AEP
AMERICAN ELECTRIC POWER

Legal Department

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May 15, 2014

Barcy F. McNeal
Docketing Division Chief
Public Utilities Commission of Ohio
180 East Broad Street
Columbus, Ohio 43215-3793

Re: *In the Matter of the Applications of Ohio Power Company for Administration of the Significantly Excessive Earnings Test for 2013 Under Section 4928.143(F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code*, Case No. 14-875-EL-UNC

Steven T. Nourse
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Dear Ms. McNeal:

Rule 4901:1-35-10, Ohio Administrative Code, provides that an electric utility operating under an Electric Security Plan is to make a separate annual filing with the Commission demonstrating whether or not any rate adjustments authorized by the Commission as part of the electric utility's Electric Security Plan resulted in significantly excessive earnings during the review period as measured by division (F) of section 4928.143 of the Revised Code (referred to as the Significantly Excessive Earnings Test or "SEET"). With this letter, Ohio Power Company (AEP Ohio) is filing the supporting testimony of William A. Allen, Managing Director of Regulatory Case Management; and Thomas E. Mitchell, Managing Director of Regulatory Accounting Services for the American Electric Power Service Corporation.

Regarding the requirement that an electric utility must also provide the latest Securities and Exchange Commission (SEC) Form 10-K in its entirety and the Federal Energy Regulatory Commission (FERC) Form 1 in its entirety for the period under review, the testimony of William A. Allen references the website links that suffice for meeting those filing requirements.

Through this filing, AEP Ohio submits that it has met its burden of proving that its 2013 return on equity is not significantly excessive.

Cordially,

cc: Katie Stenman, Chief of Staff
Jodi J. Bair, Director, Utilities Department
Doris McCarter, Chief, Capital Recovery & Financial Analysis Division

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 2013 Under Section 4928.143(F), Revised Code, and Rule 4901:1-35-10, Ohio Administrative Code.	))))))	Case No. 14-875-EL-UNC

DIRECT TESTIMONY OF
WILLIAM A. ALLEN
ON BEHALF OF
OHIO POWER COMPANY

Filed: May 15, 2014

INDEX TO DIRECT TESTIMONY OF
WILLIAM A. ALLEN

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

PERSONAL DATA

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

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

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

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

I was employed by AEPSC beginning in 1992 as a Coop Engineer in the Nuclear Fuels, Safety and Analysis department and upon completing my degree in 1996 was hired on a permanent basis in the Nuclear Fuel section of the same department. In January 1997, the Nuclear Fuel section became a part of Indiana Michigan Power Company

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

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

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

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

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

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am AEP Ohio's overall policy witness supporting the position that AEP Ohio passes the statutory Significantly Excessive Earnings Test (SEET) for 2013. My testimony takes into account the Commission's Finding and Order in Case No. 09-786-EL-UNC (09-786), Opinion and Order in the 2009 SEET, Case No. 10-1261-EL-UNC (10-1261), and Opinion and Order in the 2010 SEET, Case Nos. 11-4571 and 11-4572-EL-UNC (11-4571). Additionally, I am sponsoring the AEP 2013 Form 10K annual report and the Federal Energy Regulatory Commission (FERC) Form 1 (Form 1) for OPCo[1].

Q. ARE YOU SPONSORING ANY EXHIBITS AS A PART OF YOUR TESTIMONY?

A. Yes. I am sponsoring Exhibit WAA-1 which presents the 2013 return on common equity for the companies comprising the Utilities Select Sector SPDR. I am also sponsoring Exhibit WAA-2 which sets forth the actual capital investments for 2013 and the projected capital investments for the period June 2015 through May 2018 as presented in the Company's recently filed ESP proceeding in Case No. 13-2385-EL-SSO.

OVERVIEW OF THE SEET

Q. PLEASE BRIEFLY DESCRIBE THE SEET PROCESS.

A. Senate Bill 221 (SB 221) required electric distribution utilities (EDUs), beginning January 1, 2009, to provide consumers with a standard service offer (SSO) including a firm supply of electric generation service, consisting of either an Electric Security Plan

[1]Both reports for 2013 can be found at the following sites:
http://www.aep.com/investors/FinancialFilingsAndReports/Filings/
http://www.aep.com/investors/FinancialFilingsAndReports/FERCFilings/

(ESP) or a market rate offer (MRO). Section 4928.143(F), Ohio Revised Code, requires EDUs operating under an ESP to demonstrate that their earned return on common equity (ROE) is not significantly in excess of the ROE earned during the same period by publicly traded companies that face comparable business and financial risk. I have been advised by Counsel, that the SEET filing requirements, as detailed in Rule 4901:1-35-03(C)(10)(a), O.A.C., state that the EDU with an established ESP shall provide testimony and analysis which shall include: 1) the EDU's ROE earned during the annual review period as compared to the ROE earned by comparable companies during the same period; 2) the FERC Form 1 in its entirety for the annual review period for the EDU; 3) the latest SEC Form 10K for the EDU; and 4) the capital budget requirements for future committed investments in Ohio for each annual period remaining in the ESP for the EDU.

