

AEP OHIO EX. NO. \_\_\_\_\_

BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

the Matter of the Application of	)	
Ohio Power Company for Authority to	)	Case No. 13-2385-EL-SSO
Establish a Standard Service Offer	)	
Pursuant to §4928.143, Ohio Rev. Code,	)	
in the Form of an Electric Security Plan.	)	

In the Matter of the Application of	)	
Ohio Power Company for Approval of	)	Case No. 13-2386-EL-AAM
Certain Accounting Authority	)	

DIRECT TESTIMONY OF  
WILLIAM A. ALLEN  
IN SUPPORT OF AEP OHIO'S  
AMENDED ELECTRIC SECURITY PLAN

Filed: May 13, 2016

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WILLIAM A. ALLEN

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BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO  
DIRECT TESTIMONY OF  
WILLIAM A. ALLEN  
ON BEHALF OF  
OHIO POWER COMPANY

1    **PERSONAL DATA**

2    **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3    A. My name is William A. Allen, and my business address is 1 Riverside Plaza, Columbus,  
4       Ohio 43215.

5    **Q. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

6    A. I am employed by the American Electric Power Service Corporation (AEPSC) as Managing  
7       Director of Regulatory Case Management. AEPSC supplies engineering, financing,  
8       accounting, and planning and advisory services to the electric operating companies of the  
9       American Electric Power System, one of which is Ohio Power Company (“OPCo,”  
10       “Company,” or “AEP Ohio”).

11   **Q. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL AND**  
12   **PROFESSIONAL BACKGROUND?**

13   A. Yes. I received a Bachelor of Science in Nuclear Engineering from the University of  
14       Cincinnati in 1996 and a Master of Business Administration from the Ohio State University  
15       in 2004.

16       I was employed by AEPSC beginning in 1992 as a Co-op Engineer in the Nuclear  
17       Fuels, Safety and Analysis department and upon completing my degree in 1996 was hired  
18       on a permanent basis in the Nuclear Fuel section of the same department. In January 1997,  
19       the Nuclear Fuel section became a part of Indiana Michigan Power Company (I&M) due to

1 a corporate restructuring. In 1999, I transferred to the Business Planning section of the  
2 Nuclear Generation Group as a Financial Analyst. In 2000, I transferred back to AEPSC  
3 into the Regulatory Pricing and Analysis section as a Regulatory Consultant. In 2003, I  
4 transferred into the Corporate Financial Forecasting department as a Senior Financial  
5 Analyst. In 2007, I was promoted to the position of Director of Operating Company  
6 Forecasts. In that role, I was primarily responsible for the supervision of the financial  
7 forecasting and analysis of the AEP System's operating companies, including AEP Ohio.  
8 In 2010, I transferred to the Regulatory Services Department as Director of Regulatory Case  
9 Management. I was named to my current position in January 2013.

10 **Q. WHAT ARE YOUR RESPONSIBILITIES AS MANAGING DIRECTOR OF**  
11 **REGULATORY CASE MANAGEMENT?**

12 A. I am primarily responsible for the supervision, oversight and preparation of major filings  
13 with state utility commissions and the Federal Energy Regulatory Commission (FERC).

14 **Q. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN ANY REGULATORY**  
15 **PROCEEDINGS?**

16 A. Yes. I have previously testified before the Public Utilities Commission of Ohio  
17 (Commission) on behalf of AEP Ohio. I have also submitted testimony or testified before  
18 the Michigan Public Service Commission, the Indiana Utility Regulatory Commission, the  
19 Kentucky Public Service Commission, the West Virginia Public Service Commission and  
20 the Virginia State Corporation Commission on behalf of various other electric operating  
21 companies of the American Electric Power system.

1 **PURPOSE OF TESTIMONY**

2 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

3 A. The purpose of my testimony is to 1) discuss the Competition Incentive Rider and the SSO  
4 Credit Rider as part of the Company's approved Purchase Power Agreement (PPA)  
5 stipulation (Stipulation), Case No. 14-1693-EL-RDR; 2) review the current shopping  
6 statistics for AEP Ohio; and 3) address the statutory SEET and MRO tests.

