

AEP OHIO EX. NO. \_\_\_\_\_

BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application of	)	
Ohio Power Company for Authority to	)	Case No. 23-23-EL-SSO
Establish a Standard Service Offer	)	
Pursuant to §4928.143, Ohio Rev. Code,	)	
in the Form of an Electric Security Plan.	)	

In the Matter of the Application of	)	
Ohio Power Company for Approval of	)	Case No. 23-24-EL-AAM
Certain Accounting Authority	)	

DIRECT TESTIMONY OF  
CHRISTINE M. MINTON  
IN SUPPORT OF AEP OHIO'S  
ELECTRIC SECURITY PLAN

Filed: January 6, 2023

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CHRISTINE M. MINTON

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BEFORE  
THE PUBLIC UTILITIES COMMISSION OF OHIO  
DIRECT TESTIMONY OF  
CHRISTINE M. MINTON  
ON BEHALF OF  
OHIO POWER COMPANY

**I. PERSONAL BACKGROUND**

**Q1. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

A. My name is Christine M. Minton, and my business address is 700 Morrison Road,  
Gahanna, Ohio 43230.

**Q2. BY WHOM ARE YOU EMPLOYED AND WHAT IS YOUR POSITION?**

A. I am employed by Ohio Power Company (“AEP Ohio” or the “Company”) as Director –  
Business Operations Support.

**Q3. WOULD YOU PLEASE DESCRIBE YOUR EDUCATIONAL AND  
PROFESSIONAL BACKGROUND?**

A. I graduated with a Bachelor of Science in Business Administration from the State  
University of New York at Fredonia in 1995. I began work in the energy industry in 2003  
as a Sr. Accountant for Constellation New Energy (“CNE”). By 2008, I was Manager of  
Finance for CNE’s Small and Medium Business segment. I joined American Electric  
Power Service Corporation (“AEPSC”) in June 2008 as a Financial Analyst in the  
Corporate Planning and Budgeting (“CP&B”) Department. I was promoted within CP&B  
to various positions and named Director of Financial Forecasting & Reporting in  
September 2016. In March 2022, I joined AEP Ohio as Director, Business Operations  
Support.

**Q4. WHAT ARE YOUR RESPONSIBILITIES AS DIRECTOR OF BUSINESS  
OPERATIONS SUPPORT?**

1 A. I am responsible for leading the financial planning and budgeting processes for AEP Ohio.  
2 In such capacity, I review the assumptions for short and long-term financial planning  
3 models used in the development of operating and capital expenditure forecasts for AEP  
4 Ohio, monitor actual performance, and review the preparation of forecasted information  
5 for use in regulatory proceedings.

6 **Q5. HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN ANY REGULATORY**  
7 **PROCEEDINGS?**

8 A. Yes, I filed testimony before the Public Utilities Commission of Ohio on behalf of AEP  
9 Ohio in the Company's 2022 Significantly Excessive Earnings Test filing (Case No. 22-  
10 0482-EL-UNC). I have also filed testimony before the Virginia State Corporation  
11 Commission.

12 **II. PURPOSE OF TESTIMONY**

13 **Q6. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

14 A. The purpose of my testimony is to present the Company's proforma financial statements  
15 for the period June 2024 through May 2030. In addition, I will describe the forecast  
16 methodology, provide an overview of the major assumptions used to develop this forecast,  
17 and explain the importance of adequate cash flows to be able to execute on the forecasted  
18 ESP capital workplan. I am also proposing to adjust the Company's weighted average cost  
19 of capital ("WACC") for the purposes of determining the carrying costs to be applied to  
20 riders which include a capital component to reflect the return on equity ("ROE")  
21 recommendation contained in Company witness McKenzie's testimony.