Q. PLEASE BRIEFLY DESCRIBE THE HISTORY OF THE SEET WITH RESPECT TO AEP OHIO.

A. On March 18, 2009, the Commission issued an Opinion and Order in Case Nos. 08-917 and 08-918-EL-OSS modifying and approving the Companies' ESP for the years 2009 through 2011 (ESP I). In 2009, the Commission initiated Case No. 09-786 to provide SEET guidance to Ohio EDUs. Through the 09-786 case, the Commission provided guidance and interpretations regarding how it would apply the SEET. As a result, in September 2010, AEP Ohio filed their 2009 SEET application in 10-1261, and on January 11, 2011, the Commission issued its Opinion and Order. The Company filed its 2010 SEET application in 11-4571 on July 29, 2011, and on October 23, 2013 the Commission issued its Opinion and Order. On August 8, 2012, the Commission issued an Opinion and Order in Case Nos. 11-346 and 11-348-EL-SSO modifying and approving AEP Ohio's proposed ESP for the period of September 2012 through May 2015 (ESP II). In that case the Commission established a SEET threshold of 12% for the ESP II term.[2] I have been advised by Counsel that this aspect of the Commission's Opinion and Order is the subject of an Appeal before the Ohio Supreme Court in Case No. 2013-0521. Accordingly, the methodology I have employed is based on the approach established by the guidance presented in Case No. 09-786-EL-UNC and prior Commission orders. The Company's 2011 and 2012 SEET cases have been settled and approved by the Commission.

<u>ROE OF THE COMPARABLE RISK GROUP OF PUBLICLY TRADED COMPANIES</u>

Q. WHAT IS THE LEVEL FOR 2013, ABOVE THE AVERAGE EARNED ROE OF THE COMPARABLE RISK GROUP OF COMPANIES, WHERE THE EARNED ROE MAY BECOME SIGNIFICANTLY EXCESSIVE, IF ONE USED THE THRESHOLD METHODOLOGY AS DESCRIBED BY THE COMMISSION OPINION AND ORDER IN CASE NO. 11-4571 AND RECOGNIZED IN THE SETTLEMENT OF THE 2011 AND 2012 SEET CASES FOR AEP OHIO?

A. The mean earned ROE for 2013 of the "Utilities Select Sector SPDR (XLU)" comparable risk group that the Commission utilized in its order in 11-4571 and recognized in the settlement of the 2011 and 2012 SEET cases for AEP Ohio is 9.09%. The 11-4571 order applied an adder to that baseline mean earned ROE using 1.64 standard deviations. In this case that adder would be 5.29% resulting in a SEET threshold of 14.38%. These calculations are provided in Exhibit WAA-1.

[2] Opinion and Order in Case Nos. 11-346-EL-SSO et. al, dated August 8, 2012, at page 37.

AEP OHIO'S EARNED ROE FOR 2013

Q. WHAT IS AEP OHIO'S EARNED ROE FOR 2013 FOR THE SEET?

A. Company witness Mitchell has determined that AEP Ohio's earned ROE for 2013 is 11.28%. For details on the AEP Ohio ROE calculations, please see Company witness Mitchell's direct testimony.

Q. HOW DOES AEP OHIO'S EARNED ROE FOR 2013 COMPARE TO THE COMPARABLE RISK GROUP'S THRESHOLD ROE?

A. AEP Ohio's earned ROE for 2013 of 11.28% is below the comparable risk group's SEET ROE threshold of 14.38% that results from calculating the threshold in a manner similar to how the Commission calculated it for 2010. It is also below the 12.00% level provided for in the Commission's Opinion and Order in the ESP II case.

Q. DID THE COMMISSION ESTABLISH OTHER THRESHOLD GUIDANCE IN THE 09-786 CASE REGARDING ROE CALCULATIONS FOR EDUs?

A. Yes. The Commission also concluded that for SEET purposes, any Ohio electric utility's earnings found to be less than 200 basis points above the mean ROE of the comparable risk group of companies would not be significantly excessive.[3] This 200 basis point threshold is what is referred to as a "safe harbor."

Q. DOES THE 200 BASIS POINT "SAFE HARBOR" APPLY TO AEP OHIO FOR 2013?

A. No. AEP Ohio's earned ROE is slightly higher than 11.09%, which is 200 basis points above the 9.09% mean earned ROE of the Utilities Select Sector SPDR (XLU) group. Thus, AEP Ohio's 2013 earned ROE of 11.28% is not within the "safe harbor" established by the Commission.

[3] 09-786, Order at 29 (June 30, 2010) and 11-4571, Order at 27-28 (October 23, 2013)

ADJUSTMENTS TO THE SEET

Q. HOW ARE OFF-SYSTEM SALES NET MARGINS TREATED IN THE 2013 SEET?

A. Consistent with the Commission's orders, AEP Ohio excluded off-system sales (OSS) net margins, after federal and state income tax, from the calculation of the 2013 ROE. This adjustment aligns to the Commission's interpretation and guidance under Section 4928.143(F), Revised Code, that OSS net margins and the related equity should be excluded from the SEET calculation[4] since OSS net margins are not a result of rate adjustments included in AEP Ohio's ESP.

