF rate structure. The Stipulation failed to account for AEP  
21 Ohio's objection, was not the result of serious bargaining, is not in the public interest and  
22 violates important regulatory principles or practices by perpetuating an inefficient  
23 structure. Without taking a position on the other issues in this proceeding, AEP Ohio

1 would support the Stipulation if it were modified to include a single AEP Ohio USF rate  
2 structure as described in the Company testimony.

3 **DOES THIS CONCLUDE YOUR PRE-FILED REPLY TESTIMONY?**

4 A. Yes.

## **CERTIFICATE OF SERVICE**

I hereby certify that a copy of *David R. Gill's Prefiled Reply Testimony on behalf of Ohio Power Company* was served upon counsel for all other parties of record in this case via electronic transmission, on this 10<sup>th</sup> day of August, 2015.

/s/ Matthew J. Satterwhite

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