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March 9, 2018

The Honorable Greta See
Attorney Examiner
Public Utilities Commission of Ohio
180 East Broad Street
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Re: *In the Matter of the Application of Ohio Power Company for
Administration of the Significantly Excessive Earnings Test for 2016 under
Section 4928.143(F), Revised Code, and Rule 4901:1-35-10, Ohio
Administrative Code; Case No.17-1230-EL-UNC*

Attorney Examiner See:

Enclosed please find the testimony of William A. Allen in support of the Stipulation on behalf of AEP Ohio, in accordance with your February 22, 2018 Entry. Pursuant to Section IV.A of the Stipulation, AEP Ohio will also move at the outset of the evidentiary hearing for admission of the Company's pre-filed testimony (witnesses Moore, Ross and Allen) dated May 15, 2017 subject to cross examination.

Thank you for your attention to this matter.

Respectfully,

//s/ Steven T. Nourse

cc: Parties of Record

EXHIBIT NO. _____

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of Ohio)	
Power Company for Administration of the)	
Significantly Excessive Earnings Test for 2016)	Case No. 17-1230-EL-UNC
Under Section 4928.143(F), Revised Code,)	
and Rule 4901:1-35-10, Ohio Administrative)	
Code.)	

SUPPLEMENTAL TESTIMONY OF
WILLIAM A. ALLEN
IN SUPPORT OF THE STIPULATION AND RECOMMENDATION

Filed: March 9, 2018

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WILLIAM A. ALLEN

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BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
SUPPLEMENTAL 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. ARE YOU THE SAME WILLIAM A. ALLEN WHO PREVIOUSLY FILED**
6 **TESTIMONY IN THESE PROCEEDINGS?**

7 A. Yes. I provided direct testimony in Case No. 17-1230-EL-UNC.

8 **PURPOSE OF TESTIMONY**

9 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL TESTIMONY?**

10 A. The purpose of my supplemental testimony is to sponsor, summarize and support the
11 Stipulation and Recommendation (“2016 SEET Stipulation”) filed on February 13, 2018
12 in this proceeding for the Public Utilities Commission of Ohio’s (“Commission”)
13 consideration. My testimony also discusses the criteria that the Commission typically
14 uses when considering settlement agreements and explains how the 2016 SEET
15 Stipulation in this proceeding meets those criteria. Specifically, my testimony supports
16 the conclusion that the 2016 SEET Stipulation:

- 17 (1) is the product of serious bargaining among capable, knowledgeable parties;
18 (2) does not violate any important regulatory principle or practice; and
19 (3) as a package, benefits rate payers and the public interest.

1

2 **Q. WHO ARE THE SIGNATORY PARTIES TO THE STIPULATION?**

3 A. The Signatory Parties include Ohio Power Company (“AEP Ohio” or the “Company”) and
4 the Staff of the Public Utilities Commission of Ohio (“Staff”).

5 **OVERVIEW OF THE STIPULATION**

6 **Q. PLEASE PROVIDE AN OVERVIEW OF THE 2016 SEET STIPULATION.**

7 A. Based on the analysis and supporting data set forth in the Signatory Parties’ filed testimony
8 in this case, the Signatory Parties agree that AEP Ohio did not have significantly excessive
9 earnings for 2016 and recommend that the Commission adopt that finding in this case.

10 **Q. PLEASE PROVIDE AN OVERVIEW OF THE SEET THRESHOLD RETURN ON**
11 **EQUITY CONCLUSIONS SUPPORTED BY AEP OHIO IN ITS TESTIMONY.**

12 A. AEP Ohio presented the following SEET conclusions through its filed testimony in this
13 case, which I am prepared to support:

- 14 1. AEP Ohio’s 2016 adjusted SEET threshold return on equity was 14.97%.
- 15 2. The comparable risk group’s mean earned ROE is 10.69%.
- 16 3. The 2016 SEET threshold is 17.69%.

17 **Q. PLEASE PROVIDE AN OVERVIEW OF THE SEET THRESHOLD RETURN ON**
18 **EQUITY CONCLUSIONS SUPPORTED BY STAFF IN ITS TESTIMONY.**

19 A. The Signatory Parties agree and make the following recommendations in the 2016 SEET
20 Stipulation based upon testimony that Staff presented in this case:

- 21 1. The comparable risk group’s mean earned ROE is 8.67%.
- 22 2. The 2016 SEET threshold is 16.08%.