Q. DID THE COMPANY HAVE OTHER ADJUSTMENTS TO THE 2013 SEET?

A. Yes. As detailed by Company witness Mitchell, adjustments were made to the Company's 2013 earned ROE calculations for special accounting items, related to the impairment of certain OPCo generating assets and certain restructuring charges. Please see witness Mitchell's testimony for additional details on these adjustments.

Q. WHY ARE THESE OTHER ADJUSTMENTS REMOVED FROM THE EARNED ROE FOR THE 2013 SEET?

A. In accordance with Commission guidance, these adjustments to AEP Ohio's 2013 SEET ROE are considered special accounting items and thus, removing them from the earned ROE maintains comparability with the earned ROEs of the comparable risk group of companies.

[4] 11-4571, Order at 14-15 (October 23,2013)

CAPITAL INVESTMENTS AND OTHER CONSIDERATIONS

Q. WHAT ARE SOME ADDITIONAL FACTORS, BESIDES THE EARNED ROE CALCULATIONS DISCUSSED ABOVE, THAT THE COMMISSION INDICATED IN ITS 09-786 ORDER THAT IT WOULD CONSIDER IN EVALUATING WHAT IS SIGNIFICANTLY EXCESSIVE?

A. In the Commission's June 30, 2010, Finding and Order at page 29, the Commission provided the following guidance:

> The Commission notes that within Ohio's electric utilities, there is significant variation, including, for example, whether the electric utility provides transmission, generation, and distribution service or only distribution service. For this reason, the Commission will give due consideration to certain factors, including, but not limited to, the electric utility's most recently authorized return on equity, the electric utility's risk, including the following: whether the electric utility owns generation; whether the ESP includes a fuel and purchased power adjustment or other similar adjustments; the rate design and the extent to which the electric utility remains subject to weather and economic risk; capital commitments and future capital requirements; indicators of management performance and benchmarks to other utilities; and innovation and industry leadership with respect to meeting industry challenges to maintain and improve the competitiveness of Ohio's economy, including research and development expenditures/investments in advanced technology, and innovative practices; and the extent to which the electric utility has advanced state policy. We therefore, direct the electric utilities to include this information in their SEET filings.

Q. WHAT IS THE CURRENTLY APPROVED ROE FOR AEP OHIO?

A. The Company's most recently approved ROE is 10.2%.

Q. DID AEP OHIO OWN GENERATION IN 2013?

A. Yes. AEP Ohio owned generating capacity exceeding 11,500 MW during 2013. During 2013 the Company faced uncertainty and risk associated with the operation of these units.

In addition, during 2013, the Company faced significant uncertainty and risk associated with the corporate separation of those units out of AEP Ohio. Corporate separation was completed at the close of 2013.

Q. DID THE ESP INCLUDE A FUEL AND PURCHASED POWER ADJUSTMENT?

A. Yes. In 2013 the ESP included a fuel adjustment clause mechanism.

Q. DOES THE COMPANY'S RATE DESIGN SUBJECT THE COMPANY TO WEATHER AND ECONOMIC RISK?

A. Yes. The Company has a Pilot Throughput Balancing Adjustment Rider (PTBAR) mechanism for residential and small commercial customers. This mechanism helps to limit the weather impact on revenues but does not insulate the company from the effects of weather. Larger commercial and industrial customers are not included in the PTBAR mechanism and any weather effect on these customers impacts the earnings of AEP Ohio. In addition, the Company faces economic risk in the form of changes in customer usage resulting from the overall economic condition of the state or pressures to specific industries. Throughout 2013 the Company continued to face substantial financial risks resulting from customer switching and the associated loss of revenues.

Q. HOW DOES AEP MAINTAIN ENERGY INDUSTRY LEADERSHIP?

A. Throughout its century-plus history, AEP has led the industry through enhancements and technological advances to the generation, transmission, and distribution components of the electric industry. Some examples of these advancements are the first supercritical and ultra-supercritical coal-fired generating plants, development and construction of 765-kV transmission lines, and deployment of sodium-sulfur (NAS) batteries. AEP has also created new and innovative ways to provide power for today while preparing for the needs of tomorrow, such as developing and operating a product validation facility for carbon capture and storage and then partnering with the Department of Energy (DOE) on an engineering study to scale the technology commercially. Our commitment to environmental compliance is evidenced by our focus on finding reasonable, achievable, and affordable solutions that meet increasingly stringent state and federal energy regulations that properly address environmental issues in a realistic, cost effective manner.

In implementing the Commission's Alternative Energy Portfolio Standard rules, AEP Ohio led a demand side management (DSM) collaborative to develop energy efficiency and peak demand response programs (EE/PDR) and gridSMART® initiatives. As a result of implementing these programs, AEP Ohio customers have the potential to save through reduced electricity bills over the life of the programs and help reduce power plant emissions. As our Portfolio Status Report indicates, AEP Ohio's energy efficiency and peak demand response programs have been very successful, meeting or exceeding the benchmark requirements for both areas. Additionally, AEP Ohio has been undertaking infrastructure and technology enhancements for the gridSMART® Phase 1 project. This project demonstrates AEP Ohio's leadership in the industry and includes the installation of smart meters, distribution automation equipment, demand dispatch and integrated volt-var control circuits to enhance the electricity infrastructure. Additionally, meeting certain project requirements, obligations, and data collection criteria allowed the gridSMART® project to obtain 50 percent funding through the Department of Energy and thus limit Ohio customer impact while enhancing their ability to save energy. AEP Ohio is building on this through its proposed gridSMART® Phase 2 project.

