

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 2011	)	Case No. 13-2249-EL-UNC
Under Section 4928.143(F), Revised Code,	)	
and Rule 4901:1-35-10, Ohio Administrative	)	
Code.	)	

In the Matter of the Application of Columbus	)	
Southern Power Company for Administration of	)	
the Significantly Excessive Earnings Test for	)	Case No. 13-2250-EL-UNC
2011 under Section 4928.143(F), Revised Code,	)	
and Rule 4901:1-35-10, Ohio Administrative	)	
Code.	)	

DIRECT TESTIMONY OF  
THOMAS E. MITCHELL  
ON BEHALF OF  
COLUMBUS SOUTHERN COMPANY  
AND  
OHIO POWER COMPANY

Filed: November 22, 2013

INDEX TO DIRECT TESTIMONY OF  
THOMAS E. MITCHELL

PERSONAL BACKGROUND.....	2
PURPOSE OF TESTIMONY.....	4
EXHIBITS.....	5
RETURN ON EQUITY.....	5

BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO  
DIRECT TESTIMONY OF  
THOMAS E. MITCHELL  
ON BEHALF OF  
OHIO POWER COMPANY

1    **PERSONAL BACKGROUND**

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

3    A.    My name is Thomas E. Mitchell and my business address is 1 Riverside Plaza  
4           Columbus, Ohio 43215.

5    **Q.    ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?**

6    A.    I am testifying on behalf of Ohio Power Company (“OPCo” or “AEP Ohio” or “the  
7           Company”). OPCo and Columbus Southern Power Company (CSP) merged on  
8           December 31, 2011 and the surviving company is OPCo.

9    **Q.    BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

10   A.    I am employed by American Electric Power Service Corporation (AEPSC), a  
11           subsidiary of American Electric Power Company, Inc. (AEP), as Managing Director  
12           of Regulatory Accounting Services. AEP is the parent company of OPCo.

13   **Q.    WHAT ARE YOUR RESPONSIBILITIES AS MANAGING DIRECTOR OF**  
14           **REGULATORY ACCOUNTING SERVICES?**

15   A.    My primary responsibilities include providing the AEP System operating  
16           subsidiaries, including OPCo, with accounting support for regulatory filings. This  
17           support includes the preparation of cost-of-service adjustments, accounting  
18           schedules, and accounting testimony. I direct a group of professionals who provide  
19           accounting expertise, compile necessary historical accounting schedules, present

expert accounting testimony and respond to data requests in connection with rate filings with eleven state regulatory commissions and the Federal Energy Regulatory Commission (FERC).

**Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND PROFESSIONAL EXPERIENCE.**

A. I received a Bachelor of Science Degree in Accounting from Virginia Polytechnic Institute and State University (Virginia Tech) in 1977. I also hold a Master of Business Administration Degree from Virginia Tech and a Bachelor of Arts Degree in Government from the University of Notre Dame. I have been a Certified Public Accountant since 1978. I was first employed by Appalachian Power Company (APCo) in 1979, an affiliated operating company of OPCo and, except for employment with Norfolk Southern Corporation as an Assistant Accounting Manager (1984-1985), have held various positions in the AEPSC Accounting Department continuously since that date. In 1998, I was promoted to Director, Accounting Policy & Research and in 2008, I was promoted to my present position as Managing Director of Regulatory Accounting Services. I have served as Chairman of the Accounting Standards Committee of the Edison Electric Institute (EEI) and am currently Chairman of the Joint Accounting Liaison Committee of the EEI which meets annually with the FERC Accounting Staff to discuss accounting issues of mutual interest to EEI and the FERC.

