

EXHIBIT NO. _____

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Quadrennial Review Required by)	
R.C. 4928.143(E) For the Electric Security Plans of)	Case No. 21-1166-EL-UNC
Ohio Power Company)	

DIRECT TESTIMONY OF
LISA O. KELSO
ON BEHALF OF
OHIO POWER COMPANY

Filed: November 17, 2021

INDEX TO DIRECT TESTIMONY OF
LISA O. KELSO

I.	PERSONAL DATA.....	1
II.	PURPOSE OF TESTIMONY.....	2
III.	STATUTORY MRO TEST	3
IV.	FORECASTED FINANCIAL STATEMENTS	7
V.	CONCLUSION.....	9

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO
DIRECT TESTIMONY OF
LISA O. KELSO
ON BEHALF OF
OHIO POWER COMPANY

1 **I. PERSONAL DATA**

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

3 A. My name is Lisa O. Kelso and my business address is 700 Morrison Road, Gahanna, Ohio
4 43230.

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

6 A. I am employed by Ohio Power Company, (“AEP Ohio” or the “Company”) as Vice
7 President – Regulatory & Finance.

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

10 A. I graduated magna cum laude with a Bachelor of Business Administration from Ohio
11 University in 2003. I began work in 2003 with the Ohio Legislative Service Commission
12 Fellowship Program. Upon completion of the Fellowship Program, I worked as an aide in
13 the Ohio Senate from January 2005 to August 2005. I left the Ohio Senate in August 2005
14 to pursue a Master of Accounting from The Ohio State University. I graduated in June
15 2006 and joined the PwC (formerly PricewaterhouseCoopers) accounting firm, where I
16 worked until 2008. I joined American Electric Service Corporation (“AEPSC”) in 2008 as
17 a Senior Auditor. In 2010, I was promoted to Audit Specialist and in 2012 I joined AEP
18 Transmission as a Business Operations Support Analyst. In 2013, I became a Senior
19 Financial Analyst and progressed through various positions before being promoted to

1 Manager – Transmission Business Planning & Analysis in 2015. In 2016, I became
2 Manager of Transmission Asset Strategy and Policy. In 2018, I became Director –
3 Business Operations Support at AEP Ohio. In March 2021, I moved to the Director –
4 Regulatory Services position, and in August 2021, I was promoted to my current position
5 of Vice President – Regulatory & Finance. I am a Certified Public Accountant licensed in
6 Ohio.

7 **Q. WHAT ARE YOUR RESPONSIBILITIES AS VICE PRESIDENT –**
8 **REGULATORY & FINANCE?**

9 A. I am responsible for leading the regulatory and financial activities for AEP Ohio. In such
10 capacity, my duties include the supervision and direction of the Regulatory Services
11 department, which has the responsibilities for rate and regulatory matters. I also direct and
12 oversee the Business Operations Support department which develops operating and capital
13 expenditure forecasts for AEP Ohio as well as the short-term and long-term financial plans
14 and forecasts used by AEP Ohio management to monitor and maintain the Company's
15 financial health and condition.

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

18 A. Yes, I have submitted written testimony before this Commission in AEP Ohio's 2018 and
19 2019 Significantly Excessive Earnings Test ("SEET") filings (Case Nos. 19-1098-EL-
20 UNC and 20-1006-EL-UNC), the 2020 base rate case (Case No. 20-585-EL-AIR), and the
21 gridSMART Phase 3 case (Case No. 19-1475-EL-RDR).

22 **II. PURPOSE OF TESTIMONY**

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

1 A. The purpose of my testimony is to demonstrate that the Company's ESP IV continues to
2 be more favorable to customers in the aggregate during its remaining term as compared to
3 the expected results that would otherwise apply under a Market Rate Offer ("MRO"),
4 pursuant to Ohio Revised Code 4928.143(E). In addition, I am sponsoring forecasted
5 financial statements to demonstrate that the Company's current ESP IV is unlikely to result
6 in providing the Company a return on equity ("ROE") for the remaining ESP period that is
7 significantly in excess of that likely to be earned by the Company under an MRO.
8 Company witness McKenzie is providing testimony calculating the applicable ROE
9 threshold under the Prospective SEET.