In response to SB 221, AEP Ohio has demonstrated its leadership in the industry by embracing and harnessing new generation resources such as wind, biomass and solar to comply with Ohio's renewable portfolio standard. For example, AEP Ohio facilitated development of an 80-acre solar project located in Wyandot County, as Ohio's first utility-scale solar power facility in which all the output is purchased through contract by AEP Ohio. Thus, AEP Ohio is promoting diversity of electricity supplies and suppliers while maximizing Ohio economic development value within the state.

Q. PLEASE EXPLAIN THE REGULATORY RISK IMPACTS ON CUSTOMERS.

A. Balancing customer expectations for better EDU performance while continuing to be a low cost utility within the state of Ohio is an ever increasing risk for AEP Ohio. As the result of a struggling economy the increased pressure on regulators to maintain existing utility electric rates can create regulatory lag issues for EDUs. One way regulators can alleviate pressure to control rates is to defer previously spent utility costs to the balance sheet. And, while deferrals delay the immediate collection of rates in the near term, deferrals can increase regulatory risk and eventually impact customers when the time comes to pay for those deferrals. This rate volatility impacts the timing of cash flow which can also potentially impact an EDU's credit ratings. Rate volatility, combined with our desire to fulfill increased customer expectations regarding reliability, increasing infrastructure mandates and investment requirements, put electric utilities and regulators under very different demands. In Ohio, a combination of outstanding deferred assets, SB 221 requirements, environmental mandates, and ESP timing, has forced AEP Ohio into an elevated level of risk.

Q. PLEASE EXPLAIN CUSTOMER SERVICE RELIABILITY RISKS.

A. The information shown in the following table reflects both the System Average Interruption Frequency Index (SAIFI) and the Customer Average Interruption Duration Index (CAIDI) indices used to gauge service reliability for AEP Ohio. The 2013 SAIFI of 1.03 for frequency of interruption was significantly below the SAIFI standard for AEP Ohio of 1.20. The 2013 CAIDI of 141.0 for outage duration was significantly below the CAIDI standard for AEP Ohio of 150.0. While these reliability indices indicate steady to improving performance over recent years, AEP Ohio will need to make substantial and continuing investments in infrastructure to maintain or improve its reliability performance.

AEP Ohio Reliability Indices

(Per O.A.C. Rule 1-10-10(B))

12 Months Ending	SAIFI	CAIDI
Dec-10	1.09	138.2
Dec-11	1.23	145.6
Dec-12	0.98	145.0
Dec-13	1.03	141.0

Q. PLEASE EXPLAIN CUSTOMER MIGRATION RISKS.

A. The state of Ohio is unique compared to fully-regulated jurisdictions in that significant customer switching has occurred during recent years. Additionally, there is a potential that high customer switching levels will continue into the future due to increases in governmental aggregation. At December 31, 2013, 64% of AEP Ohio's load has switched to Competitive Electric Retail Service (CRES) providers. This was an increase of 15% over the level of 49% experienced at the end of 2012. Additionally, migrating customers can return at any point to their jurisdictional EDU based on the decision of their CRES provider and/or the market price fluctuations. As defined by SB 221, these customer shopping risks are unique to the state of Ohio.

Q. WHAT INFORMATION HAS AEP OHIO PROVIDED TO IDENTIFY THE CAPITAL REQUIREMENTS OF FUTURE INVESTMENTS?

A. AEP Ohio's actual annual capital expenditures for 2011 through 2013, those budgeted for 2014 and those projected for the ESP III term are contained in Exhibit WAA-2 attached to my testimony. Exhibit WAA-2 shows that AEP Ohio invested approximately $640 million during 2013. The Company plans to spend approximately $400M in 2014 with an additional $1.0 billion forecast in the ESP III period – a tremendous amount of capital to invest. These factors should be taken into consideration by the Commission when determining the 2013 SEET decision.

Q. HAS AEP OHIO ADVANCED STATE POLICY?

A. Yes. AEP Ohio and its employees are active members of the communities we serve. Not only is AEP Ohio investing capital assets and facilities within the state of Ohio, but during 2013, AEP Ohio also paid more than $634 million in Ohio payroll taxes and approximately $337 million in property, state, and local taxes. These amounts do not include expenditures for philanthropic contributions and purchases of Ohio goods and services. Additionally, as explained above, AEP Ohio is currently advancing SB 221 and other state policies in Ohio. AEP Ohio's gridSMART® project is advancing electric infrastructure development by testing and implementing advanced smart grid technologies. Contributions to the emerging solar power industry through AEP Ohio's commitment to purchase and invest in Ohio renewable solar power on a commercial basis beginning in 2010 and beyond demonstrates AEP Ohio's advancement of Ohio renewable goals. Finally, AEP Ohio has made contributions to the Partnership with Ohio Fund during the 2013 to be used across the AEP Ohio territory for food banks, United Way programs, and other public-private partnerships in the state and local economic development arenas.

