

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

American Electric Power Service Corporation) Docket No. ER10-____-000
on behalf of:)
AEP Appalachian Transmission Company, Inc.)
AEP Indiana Michigan Transmission Company, Inc.)
AEP Kentucky Transmission Company, Inc.)
AEP Ohio Transmission Company, Inc.)
AEP Oklahoma Transmission Company, Inc.)
AEP Southwestern Transmission Company, Inc.)
AEP West Virginia Transmission Company, Inc.)

PREPARED DIRECT TESTIMONY OF

DONALD E. HAYES

December 1, 2009

1

2

TESTIMONY INDEX

	Pag e
I. INTRODUCTION	3
II. PURPOSE OF TESTIMONY	5
III. INFORMATION ON THE CURRENT ACCOUNTING FOR AEP TRANSMISSION COMPANY LLC AND ITS SUBSIDIARY COMPANIES	6
IV. PROPOSED ACCOUNTING AFTER THE FORMULA RATE IS EFFECTIVE	10

3

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND POSITION.

A. My name is Donald E. Hayes. My business address is 1 Riverside Plaza, Columbus, Ohio 43215. I am Manager of Regulatory Accounting Services for American Electric Power Service Corporation (“AEPSC”).

Q. WHAT ARE YOUR PRINCIPAL AREAS OF RESPONSIBILITY AS MANAGER OF REGULATORY ACCOUNTING SERVICES?

A. My primary responsibilities include providing the American Electric Power (“AEP”) subsidiaries with accounting expertise and support for regulatory filings including the preparation of cost of service adjustments, accounting schedules and testimony. Also, I monitor regulatory proceedings and legislation for accounting implications and assist in determining the appropriate regulatory accounting treatment.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND, PROFESSIONAL QUALIFICATIONS, AND BUSINESS EXPERIENCE.

A. I graduated with a Bachelor of Science in Business Administration Degree with a Major in Accounting from The Ohio State University in June 1983. I have been a Certified Public Accountant since 1987, licensed in the state of Ohio. I am a member of the American Institute of Certified Public Accountants.

I joined Columbus Southern Power Company, a subsidiary of AEP, in

1 December 1981 as a Business Student Co-Op. Upon completing my degree I
2 was hired permanently by AEPSC in June 1983 as an Assistant Consolidation
3 Accountant. I was promoted to Consolidation Accountant in 1985, Senior
4 Consolidation Accountant in 1987 and Supervisor of Financial Reporting in
5 1989. In May 1998 I was promoted to Administrator of Regulated Accounting
6 and in 2001 I was promoted to Manager of Regulated Accounting for Indiana
7 Michigan Power Company, Kentucky Power Company, and AEP Generating
8 Company. In 2006 AEP Transmission Company, LLC ("AEPTCo") was
9 formed and I also was assigned responsibility for the accounting of this new
10 entity. As Administrator and as Manager of Regulated Accounting, my duties
11 included preparation and review of accounting entries to the General Ledger,
12 analysis of financial results and compilation and review of various financial
13 reports including the Annual Report on Form 1 to the Federal Energy
14 Regulatory Commission ("FERC") for each registrant company. I transferred
15 to my current position in August 2008. As a result of my experience I have
16 extensive knowledge of AEPTCo's books and records and the FERC Uniform
17 System of Accounts ("USofA").

18 **Q. HAVE YOU PREVIOUSLY FILED TESTIMONY BEFORE A REGULATORY**
19 **BODY?**

20 A. Yes, I filed testimony on behalf of Indiana Michigan Power Company, a
21 subsidiary of AEP, before the Indiana Utility Regulatory Commission in support
22 of accounting matters related to recovery of Clean Coal Technology Projects.