10 **Q. WHAT EXHIBITS ARE YOU SPONSORING IN THIS PROCEEDING?**

11 A. I am sponsoring the following exhibits:

- 12 • Exhibit LOK-1: Income Statement (annual view)
- 13 • Exhibit LOK-2: Balance Sheet (annual view)
- 14 • Exhibit LOK-3: Return on Equity (annual view)

15 The Income Statement, Balance Sheet and Return on Equity (together, the "Forecasted
16 Financial Statements") includes the forecasted AEP Ohio financial performance for the
17 period from January 1, 2021 through May 31, 2024 (which represents the end of AEP
18 Ohio's current ESP term). The exhibits also contain the actual 2020 financial results.

19 **III. STATUTORY MRO TEST**

20 **Q. WHAT IS THE TERM OF ESP IV?**

21 A. The term of ESP IV is for the period of June 1, 2018 to May 31, 2024.

22 **Q. DID THE COMMISSION FIND THE ESP IV TO BE MORE FAVORABLE IN**
23 **AGGREGATE THAN EXPECTED RESULTS OF AN MRO?**

1 A. Yes. The Commission found that the quantitative and qualitative benefits of ESP IV were
2 expected to be more favorable in aggregate than the results of an MRO.

3 **Q. WHAT ARE THE QUANTITATIVE BENEFITS OF ESP IV?**

4 A. In the ESP IV, the Commission found that benefits from the continuation of the
5 \$14,668,000 annual Residential Distribution Credit Rider (RDCR) and \$1 million annual
6 contributions to Neighbor-to-Neighbor until the rates of the new base case distribution rate
7 case became effective were more favorable than the expected results of an MRO.

8 Under ESP IV, AEP Ohio agreed to update its Weighted Average Cost of Capital
9 (“WACC”) to reflect savings from debt refinancing for all riders with a capital component.
10 Approximately \$2.4 million in savings from debt refinancing have already been passed
11 along to ratepayers from June 1, 2018 to September 30, 2021. Under an MRO these savings
12 would not be passed back to customers until the next distribution base case.

13 The Distribution Investment Rider (“DIR”) facilitates a streamlined approach for
14 distribution capital investments to support the Company’s asset renewal, distribution
15 capacity and infrastructure improvements (\$1,281 million from June 1, 2018 to September
16 30, 2021) without the frequent need for distribution rate cases. These investments promote
17 safe and reliable service and would be recoverable from customers through a distribution
18 base case but with higher costs to customers and other parties due to the added complexity
19 of a distribution base case. While this benefit may not be as easily quantifiable as other
20 elements of the ESP, the reduced time and expense related to the streamlined process of
21 the DIR through an ESP results in a cost advantage compared to an MRO.

22 The Basic Transmission Cost Rider (“BTCR”) pilot, which will expand to more
23 customers pending Commission approval of the Company’s base case stipulation,

1 encourages more efficient use of the transmission grid and provides some reliability
2 benefits by promoting peak demand reduction. The BTCR pilot has resulted in \$58.8
3 million in participant savings to date during the ESP IV term.

4 Under ESP IV, the Company also began passing back savings from the Tax Cuts and
5 Jobs Act of 2017 (“TCJA”) through the Tax Savings Credit Rider (“TSCR”), the DIR and
6 the Pilot Throughput Balancing Adjustment Rider (“PTBAR”). The savings have
7 amounted to approximately \$207 million through September 30, 2021 and the credits will
8 continue to be passed back to customers through the remainder of the ESP IV term.

9 **Q. WHAT ARE THE QUALITATIVE BENEFITS OF ESP IV?**

10 A. The commitment to file a distribution base case by June 1, 2020 provided customers with
11 increased certainty regarding the timing of a base case as compared to the uncertainty that
12 would exist under an MRO. In addition to the quantitative benefits set forth above, the
13 DIR provides increased rate certainty for customers through the DIR annual revenue caps
14 agreed upon by the Signatory parties in the ESP IV and in the pending distribution base
15 case stipulation.

16 The Smart City Rider allows the Company to invest in advanced technology programs
17 that support the Smart City initiative in a way that would not be possible under an MRO.
18 The rider allows the Company to invest in advanced technology with a streamlined
19 recovery mechanism while also planning investments mutually with stakeholders and Staff
20 (including an investment cap). Absent such a mechanism, the Company would need to
21 consider the timing of these investments and potentially litigate its position in multiple
22 cases. The efficient recovery mechanism and rate stability benefits customers. In addition,
23 AEP Ohio will be able to continue to build on and customers will benefit from the progress

1 and success that has been achieved with microgrid deployment and EV infrastructure
2 buildout through implementation of the Smart City Rider.