Q. DOES THAT CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Utilities Select Sector SPDR Comparison

Company	Ticker	Common Equity[1] YE 2012	YE2013	Average	Net Income[2] YE2013	Return on Common Equity
AES Corp.	AES	$4,569	$4,330	$4,450	$284	6.38%
AGL Resources, Inc.	GAS	$3,413	$3,631	$3,522	$313	8.89%
American Electric Pow er Co., Inc.	AEP	$15,237	$16,085	$15,661	$1,573	10.04%
Ameren Corp.	AEE	$6,616	$6,544	$6,580	$518	7.87%
CenterPoint Energy Inc.	CNP	$4,301	$4,329	$4,315	$311	7.21%
Consolidated Edison, Inc.	ED	$11,869	$12,245	$12,057	$1,062	8.81%
CMS Energy Corp.	CMS	$3,194	$3,454	$3,324	$452	13.60%
Dominion Resources, Inc.	D	$10,568	$11,642	$11,105	$1,789	16.11%
DTE Energy Company	DTE	$7,373	$7,921	$7,647	$661	8.64%
Duke Energy Corp.	DUK	$40,863	$41,330	$41,097	$3,071	7.47%
Edison International	EIX	$9,432	$9,938	$9,685	$879	9.08%
Entergy Corp.	ETR	$9,197	$9,632	$9,415	$957	10.16%
Exelon Corp.	EXC	$21,431	$22,732	$22,082	$2,149	9.73%
FirstEnergy Corp.	FE	$13,084	$12,692	$12,888	$786	6.10%
Integrys Energy Group, Inc.	TEG	$3,026	$3,261	$3,144	$347	11.04%
NextEra Energy, Inc.	NEE	$16,068	$18,040	$17,054	$1,720	10.09%
NiSource Inc.	NI	$5,554	$5,887	$5,720	$491	8.58%
Northeast Utilities	NU	$9,237	$9,612	$9,424	$794	8.42%
NRG Energy, Inc.	NRG	$10,284	$10,220	$10,252	($76)	(0.74%)
Pepco Holdings, Inc.	POM	$4,414	$4,315	$4,365	$110	2.52%
Pinnacle West Capital Corp.	PNW	$4,102	$4,340	$4,221	$406	9.62%
PG&E Corp.	PCG	$13,074	$14,342	$13,708	$814	5.94%
PPL Corp.	PPL	$10,480	$12,466	$11,473	$1,131	9.86%
Public Service Enterprise Group Inc.	PEG	$10,780	$11,608	$11,194	$1,243	11.10%
SCANA Corp.	SCG	$4,154	$4,664	$4,409	$471	10.68%
Sempra Energy	SRE	$10,282	$11,008	$10,645	$1,001	9.40%
Southern Co.	SO	$18,297	$19,008	$18,653	$2,499	13.40%
TECO Energy, Inc.	TE	$2,292	$2,334	$2,313	$198	8.55%
Wisconsin Energy Corp.	WEC	$4,135	$4,233	$4,184	$577	13.80%
Xcel Energy, Inc.	XEL	$8,874	$9,566	$9,220	$948	10.28%
Total						**9.09%**
					Standard Deviation	**3.22%**
					Standard Deviation Multiplier	**1.64**
					SEET Threshold	**14.38%**

[1] Total common equity excluding preferred equity and non-controlling interest.

[2] Net income attributable to common shares.

$ in millions

AEP Ohio Capital Expenditures

Historical Actual Expenditures*			Forecasted ESP II Expenditures	Forecasted ESP III Expenditures			
2011	2012	2013	2014	Jun-Dec 2015	2016	2017	Jan-May 2018
$455M	$518M	$640M	$400M	$210M	$307M	$346M	$149M

* Historical capital expenditures include the generation function that was separated from the transmission and distribution functions at the end of 2013.

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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 2013	)	Case No. 14-874-EL-UNC
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
OHIO POWER COMPANY