**Q. HAVE YOU PREVIOUSLY TESTIFIED OR SUBMITTED TESTIMONY IN ANY REGULATORY PROCEEDINGS?**

A. Yes, I testified on behalf of AEP Ohio before the Public Utilities Commission of Ohio (PUCO or the Commission) to establish a Standard Service Offer (SSO) in

1 Case No. 11-346-EL-SSO and Case No. 11-348-EL-SSO. In addition, I testified  
2 before the PUCO on behalf of the Company regarding the 2010 Significantly  
3 Excessive Earnings Test (SEET) proceeding, Case No. 11-4571-EL-UNC and Case  
4 No. 11-4572-EL-UNC and 2009 SEET proceedings, Case No. 10-1261-EL-UNC. I  
5 also filed accounting testimony in the Company's distribution base rate case in Case  
6 Nos. 11-351-EL-AIR and 11-352-EL-AIR as well as filed rebuttal testimony in the  
7 Ohio Remand Case No. 08-917-EL-SSO and Case No. 08-918-EL-SSO. I have  
8 filed accounting testimony and testified on behalf of APCo and Wheeling Power  
9 Company before the Public Service Commission of West Virginia, and on behalf of  
10 APCo before both the Virginia State Corporation Commission and the FERC.  
11 Finally, I have also filed accounting testimony on behalf of Indiana Michigan Power  
12 Company before the Indiana Utility Regulatory Commission and on behalf of  
13 Kentucky Power Company before the Kentucky Public Service Commission.

14 **PURPOSE OF TESTIMONY**

15 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**  
16 **PROCEEDING?**

17 A. My testimony describes the method I used for calculating OPCo's and CSP's 2011  
18 earned return on common equity (ROE) including adjustments to exclude Off-  
19 System Sales (OSS) net margins and special accounting items. OPCo and CSP were  
20 merged effective December 31, 2011 but I have calculated separate ROEs including  
21 adjustments for CSP and OPCo as directed in the Commission's order dated March  
22 7, 2012 in Case No. 10-2376-EL-UNC. No adjustments were made to remove  
23 extraordinary items, minority interest or non-recurring items for 2011 because there  
24 were no such items recorded. I then calculated the earned ROEs for CSP and OPCo

1 for the year ended December 31, 2011 and provided my calculations to AEP Ohio  
2 witness Spitznogle. Unlike in the previous 2009 and 2010 SEET Reviews, I have  
3 not calculated those provisions of AEP Ohio's ESP that directly produce earnings  
4 which serve as a cap to ESP amounts that might be subject to being returned to  
5 customers in the event that CSP or OPCo had excessive earnings in 2012 because  
6 both CSP's and OPCo's ROE for 2011 falls within the "safe harbor" limit as  
7 discussed by AEP Ohio witness Spitznogle.

8 **EXHIBIT**

9 **Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS PROCEEDING?**

10 A. Yes, I am sponsoring Exhibit TEM-1: Earned ROEs

11 **RETURN ON EQUITY (ROE)**

12 **Q. PLEASE DESCRIBE THE METHOD YOU USED TO CALCULATE THE**  
13 **ROEs FOR CSP AND OPCO AS SHOWN IN EXHIBIT TEM-1.**

14 A. The calculation of the ROEs was performed in two steps. I first calculated the  
15 respective per books (unadjusted) 2011 ROE (refer to Exhibit TEM-1) for both CSP  
16 and OPCo using the amounts for 2011 net earnings available to common  
17 shareholders compared to the average of the beginning and ending equity for the  
18 year ended December 31, 2011. The use of average equity was determined by the  
19 PUCO to be appropriate in the previous 2009 and 2010 SEET proceedings in Case  
20 Nos. 10-1261-EL-UNC (2009 SEET Review), 11-4571-EL-UNC and 11-4572-EL-  
21 UNC (2010 SEET Review) and is consistent with the calculation of the average  
22 equity for the comparable risk group supported by Company witness Makhija.

23 **Q. WHAT WAS THE SECOND STEP FOR YOUR DETERMINATION OF THE**  
24 **APPROPRIATE ROEs?**

1 A. In accordance with the PUCO order in the 2009 and 2010 SEET Reviews, I made  
2 adjustments (after federal and state income tax) to remove the OSS net margins, as  
3 well as special accounting items from the net earnings available to common  
4 shareholders (or numerator) and common shareholder equity (or denominator). For  
5 2011, there were no minority interest, non-recurring or extraordinary items.

