

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 2014	)	Case No. 15-1022-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: June 1, 2015

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THOMAS E. MITCHELL

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BEFORE  
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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).

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

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

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

14   A.    My primary responsibilities include providing the AEP operating subsidiaries,  
15          including OPCo, with accounting support for regulatory filings. This support  
16          includes the preparation of cost-of-service adjustments, accounting schedules, and  
17          accounting testimony. I direct a group of professionals who provide accounting  
18          expertise, compile necessary historical accounting schedules, present expert  
19          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) in the 2010 Significantly Excessive Earnings Test (SEET) proceeding, Case No. 11-4571-EL-UNC and Case No. 11-4572-EL-UNC;

1 and the 2009 SEET proceeding, Case No. 10-1261-EL-UNC. In addition, I have  
2 testified on behalf of AEP Ohio before the PUCO to establish a Standard Service  
3 Offer (SSO) in Case No. 11-346-EL-SSO and Case No. 11-348-EL-SSO. I testified  
4 in OPCo's storm distribution rider Case No. 12-3255-EL-RDR. I also filed  
5 accounting testimony in the distribution base rate case in Case No. 11-351-EL-AIR  
6 and Case No. 11-352-EL-AIR, rebuttal testimony in the Ohio Remand Case No. 08-  
7 917-EL-SSO and Case No. 08-918-EL-SSO and in the 2011 and 2012 SEET  
8 Reviews in Case Nos. 13-2249-EL-UNC and 13-2250-EL-UNC as well as the 2013  
9 SEET review in Case No. 14-875-EL-UNC. Also, I have filed accounting  
10 testimony and testified on behalf of the following AEP Ohio affiliate companies:  
11 APCo and Wheeling Power Company before the Public Service Commission of  
12 West Virginia; APCo before both the Virginia State Corporation Commission and  
13 the FERC; Indiana Michigan Power Company before the Indiana Utility Regulatory  
14 Commission; and Kentucky Power Company before the Kentucky Public Service  
15 Commission.

16 **PURPOSE OF TESTIMONY**

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

19 A. My testimony describes the method I used for calculating the Company's earned  
20 return on common equity (ROE) including adjustments to exclude a special  
21 accounting item detailed later in my testimony. No adjustments were made to  
22 remove extraordinary items, minority interest or non-recurring items for 2014  
23 because there were no such items recorded. I then calculated the earned ROE for  
24 OPCo for the year ended December 31, 2014, and provided my calculations to AEP

1 Ohio witness Allen.

2 **EXHIBIT**

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

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

5 **RETURN ON EQUITY**

6 **Q. PLEASE DESCRIBE THE METHOD YOU USED TO CALCULATE THE**  
7 **ROEs FOR OPCO AS SHOWN IN EXHIBIT TEM-1.**

8 A. Similar to prior SEET reviews, the calculation of the ROEs was performed in two  
9 steps. I first calculated the respective per books (unadjusted) 2014 ROE of  
10 12.0052% (refer to Exhibit TEM-1) for OPCo using the amount of 2014 net  
11 earnings available to the common shareholder (AEP) compared to the average of the  
12 beginning and ending equity for the year ended December 31, 2014. The use of  
13 average equity was determined by the PUCO to be appropriate in the previous  
14 SEET reviews and is consistent with the calculation of the average equity for the  
15 comparable risk group supported by Company witness Allen.

16 **Q. RECOGNIZING THAT OPCO TRANSFERRED ITS GENERATION**  
17 **ASSETS TO AFFILIATES DUE TO CORPORATE SEPARATION AS OF**  
18 **DECEMBER 31, 2013, DID YOU USE THE EQUITY BALANCE AFTER**  
19 **CORPORATE SEPARATION IN THE CALCULATION OF AVERAGE**  
20 **EQUITY IN ORDER TO MEASURE THE ROE RELATED TO OPCO'S**  
21 **TOTAL 2014 EARNINGS?**

22 A. Yes, corporate separation occurred at the end of the day on December 31, 2013.  
23 Accordingly, in order to measure the ROE for 2014 which uses the average of the  
24 equity balances for the years ended 2013 and 2014, it was appropriate to use the

1 actual equity balance for 2013 of \$1.625 billion, determined subsequent to corporate  
2 separation as shown on Exhibit TEM-1. This is based on the ending equity balance  
3 from OPCo's 2013 SEC Form 10-K which was after the distribution of equity to  
4 OPCo's parent for the transfer of generation assets and liabilities.