7 **ESP COMPONENTS BASED ON THE COMPANY'S APPROVED PPA STIPULATION**

8 **Q. IS THE COMPANY PROPOSING TO EXTEND THE PPA RIDER THAT WAS**  
9 **APPROVED BY THE COMMISSION IN ITS ESP III DECISION?**

10 A. Yes. In that proceeding the Commission approved the PPA Rider as a mechanism but did  
11 not approve the inclusion of any PPAs in the rider at that time. On March 31, 2016, the  
12 Commission approved the inclusion of the Company's OVEC entitlement and the Affiliate  
13 PPA in the PPA Rider as part of its approval with modifications of the Stipulation. In the  
14 Company's request for rehearing filed on May 2, 2016 in Case No. 14-1693-EL-RDR, the  
15 Company proposed to initially include only the OVEC entitlement in the PPA rider.<sup>1</sup>

16 **Q. ARE YOU SUPPORTING ANY NEW RIDERS IN THIS FILING?**

17 A. Yes. Consistent with the Company's approved Stipulation in Case Nos. 14-1693-EL-RDR  
18 et. al, I am supporting two new riders: the Competition Incentive Rider (CIR) and the SSO  
19 Credit Rider (SSOCR).

20 **Q. PLEASE DESCRIBE THE COMPETITION INCENTIVE RIDER AND THE SSO**  
21 **CREDIT RIDER.**

22 A. The CIR is a pilot bypassable rider that is an addition to the SSO non-shopping rate,  
23 intended to incentivize shopping and recognize that there may be costs associated with

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<sup>1</sup> Case No. 14-1693-EL-RDR is pending on rehearing.

1 providing SSO service that are not fully reflected in the bypassable component of the SSO  
2 rate. Revenues collected from the CIR will be credited to all distribution customers through  
3 the SSOCR. Company witness Gill addresses the rate design of the two proposed riders.

4 **Q. ARE SHOPPING INCENTIVES NEW TO ELECTRIC CUSTOMERS IN OHIO?**

5 A. Absolutely not. This Commission has, over the years, developed various mechanisms to  
6 incent shopping. Shopping incentives have been used in the State of Ohio for a number of  
7 years. With the implementation of customer choice for electric providers in 2000 there  
8 were incentives for customers to shop – 1) there was a shopping incentive of \$2.50/MWh to  
9 the first twenty-five percent of the Columbus Southern Power residential class load that  
10 switched during the market development period; and 2) the regulatory transition charge was  
11 waived on the first twenty percent of Ohio Power residential customers switching from the  
12 SSO.<sup>2</sup> More recently, the transition plan that the Commission approved in AEP Ohio's  
13 ESP II included discounted capacity provided to CRES providers serving shopping  
14 customers to incentivize shopping.<sup>3</sup> Currently, sixty-five percent (65%) of AEP Ohio's  
15 customers are served by the SSO<sup>4</sup>. There is a large number of customers that either through  
16 their own choosing or lack of action, have chosen not to shop.

17 **Q. ARE THERE ADDITIONAL BENEFITS TO PROVIDING SHOPPING**  
18 **INCENTIVES?**

19 A. Yes. Shopping incentives such as the CIR have been developed with the idea that as more  
20 customers shop alternative providers will have an incentive and opportunity to offer more  
21 innovative and value-added products. CRES offerings, along with the Company's

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<sup>2</sup> See order in Case Nos. 99-1729-EL-ETP and 99-1730-EL-ETP

<sup>3</sup> See order in Case Nos. 11-346-EL-SSO and 11-348-EL-SSO

<sup>4</sup> PUCO reported customer switch rates as of December 2015

gridSMART® phase II project and AMI meters, can provide customers opportunities to be more efficient in how they use power or lower the cost of the power that they do consume.

**Q. HOW WAS THE PROPOSED INITIAL LEVEL OF THE CIR DECIDED?**

A. Consistent with Section III.C.12 of the Stipulation, AEP Ohio and the Signatory Parties, including the Commission Staff, met to determine the proposed level of the CIR to include in this filing. However, a consensus agreement was not reached and, as such, the initial charge for the rider to be included in the Company's filing is to be determined by the Commission Staff per the terms of the stipulation. The Commission Staff has provided an initial CIR level for inclusion in this filing of \$0.62/MWh. In accordance with Section III.C.12 of the Stipulation, the Company will provide an analysis in its next distribution case showing all of the actual costs required to provide SSO service which can be used to help determine whether this pilot rider should be continued and, if continued, what the level of the rider should be on a going forward basis.