6 **Q. WHAT ARE THE RESULTS OF THE TWO STEPS OF THE**  
7 **CALCULATION OF THE ROEs?**

8 A. The results are summarized as follows:

<u>Step</u>	<u>CSP</u>	<u>OPCo</u>
Step 1: Per Books ROE	15.28%	7.75%
Step 2: Adjusted SEET ROE	12.12%	8.56%

9

10 **Q. DID YOU PROVIDE THE RESULTS OF YOUR CALCULATIONS OF THE**  
11 **2011 ROEs FOR CSP AND OPCO TO AEP OHIO WITNESS SPITZNOGLE?**

12 A. Yes.

13 **Q. PLEASE DESCRIBE HOW YOU MADE ADJUSTMENTS TO THE**  
14 **NUMERATOR.**

15 A. I took the net total amount of all the adjustments as shown on page 1 of Exhibit  
16 TEM-1 for the twelve months ended December 31, 2011 and removed their impact  
17 on earnings for purposes of the 2011 SEET review. The amounts derived for each  
18 of these adjustments are shown on page 2 of Exhibit TEM-1 and are discussed later  
19 in my testimony.

20 **Q. HOW DID YOU MAKE ADJUSTMENTS TO THE DENOMINATOR?**

21 A. For all adjustments except OSS net margins, I used the same after tax amount  
22 calculated for the numerator to adjust the denominator.

1   **Q.    DID YOU ADJUST THE DENOMINATORS FOR THE OPCO'S AND CSP'S**  
2       **OSS NET MARGINS CONSISTENT WITH THE METHOD APPROVED BY**  
3       **THE PUCO IN THE 2010 SEET REVIEW?**

4    A.    Yes, I compared the Megawatt hours (MWh) sold for OSS to the MWh generated  
5       by those plants as shown on page 5 of Exhibit TEM-1. This MWh ratio was then  
6       multiplied by the amount of equity related to generation and transmission plant net  
7       book value (NBV) as shown on page 4 of Exhibit TEM-1. The inclusion of an  
8       allocated portion of transmission plant is based on the Commission's recent order in  
9       AEP-Ohio's 2010 SEET proceeding.

10   **Q.    WHAT WAS THE RESULT OF YOUR CALCULATION OF THE OSS NET**  
11       **MARGIN ADJUSTMENT TO EQUITY (DENOMINATOR) USING THE**  
12       **MWH METHOD DISCUSSED ABOVE?**

13   A.    My adjustments to equity for CSP and OPCo are a reduction of \$205.917 million  
14       and \$271.420 million, respectively as shown on page 4 of Exhibit TEM-1.

15   **Q.    PLEASE DESCRIBE THE ADJUSTMENTS (AFTER FEDERAL AND**  
16       **STATE INCOME TAX) MADE TO REMOVE SPECIAL ACCOUNTING**  
17       **ITEMS FROM THE NET EARNINGS AVAILABLE TO COMMON**  
18       **SHAREHOLDERS (OR NUMERATOR) AND COMMON SHAREHOLDER**  
19       **EQUITY (OR DENOMINATOR).**

20   A.    The special accounting items relate to impairment of certain OPCo's generating unit  
21       Sporn Unit 5, OPCo's Muskingum River (MR) 5 flue gas desulfurization (FGD)  
22       project and the Carbon Capture Storage (CCS) Front-End Engineering and Design  
23       (FEED) costs for CSP and OPCo. The 2011 after tax amounts for each specific item  
24       have been added back to net earnings available for common shareholders and



1 common shareholder equity which is used in the calculation of average equity are  
2 shown on page 2 of Exhibit TEM-1.