22 **Q7. WHAT EXHIBITS ARE YOU SPONSORING IN THIS PROCEEDING?**

23 A. I am sponsoring the following exhibits:

- Exhibit CMM-1: Forecast Assumptions
- Exhibit CMM-2: Proforma Financial Projections

### **III. FORECAST METHODOLOGY & ASSUMPTIONS**

#### **Q8. WHAT ARE SOME OF THE KEY UNDERLYING ASSUMPTIONS INCLUDED IN THE COMPANY'S ESP V FINANCIAL PROJECTIONS?**

A. AEP Ohio is proposing and seeking timely regulatory recovery of significant investments during the ESP V period. These investments are a vital part of AEP Ohio's strategic focus on resiliency and reliability. The capital investments are assumed to be funded by both debt and equity levels from the Company's recent distribution base case (Case No. 20-585-EL-AIR). The currently approved average common equity ratio is 54.43% and the debt is 45.57%.

Additionally, assumptions such as kilowatt-hour sales, purchased power expense, interest rates, and cost projections based on the Company's work plan are made in advance of the preparation of the forecast. The assumptions for the proforma financial statements for the period from June 1, 2024, through May 2030 are provided on Exhibit CMM-1. These assumptions were developed by individuals with subject matter expertise from AEP Ohio and within AEPSC to determine a reasonable set of assumptions to be incorporated into the forecast.

#### **Q9. PLEASE BRIEFLY DESCRIBE THE PROCESS USED TO DEVELOP A FINANCIAL FORECAST FOR AEP OHIO.**

The preparation of a financial forecast for AEP Ohio requires input and analytical support from a variety of groups within AEPSC and AEP Ohio. The major components of a forecast are as follows: 1) load and demand forecast; 2) retail revenue projections; 3) cost

1 of purchased power; 4) Operations and Maintenance (“O&M”) forecast; 5) construction  
2 expenditure forecast; and 6) financing plan. These major components are discussed further  
3 below.

4 1) Load and Demand Forecast - The internal load projection is developed by the  
5 Economic Forecasting Department in conjunction with various groups across the AEP  
6 System including input from AEP Ohio and reflects an analysis of the economy and the  
7 unique factors that influence individual customers or customer classes.

8 2) Retail Revenue Projections - Revenues are developed by customer class using base  
9 realizations under current rates and purchased power rates included in the appropriate filed  
10 tariffs or contracts and auctions. Projections of base realizations reflect actual experience  
11 adjusted to be consistent with the projected sales and usage levels. Revenues for special  
12 contract customers are developed in detail in accordance with the terms of the contract.  
13 The retail revenues reflected in the Company’s forecasted financials include the recovery  
14 of all riders including, but not limited to, the proposed Distribution Investment Rider  
15 (“DIR”), Enhanced Service Reliability Rider (“ESRR”), Smart City Rider, Energy  
16 Efficiency (“EE”) Rider, Customer Experience Rider (“CER”), and the Rural Access Rider  
17 (“RAR”) to allow for timely cash recovery of the related expenses and investments.

18 3) Cost of Purchased Power – For Standard Service Offer (“SSO”) customers, the  
19 cost of purchased power collected from customers is determined by the competitive auction  
20 energy rates which are forecasted by AEP’s Commercial Operations group.

21 4) O&M Forecast - O&M expenses are based upon current work plans for each of the  
22 functional groups (ex: Distribution). These plans include expenditures for scheduled  
23 maintenance programs as well as the cost of operations. Estimated expenses related to all

riders including, but not limited to, the ESRR, Smart City Rider, EE, CER, and the RAR riders are included.

5) Construction Expenditure Forecast - The various engineering and planning groups within AEP Ohio and AEPSC develop the construction expenditure forecast. It reflects expenditures and in-service dates of major projects during the year as well as amounts approved to fund blanket work (smaller projects grouped together) which is essential in estimating both book and tax depreciation as well as the allowance for funds used during construction (“AFUDC”). The estimated investments related to the proposed DIR and for the CER and RAR are included.

6) Financing Plan - The development of the financing plan for the forecast is intended to meet the Company’s working capital requirements. In determining the Company’s financing plan consideration is given to regulatory restrictions, timing of cash flow requirements, and availability of equity capital, credit metrics, capital structure and short-term debt limitations.

#### **IV. FORECAST RESULTS (2024 - 2030)**

##### **Q10. DESCRIBE THE PRO FORMA FINANCIAL STATEMENTS YOU SPONSOR.**

A. I sponsor the Income Statement, Cash Flow and Balance Sheet for AEP Ohio for the period from June 1, 2024 through May 2030. These financial statements are provided in Exhibit CMM-2. The data was prepared consistent with the assumptions presented in Exhibit CMM-1.

