

EXHIBIT NO. \_\_\_\_\_

BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	)	
Ohio Power Company for an	)	Case No. 20-585-EL-AIR
Increase in Electric Distribution Rates.	)	
 In the Matter of the Application of	 )	
Ohio Power Company	)	Case No. 20-586-EL-ATA
for Tariff Approval.	)	
 In the Matter of the Application of	 )	
Ohio Power Company for Approval	)	Case No. 20-587-EL-AAM
to Change Accounting Methods.	)	

DIRECT TESTIMONY OF  
TERESA A. CAUDILL  
ON BEHALF OF  
OHIO POWER COMPANY

Management Policies, Practices & Organizations

X Operating Income

X Rate Base

X Allocations

Rate of Return

Rates and Tariffs

Other

Filed: June 15<sup>th</sup>, 2020

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TERESA A. CAUDILL

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BEFORE  
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DIRECT TESTIMONY OF  
TERESA A. CAUDILL  
ON BEHALF OF  
OHIO POWER COMPANY

1   **I.    PERSONAL DATA**

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

3   A.    My name is Teresa A. Caudill. My business address is 1 Riverside Plaza, Columbus, Ohio  
4        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 a  
7        Regulatory Consultant Staff in Regulated Pricing and Analysis. AEPSC supplies  
8        engineering, financing, accounting, planning, advisory, and other services to the  
9        subsidiaries of the American Electric Power (“AEP”) system, one of which is Ohio Power  
10       Company (“Ohio Power” or “Company”).

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

13   A.    I graduated from Ohio University in 1987 with a Bachelor of Business Administration  
14        degree. I have completed both the EEI Electric Rate Fundamentals and Advanced Courses.  
15        I am also a Certified Internal Auditor.

16           I began my career with AEP in 1975 in the Marketing and Customer Services  
17        department of the Ashland Division of Kentucky Power Company, an operating unit of  
18        AEP. While in the Marketing and Customer Services department, I held various positions  
19        and in 1983 I was promoted to Customer Accounts Accountant. My primary duty was to

1 supervise the credit and collection activities in the Ashland Division. In 1989, I accepted  
2 the position of Internal Auditor in the Internal, Fuel, and Special Audits department at  
3 AEPSC in Columbus, Ohio. My primary duty was to perform operational and financial  
4 audits of the AEP System operating companies. In 1998, I accepted the position of  
5 Regulatory Consultant in the AEPSC Regulated Pricing and Analysis department. I was  
6 promoted to my current position of Regulatory Consultant Staff in 2014.

7 **Q. WHAT ARE YOUR RESPONSIBILITIES AS STAFF REGULATORY**  
8 **CONSULTANT?**

9 A. My responsibilities include preparation of cost-of-service and rate design analyses for the  
10 AEP System operating companies, as well as other projects related to regulatory issues and  
11 proceedings, individual customer requests, and general rate matters.

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

14 A. Yes. I have testified or submitted testimony before the Indiana Utility Regulatory  
15 Commission and the Michigan Public Service Commission on behalf of Indiana Michigan  
16 Power Company, before the Tennessee Regulatory Authority on behalf of Kingsport  
17 Power, and before the Public Utilities Commission of Ohio on behalf of Columbus  
18 Southern Power and Ohio Power in Case Nos. 11-351-EL-AIR and 11-352-EL-AIR.

19 **II. PURPOSE OF TESTIMONY**

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

21 A. The purpose of my testimony is to describe and support the allocation to the Company's  
22 retail jurisdiction of the total Company distribution rate base, revenues, and expenses. The  
23 allocations were based upon functional information. I am supporting functionalization of

1 forecast total Company amounts. Functionalization of historic total Company amounts is  
2 supported by Company witness Yoder.

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

4 A. Yes. I am sponsoring or co-sponsoring the following schedules included in the Standard  
5 Filing Requirements for the Company:

- 6 • A-1 Overall financial summary
- 7 • B-1 Jurisdictional rate base summary
- 8 • B-2 Plant in service summary by major property groupings
- 9 • B-2.1 Plant in service by accounts and subaccounts
- 10 • B-2.2 Adjustments to plant in service (gridSMART)
- 11 • B-3 Reserve for accumulated depreciation
- 12 • B-3.1 Adjustments to the reserve for accumulated depreciation (gridSMART)
- 13 • B-3.2 Depreciation accrual rates and jurisdictional reserve balances by accounts
- 14 • B-5 Allowance for working capital
- 15 • B-5.1 Miscellaneous working capital items
- 16 • B-6 Other rate base items summary
- 17 • B-7 Jurisdictional allocation factors
- 18 • B-7.1 Jurisdictional allocation statistics
- 19 • B-7.2 Explanation of changes in allocation procedures
- 20 • C-1 Jurisdictional pro forma income statement
- 21 • C-2 Adjusted test year operating income
- 22 • C-2.1 Operating revenue and expenses by accounts - jurisdictional allocation
- 23 • C-3 Summary of jurisdictional adjustments to test year operating income