5 **Q. WHAT WAS THE SECOND STEP FOR YOUR DETERMINATION OF THE**  
6 **APPROPRIATE ROEs?**

7 A. In accordance with the PUCO orders in previous SEET reviews, I made an  
8 adjustment (after federal and state income tax) to remove a special accounting item  
9 (discussed below in my testimony) from the net earnings available to the common  
10 shareholder (or numerator) and common shareholder equity (or denominator)  
11 consistent with prior year SEET reviews. For 2014, there were no minority interest,  
12 non-recurring or extraordinary items.

13 **Q. WHAT ARE THE RESULTS OF THE TWO STEPS OF THE**  
14 **CALCULATION OF THE ROEs?**

15 A. The results are summarized as follows:

<b>Step</b>	<b>OPCo</b>
<b>Step 1: Per Books ROE</b>	<b>12.0052%</b>
<b>Step 2: Adjusted SEET ROE</b>	<b>12.7170%</b>

16 **Q. DID YOU PROVIDE THE RESULTS OF YOUR CALCULATIONS OF THE**  
17 **2014 ROE FOR OPCO TO AEP OHIO WITNESS ALLEN?**

18 A. Yes.

19

1   **Q.   PLEASE DESCRIBE THE ADJUSTMENT (AFTER FEDERAL AND STATE**  
2       **INCOME TAX) MADE TO REMOVE THE SPECIAL ACCOUNTING ITEM**  
3       **FROM THE NET EARNINGS AVAILABLE TO THE COMMON**  
4       **SHAREHOLDER (OR NUMERATOR) AND COMMON SHAREHOLDER**  
5       **EQUITY (OR DENOMINATOR).**

6   A.   The special accounting item relates to a preliminary revenue refund provision  
7       recorded in 2014 related to estimated 2014 earnings that would exceed a 12% ROE  
8       threshold. It is necessary to add back this preliminary and estimated SEET  
9       provision to both the numerator and the denominator for purposes of this SEET  
10      review in order to appropriately determine the 2014 ROE on a basis before any  
11      potential SEET excess earnings could be ordered. The 2014 after tax amount for  
12      this specific item has been added back to the 2014 net earnings available for the  
13      common shareholder and the 2014 year-end balance of common shareholder equity  
14      which is used in the calculation of average equity as shown in the Step 2 calculation  
15      on Exhibit TEM-1 which results in an adjusted 2014 SEET ROE of 12.7170%.

16   **Q.   WERE THERE ANY ACTUAL SEET REFUNDS MADE IN 2014 RELATED**  
17       **TO PRIOR SEET TEST YEARS THAT WOULD ALSO NEED TO BE**  
18       **REMOVED FROM THE 2014 ROE CALCULATION?**

19   A.   No, there were no SEET refunds made in 2014. In May 2014 and December 2014,  
20       the PUCO approved stipulation agreements between OPCo and the PUCO Staff that  
21       there were no significantly excessive earnings for 2012 and 2013, respectively. The  
22       most recent ordered SEET refund of \$6.938 million (pre-tax) occurred in 2013,  
23       related to the 2010 SEET review in Case Nos. 11-4571-EL-UNC and 11-4572-EL-  
24       UNC.



1 Q. FOLLOWING THE DETERMINATION OF THE ADJUSTED ROE IN STEP  
2 2 OF EXHIBIT TEM-1, DID YOU CONVERT THE ADJUSTED ROE INTO  
3 AN AMOUNT OF POTENTIAL ESTIMATED EXCESSIVE EARNINGS  
4 TOGETHER WITH THE RELATED REVENUE VALUE?