1 **Q. IS AEP OHIO'S ANALYSIS OF ITS 2016 ADJUSTED ROE, THE**
2 **COMPARABLE RISK GROUP'S MEAN EARNED ROE, AND THE 2016 SEET**
3 **THRESHOLD IN THIS PROCEEDING CONSISTENT WITH THE**
4 **METHODOLOGY USED BY THE COMMISSION IN PRIOR SEET CASES?**

5 A. Yes. The methodology AEP Ohio employed is based on the approach established by the
6 guidance presented in Case No. 09-786-EL-UNC and subsequent Commission orders.
7 The Company's 2011, 2012 and 2013 SEET cases were settled and the Commission has
8 approved those settlements. Further, on September 1, 2016, the Company and Staff filed
9 Joint Stipulations in Case No. 15-1022-EL-UNC (2014 SEET case) and 16-1105-EL-
10 UNC (2015 SEET case); these stipulations employed the same methodology accepted in
11 the prior settlements. Those two cases were ultimately resolved by the Commission in
12 the Company's Global Settlement.¹

13 **Q. WERE THE COMPANY'S 2016 EARNINGS SIGNIFICANTLY EXCESSIVE?**

14 A. No. Based upon the Company's 2016 earnings of 14.97%, which is below both the SEET
15 threshold of 17.69% as supported by the Company and 16.08% as supported by Staff,
16 AEP Ohio did not have significantly excessive earnings in 2016 and no refund is
17 necessary.

18 **Q. WHAT IS THE STANDARD THAT THE COMMISSION HAS USED WHEN**
19 **CONSIDERING APPROVAL OF A CONTESTED STIPULATION?**

20 A. My understanding, as advised by counsel, is that the Commission typically weighs adoption
21 of a contested stipulation it is presented for consideration by applying a three part test for
22 review. The questions that the Commission considers, as I understand them, are:

¹ Case No. 10-2929-EL-UNC, *et al.*, Opinion and Order (Feb. 23, 2017).

1 (1) is the stipulation a product of serious bargaining among capable, knowledgeable
2 parties?;

3 (2) does the stipulation, as a whole, benefit customers and the public interest?; and

4 (3) does the stipulation violate any important regulatory principle or practice?

5 **Q. DOES THE PROPOSED STIPULATION IN THIS PROCEEDING SATISFY THE**
6 **ABOVE CRITERIA?**

7 A. Yes, it does.

8 **Q. IS THE STIPULATION SUBMITTED IN THIS CASE THE PRODUCT OF**
9 **SERIOUS BARGAINING AMONG CAPABLE AND KNOWLEDGEABLE**
10 **PARTIES?**

11 A. Yes. The Company contacted Staff and the Office of the Ohio Consumers' Counsel
12 ("OCC"), the only other parties in this case, to discuss settlement of the case. The parties'
13 settlement discussions considered various options for resolving the limited issues presented.
14 After discussing settlement positions with the parties, the Company and Staff entered into
15 the 2016 SEET Stipulation. All parties to this case regularly and actively participate in
16 Commission proceedings and are capable, knowledgeable parties.

17 **Q. SPECIFICALLY REGARDING THE SECOND CRITERION, PLEASE EXPLAIN**
18 **HOW THE STIPULATION BENEFITS CUSTOMERS AND THE PUBLIC**
19 **INTEREST.**

20 A. The 2016 SEET Stipulation benefits customers and the public interest by resolving this case
21 in a timely manner, which supports administrative efficiency, and in a manner consistent
22 with past Commission decisions.

1 **Q. DOES THE STIPULATION VIOLATE ANY IMPORTANT REGULATORY**
2 **PRINCIPLE OR PRACTICE?**

3 A. No. The 2016 SEET Stipulation does not violate any important regulatory principle or
4 practice. The earned return on equity for AEP Ohio, the comparable risk group's mean
5 earned ROE, and the SEET threshold were calculated consistent with the manner accepted
6 by the Commission in the Company's previous SEET cases.

7 **Q. ARE THE CALCULATED SEET THRESHOLDS AS PRESENTED BY THE**
8 **COMPANY AND THE STAFF IN LINE WITH PREVIOUSLY ACCEPTED SEET**
9 **THRESHOLDS?**

10 A. Yes. The SEET thresholds calculated by the Company and the Staff, ranging from 16.08%
11 to 17.69%, are in line with SEET thresholds underlying previous Commission orders.