- 1                   ○ C-3.1 Universal Service Fund Rider
- 2                   ○ C-3.2 KWh Tax Rider
- 3                   ○ C-3.3 Energy Efficiency/Peak Demand Reduction Rider
- 4                   ○ C-3.4 Economic Development Recovery Rider
- 5                   ○ C-3.5 Enhanced Service Reliability Rider
- 6                   ○ C-3.6 Adjust Incentive Compensation
- 7                   ○ C-3.7 Annualize Payroll/Labor Expense
- 8                   ○ C-3.8 Energy Efficiency & Peak Demand Reduction Labor
- 9                   ○ C-3.9 Annualize Pension Expense
- 10                  ○ C-3.10 Annualize OPEB Expense
- 11                  ○ C-3.11 Amortize Rate Case Expense
- 12                  ○ C-3.12 Annualize Depreciation Expense
- 13                  ○ C-3.13 Depreciation Rate Adjustment
- 14                  ○ C-3.14 State, Local, and Federal Income Taxes
- 15                  ○ C-3.15 gridSMART Phase II Rider
- 16                  ○ C-3.16 Distribution Investment Rider
- 17                  ○ C-3.17 Pilot Throughput Balancing Adjustment Rider
- 18                  ○ C-3.18 Storm Expense Adjustment
- 19                  ○ C-3.19 Tax Savings Credit Rider
- 20                  ○ C-3.20 Smart City Rider
- 21                  ○ C-3.21 Credit Card Processing Fees
- 22                  ○ C-3.22 Demand Side Management Program
- 23                  ○ C-3.23 Communication Plan Expense
- 24                  ○ C-3.24 Bad Debt Expense
  
- 25                  • C-9     Operation and maintenance payroll costs

### 26   **III.   JURISDICTIONAL ALLOCATION**

#### 27   **Q.    PLEASE DESCRIBE THE PURPOSE OF JURISDICTIONAL COST-OF-**

28   **SERVICE ALLOCATION AND WHAT IT IS DESIGNED TO ACCOMPLISH.**

29   A.    The purpose of jurisdictional cost-of-service allocation is to determine the Company's cost

30       of providing service to a particular regulatory jurisdiction. This is accomplished by

31       comparing the Company's revenue requirement associated with the cost of serving the

32       customers in a regulatory jurisdiction to the revenues received from that jurisdiction. In

33       order to accomplish this comparison, the costs associated with providing service to

34       customers in each of the regulatory jurisdictions that the Company serves must be

1 functionalized, classified, and allocated. There are three basic steps to achieve this process.  
2 First, costs are functionalized into production, transmission, and distribution functions.  
3 The next step is to classify these costs as demand, energy, or customer-related. The third  
4 step is to directly assign or allocate the costs on the basis of an appropriate allocation  
5 methodology.

6 For the Company, there are no other retail or wholesale jurisdictions. Therefore,  
7 the purpose of the cost-of-service allocation was to identify the distribution function.

8 In this case, the Company's functional ledger, sponsored by Company witness  
9 Yoder, and the forecast, sponsored by Company witness Kelso, were utilized to identify  
10 the distribution and distribution-related accounts and their balances. Since there were no  
11 wholesale requirement customers, all customers and accounts were retail-related. The  
12 allocation of the distribution-related amounts for all accounts was 100%.

13 **Q. WHAT IS THE DATE CERTAIN AND THE TEST YEAR?**

14 A. The date certain is December 31, 2019 for account balances related to plant in service,  
15 accumulated depreciation, and other rate base. Revenues, expenses, and taxes other than  
16 income were based on a twelve-month period ending November 30, 2020 test year. The  
17 total Company amounts were based on one month of actual data (December 2019) provided  
18 by Company witness Yoder and eleven months of forecast data (January 2020 through  
19 November 2020) provided by Company witness Kelso.

20 **Q. HOW WERE DISTRIBUTION-RELATED RATE BASE BALANCES**  
21 **DETERMINED?**

22 A. For account balances related to plant in service and accumulated depreciation and  
23 amortization, the Company's functional ledger was utilized to determine distribution plant,

1 distribution-related general plant, and distribution-related intangible plant balances as of  
2 December 31, 2019.