23

II. PURPOSE OF TESTIMONY

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21

Q. PLEASE EXPLAIN THE PURPOSE OF YOUR TESTIMONY.

A. My testimony will provide background information on the current accounting for AEPTCo and its subsidiary companies. I will discuss the current accounting employed by AEPTCo and its subsidiaries prior to implementation of proposed formula rates, including a request to establish a regulatory asset to recover costs incurred prior to January 1, 2010. My testimony will also explain AEPTCo's proposed accounting after formula rates are effective, including the amortization of the requested regulatory asset, and accounting for the related construction costs of the projects and other transaction costs. I will briefly discuss the proposed depreciation rates to be used by the newly created AEPTCo subsidiaries. I will also discuss the allocation of costs to AEPTCo and its subsidiaries through the established AEPSC billing processes. Finally, I will briefly discuss accounting for the allocation of revenues collected under the formula rates explained by Company Witness Dennis W. Bethel.

Q. WILL YOU BE SPONSORING ANY EXHIBITS?

A Yes, I am sponsoring Exhibit AEP-401, which lists the proposed depreciation rates for each AEPTCo subsidiary.

1 recorded on the respective AEPTCo subsidiary's books. Consequently, the
2 financial books and records of each subsidiary reflect its own assets,
3 liabilities, revenues and expenses, while the parent company, AEPTCo, only
4 records the net increase or decrease in its investment in each subsidiary.

5 **Q. WHAT ACCOUNTING RECORDS WILL BE THE BASIS FOR THE**
6 **FORMULA RATES?**

7 A. Since each AEPTCo subsidiary will have costs and revenues recorded on its
8 books, rather than on AEPTCo's books (which will use equity accounting as
9 discussed above), the AEPTCo formula rate for each RTO will be built using
10 the costs reported in each AEPTCo subsidiary's FF1, which will then be
11 combined as discussed by Witness Bethel. It is not expected that AEPTCo
12 will file a FF1 since it uses the equity method of accounting and does not
13 expect to have the proposed transmission assets and related sales and costs
14 of the proposed transmission projects recorded on its books.

15 **Q. HOW WILL AEPTCO RECORD EQUITY CONTRIBUTIONS?**

16 A. Investment contributions from AEPHoldco to AEPTCo will be recorded on
17 AEPTCo's balance sheet as equity in Account 208, Donations Received From
18 Stockholders. In turn, investments by AEPTCo in its subsidiary companies
19 will be recorded by AEPTCo in Account 123.1 Investment in Subsidiary
20 Companies.

21 **Q. HOW WILL AEPTCO'S SUBSIDIARIES RECORD EQUITY**
22 **CONTRIBUTIONS?**

23 A. Investment contributions by AEPTCo to its subsidiaries will similarly be

1 recorded on the respective AEPTCo subsidiary's balance sheet as equity in
2 Account 208, Donations Received From Stockholders.

3 **Q. PLEASE SUMMARIZE THE ACCOUNTING FOR AEPTCO TO DATE.**

4 A. Costs incurred by AEPTCo and its subsidiaries to date have generally been
5 expensed on the income statement with the exception of minor amounts
6 capitalized in Account 107, Construction Work In Progress ("CWIP"), and
7 minor deferred income tax benefits recorded in Account 190, Accumulated
8 Deferred Income Taxes. AEPTCo recorded these expenses since its
9 subsidiaries were not yet formed. The capital project costs in Account 107
10 will be transferred to the appropriate subsidiary in the near future.

11 **Q. WHAT WILL THE ACCOUNTING BE FOR AEPTCO AND SUBSIDIARIES
12 TO TRANSFER THE CONSTRUCTION COSTS TO THE SUBSIDIARIES?**

13 A. Construction costs recorded in Account 107, CWIP, incurred in connection
14 with the proposed projects will be billed by AEPTCo to the appropriate
15 subsidiary by crediting CWIP and charging Account 146, an inter-company
16 receivable, from its respective subsidiary. The subsidiary will in turn credit
17 Account 234, an inter-company payable, to AEPTCo and charge Account
18 107.