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

4 A. Yes.

**Columbus Southern Power Company and Ohio Power Company**  
**Annual SEET Filing**  
**Earned ROE**  
**For the 12 Months Ended December 31, 2011**

Exhibit TEM - 1  
Page 1 of 5

**Step 1 Per Books ROE**

Description	CSP		OPCo		AEP Ohio	
	(000's)		(000's)		(000's)	
Earnings Attributable to Common Stock	\$ 225,223	(A)	\$ 238,511	(A)	\$ 463,734	(B)
Average Total Common Shareholder's Equity	\$ 1,473,515	(C)	\$ 3,078,894	(C)	\$ 4,552,409	
Return on Equity (%)	15.28%		7.75%		10.19%	

**Step 2 Per Books ROE Calculation - Excluding Off-System Sales Net Margins and Other Adjustments**

Description	CSP		OPCo		AEP Ohio	
	(000's)		(000's)		(000's)	
Earnings Attributable to Common Stock	\$ 225,223		\$ 238,511		\$ 463,734	
(Less)/Plus: OSS Net Margins and Other Adjustments After-Tax	\$ (71,544)	(D)	\$ 4,365	(D)	\$ (67,179)	
Earnings Attributable to Common Stock <i>(excluding OSS and Other Adjustments)</i>	\$ 153,679		\$ 242,876		\$ 396,555	
Adjusted Average Total Common Shareholder's Equity	\$ 1,268,491	(D)	\$ 2,838,519	(D)	\$ 4,107,010	
Return on Equity (%)	12.12%		8.56%		9.66%	

(A) - From Company internal financial reports GLA8018 (CSP and GLA8020(OPCo) for year-end December 31, 2011.

(B) - From December 31, 2011 10K.

**(C) Per Books Common Shareholder's Equity (SHE)**

Period Ended	CSP		Period Ended	OPCO		Period Ended	AEP Ohio	
	Total Common SHE (000's)			Total Common SHE (000's)			Total Common SHE (000's)	
12/31/2010	1,486,215		12/31/2010	3,168,424		12/31/2010	4,654,639	
12/31/2011	1,460,814	(C-1)	12/31/2011	2,989,364	(C-1)	12/31/2011	4,450,178	
Per Books Average Common SHE	1,473,515			3,078,894			4,552,409	

(C-1) - From Company internal financial reports GLA8218 (CSP and GLA8220(OPCo) for year-end December 31, 2011.

(D) See Exhibit TEM-1 page 2

**Columbus Southern Power Company and Ohio Power Company**  
**Annual SEET Filing**  
**Adjustment Support**  
**For the Year-Ended December 31, 2011**

**Exhibit TEM - 1**  
**Page 2 of 5**

Line Number:	Adjustments:	CSP-2011 (000's)	OPCo -2011 (000's)
	Description		
1	OSS (See page 3)	\$ (73,018) (A)	\$ (57,386) (A)
2	Sporn 5 Write-off	\$ - (B)	\$ 30,632 (B)
3	MR 5 Write-off	\$ - (B)	\$ 26,711 (B)
4	CCS FEED Study Write-off	\$ 1,474 (B)	\$ 4,408 (B)
5			
6	Sub-total	<u>\$ (71,544)</u>	<u>\$ 4,365</u>
7	Exclude OSS	\$ 73,018	\$ 57,386
8	Exclude SEET Adjustments	\$ -	\$ -
9	Total w/o OSS and SEET Adjustments	<u>\$ 1,474</u>	<u>\$ 61,751</u>

10 (A) See Exhibit TEM-1 page 3.

11 (B) The respective Company's portion of the 2011 special item reported to the SEC  
12 in the AEP Form 8-K filed January 27, 2012.

13

14

15

16

**Adjusted Common SHE**

	<u>CSP</u>	Total Common SHE	<u>OPCO</u>	Total Common SHE
Period Ended		(000's)	Period Ended	(000's)
12/31/2011		1,460,814	12/31/2011	2,989,364
Current year adjustments				
excluding OSS and SEET adjustments		<u>1,474 (Line 9)</u>		<u>61,751 (Line 9)</u>
Adjusted 12/31/11 Common SHE		1,462,288		3,051,115
Unadjusted 12/31/10 Common SHE		<u>1,486,215</u>		<u>3,168,424</u>
Adjusted Avg. Common SHE w/o OSS		1,474,252		3,109,770
OSS Adjustment		<u>205,761 (D)</u>		<u>271,251 (D)</u>
Adjusted Average Common SHE		1,268,491		2,838,519

29 (D) See Exhibit TEM-1 Page 4.