3 AEP Ohio is able to support economic development under an ESP in ways that it could
4 not under an MRO. Under ESP IV, the Automaker Credit Rider promotes economic
5 development by supporting increased utilization or expansion of automaker facilities in
6 AEP Ohio's service territory and the IRP tariff provisions facilitate the economic
7 development goals in existing reasonable arrangements and enable new business entrants
8 in Ohio to participate in the IRP program helping to attract new businesses to locate in
9 Ohio. In addition, the reasonable arrangement construct available under an ESP is an
10 important tool in the State of Ohio's economic development efforts that would not be
11 possible under an MRO.

12 The ESP IV also included a number of programs to advance retail competition
13 including Enroll From Your Wallet, supplier consolidated billing, and the Competition
14 Incentive Rider ("CIR") and SSO Credit Rider ("SSOCR").

15 **Q. ARE THERE QUANTITATIVE AND QUALITATIVE BENEFITS ASSOCIATED**
16 **WITH THE PENDING GRIDSMART PHASE 3 STIPULATION?**

17 A. Yes. The pending gridSMART Phase 3 settlement includes several provisions which will
18 benefit ratepayers. The Company agreed to make a one-time \$250,000 shareholder
19 donation to the Neighbor-to-Neighbor fund, which provides financial assistance to low-
20 income residential customers. In addition, the Company will offer a \$500,000
21 competitively neutral incentive program for smart thermostats funded through shareholder
22 dollars. The settlement also promotes competition and customer choice by improving
23 access to customer AMI interval data and the settlement use of that data through electronic

1 data interchange (“EDI”) enhancements and upgrades to systems and processes. The
2 system improvements also include several consumer protection enhancements.

3 **Q. IS ESP IV EXPECTED TO CONTINUE TO BE MORE FAVORABLE IN THE**
4 **AGGREGATE DURING ITS REMAINING TERM THAN AN MRO?**

5 A. Yes. While some elements of ESP IV are changing once new base rates go into effect, the
6 ESP IV is still expected to be more favorable in the aggregate during its remaining term
7 than an MRO.

8 **IV. FORECASTED FINANCIAL STATEMENTS**

9 **Q. PLEASE BRIEFLY DESCRIBE THE PROCESS USED TO DEVELOP THE AEP**
10 **OHIO FORECASTED FINANCIAL STATEMENTS.**

11 A. The forecasted financial statements were developed consistent with the methodology
12 utilized by AEP (and all its subsidiary companies) when preparing its normal operating
13 forecast. AEP Ohio management benefits from the AEP Corporate Planning & Budgeting
14 (“CP&B”) group, which administers the financial model and incorporates inputs from other
15 corporate groups such as corporate finance, tax, economic forecasting, regulatory services
16 and transmission to provide an integrated total company forecast for AEP Ohio
17 management’s review and approval.

18 After an iterative review cycle that includes AEP Ohio management, CP&B, and
19 other internal stakeholders, the final result of the forecasting process is locked as a Control
20 Budget and a Long Range Plan. The Control Budget represents the forecast for the next
21 calendar year and the Long Range Plan represents the forecast for subsequent periods. The
22 Control Budget and Long Range Plan are collectively referred to as the “forecast.” The

completion of the forecast also produces forward-looking financial statements similar to financial statements based on actual results.

Q. WHAT IS THE COMPANY'S PROJECTED RETURNS ON EQUITY FOR THE PROSPECTIVE SEET?

A. Figure 1 below summarizes the forecasted ROE for each year through the remainder of the ESP IV.

Figure 1

Year	2021	2022	2023	2024 ¹
Return on Equity	9.54%	10.35%	9.15%	8.67%

The calculations supporting these ROEs are shown in Schedules LOK-1 through LOK-3.

Q. DO YOU SPONSOR THE COMPANY'S ANALYSIS OF THE ROE THRESHOLD UNDER WHICH THE COMPANY'S EARNINGS WOULD BE DEEMED EXCESSIVE?

A. No, that analysis is sponsored by Company witness McKenzie.

Q. DO YOU BELIEVE IT IS SUBSTANTIALLY LIKELY THAT THE COMPANY'S ESP IV WILL RESULT IN SIGNIFICANTLY EXCESSIVE EARNINGS DURING THE REMAINDER OF THE PLAN?