19 **Q. ARE AEPTCO AND ITS SUBSIDIARIES SEEKING RECOVERY OF AND
20 REGULATORY ASSET TREATMENT FOR AMOUNTS PREVIOUSLY
21 EXPENSED BY AEPTCO?**

22 A. Yes, AEPTCo and its subsidiaries are requesting recovery through the
23 formula rates of certain expenses, including the preparation costs of this filing

1 and formation costs, supported by Witness Bethel, incurred by AEPTCo and
2 subsidiaries prior to the effective date of the formula rate. These formation
3 costs are discussed later in my testimony.

4 **Q. PLEASE SPECIFY THE ACCOUNTING BEING REQUESTED BY AEPTCO**
5 **AND SUBSIDIARIES FOR THE PREVIOUSLY EXPENSED AMOUNTS.**

6 A. AEPTCo and its subsidiaries propose to defer, as a regulatory asset in
7 Account 182.3, Other Regulatory Assets, formation and pre-operating
8 expenditures not included in CWIP, incurred during calendar year 2009 in
9 connection with the proposed transmission projects, until the effective date of
10 the formula rates. If approved, the proposed regulatory asset will be
11 recovered and amortized over an approved period once formula rates are
12 effective in this proceeding.

13 **Q. PLEASE DESCRIBE THE COSTS THAT AEPTCO AND SUBSIDIARIES**
14 **SEEK TO RECOVER AS A REGULATORY ASSET.**

15 A. AEPTCo has already incurred some formation costs on behalf of its
16 subsidiaries, such as the charges for attorneys and consultants in this
17 proceeding, and will continue to incur such costs prior to the commencement
18 of construction of the proposed projects. Also, AEPTCo's subsidiaries will
19 incur both third party and internal formation costs. These costs include costs
20 to obtain the various regulatory and related approvals for future projects,
21 costs of joining and participating in PJM and SPP, and the cost of
22 proceedings before the FERC to recover the costs of the proposed projects.
23 To date, AEPTCo has expensed all such costs.

1

2 **Q. WHAT IS THE EXPECTED BALANCE OF COSTS PROPOSED TO BE**
3 **DEFERRED IN ACCOUNT 182.3 ON FEBRUARY 1, 2010, THE**
4 **REQUESTED EFFECTIVE DATE FOR THE FORMULA RATE?**

5 A. It is estimated that the total costs incurred and proposed to be deferred as
6 regulatory assets will be approximately \$600,000.

7 **Q. WHAT IS THE AMORTIZATION PERIOD REQUESTED FOR THE**
8 **PROPOSED REGULATORY ASSET?**

9 A. AEPTCo's subsidiaries propose to recover and amortize the requested
10 regulatory asset over two years beginning in July 2010 when the revenues
11 are to be collected. Witness Bethel explains how the amortization and a
12 return on the unamortized balance are reflected in the formula rate.

13

14 **IV. PROPOSED ACCOUNTING AFTER THE FORMULA RATE IS EFFECTIVE**

15

16 **Q. IF APPROVED FOR RECOVERY BY THE FERC, HOW DOES AEPTCO**
17 **PROPOSE TO TRANSFER TO ITS SUBSIDIARIES THE FORMATION**
18 **COSTS TO BE RECOVERED?**

19 A. After receiving permission in this proceeding to defer formation costs not
20 included in CWIP that are incurred in connection with the proposed
21 transactions and projects, AEPTCo will bill the appropriate subsidiary for
22 actual costs previously expensed by crediting the expense accounts
23 previously charged and charging Account 146, an inter-company receivable,

1 from its subsidiary. The subsidiary will in turn credit Account 234, an inter-
2 company payable, to AEPTCo, and charge Account 182.3.

3 **Q. IF APPROVED BY THE FERC, WHAT METHOD OF ALLOCATION WILL**
4 **BE USED BY AEPTCO TO TRANSFER THE REGULATORY ASSET TO**
5 **ITS SUBSIDIARIES?**

6 A. Any costs directly related to an individual AEPTCo subsidiary will be
7 transferred to that AEPTCo subsidiary. For formation and pre-operating start
8 up costs applicable to all seven subsidiaries, AEPTCo will bill each subsidiary
9 an equal share, or one-seventh of the costs.