**Columbus Southern Power Company and Ohio Power Company**  
**Annual SEET Filing**  
**Off-System Sales Net Margins**  
**For the 12 Months Ended December 31, 2011**

Exhibit TEM - 1  
Page 3 of 5

Off-System Sales Net Margins						
Month	CSP - Before Tax	CSP - After Tax	CSP - After Tax Cummulative	OPCo - Before Tax	OPCo - After Tax	OPCo - After Tax Cummulative
	(000's)	(000's)	(000's)	(000's)	(000's)	(000's)
January	\$ 10,298	\$ 6,596	\$ 6,596	\$ 7,617	\$ 4,852	\$ 4,852
February	8,652	5,542	12,138	6,836	4,355	9,207
March	10,930	7,001	19,139	7,714	4,914	14,121
April	10,565	6,767	25,906	8,161	5,199	19,320
May	8,476	5,429	31,335	5,038	3,209	22,529
June	12,631	8,090	39,425	12,818	8,165	30,694
July	17,307	11,085	50,510	16,860	10,740	41,434
August	11,428	7,320	57,830	10,065	6,411	47,845
September	7,088	4,540	62,370	5,039	3,210	51,055
October	5,810	3,721	66,091	2,923	1,862	52,917
November	4,788	3,067	69,158	2,203	1,403	54,320
December	6,027	3,860	73,018	4,813	3,066	57,386
Total Off-System Sales Net Margins	\$ 114,000	\$ 73,018		\$ 90,087	\$ 57,386	
Tax Rate	35.95%			36.30%		

Columbus Southern Power Company and Ohio Power Company  
Annual SEET Filing  
OSS Equity Adjustment  
For the 12 Months Ended December 31, 2011

Exhibit TEM - 1  
Page 4 of 5

**OSS Equity Adjustment**

	Generation			Transmission			Total	
	CSP 2011 (000's)	OPCo 2011 (000's)		CSP 2010 (000's)	OPCo 2010 (000's)		CSP 2010 (000's)	OPCo 2010 (000's)
1. Calculate PP&E Ratio								
Total Average Net Plant	\$ 1,723,994	\$ 4,174,649		\$ 418,612	\$ 724,652			
Total Net Plant	\$ 3,264,903	\$ 6,100,352		\$ 3,264,903	\$ 6,100,352			
Total Avg. / Total Plant	52.80%	68.43%	(A), (1) - See below	12.82%	(2) - See below		11.88%	(2) - See below
2. Calculate OSS in Equity								
Per Books Average Equity	\$ 1,473,515	\$ 3,078,894	(B)	\$ 1,473,515	\$ 3,078,894			
Amount of equity "supporting" Plant	\$ 778,016	\$ 2,106,887	(C) = (A) X (B)	\$ 188,905	\$ 365,773			
3. MWH Allocation								
Average OSS as % of Net Plant (See Page 5)	21.28%	10.97%	(D)	21.28%	10.97%			
Amount of equity "supporting" Plant	\$ 778,016	\$ 2,106,887	(C)	\$ 188,905	\$ 365,773			
	\$ 165,562	\$ 231,126	(C) X (D)	\$ 40,199	\$ 40,125		\$ 205,761	\$ 271,251