A. No. Based upon my calculation of the Company's forecasted ROE and the analysis of the SEET thresholds sponsored by Company witness McKenzie, I conclude that it is not substantially likely that the Company's ESP IV will result in significantly excessive earnings during the balance of the plan. Figure 2 below illustrates that the Company's

¹ The ROE for 2024 is based on the rolling 12 month ROE for May 2024 (the end of ESP IV term).

annual forecasted ROE is projected to remain well below the annual simple average Safe Harbor and SEET thresholds from Company witness McKenzie's analysis. Figure 2 also shows that the Company's forecasted ROE for the 4-year period is also below the simple average SEET threshold for the 4-year period.

Figure 2

Year	2021	2022	2023	2024²	2021-2024 Average
Company Return on Equity	9.54%	10.35%	9.15%	8.67%	9.47%
Safe Harbor	12.9%	13.8%	13.9%	14.0%	13.7%
SEET Threshold	15.1%	18.7%	18.7%	18.8%	17.8%

V. CONCLUSION

Q. DOES THIS CONCLUDE YOUR PREFILED DIRECT TESTIMONY?

A. Yes.

² The ROE for 2024 is based on the rolling 12 month ROE for May 2024 (the end of ESP IV term).

Forecasted Income Statement

\$ in 000s

Year 2021

Year 2022

Year 2023

Jan-May 2024

Ohio PowerLine

1	Revenues				
2	Retail Sales	2,655,890	2,905,557	3,061,935	1,325,335
3	Other	280,656	257,012	262,522	106,191
4	Total Operating Revenues	2,936,545	3,162,569	3,324,457	1,431,526
5					
6	Total Purchased Power (net of Cost of Sales)	760,260	751,253	756,524	316,058
7					
8	Gross Margin	2,176,285	2,411,316	2,567,933	1,115,467
9					
10	Operating Expenses				
11	Total Operational and Maintenance Expenses	988,076	1,129,750	1,216,600	531,900
12	Depreciation & Amortization	304,295	307,792	363,645	168,130
13	Taxes Other Than Income Taxes	484,758	519,315	541,159	234,468
14	Total Operating Expenses	1,777,129	1,956,857	2,121,405	934,498
15					
16	Operating Income	399,156	454,459	446,528	180,969
17					
18	Other Income	27,399	26,514	21,832	8,255
19					
20	Total Interest Charges	125,117	122,840	125,251	53,226
21					
22	Income before Income Taxes and Equity Earnings	301,438	358,133	343,109	135,998
23					
24	Total Income Taxes	36,344	49,574	45,052	17,180
25					
26	Net Income	265,094	308,559	298,058	118,818

Forecasted Balance Sheet
\$ in 000s

Year 2021 Year 2022 Year 2023 May 2024

Ohio Power

Line

1	Assets				
2	Current Assets	334,827	336,007	334,379	334,715
3					
4	Gross Property, Plant & Equip	10,238,961	10,887,586	11,546,555	11,900,972
5	Construction Work in Progress	239,697	257,724	329,420	260,128
6	Total Gross Plant	10,478,658	11,145,309	11,875,974	12,161,100
7	Accumulated Depreciation	(2,455,437)	(2,550,700)	(2,701,785)	(2,780,646)
8	Total Net Plant	8,023,221	8,594,609	9,174,189	9,380,454
9					
10	Other Assets	484,665	530,492	573,254	418,656
11					
12	Total Assets	8,842,713	9,461,107	10,081,822	10,133,825
13					
14	Liabilities				
15	Total Current Liabilities	1,217,640	1,200,416	1,437,221	1,372,830
16	Long-Term Debt	2,972,247	3,272,027	3,273,798	3,274,536
17	Long-Term Risk Mgmt Liabs	96,950	96,950	96,950	96,950
18	Deferred Income Taxes	1,031,076	1,095,141	1,151,973	1,184,906
19	Other Liabilities	667,175	690,391	717,640	731,545
20	Total Liabilities	5,985,088	6,354,924	6,677,581	6,660,766
21					
22	Common Equity	2,857,624	3,106,183	3,404,241	3,473,059
23	Total Liabilities & Equity	8,842,713	9,461,107	10,081,822	10,133,825

Forecasted Return on Equity
\$ in 000s

Year 2021

Year 2022

Year 2023

May 2024

Ohio Power

Line

1 **Rolling, 12 Month ROE:**

2 Net Income 265,094 308,559 298,058 292,386

3 Average Common Equity 2,778,100 2,980,867 3,257,248 3,371,085

4 **Return on Avg Com Equity 9.54% 10.35% 9.15% 8.67%**

**This foregoing document was electronically filed with the Public Utilities
Commission of Ohio Docketing Information System on**

11/17/2021 5:10:54 PM

in

Case No(s). 21-1166-EL-UNC

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