3 For account balances related to other rate base, the Company's functional ledger as  
4 of December 31, 2019 was utilized. Other rate base was direct assigned or was distribution-  
5 related based upon the functionalization and nature of the accounts.

6 The thirteen-month average balances for the test year were utilized to determine  
7 distribution-related working capital. The account balances of working capital items were  
8 analyzed and were direct assigned or entirely distribution-related based upon the  
9 functionalization and nature of the accounts.

10 **Q. HOW WERE DISTRIBUTION-RELATED REVENUES DETERMINED?**

11 A. Total Company revenues were based on one month of actual and eleven months of forecast  
12 data provided by Company witnesses Yoder and Kelso. Company witness Roush  
13 determined distribution sales revenues.

14 To determine distribution-related forfeited discounts, miscellaneous service  
15 revenues, rent, and other electric revenues, the 2019 historic distribution-related amount  
16 for each account was determined and the distribution-related amount as a percentage of the  
17 total Company historic amount was calculated. The resulting percentage was applied to  
18 the amount of the applicable total Company test year account to determine the distribution-  
19 related test year amount.

20 **Q. HOW WERE DISTRIBUTION-RELATED OPERATING EXPENSES AND**  
21 **OTHER ITEMS DETERMINED?**

22 A. Total Company operating expenses were based on one month of actual and eleven months  
23 of forecast data provided by Company witnesses Yoder and Kelso.



1           Power production expense was not included and transmission expense was  
2           determined to be non-jurisdictional. Distribution expense, customer accounts expense,  
3           customer service and informational expense, and sales expense were determined, by their  
4           nature, to be 100% distribution-related expenses. Distribution-related amounts for  
5           accounts classified as administrative and general expense, depreciation and amortization  
6           expense, regulatory debits and credits, other taxes, and factoring were determined using  
7           the 2019 historic distribution as a percentage of total Company methodology previously  
8           described.

9   **IV.   SCHEDULES SPONSORED**

10 **Q.   PLEASE DESCRIBE SCHEDULE A-1.**

11   A.   Schedule A-1 is the overall financial summary of Ohio Power's electric distribution  
12       operations. Multiple witnesses provided information for this schedule. The data presented  
13       shows that the Company will earn a -2.15% overall rate of return for the test year. To earn  
14       the requested 7.90% rate of return specified by Company witness Messner, an increase of  
15       \$402.1 million, which is \$42.3 million net of changes in riders as discussed by Company  
16       witness Roush, over current electric distribution revenue is required.

17 **Q.   PLEASE DESCRIBE SCHEDULE B-1.**

18   A.   Schedule B-1 is the jurisdictional rate base summary for the Company. The rate base  
19       components listed on the summary are supported by various schedules in Section B. The  
20       plant in service, reserve for accumulated depreciation, working capital, and other rate base  
21       items were summarized from Schedules B-2, B-2.1, B-2.2, B-3, B-3.1, B-3.2, B-5, B-5.1,  
22       and B-6, which I am co-sponsoring with other Company witnesses. The total jurisdictional

rate base, as shown on Schedule B-1 is \$3,105 million at the date certain of December 31, 2019.

**Q. PLEASE DESCRIBE SCHEDULE B-2.**

A. Schedule B-2 is the total Company plant in service summary by major property groupings. The schedule reflects total Company property groupings by amount in Column C and the allocation of each grouping in Column D. Applicable adjustments from Schedule B-2.1 are summarized in Column F to arrive at the adjusted jurisdictional total for each property grouping.

**Q. PLEASE DESCRIBE SCHEDULE B-2.1 AND SCHEDULE B-2.2.**

A. Schedule B-2.1, lists the unadjusted date certain total Company plant in service by account and sub account. Also shown on Schedule B-2.1 is the jurisdictional allocation of each plant in service account to electric distribution and a summary of the adjustments from Schedule B-2.2. Schedule B-2.2 reflects total Company and jurisdictional allocation of adjustments related to plant in service.

**Q. PLEASE DESCRIBE SCHEDULE B-3 AND SCHEDULE B-3.1.**

A. Schedule B-3 reflects total Company reserve for accumulated depreciation and amortization by major property groupings and account titles. It reflects that amounts related to production and transmission have been excluded from this case and also reflects the jurisdictional allocation of distribution plant, general plant, and intangible plant. Schedule B-3.1 reflects total Company and jurisdictional allocation of adjustments related to accumulated depreciation and amortization.

1 **Q. PLEASE DESCRIBE SCHEDULE B-3.2.**

2 A. Schedule B-3.2 reflects adjusted jurisdictional plant in service and related reserve account  
3 balances from Schedule B-2.1 and then reflects applicable depreciation accrual rates.