Filed: May 15, 2014

INDEX TO DIRECT TESTIMONY OF
THOMAS E. MITCHELL

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

PERSONAL BACKGROUND

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

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

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

A. I am testifying on behalf of Ohio Power Company (OPCo or AEP Ohio or the Company).

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

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

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

A. My primary responsibilities include providing the AEP System operating subsidiaries, including OPCo, with accounting support for regulatory filings. This support includes the preparation of cost-of-service adjustments, accounting schedules, and accounting testimony. I direct a group of professionals who provide accounting expertise, compile necessary historical accounting schedules, present expert accounting testimony and respond to data requests in connection with rate filings for 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 Case No. 11-346-EL-SSO and Case No. 11-348-EL-SSO. In addition, I testified before the PUCO on behalf of the Company regarding the 2010 Significantly Excessive Earnings Test (SEET) proceeding, Case No. 11-4571-EL-UNC and Case No. 11-4572-EL-UNC and 2009 SEET proceedings, Case No. 10-1261-EL-UNC and the 2012 storm cost recovery proceeding in Case No. 12-3255-EL-RDR. I also filed accounting testimony in the Company's distribution base rate case in Case Nos. 11-351-EL-AIR and 11-352-EL-AIR, rebuttal testimony in the Ohio Remand Case No. 08-917-EL-SSO and Case No. 08-918-EL-SSO, the 2011 and 2012 SEET Reviews in Case Nos. 13-2249-EL-UNC and 13-2251-EL-UNC and the Company's request to establish an SSO in Case Nos. 13-2385-EL-SSO and 13-2386-EL-AAM. I have filed accounting testimony and testified on behalf of APCo and Wheeling Power Company before the Public Service Commission of West Virginia, and on behalf of APCo before both the Virginia State Corporation Commission and the FERC. Finally, I have also filed accounting testimony on behalf of Indiana Michigan Power Company before the Indiana Utility Regulatory Commission and on behalf of Kentucky Power Company before the Kentucky Public Service Commission.

<u>PURPOSE OF TESTIMONY</u>

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

A. My testimony describes the method I used for calculating the Company's earned return on common equity (ROE) including adjustments to exclude Off-System Sales (OSS) net margins and special accounting items. No adjustments were made to remove extraordinary items, minority interest or non-recurring items for 2013 because there were no such items recorded. However, I did remove certain special items as detailed later in my testimony. I then calculated the earned ROE for OPCo for the year ended December 31, 2013 and provided my calculations to AEP Ohio witness Allen. As in the previous 2011 – 2012 SEET Reviews, I have not calculated those provisions of AEP Ohio's ESP that directly produce earnings which serve as a cap to ESP amounts that might be subject to being returned to customers in the event that OPCo had excessive earnings in 2013 because OPCo's ROE for 2013 falls below the SEET threshold.

EXHIBIT

Q. ARE YOU SPONSORING ANY EXHIBITS IN THIS PROCEEDING?

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

RETURN ON EQUITY

Q. PLEASE DESCRIBE THE METHOD YOU USED TO CALCULATE THE ROES FOR OPCO AS SHOWN IN EXHIBIT TEM-1.

A. The calculation of the ROEs was performed in two steps. I first calculated the per books (unadjusted) 2013 ROE (refer to Exhibit TEM-1) for OPCo using the amounts for 2013 net earnings available to common shareholders compared to the average of the beginning and ending equity for the year ended December 31, 2013. The use of average equity was determined by the PUCO to be appropriate in the previous SEET Reviews and is consistent with the calculation of the average equity for the comparable risk group supported by Company witness Allen.

Q. RECOGNIZING THAT OPCO TRANSFERRED ITS GENERATION ASSETS TO AFFILIATES DUE TO CORPORATE SEPARATION AS OF DECEMBER 31, 2013, DID YOU USE THE EQUITY BALANCE PRIOR TO CORPORATE SEPARATION IN ORDER TO MEASURE THE ROE

RELATED TO OPCO'S TOTAL 2013 EARNINGS PRIOR TO CORPORATE SEPARATION?

A. Yes, corporate separation occurred at the end of the day on December 31, 2013. Accordingly, it was appropriate to use the equity balance just prior to corporate separation of $4.635 billion as shown on Exhibit TEM-1, page 1 using amounts from OPCo's 2013 SEC Form 10-K. The reconciliation of equity in OPCo's SEC Form 10-K on page 194 detailed the amounts for the distribution of equity to OPCo's parent for the transfer of generation assets and liabilities as well as a related state income tax rate adjustment. I excluded both of these corporate separation amounts from the calculation of ending equity as of December 31, 2013 in order to determine the equity balance prior to corporate separation.

Q. WHAT WAS THE SECOND STEP FOR YOUR DETERMINATION OF THE APPROPRIATE ROES?

A. In accordance with the PUCO order in previous SEET Reviews, I made adjustments (after federal and state income tax) to remove certain special accounting items from the net earnings available to common shareholders (or numerator) and common shareholder equity (or denominator), as well as adjustments related to the removal of OSS net margins. For 2013, there were no minority interest, non-recurring or extraordinary items

Q. WHAT ARE THE RESULTS OF THE TWO STEPS OF THE

CALCULATION OF THE ROES?

A. The results are summarized as follows:

Step	OPCo
Step 1: Per Books ROE	**8.95%**
Step 2: Adjusted SEET ROE	**11.28%**

Q. DID YOU PROVIDE THE RESULTS OF YOUR CALCULATIONS OF THE 2013 ROE FOR OPCO TO AEP OHIO WITNESS ALLEN?

A. Yes.

Q. PLEASE DESCRIBE HOW YOU MADE ADJUSTMENTS TO THE NUMERATOR.

A. I took the net total amount of all the adjustments as shown on page 1 of Exhibit TEM-1 for the twelve months ended December 31, 2013 and removed their impact on earnings for purposes of the 2013 SEET review. The amounts derived for each of these adjustments are shown on page 2 of Exhibit TEM-1 and are discussed later in my testimony.

