

BEFORE THE
LOUISIANA PUBLIC SERVICE COMMISSION

IN RE: APPLICATION OF SOUTHWESTERN
ELECTRIC POWER COMPANY FOR: (I)
RECOVERY OF CERTAIN STORM DAMAGE
COSTS INCURRED AS A RESULT OF HURRICANES
LAURA AND DELTA; (II) RECOVERY OF
CERTAIN STORM RESTORATION COSTS ASSOCIATED
WITH THE FEBRUARY 2021 WINTER STORM EVENT
AND (III) EXPEDITED TREATMENT

DOCKET NO. _____

DIRECT TESTIMONY OF

DAVID A. HODGSON

FOR

SOUTHWESTERN ELECTRIC POWER COMPANY

OCTOBER 2021

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1 I. INTRODUCTION

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

3 A. My name is David A. Hodgson. I am the Director Tax Accounting & Regulatory for
4 American Electric Power Service Corporation (AEPSC), a wholly owned subsidiary of
5 American Electric Power Company, Inc. (AEP). My business address is American
6 Electric Power, 1 Riverside Plaza, Columbus, Ohio 43215.

7 Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL
8 EXPERIENCE.

9 A. I graduated from The Ohio State University with a Bachelor of Science in Business
10 Administration in Accounting. In 2000, I accepted a position with AEPSC as a Tax
11 Analyst V. I was promoted to positions from Tax Analyst IV to Tax Analyst I over the
12 course of 2002–2009. In 2011, I was promoted to Sr. Tax Analyst, then to Tax Project
13 Manager, and in 2013, to Tax Manager. I was promoted to Tax Accounting &
14 Regulatory Support Manager in 2019 and in 2021 I was promoted to my current
15 position. As Director Tax Accounting & Regulatory, I am responsible for coordinating
16 and developing state and federal tax data provided by the AEPSC Tax Department for
17 use in regulatory proceedings. I have attended numerous tax, accounting, and
18 regulatory seminars throughout my professional career.

19 Q. HAVE YOU TESTIFIED ON BEHALF OF SOUTHWESTERN ELECTRIC POWER
20 COMPANY (SWEPCO or the COMPANY) AS A WITNESS BEFORE THE
21 LOUISIANA PUBLIC SERVICE COMMISSION (LPSC or COMMISSION)?

22 A. Yes. Recently I testified in Docket No. U-35441, wherein I supported the federal and
23 state tax expense and accumulated deferred federal income taxes (ADFIT).

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

2 A. The purpose of my testimony is to discuss the income tax implications of SWEPCO's
3 request for the recovery of Hurricanes Laura and Delta (Hurricanes) and the February
4 2021 Winter Storm (Winter Storm) costs (collectively the Storms) incurred by the
5 Company.

6 Q. CAN YOU SUMMARIZE YOUR TESTIMONY?

7 A. Yes. The Company's deferral of the costs for the Storms will not result in a net overall
8 change to the Company's ADFIT balance as the ADFIT deferred tax liability will be
9 fully offset by the ADFIT net operating loss carryforward deferred tax asset.

10

11 II. DEFERRAL OF THE STORM RECOVERY COSTS

12 Q. PLEASE DISCUSS THE TAX IMPLICATIONS ASSOCIATED WITH THE
13 INCURRENCE OF THESE COSTS.

14 A. The significant storm recovery costs incurred by the Company represent expenses that
15 are immediately deductible for income tax purposes as a business expense.

16 Q. WHAT, IF ANY, IMPACT DOES THE COMPANY'S DEFERRAL OF THE
17 STORMS RECOVERY COSTS TO A REGULATORY ASSET HAVE ON THE
18 ABILITY TO RECOGNIZE THESE COSTS AS TAX DEDUCTIBLE?

19 A. None. The deferral of incurred storm recovery costs to a regulatory asset will not
20 influence the Company's ability to recognize an immediate tax deduction. The deferral
21 to a regulatory asset represents the Company's ability to collect future revenues for the
22 recovery of these costs. The recognition of the deferral will not influence the
23 Company's deduction for the costs nor result in taxable income for the current tax year.

1 Q. WILL THE TAX TREATMENT OF THE DEFERRAL TO A REGULATORY
2 ASSET RESULT IN THE CREATION OF AN ADFIT BALANCE?

3 A. Yes. The recognition of a regulatory asset for future recovery will produce a difference
4 in basis for financial reporting and income tax reporting. As a result, the Company will
5 recognize an increase in ADFIT associated with the regulatory asset.

6 Q. WILL THE COMPANY RECEIVE AN IMMEDIATE CASH TAX BENEFIT AS
7 THE RESULT OF ITS ABILITY TO DEDUCT THE COSTS BUT DEFER THE
8 RECOVERY?

9 A. No. The immediate deduction of these costs will not result in a cash tax benefit as the
10 result of net operating loss carryforwards and income tax credits (primarily production
11 tax credits). It is expected that a net operating loss will be generated in the current tax
12 year for both SWEPCO and the AEP, Inc. consolidated tax return group of which
13 SWEPCO is a member. Therefore, the increase in ADFIT as the result of the storm
14 recovery cost deferral to a regulatory asset will be offset by decreases to ADFIT
15 associated with net operating loss and tax credit carryforwards. The carryforward of
16 net operating loss and tax credit attributes produce deferred tax assets that serve to
17 reduce the overall net amount of the Company's ADFIT.

18

19 III. SUMMARY OF TESTIMONY

20 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

21 A. The deferral of Hurricane and Winter Storm costs to a regulatory asset and the
22 immediate tax deduction for those costs will result in an increase in ADFIT (deferred
23 tax liability). This deduction will also result in a net operating loss as well as the

1 inability to monetize tax credits. Both the net operating loss and the tax credit
2 carryforwards will result in a decrease in ADFIT (deferred tax asset). As a result of
3 the net operating loss and tax credit carryforwards, an ADFIT benefit is not available
4 in this filing, which would be the case if there was not a net operating loss and tax credit
5 carryforwards.

6 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

7 A. Yes, it does.