**Q. PLEASE DESCRIBE THE CREDIT RIDER ASSOCIATED WITH THE CIR.**

A. An additional companion pilot rider, the Company is proposing the SSOCR. The SSOCR is a mechanism that will provide a credit to all distribution customers equal to the amount collected in the CIR, using the same rate design as adopted for the PPA Rider. The CIR and the SSOCR are proposed to be in place through the term of the PPA Rider, or until new distribution base rates are put into effect.

**Q. ARE THERE CHANGES BEING PROPOSED TO THE ENERGY EFFICIENCY AND PEAK DEMAND REDUCTION (EE/PDR) RIDER AND THE ECONOMIC DEVELOPMENT RIDER (EDR)?**

1 A. Yes. Sections III.D.4 and III.D.5 of the Stipulation included an agreement amongst the  
2 Signatory Parties to transfer 50% of the EE/PDR rider costs for transmission and sub-  
3 transmission voltage customers to the EDR and to transfer 50% of the IRP credits from the  
4 EE/PDR rider to the EDR. As part of the Commission's Order in that case, the Commission  
5 stated that these "are proposals that should be included in AEP Ohio's application to extend  
6 the ESP through May 31, 2024." Consistent with the Commission's directive, the Company  
7 is including those proposals in this proceeding. Company witness Gill further addresses this  
8 modification to the riders.

9 **Q. PLEASE DESCRIBE THE BENEFITS OF TRANSFERRING A PORTION OF THE**  
10 **EE/PDR COSTS TO THE EDR.**

11 A. The transfer of 50% of the IRP credits from the EE/PDR Rider to the EDR recognizes that  
12 the IRP credits provide both peak demand reduction benefits and economic development  
13 benefits. Transferring 50% of the EE/PDR rider costs for transmission and sub-  
14 transmission voltage customers to the EDR lowers the cost of participation in the  
15 Company's EE/PDR programs for transmission and sub-transmission voltage customers  
16 which could have the effect of lowering the number of customers that opt-out of the  
17 Company's program. In addition, the EDR is paid by all customers which ensures that even  
18 those customers that opt-out of the Company's EE/PDR programs continue to pay a portion  
19 of those costs.

20 **CUSTOMER SHOPPING TRENDS**

21 **Q. PLEASE DESCRIBE THE CURRENT LEVEL OF CUSTOMER LOAD THAT IS**  
22 **TAKING SERVICE UNDER THE SSO AND FROM CRES PROVIDERS.**



A. As of the end of December 2015, approximately 30% of AEP Ohio's retail load was taking service under the SSO and 70% was taking service from a CRES provider. Sixty-five percent (65%) of AEP Ohio's customers take service under the SSO. The table below shows additional detail by customer class.

	MWH		Customer	
	SSO	CRES	SSO	CRES
Residential	67%	33%	67%	33%
Commercial	15%	85%	48%	52%
Industrial	9%	91%	48%	52%
Total	30%	70%	65%	35%

**Q. PLEASE DESCRIBE THE LEVEL OF CRES PARTICIPATION IN THE COMPANY'S SERVICE TERRITORY.**

A. There are currently 92 CRES providers registered and 65 CRES providers actively serving customers in the Company's service territory. In addition to customers being served individually by CRES providers, 139 communities have active aggregation programs.

**MRO TEST**

**Q. PLEASE GENERALLY DESCRIBE THE MRO TEST.**

A. The purpose of the MRO test is to determine whether the Company's proposed ESP, or in this case the extension to the current ESP, including pricing and all other terms and conditions, is more favorable in the aggregate as compared to the expected results that would apply under an MRO.

**Q. DO YOU BELIEVE THAT THE PROVISIONS OF THE COMPANY'S PROPOSED ESP ARE MORE FAVORABLE IN THE AGGREGATE THAN WHAT WOULD BE EXPECTED UNDER A MRO?**

1 A. Yes. As discussed below, the ESP is more favorable to customers from both a qualitative  
2 and quantitative perspective.

3 The DIR mechanism and associated revenues under the ESP proposal provide a  
4 benefit to customers that is equal to or greater than the customer benefit that would be  
5 expected under a MRO. The DIR mechanism provides a streamlined approach to  
6 recovering many of the costs associated with investment in distribution infrastructure.  
7 These same types of costs would be recoverable from customers through base distribution  
8 cases although with higher costs to customers and other parties as a result of the added  
9 complexity of a distribution base case.