10 **Q. IF APPROVED BY THE FERC, WHAT FERC ACCOUNT WILL BE USED**
11 **TO AMORTIZE THE PROPOSED REGULATORY ASSET?**

12 A. AEPTCo subsidiaries will amortize the regulatory asset to the appropriate
13 Transmission Operations accounts corresponding to the account originally
14 charged.

15 **Q. PLEASE DESCRIBE THE AEPTCO SUBSIDIARIES' PROPOSED**
16 **ACCOUNTING FOR, AND RECOVERY OF, COSTS AFTER THE**
17 **FORMULA RATE IS EFFECTIVE.**

18 A. The AEPTCo subsidiaries propose to defer formation/pre-operating costs
19 billed to it by AEPTCo and any formation/pre-operating costs they incur by
20 charging Account 182.3. These deferred costs will be amortized to expense
21 commensurate with their recovery through the formula rates.

22 **Q. HOW WILL ON-GOING CONSTRUCTION COSTS BE RECORDED?**

23 A. After construction begins on a project, the AEPTCo subsidiaries will capitalize

1 construction costs in Account 107, CWIP as prescribed in the FERC USofA.

2 **Q. HOW WILL AEPTCO'S SUBSIDIARIES RECORD AND SEGREGATE**
3 **CONSTRUCTION COSTS ASSOCIATED WITH EACH PROJECT?**

4 A. AEPTCo's subsidiaries will assign a project number to each project so that all
5 capital costs associated with each specific project may be recorded and
6 separately identified in the accounting system.

7 **Q. WILL THE AEPTCO SUBSIDIARIES ACCRUE AN ALLOWANCE FOR**
8 **FUNDS USED DURING CONSTRUCTION ("AFUDC")?**

9 A. Yes, AEPTCo subsidiaries will accrue AFUDC on each project in construction.
10 The equity rate used in the AFUDC calculation by the AEPTCo subsidiaries
11 will be the rate of return established in this proceeding. The debt rate will
12 represent each AEPTCo subsidiaries' current cost of debt, as supported by
13 Company Witness Stephan T. Haynes.

14 **Q. WHAT ACCOUNTING WILL BE DONE BY AEPTCO SUBSIDIARIES UPON**
15 **THE IN-SERVICE AND COMPLETION OF CONSTRUCTION OF THE**
16 **PROJECTS?**

17 A. When a project is placed in-service, the USofA requires the transfer of the
18 capitalized costs from Account 107, CWIP, to Account 106, Completed
19 Construction Not Classified. When sufficient information is available to
20 classify the cost to the appropriate 300 plant sub-accounts provided in the
21 USofA, the costs will be transferred into Account 101, Electric Plant in
22 Service. Also when a project is placed in-service, the accrual of AFUDC
23 ceases, depreciation of the capital investment begins, and operating and

1 maintenance costs are expensed to the appropriate FERC accounts.

2 **Q. WILL AEPTCO'S SUBSIDIARIES FOLLOW THIS USofA REQUIRED**
3 **ACCOUNTING POST IN-SERVICE?**

4 A. Yes.

5 **Q. COMPANY WITNESS BETHEL USES DEPRECIATION EXPENSES AS A**
6 **COMPONENT OF THE FORMULA RATES. WHAT RATES ARE**
7 **PROPOSED TO BE USED BY EACH SUBSIDIARY TO ARRIVE AT THE**
8 **DEPRECIATION EXPENSE?**

9 A. Because the facilities to be owned by AEPTCo subsidiaries have not yet been
10 constructed, there is little or no data available to support a depreciation study
11 of those facilities to establish a depreciation rate. In order to address this
12 issue, AEPTCo is proposing to use the depreciation rates shown on Exhibit
13 AEP - 401. These rates are the same as the rates approved by the state
14 commissions for the AEP operating company in each corresponding state in
15 which the AEPTCo subsidiary will be operating. The resulting depreciation
16 expense in each corresponding state will be the same as would be used by
17 the AEP operating company, if that respective operating company had owned
18 the transmission asset. For example, the depreciation rates proposed for
19 AEP Ohio Transmission Company are combined rates calculated from those
20 used by Columbus Southern Power Company and Ohio Power Company and
21 the depreciation rate proposed for AEP Indiana Michigan Transmission
22 Company will be the same depreciation rate as that approved for Indiana
23 Michigan Power Company.