Q. HOW DID YOU MAKE ADJUSTMENTS TO THE DENOMINATOR?

A. For all adjustments except OSS net margins and the 2010 SEET refund, I used the same after tax amount calculated for the numerator to adjust the denominator.

Q. DID YOU ADJUST THE DENOMINATOR FOR OSS NET MARGINS CONSISTENT WITH THE METHOD APPROVED BY THE PUCO IN THE 2010 SEET REVIEW?

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

Q. WHAT WAS THE RESULT OF YOUR CALCULATION OF OPCO'S OSS NET MARGIN ADJUSTMENT TO EQUITY (DENOMINATOR) USING THE MWH METHOD DISCUSSED ABOVE?

A. My adjustments to OPCo's equity are a reduction of $603.607 million and $137.855 million, for generation and transmission respectively as shown on page 4 of Exhibit TEM-1.

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

A. The special accounting items relate to impairment of certain OPCo generating units and certain restructuring charges. The 2013 after-tax amounts for each specific item have been added back to net earnings available for common shareholders and common shareholder equity which is used in the calculation of average equity and are shown on page 2 of Exhibit TEM-1.

Q. PLEASE DESCRIBE THE 2010 SEET ADJUSTMENT (AFTER FEDERAL AND STATE INCOME TAX) MADE TO REMOVE SPECIAL ACCOUNTING ITEMS FROM THE NET EARNINGS AVAILABLE TO COMMON SHAREHOLDERS (OR NUMERATOR) AND COMMON SHAREHOLDER EQUITY (OR DENOMINATOR).

A. The after-tax amount of the 2010 SEET refund ordered by the Commission in 2013 in Case Nos. 11-4571-EL-UNC & 11-4572-EL-UNC has been added back to earnings. No adjustment was made to the 2013 equity balance as that would have the impact of removing the lower equity value already reflected in the 2013 equity balance due to the Commission order in 2013.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Ohio Power Company
Annual SEET Filing
Earned ROE
For the 12 Months Ended December 31, 2013

Step 1 Per Books ROE

Description	OPCo (000's)	
Earnings Attribuable to Common Stock	$ 409,980	**(A)**
12 Month Average Total Common Shareholder's Equity	$ 4,580,660	**(B)**
Return on Equity (%)	8.95%	

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

Description	OPCo (000's)	
Earnings Attribuable to Common Stock	$ 409,980	
Plus: OSS Net Margins and Other Adjustments After-Tax	$ 28,875	**(E)**
Earnings Attribuable to Common Stock *(excluding OSS and Other Adjustments)*	$ 438,855	
Adjusted 12 Month Average Total Common Shareholder's Equity	$ 3,891,054	**(E)**
Return on Equity (%)	11.28%	

(A) - From December 31, 2013 10K

(B) Per Books Common Shareholder's Equity (SHE)

OPCo **Period Ended**	**Total Common SHE (000's)**	
12/31/2012	$ 4,525,709	**(C)**
12/31/2013	$ 4,635,610	**(D)**
Per Books Average Common SHE (Pre-Corp. Sep.)	$ 4,580,660	

(C) - From December 31, 2012 10K

(D) - Reconcilation of 12/31/2013 SHE 2013 10K page 194:

	(000's)				
	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Total SHE at December 31, 2012	$ 321,201	$ 1,744,099	$ 2,626,134	$ (165,725)	$ 4,525,709
Common Stock Dividends			(375,000)		(375,000)
Net Income	-		409,980		409,980
Other Comprehensive Income				77,572	77,572
Distribution of Cook Coal Terminal to Parent			(22,303)	19,652	(2,651)
Pre-Corp Separation Total SHE @ 12/31/13	**$ 321,201**	**$ 1,744,099**	**$ 2,638,811**	**$ (68,501)**	**$ 4,635,610**

(E) See Exhibit TEM-1 page 2

Ohio Power Company
Annual SEET Filing
Adjustment Support
For the Year-Ended December 31, 2013

Line Number:	Adjustments: Description	OPCo-2013 (000's)	
1	OSS (See page 3)	$ (79,274)	**(A)**
2	MR Unit 5 Impairment	$ 91,691	**(B)**
3	Adjustment to Ohio Plant Impairments	$ 9,211	**(B)**
4	Restructuring Program	$ 2,811	**(B)**
5	SEET Adjustments	$ 4,436	**(C)**
6	Sub-total	$ 28,875	
7	Exclude OSS	$ 79,274	
8	Exclude SEET Adjustments	$ (4,436)	
9	Total w/o OSS and SEET Adjustments	$ 103,713	

		(000s)		
10	**(A)** - See Exhibit TEM-1 page 3			
11	**(B) -** Special items added back in 2013	Pre-tax	Tax Rate	After-Tax
12	MR Unit 5 Impairment	143,401	36.06%	91,691
13	Adjustment to Ohio Plant Impairments	14,406	36.06%	9,211
14				
15	Restructuring Program	4,397	36.06%	2,811
16				103,713