10 As part of the total ESP extension proposal the Company is extending the  
11 Residential Distribution Credit Rider through the earlier of May 31, 2024, or when new  
12 base distribution rates are set. This rider is currently scheduled to expire May 31, 2018.  
13 Extending this rider provides an annual benefit to residential customers of \$14,688,000.  
14 This benefit would not exist under a MRO.

15 In the Commission's March PPA Order, the Commission found that the PPA Rider  
16 is reasonably estimated to provide a net benefit to customers. As demonstrated in that case,  
17 an OVEC only PPA Rider is estimated to produce a net benefit to customers of \$110 million  
18 through May 31, 2024. If there are additional rate stabilizing proposals that are adopted on  
19 rehearing in the PPA Rider Cases, that outcome would provide additional value on the ESP  
20 side of the MRO test.

21 The ESP also has several non-quantifiable benefits as compared to a MRO –  
22 increased rate stability is provided by the PPA rider; distribution investments are  
23 encouraged by the DIR; economic development and increased demand response are

1 supported through expansion of the IRP tariff; the provision allowing certain customers to  
2 participate in a pilot ICP transmission rate encourages more efficient use of the  
3 transmission grid; the CIR and SSOCR support growth in the competitive marketplace; and  
4 economic development is supported by the automaker credit.

5 The quantifiable benefits in combination with the non-quantifiable benefits clearly  
6 demonstrate that the provisions of the Company's proposed ESP are more favorable in the  
7 aggregate than what would be expected under a MRO.

8 **SIGNIFICANTLY EXCESSIVE EARNINGS TEST**

9 **Q. HAVE YOU REVIEWED THE COMMISSION'S ORDER IN THE COMPANY'S**  
10 **2010 SEET PROCEEDING WHICH WAS RECOGNIZED IN THE SETTLEMENTS**  
11 **APPROVED BY THE COMMISSION FOR THE COMPANY'S 2011 THROUGH**  
12 **2013 SEET CASES?**

13 Yes. In Case No. 10-1261-EL-UNC, the Commission found that "the conceptual  
14 construct of Staff's proposal to use a percentage of the average of the comparable  
15 companies to be more appropriately related to the purpose of the SEET." The  
16 Commission determined that the ROE of comparable companies was 11% in 2009.  
17 The Commission then went on to conclude that 50% of the comparable ROE "is a  
18 reasonable guide for establishing an adder."<sup>5</sup> The Commission then made an upward  
19 adjustment to the adder to 60% and established a SEET threshold of 17.6%.

20 In Case Nos. 11-4571-EL-ENC and 11-4572-EL-UNC, the Commission once  
21 again determined that the SEET threshold should be based upon the ROE of  
22 comparable companies plus an adder – in this case 1.64 standard deviations. This

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<sup>5</sup> Opinion and Order date January 11, 2011, at pages 24 and 25.

1 same methodology was applied and approved in the settlement agreements for the  
2 Company's 2012 and 2013 SEET filings<sup>6</sup>.

3 **Q. DO YOU HAVE A RECOMMENDATION CONCERNING HOW THE**  
4 **COMMISSION SHOULD ADDRESS THE SEET ISSUE IN THIS**  
5 **PROCEEDING?**

6 A. Yes. Based upon a guiding regulatory principle that commission decisions should  
7 maintain a level of consistency that provides investors and utility managers a  
8 reasonably predictable basis to make the significant investments in utility  
9 infrastructure that is necessary to meet customer's needs and expectations, this  
10 Commission should confirm in this proceeding the methodology by which the  
11 Company has utilized in the past four SEET filings, and approved in three of those  
12 filings<sup>7</sup>, should continue to be the standard in future SEET filings.

13 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

14 A. Yes.

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<sup>6</sup> Case Nos. 13-2251-EL-UNC and 14-875-EL-UNC

<sup>7</sup> The Company's 2014 SEET filing, Case No. 15-1022-EL-UNC is pending

## **CERTIFICATE OF SERVICE**

In accordance with Rule 4901-1-05, Ohio Administrative Code, the PUCO's e-filing system will electronically serve notice of the filing of this document upon the following parties. In addition, I hereby certify that a service copy of the foregoing *Direct Testimony of William A. Allen* was sent by, or on behalf of, the undersigned counsel to the following parties of record this 13<sup>th</sup> day of May 2016, via electronic transmission.

/s/ Steven T. Nourse

Steven T. Nourse

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Summary: Testimony -Direct Testimony of William A. Allen in Support of AEP Ohio's Amended Electric Security Plan electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company