12 **Q. DO YOU AGREE WITH OCC WITNESS DUANN'S ASSERTION THAT THE 2016**
13 **REVERSAL OF THE 2014 SEET PROVISION SHIFTS EARNINGS FROM ONE**
14 **TIME PERIOD TO ANOTHER TO SHIELD A PORTION OF THE COMPANY'S**
15 **EARNINGS FROM SEET REVIEW?**

16 A. No. OCC witness Duann's assertion that earnings for SEET purposes were shifted between
17 2014 and 2016 is wrong. The pre-tax \$21.4 million 2016 accounting entry properly relates to
18 a prior period (2014) and therefore should have no effect on the determination of 2016 SEET
19 income. The \$21.4 million in pre-tax earnings were included in the 2014 SEET calculation.
20 It would be improper to include the same \$21.4 million in pre-tax earnings should not be
21 included in AEP Ohio's 2016 SEET earnings since those earnings were already included in
22 AEP Ohio's 2014 SEET earnings. The same dollars cannot be included in SEET earnings in
23 two years.

1 **Q. DO YOU AGREE WITH DR. DUANN’S ASSERTION THAT THE COMPANY’S**
2 **ADJUSTMENT RELATED TO 2016 PHASE-IN RECOVERY RIDER (“PIRR”)**
3 **EQUITY CARRYING CHARGE INCOME IMPROPERLY SHIFTS 2016 SEET**
4 **EARNINGS TO PRIOR SEET YEARS?**

5 A. No. There is no shifting of SEET income from 2016 to years 2012 through 2015. Although
6 the pre-tax \$22.8 million of PIRR equity carrying charges were booked in 2016 subsequent
7 to the favorable Supreme Court of Ohio decision² upholding the weighted-average cost of
8 capital carrying charges (including equity), these amounts should have been earned in years
9 2012 through 2015, but for the Commission’s decision that was later overturned by the
10 Supreme Court of Ohio. The PIRR carrying charges relate to prior periods and should not be
11 included in 2016 earnings for SEET purposes. Exhibit THR-2 to Company witness Ross’s
12 direct testimony previously filed in this case was provided to illustrate that had these earnings
13 for PIRR equity carrying charges been recorded in SEET years 2012 through 2015, AEP
14 Ohio’s SEET earnings for each of those years would still not have resulted in over-earnings
15 due to Commission-adjudicated SEET thresholds. In summary, the Company should not be
16 penalized for the delay in resolving the PIRR equity carrying charge issue at the Supreme
17 Court of Ohio.

18 **Q. DO YOU HAVE ANY OTHER GENERAL COMMENTS IN REGARDS TO BOTH**
19 **OF THESE TWO ADJUSTMENTS OPPOSED BY DR. DUANN?**

20 A. Yes. These two adjustments qualify as exclusions from SEET income because they should
21 be considered “non-recurring, special and, extraordinary items” as defined in the
22 Commission’s June 30, 2010 Finding and Order in Case No. 09-786-EL-UNC. Within that

² See *In re Application of Ohio Power Company for Approval of a Mechanism to Recover Deferred Fuel Costs Ordered Under R.C. 4928.144*, 144 Ohio St.3d 1 (2015).

1 Order, the PUCO established the principle of excluding “non-recurring, special and
2 extraordinary items”:

3 Accordingly, for the SEET calculation, the earned return will equal
4 the electric utility's profits after deduction of all expenses,
5 including taxes, minority interest, and preferred dividends, paid or
6 accumulated, and excluding any non-recurring, special, and
7 extraordinary items.

8 Finding and Order at 18.

9 **Q. DOES THIS COMPLETE YOUR SUPPLEMENTAL TESTIMONY IN SUPPORT**
10 **OF THE STIPULATION?**

11 A. Yes, it does.

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 *Supplemental Testimony of William A. Allen* was sent by, or on behalf of, the undersigned counsel to the following parties of record this 9th day of March 2018, via electronic transmission.

/s/ Steven T. Nourse _____
Steven T. Nourse

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in

Case No(s). 17-1230-EL-UNC

Summary: Testimony -Supplemental Testimony of William A. Allen in Support of the Stipulation and Recommendation electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company