17 **(C)** - 2010 SEET Refund ordered by PUCO in 2013 in Case Nos. 11-4571-EL-UNC & 11-4572-EL-UNC

	|------------------------(000s)------------------------|		
18			
19	Pre-Tax	Tax Rate	After-Tax
20	6,938	36.06%	4,436

21	**Adjusted Common SHE**	**OPCo**	
22		**Total Common**	
23		**SHE**	
24	**Period Ended**	**(000's)**	
25	12/31/2013	4,635,610	
26	Current year adjustments		
27	excluding OSS and SEET adjustments	103,713	**(Line 9)**
28	Adjusted 12/31/13 Common SHE	4,739,323	
29	Unadjusted 12/31/12 Common SHE	4,525,709	
30	Adjusted Avg. Common SHE w/o OSS	4,632,516	
31	OSS Adjustment	741,462	**(D)**
32	Adjusted Average Common SHE	3,891,054	

33 **(D)** - See Exhibit TEM-1 Page 4

Ohio Power Company
Annual SEET Filing
Off-System Sales Net Margins
For the 12 Months Ended December 31, 2013

Off-System Sales Net Margins

Month	OPCo - Before Tax (000's)	OPCo - After Tax (000's)	OPCo - After Tax Cummulative (000's)
January	$ 10,774	$ 6,889	$ 6,889
February	7,243	4,631	11,520
March	9,832	6,286	17,806
April	7,339	4,692	22,498
May	7,118	4,551	27,049
June	12,397	7,926	34,975
July	21,459	13,721	48,696
August	13,413	8,576	57,272
September	4,594	2,937	60,209
October	8,642	5,526	65,735
November	6,321	4,041	69,776
December	14,855	9,498	79,274
Total Off-System Sales Net Margins	$ 123,986	$ 79,274	

Tax Rate	36.06%

OSS Equity Adjustment

	Generation OPCo 2013		Transmission OPCo 2013	Total OPCo 2013
1. Calculate PP&E Ratio	(000's)		(000's)	(000's)
Total Average Net Plant	$ 5,311,409		$ 1,212,890	
Total Net Plant	$ 9,093,879		$ 9,093,879	
Total Avg. / Total Plant	58.41%	**(A), (1)**	13.34%	**(A), (2) - See below**
2. Calculate OSS in Equity				
Per Books Average Equity	$ 4,580,660	**<----(B)----->**	$ 4,580,660	
Amount of equity "supporting" Plant	$ 2,675,564	**<--(C) = (A) X (B)-->**	$ 611,060	
3. MWH Allocation				
Average OSS as % of Net Plant (See Page 5)	22.56%	**<----(D)----->**	22.56%	
Amount of equity "supporting" Plant	$ 2,675,564	**<----(C)----->**	$ 611,060	
	$ 603,607	**<---(C) X (D)--->**	**$ 137,855**	**$ 741,462**

Total Avg. Generation / Total Plant

OPCo (Source Company General Ledger and Fixed Asset System)

2013	Gross	Accumulated Depreciation	Net	
Intangible Plant	147,737	110,434	37,303	
Production Plant	8,558,170	3,322,796	5,235,374	**(E)**
Transmission Plant	2,064,707	829,510	1,235,197	**(F)**
Distribution Plant	3,872,948	1,417,094	2,455,854	
General Plant	243,521	106,303	137,218	
Totals	14,887,083	5,786,137	9,100,946	**(G)**

OPCo (Source Company FERC Form 1 pgs. 204 - 207, 219)

2012	Gross	Accumulated Depreciation **(J)**	Net	
Intangible Plant	138,964	108,425	30,539	
Production Plant	9,635,707	4,248,264	5,387,443	**(H)**
Transmission Plant	2,007,735	817,153	1,190,582	
Distribution Plant	3,718,113	1,391,679	2,326,434	
General Plant	243,598	91,784	151,814	
Totals	15,744,117	6,657,305	9,086,812	**(I)**

Average Gen	5,311,409	**(E+H)/2**
Average Total	9,093,879	**(G+I)/2**
Avg. Gen./Total	58.41%	**(1) - See above**
Average Trans.	1,212,890	**(F+H)/2**
Average Total	9,093,879	**(G+I)/2**
Avg. Trans./Total	13.34%	**(2) - See above**

(J) - Intangible plant accumulated depreciation is recorded in FERC account 111 and is from Company internal property records.

Annual SEET Filing
Compnay Proposed OSS Equity Adjustment
For the 12 Months Ended December 31, 2012

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

		OPCo	
2013	Total Gen	Total LSE	Gen to OSS
January	4,613,919	3,450,386	1,163,533
February	4,621,700	3,644,482	977,219
March	5,462,319	4,621,891	840,428
April	4,274,346	3,478,807	795,539
May	3,802,672	3,268,544	534,128
June	4,011,892	3,098,319	913,573
July	4,790,272	3,409,754	1,380,519
August	5,018,044	3,608,326	1,409,718
September	4,079,499	2,953,175	1,126,324
October	3,841,355	3,017,051	824,304
November	3,591,088	2,979,067	612,021
December	4,384,106	3,119,444	1,264,662
Total	52,491,212	40,649,246	11,841,967
Average OSS as % of Net Plant			22.56%