##### **Q11. PLEASE EXPLAIN HOW REGULATORY LAG CAN IMPACT THE FORECASTED CAPITAL WORKPLAN.**

A. In recent years, AEP Ohio has been investing at levels above its DIR revenue caps and has

1 experienced ongoing regulatory lag. As explained by Company Witness McKenzie, this  
2 leads to the erosion of AEP Ohio's credit metrics which precipitates higher borrowing costs  
3 and higher required return on capital. The Pro Forma Financial Statements assume the  
4 Company is able to recover its investments in a timely manner with minimal regulatory  
5 lag. AEP Ohio must balance the investment needs of its system with its financial health. If  
6 the Company continues to be unable to recover its investments in a timely manner, it will  
7 limit its ability to invest the full amount of its forecasted capital workplan.

8 **Q12. ARE THE PROJECTED RESULTS REASONABLE?**

9 A. Yes. AEP Ohio, CP&B and other corporate groups involved in developing the forecast  
10 utilize the best information and data available at the time the forecast is prepared to  
11 incorporate the latest underlying assumptions. The CP&B forecast team follows a standard  
12 validation process that works to identify changes in trends in costs by comparing to the  
13 prior historical year results. There is a bi-annual review of current projections to identify  
14 major variance drivers on a year-over-year basis. Once variance drivers are identified, they  
15 are validated with subject matter experts in the related area and changes are made to the  
16 forecast if necessary. This ongoing review process provides for a more reliable forecast.

17 **V. WEIGHTED AVERAGE COST OF CAPITAL AND CARRYING CHARGES**

18 **Q13. WAS THE ROE PROPOSED BY COMPANY WITNESS MCKENZIE USED TO**  
19 **CALCULATE THE WACC RATE IN THE CARRYING CHARGES INCLUDED**  
20 **IN THE FINANCIAL STATEMENTS?**

21 A. Yes.

22 **Q14. PLEASE DESCRIBE THE COMPANY'S PROPOSAL TO ADJUST THE WACC**  
23 **IN THIS PROCEEDING.**



A. As described in further detail by Company witness McKenzie, the Company is proposing to increase its ROE for riders with a capital component included in this proceeding (DIR, CER and RAR) to 10.65%. Company witness Heitkamp supports the capital carrying charge calculation for these riders. Applying the requested ROE to the capital structure and debt rate approved from the Company's most recent distribution base case (Case No. 20-585-EL-AIR) produces a pre-tax WACC carrying charge for capital riders of 9.40%. As such, the Company is proposing to increase its pre-tax WACC carrying charge to 9.40% to reflect the requested ROE supported by Company witness McKenzie. See Figure CMM-1 below.

**Figure CMM-1**

LINE NO	CLASS OF CAPITAL	(\$) AMOUNT	% OF TOTAL	(%) COST	WEIGHTED COST (%)	PRE-TAX WEIGHTED COST (%)
1	Long-Term Debt	2,100,000,000	45.57%	4.40%	2.00%	2.00%
2	Preferred Stock	-	0.00%	0.00%	0.00%	
3	Common Equity	<u>2,508,479,717</u>	<u>54.43%</u>	10.65%	<u>5.80%</u>	<u>7.40%</u>
4	Total Capital	<u><u>4,608,479,717</u></u>	<u><u>100%</u></u>		<u><u>7.80%</u></u>	<u><u>9.40%</u></u>

**Q15. DOES THIS CONCLUDE YOUR PRE-FILED DIRECT TESTIMONY?**

A. Yes.

**Assumptions Used in the Projected Financial Statements for Purposes of this Proceeding**

- The proposed expense and revenue components of AEP Ohio's ESP V filing are included in these projections.
- The purchased power agreement with OVEC is modeled to have no income effect.
- The load forecast for June 2024 through May 2030 is provided below:

	June-Dec						Jan-May
GWh by Customer Class	2024	2025	2026	2027	2028	2029	2030
Total Residential	8,339	14,454	14,479	14,520	14,536	14,574	6,131
Total Commercial	9,664	16,243	16,254	16,270	16,264	16,281	6,534
Total Industrial	8,645	15,033	15,025	15,074	15,150	15,235	6,389
Total Other	65	113	113	113	113	114	49
<b>Total Retail GWh</b>	<b>26,713</b>	<b>45,843</b>	<b>45,872</b>	<b>45,978</b>	<b>46,063</b>	<b>46,203</b>	<b>19,103</b>

- SSO customers are served by a competitive auction that includes market energy and RPM capacity for generation service. (Shopping customers are served by CRES providers for generation service.)
- All customers pay for transmission service via a non-bypassable Basic Transmission Cost Rider.
- The AEP OATT is based upon the FERC formula rate.
- O&M expenses generally reflect the Company's 2022 7+5 Forecast.
- Current depreciation rates continue through the forecast period.
- The capital structure of the company is maintained between 46%-50% debt and 50%-54% equity throughout the forecast period.

Ohio Power  
ESP V  
Projected Income Statement

	Jun-Dec 2024	Year 2025	Year 2026	Year 2027	Year 2028	Year 2029	YTD-May 2030
(1) <b>REVENUE</b>							
(2) Sales of Electricity	2,245	4,001	4,197	4,382	4,531	4,799	2,048
(3) Other Operating Revenue	49	84	85	86	86	87	64
(4) Total Revenue	2,294	4,085	4,282	4,467	4,617	4,885	2,112
(5) <b>COST OF SALES</b>							
(6) Total Cost of Sales	479	827	841	858	878	892	379
(7) Gross Margin	1,815	3,259	3,441	3,609	3,739	3,994	1,733
(8) <b>OPERATING EXPENSES</b>							
(9) Operations & Maintenance	875	1,522	1,588	1,656	1,719	1,818	781
(10) Taxes Other Than Income	334	605	641	677	717	751	325
(11) TOTAL OPERATING EXPENSES	1,208	2,127	2,229	2,333	2,436	2,568	1,106
(12) Operating Margin/EBITDA	607	1,132	1,212	1,276	1,304	1,425	627
(13) Depreciation & Amortization	230	420	452	483	513	552	246
(14) Other (Income) / Deductions	(20)	(34)	(32)	(32)	(32)	(29)	(13)
(15) EBIT	396	746	792	825	823	902	394
(16) Total Interest Expense	87	159	171	182	194	206	91
(17) Total Income Taxes	91	181	180	173	175	211	93
(18) Preferred Stock Dividends	-	-	-	-	-	-	-
(19) <b>NET INCOME</b>	218	405	441	469	454	484	210
(20) <b>RETURN ON COMMON</b>	9.59%	10.10%	9.92%	9.66%	8.72%	8.71%	8.49%

(all figures in millions of dollars)