4 **Q. PLEASE DESCRIBE SCHEDULE B-5 AND B-5.1.**

5 A. Schedule B-5 is a summary of total Company and allocated jurisdiction allowance for non-  
6 cash working capital. Additional detail for each item included is shown on Schedule B-  
7 5.1, including the average thirteen-month balance as of December 31, 2019 and the  
8 December 31, 2019 date certain balance along with the jurisdictional allocation.

9 **Q. PLEASE DESCRIBE SCHEDULE B-6 AND B-6.1.**

10 A. Schedule B-6 is a summary of total Company other rate base items and jurisdictional  
11 allocation. Schedule B-6.1 is designated for adjustments to other rate base items, although  
12 it was not necessary to make adjustments.

13 **Q. PLEASE DESCRIBE SCHEDULE B-7, B-7.1, and B-7.2.**

14 A. Schedule B-7 is a summary of the distribution jurisdictional allocation factors used in the  
15 development of the revenue requirement. Schedule B-7.1 provides statistics used to  
16 develop the jurisdictional allocation factors shown on Schedule B-7. The requirement for  
17 Schedule B-7.2 is to provide an explanation of changes to allocation factors since the prior  
18 case. The primary change is that in this case, all customers are retail and there is no need  
19 for distribution allocation to wholesale requirement customers. As such, the use of  
20 functional ledger information eliminates the need for most allocations.

21 **Q. PLEASE DESCRIBE SCHEDULE C-1.**

22 A. Schedule C-1 is the jurisdictional pro forma income statement. It reflects the Company's  
23 income for the twelve months ended November 30, 2020. Current and proposed revenues

1 and expenses are reflected with the assumption that the total amount of the requested  
2 increase calculated on the Company's Schedule A-1 is authorized in this proceeding. The  
3 current adjusted operating revenues, expenses, and taxes income for the test year were  
4 summarized from Schedule C-2.

5 **Q. PLEASE DESCRIBE SCHEDULE C-2.**

6 A. Schedule C-2 shows the Company's jurisdictional adjusted electric operating income  
7 related to distribution operations for the test year at current rates. The schedule includes  
8 unadjusted jurisdictional revenue and expense amounts from Schedule C-2.1 and a  
9 summary of the adjustments from Schedule C-3.

10 **Q. PLEASE DESCRIBE SCHEDULE C-2.1.**

11 A. Schedule C-2.1 lists, by account, the unadjusted test period total Company operating  
12 revenue and expenses as sponsored by other Company witnesses. Also shown on Schedule  
13 C-2.1 is the jurisdictional allocation of each cost to electric distribution.

14 **Q. PLEASE DESCRIBE SCHEDULE C-3 AND THE ADJUSTMENTS SHOWN ON**  
15 **SCHEDULES C-3.1 THROUGH C-3.24.**

16 A. Schedule C-3 is a summary of the jurisdictional adjustments to operating revenues and  
17 expenses shown on Schedules C-3.1 through C-3.24. The effect of each adjustment on net  
18 electric operating income is shown on the last line of each page of Schedule C-3. Schedule  
19 C-3, page 1, column C reflects the cumulative impact of the adjustments.

20 **Q. PLEASE EXPLAIN WHY ADJUSTMENTS ARE NECESSARY.**

21 A. The adjustments, as described by various Company witnesses in their direct testimonies,  
22 ensure that revenues and expenses are properly reflected in the test year. Not including the

adjustments could impair each Company's ability to earn fair rates of return on electric distribution operations or could result in over-recovering costs.

**Q. PLEASE DESCRIBE SCHEDULE C-9.**

A. Schedule C-9 contains a summary of total Company payroll costs, related employee benefits, payroll taxes, and severance costs included in O&M expense for the test year. Jurisdictional allocation is also reflected along with applicable adjustments to arrive at the jurisdictional adjusted total.

**V. CONCLUSION**

**Q. HOW WERE THE RESULTS OF THE JURISDICTIONAL COST-OF-SERVICE ALLOCATION USED IN THIS PROCEEDING?**

A. The results were utilized to support the computations included in Schedule A-1 and also utilized by Company witness Buck to develop the Company's class cost-of-service study in this proceeding.

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

A. Yes.

## **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 Teresa A. Caudill* was sent by, or on behalf of, the undersigned counsel to the following parties of record this 15<sup>th</sup> day of June 2020, via electronic transmission.

/s/ *Steven T. Nourse*\_\_\_\_\_

Steven T. Nourse

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