1 **Q. WHO WILL PERFORM THE NECESSARY WORK FOR THE AEPTCO**
2 **SUBSIDIARIES' PROJECTS?**

3 A. For the most part, the work on the AEPTCo subsidiaries' projects is expected
4 to be performed by employees of AEPSC and other AEP affiliates until
5 construction begins. Additional services may be performed by third party
6 vendors as further discussed by Witness Barton.

7 **Q. HOW WILL AFFILIATE COST BE BILLED TO AEPTCO SUBSIDIARIES?**

8 A. AEPSC and other AEP affiliates will bill the AEPTCo subsidiaries directly for
9 the cost of services rendered, including any cost related to third parties
10 retained on behalf of the AEPTCo subsidiaries.

11 **Q. PLEASE DISCUSS HOW AEPSC COSTS ARE ASSIGNED TO AEPTCO**
12 **SUBSIDIARIES.**

13 A. The services provided by AEPSC and billed to AEPTCo subsidiaries fall into
14 two categories: directly incurred and allocated.

15 The directly incurred costs are those that are requested by and charged
16 only to the AEPTCo subsidiary for its specific project services. The services
17 are provided to the AEPTCo subsidiary at cost, which is the same basis as
18 services provided to the AEP operating companies. The AEPTCo subsidiary
19 is billed based on the hourly rate and applicable overhead loading factors for
20 the employees providing service to the AEPTCo subsidiary. AEPSC will use
21 the same overhead loading factors for billings to AEPTCo subsidiaries that
22 are currently used for all affiliate and non-affiliate billings.

23 The majority of the direct costs are for AEPSC employees who will

1 perform services for AEPTCo subsidiaries. These employees participate in
2 the AEP benefit plans and there will not be any differences between these
3 AEPSC employees and other AEP employees in regard to compensation and
4 benefit plans. Direct costs can also include those costs billed from AEP
5 operating company employees for services rendered on behalf of the
6 AEPTCo subsidiaries.

7 Allocated costs relate to shareable services that are performed for the
8 benefit of multiple affiliates and billed using an allocation formula. These are
9 costs that, due to their shared nature, cannot be directly billed to an individual
10 company. Examples of services whose costs can be shared by multiple
11 affiliates include information technology, purchasing, human resources,
12 finance, payroll, accounts payable, strategic planning and workplace services.

13 **Q. PLEASE DISCUSS THE ACCOUNTING FOR BUSINESS AND**
14 **ADMINISTRATIVE EXPENSES FOR AEPTCO SUBSIDIARIES.**

15 A. The business and administrative expenses for AEPTCo subsidiaries are
16 generally expected to be performed by AEPSC employees on behalf of
17 AEPTCo subsidiaries. These services consist primarily of cash management
18 and treasury services, risk management services, tax and accounting
19 services, budgeting and forecasting services, and legal services provided to
20 the subsidiary. Additionally, third party (non-affiliate) contracts for
21 administrative services may be entered into directly by AEPTCo subsidiaries.
22 These expenses will be recorded in the appropriate FERC accounts based on
23 the nature of the services.

1 **Q. HOW WILL AEPTCO AND SUBSIDIARIES ACCOUNT FOR THE**
2 **FORMULA RATE REVENUES RECEIVED UNDER THE FORMULA**
3 **RATES?**

4 A. As discussed by Witness Bethel, there will be multiple AEPTCo subsidiaries
5 providing transmission services under the same formula rate. The revenues
6 received from the formula rates will be allocated to the books of each
7 AEPTCo subsidiary providing transmission service and recorded in Account
8 456.1, Revenues From Transmission of Electricity of Others. The allocation
9 of revenues will be based on the proportion of each subsidiary's revenue
10 requirement used in building the formula rate compared to the total of all the
11 AEPTCo subsidiaries within the RTO.