Ohio Power  
ESP V  
Projected Balance Sheet

	1/1/2024	12/31/2024	12/31/2025	12/31/2026	12/31/2027	12/31/2028	12/31/2029	5/31/2030
<b>(1) Assets</b>								
(2) Gross Plant in Service	11,661	12,529	13,584	14,492	15,269	16,089	17,450	17,896
(3) Construction Work In Progress	417	474	335	356	530	626	294	399
(4) Gross Plant in Service	12,078	13,003	13,919	14,848	15,798	16,716	17,744	18,295
(5) Accumulated Depreciation	3,168	3,299	3,479	3,691	3,944	4,246	4,595	4,769
(6) Net Utility Plant	8,910	9,704	10,440	11,157	11,854	12,469	13,149	13,526
(7) Other Property and Investments	201	201	201	201	201	201	201	201
(8) Current and Accrued Assets	429	435	441	446	450	454	457	459
(9) Unamortized Debt Expense	22	20	19	17	16	14	12	12
(10) Unamortized Loss on Reacquired Deb	2	2	1	1	1	1	1	1
(11) Regulatory Assets	320	282	281	279	273	268	263	263
(12) Other Net Deferrals	599	727	826	913	992	1,062	1,167	912
(13) Total Assets	10,482	11,371	12,209	13,015	13,787	14,469	15,251	15,374
<b>(14) Equity and Liabilities</b>								
(15) Common Stock	3,490	3,807	4,220	4,675	5,035	5,382	5,744	5,955
(16) Preferred Stock	-	-	-	-	-	-	-	-
(17) Other Comprehensive Earnings	0	0	0	0	0	0	0	0
(18) Total Equity	3,490	3,807	4,220	4,675	5,035	5,382	5,744	5,955
(19) Long-Term Debt	3,342	3,767	3,992	4,167	4,418	4,593	4,818	4,993
(20) Capital Leases	12	8	5	3	2	0	(1)	(1)
(21) Other Non-Current Liabilities	111	111	111	111	111	111	111	111
(22) Short-Term Debt	97	6	7	3	7	20	9	7
(23) Other Current and Accrued Liabilities	1,403	1,516	1,561	1,601	1,645	1,682	1,721	1,387
(24) Deferred Credits	2,027	2,156	2,313	2,455	2,570	2,682	2,848	2,922
(25) Total Liabilities	6,992	7,564	7,989	8,340	8,752	9,087	9,506	9,420
(26) Total Equity and Liabilities	10,482	11,371	12,209	13,015	13,787	14,469	15,251	15,374

(all figures in millions of dollars)

Ohio Power Company  
ESP V  
Projected Statement of Cash Flows

	Jun-Dec 2024	Year 2025	Year 2026	Year 2027	Year 2028	Year 2029	YTD-May 2030
(1) <b>Operating Activities</b>							
(2) Balance for Common	218	405	441	469	454	484	210
(3) <b>Adjustments to Net Income</b>							
(4) Depreciation and Amortization	230	420	452	484	513	552	246
(5) Deferred Income Tax	41	94	89	76	76	93	74
(6) Changes in Regulatory Assets	25	1	2	6	5	5	(0)
(7) Changes in Working Capital	n/a	53	54	60	55	55	n/a
(8) Other Adjustments to Net Income	(12)	(129)	(126)	(125)	(111)	(106)	(76)
(9) <b>Cash From Operations</b>	501	843	912	969	992	1,083	455
(10) <b>Investing Activities</b>							
(11) Construction Expenditures	(693)	(1,057)	(1,072)	(1,088)	(1,045)	(1,154)	(626)
(12) Change in Adv to Affiliates	195	-	-	-	-	-	-
(13) Other/Proceeds from Sale/Special Cash Deposits							
(14) AFUDC Debt/Capitalized Interest	(6)	(10)	(8)	(8)	(8)	(6)	(1)
(15) <b>Cash (Used) in Investing</b>	(505)	(1,066)	(1,081)	(1,097)	(1,053)	(1,160)	(627)
(16) <b>Financing Activities</b>							
(17) Issuance of Long-Term Debt	-	225	175	250	175	225	525
(18) Retirement of Long-Term Debt	-	-	-	-	-	-	(350)
(19) Change in Short-Term Debt	6	1	(4)	4	12	(10)	(2)
(20) Equity Contributions							
(21) Dividends Paid	-	-	-	(125)	(125)	(138)	-
(22) Other Financing Activity	(2)	(3)	(2)	(2)	(1)	(1)	(0)
(23) <b>Cash From Financing Activities</b>	4	223	169	128	61	76	172
(24) <b>Total Change in Cash</b>	-	-	-	-	-	-	-
(25) <b>Beginning Cash and Cash Equivalents</b>	-	-	-	-	-	-	-
(26) <b>Ending Cash and Cash Equivalents</b>	-	-	-	-	-	-	-

(all figures in millions of dollars)

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 Ohio Power Company's Direct Testimony of Christine M. Minton was sent by, or on behalf of, the undersigned counsel to the following parties of record this 6<sup>th</sup> day of January 2023, via electronic transmission.

/s/ Steven T. Nourse

Steven T. Nourse

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Summary: Testimony DIRECT TESTIMONY OF CHRISTINE MINTON ON BEHALF  
OF OHIO POWER COMPANY electronically filed by Mr. Steven T. Nourse on  
behalf of Ohio Power Company