**Total Avg. Generation / Total Plant (Source Company Query of Property Ledger Accounts)**

CSP				OPCo			
2011	Gross	Accumulated Depreciation	Net	2011	Gross	Accumulated Depreciation	Net
Intangible Plant	66,831	57,329	9,502	Intangible Plant	63,940	49,792	14,148
Production Plant	2,847,811	1,110,774	1,737,037 (E)	Production Plant	6,706,288	2,631,310	4,074,978 (E)
Transmission Plant	677,722	254,367	423,355 (F)	Transmission Plant	1,264,606	529,153	735,453 (F)
Distribution Plant	1,853,888	788,375	1,065,513	Distribution Plant	1,686,996	575,307	1,111,689
General Plant	97,463	42,642	54,821	General Plant	133,361	46,114	87,247
Totals	5,543,715	2,253,487	3,290,228 (G)	Totals	9,855,191	3,831,676	6,023,515 (G)
CSP				OPCo			
2010	Gross	Accumulated Depreciation	Net	2010	Gross	Accumulated Depreciation	Net
Intangible Plant	60,244	47,591	12,653	Intangible Plant	66,636	50,750	15,886
Production Plant	2,772,774	1,061,823	1,710,951 (H)	Production Plant	6,857,587	2,583,268	4,274,319 (H)
Transmission Plant	658,516	244,647	413,869	Transmission Plant	1,232,471	518,620	713,851
Distribution Plant	1,792,667	746,786	1,045,881	Distribution Plant	1,625,195	539,327	1,085,868
General Plant	96,401	40,177	56,224	General Plant	143,978	56,713	87,265
Totals	5,380,602	2,141,024	3,239,578 (I)	Totals	9,925,867	3,748,678	6,177,189 (I)
		Average Gen	1,723,994 (E+H)/2			Average Gen	4,174,649 (E+H)/2
		Average Total	3,264,903 (G+I)/2			Average Total	6,100,352 (G+I)/2
		Avg. Gen./Total	52.80% (1) - See above			Avg. Gen./Total	68.43% (1) - See above
		Average Trans.	418,612 (F+H)/2			Average Trans.	724,652 (F+H)/2
		Average Total	3,264,903 (G+I)/2			Average Total	6,100,352 (G+I)/2
		Avg. Trans./Total	12.82% (2) - See above			Avg. Trans./Total	11.88% (2) - See above

Annual SEET Filing  
 Company Proposed OSS Equity Adjustment  
 For the 12 Months Ended December 31, 2011

Exhibit TEM - 1  
 Page 5 of 5

**Source:** Monthly AEP Interchange Power Statements (IPS) Page 10s - MWhs

2011	I&M	OPCo			CSP		
	Total Gen	Total Gen	Total LSE	Gen to OSS	Total Gen	Total LSE	Gen to OSS
January	1,821,414	4,360,462	4,063,323	297,139	1,707,953	1,379,042	328,911
February	1,184,759	3,817,265	3,547,171	270,094	1,233,050	983,361	249,689
March	1,082,454	3,770,231	3,438,718	331,513	1,808,203	1,458,206	349,997
April	809,710	3,482,710	3,108,860	373,850	1,251,647	845,826	405,821
May	885,872	2,354,504	2,153,861	200,643	1,250,398	1,034,006	216,392
June	1,601,449	3,990,777	3,233,328	757,449	1,420,605	1,015,548	405,057
July	1,894,627	4,708,773	3,833,436	875,337	2,016,470	1,432,617	583,853
August	2,092,732	4,117,908	3,461,735	656,173	1,703,966	1,233,827	470,139
September	1,427,906	3,803,409	3,255,456	547,953	1,256,614	944,600	312,014
October	1,686,943	2,832,975	2,711,392	121,583	1,540,320	1,325,019	215,301
November	1,634,271	2,169,310	2,118,436	50,874	1,007,882	943,256	64,626
December	1,729,159	3,088,074	2,908,447	179,627	1,565,460	1,387,696	177,764
Total	17,851,296	42,496,399	37,834,164	4,662,234	17,762,568	13,983,003	3,779,565
Average OSS as % of Net Plant				10.97%	21.28%		

**This foregoing document was electronically filed with the Public Utilities**

**Commission of Ohio Docketing Information System on**

**11/22/2013 4:08:03 PM**

**in**

**Case No(s). 13-2249-EL-UNC, 13-2250-EL-UNC**

Summary: Testimony Direct Testimony of Thomas E. Mitchell on behalf of Ohio Power Company and Columbus Southern Power Company electronically filed by Mr. Daniel R. Conway on behalf of Ohio Power Company and Columbus Southern Power Company and Nourse, Steven T. Mr.