5 A. Yes, in Step 3 shown on Exhibit TEM-1, I determined the revenue value of the  
6 potential excessive earnings above 12% to be \$20.157 million.

7 Q. ALTHOUGH OPCO'S 2014 ADJUSTED ROE EXCEEDS 12%, DOES OPCO  
8 RECOMMEND THAT NO SIGNIFICANTLY EXCESSIVE EARNINGS BE  
9 FOUND IN THIS PROCEEDING?

10 A. Yes, as discussed in the direct testimony of Company witness Allen, there are other  
11 additional substantive facts that need to be considered in this 2014 SEET review,  
12 including the 16.04% ROE earned by OPCo's peer group analysis, which is  
13 significantly above OPCo's adjusted 2014 ROE of 12.7170%. Further as discussed  
14 by Company witness Allen, the validity of the 12% ROE threshold is pending  
15 before the Supreme Court of Ohio and that pending decision could impact this case.

16 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

17 A. Yes.

**Ohio Power Company**  
**Annual SEET Filing**  
**Earned ROE**  
**For the 12 Months Ended December 31, 2014**

Exhibit TEM - 1  
Page 1 of 1

**Line  
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**Step 1 - Per Books Return on Equity:**

**Calculation of Book ROE**

(000's)

Actual 2014 Earnings Attributable to Common Shareholder	\$ 216,422 (A)
Per Books 2014 Average Total Common Shareholder's Equity (line 15 below)	\$ 1,802,738
2014 Return on Common Equity (in %)	12.0052%

**Calculation of Average Common Shareholder's Equity**

(000's)

Total Common Shareholder's Equity - December 31, 2013	\$ 1,625,265 (A)
Total Common Shareholder's Equity - December 31, 2014	1,980,210 (A)
Per Books Average Common Shareholder's Equity	\$ 1,802,738

(A) December 31, 2014 SEC Form 10-K

**Step 2 - Adjusted Return on Equity:**

**Calculation of ROE**

(000's)

Actual 2014 Earnings Attributable to Common Shareholder	\$ 216,422 (A)
<b>Adjustment</b> - 2014 Preliminary SEET Provision:	
- Preliminary Pre-Tax 2014 SEET Provision Recorded	21,289
- Less: Income Tax Impact (35.63% Effective Tax Rate)	7,585
- Preliminary Net-of-Tax 2014 SEET Provision Recorded	13,704
Adjusted 2014 Earnings Attributable to Common Shareholder	230,126
Adjusted Average Common Shareholder's Equity (line 46 below)	1,809,589
Adjusted 2014 Return on Common Equity (in %)	12.7170%

**Calculation of Adjusted Common Shareholder's Equity**

(000's)

Total Common Shareholder's Equity - December 31, 2014	\$ 1,980,210 (A)
<b>Adjustment</b> - Equity Adjustment for Preliminary 2014 SEET Provision:	
- Preliminary Pre-Tax 2014 SEET Provision Recorded	21,289
- Less: Income Tax Impact (35.63% Effective Tax Rate)	7,585
- Preliminary Net-of-Tax 2014 SEET Provision Recorded	13,704
Adjusted OPCo Total Common Shareholder's Equity - December 31, 2014	1,993,914
Unadjusted OPCo Total Common Shareholder's Equity - December 31, 2013	1,625,265 (A)
Adjusted Average Common Shareholder's Equity	\$ 1,809,589

(A) December 31, 2014 SEC Form 10-K

**Step 3 - Calculation of Earnings above 12% ROE:**

(000's)

Adjusted Average Common Shareholder's Equity (line 46 above)	1,809,589
Multiplied by: Adjusted 2014 Return on Equity (line 33 above) Less 12%	0.7170%
Equals: 2014 OPCo Net Income above 12% ROE	12,974.76
Income Tax (OPCo Effective Tax Rate = 35.63%)	7,181.77
2014 OPCo Pre-Tax Earnings above 12.00% ROE [\$12,974.76 / (1-35.63%)]	20,156.53

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Summary: Testimony of Thomas E. Mitchell electronically filed by Mr. Steven T Nourse on behalf of Ohio Power Company