12 **Q. WILL THE BOOKS AND RECORDS OF AEPTCO AND ITS SUBSIDIARIES**
13 **BE CONSISTENT WITH GENERALLY ACCEPTED ACCOUNTING**
14 **PRINCIPLES AND THE FERC USofA IF THE PROPOSED ACCOUNTING**
15 **IS IMPLEMENTED?**

16 A. Yes.

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

18 A. Yes.

PROPOSED TRANSMISSION PLANT DEPRECIATION RATES

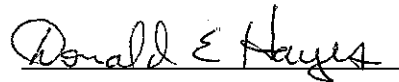
Account	Description	AEP Appalachian	AEP Indiana Michigan		AEP Kentucky	AEP Ohio	AEP Oklahoma	AEP Southwestern		AEP West Virginia
		Transmission Co	Transmission Co		Transmission Co	Transmission Co	Transmission Co	Transmission Co		Transmission Co
		VA, TN	IN	MI	KY	OH	OK	LA	AR	WV
350	Land Rights	0.66%	1.16%	1.07%	1.71%	-	1.09%	1.66%	1.36%	-
352	Structures & Improvements	1.55%	1.15%	1.11%	1.71%	1.91%	1.88%	1.91%	1.39%	1.55%
353	Station Equipment	1.95%	1.46%	1.42%	1.71%	2.16%	1.53%	2.10%	1.54%	1.95%
354	Towers & Fixtures	1.14%	1.46%	1.31%	1.71%	1.67%	1.12%	2.72%	2.29%	1.14%
355	Poles & Fixtures	2.77%	2.19%	2.14%	1.71%	2.44%	2.78%	3.72%	3.46%	2.77%
356	OH Conductor & Devices	1.01%	1.23%	1.14%	1.71%	1.84%	1.92%	2.63%	1.94%	1.01%
357	Underground Conduit	1.23%	1.45%	1.31%	1.71%	2.00%	-	1.01%	1.01%	1.23%
358	Underground Conductor	3.18%	1.35%	1.25%	1.71%	2.00%	3.01%	3.75%	1.88%	3.18%
359	Roads and Trails	-	1.50%	1.49%	1.71%	-	-	1.67%	0.77%	-
All	Composite Depreciation Rate	1.52%	1.42%	1.42%	1.71%	2.22%	1.94%	2.78%	2.32%	1.52%

UNITED STATES OF AMERICA
BEFORE THE
FEDERAL ENERGY REGULATORY COMMISSION

American Electric Power Service Corporation)	Docket No. ER10-____-000
on behalf of:)	
AEP Appalachian Transmission Company, Inc.)	
AEP Indiana Michigan Transmission Company, Inc.)	
AEP Kentucky Transmission Company, Inc.)	
AEP Ohio Transmission Company, Inc.)	
AEP Oklahoma Transmission Company, Inc.)	
AEP Southwestern Transmission Company, Inc.)	
AEP West Virginia Transmission Company, Inc.)	

AFFIDAVIT OF WITNESS

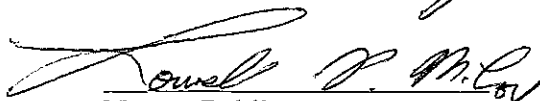
I, the undersigned, being duly sworn, depose and say, under penalty of perjury, that the Prepared Direct Testimony of Donald E. Hayes is the testimony of the undersigned, and that the exhibits sponsored by me to the best of my knowledge, information and belief, are true, correct, accurate and complete, and I hereby adopt said testimony as if given by me in formal hearing, under oath.



Donald E. Hayes

Subscribed and sworn to before me this
24th day of November, 2009.

My commission expires: June 29, 2010


Notary Public

LOWELL P. MCCOY
NOTARY PUBLIC - STATE OF OHIO
MY COMMISSION EXPIRES JUNE 29, 2010